

# MODERN DISTRIBUTION MANAGEMENT

VOL. 37, NO. 21  
NOVEMBER 10, 2007

The Newsletter for the  
Wholesale Distribution Channel

## Distribution IT in Transition

*Doug Levin: Candid thoughts on meeting technology needs*

*Doug Levin has been involved in distribution information technology for more than 20 years. He is well known in many distribution sectors as the former executive vice president of Prophet 21 software company, acquired by Activant Solutions in 2005. In this interview, the guy who sold a lot of technology systems urges distributors to optimize current systems first. Here's Levin's perspective on IT best practices, standards, consolidation and challenges ahead.*

**MDM:** What's your perspective on the consolidation you've seen in distribution software over 20 years, some of which you actively drove in your role with Prophet 21? Have distributors benefited?

**Doug Levin:** It has probably gone from 30 companies that focus specifically on distribution to maybe six or seven. And of those six or seven, there are two that are large; the other four or five are smaller, in the \$5-million range from a revenue standpoint. The two large acquirers, Infor and Activant, have done a nice job staying focused on customer service. There are also some larger technology providers now focusing on distribution, such as SAP and Microsoft. What I see right now, because it is still highly competitive, service levels remain high with both the smaller and larger companies. That could change over time as there is more financial pressure on the larger companies.

**MDM:** So what should distributors do?

**DL:** As there is less competition, the risk is that you might see some fall-off on the service levels. But I think we'll see newer companies pop up, very similar to what has happened in distribution. Some guy sells his company and either his sales manager or he starts a new distribution company a few years later. You inevitably

lose some of the personal service when you become part of a larger company. Also, your ability to bring new technology out gets harder, because you're just less agile. It's the same dynamics in any industry.

With these new companies emerging, you should see some new technologies. Probably the biggest example is a product built/ designed from the ground up more as a software-as-a-service or an ASP model, where the technology will be delivered over the Internet.

**MDM:** Will we see more specialty software providers develop more focused applications or add-ons rather than complete systems?

**DL:** I think as new companies enter the market, they will focus more on specific niches. If you look at wholesale distribution as one market, as a technology provider you'll never make it. There are really a lot of little niches and you have to almost manage your functionality to all those different niches. Even the exact same terminology can be different – software to handle rebates in medical distribution is totally different than for electrical products distribution. Let's take a market like fastener distributors. First, take the large fastener distributors out of the picture. They will likely buy technology and have their IT group build it out for their exact needs.

Once you pull out the big guys, the fastener marketplace isn't huge from a technology company's view; this segment may only spend a few million dollars a year on new technology. So a smaller technology company can focus on that market and be profitable. A large technology company wouldn't see an impact to their P&L when compared to the investment they would need to make in their product. You'll al-

continued on next page

### INSIDE

#### **Market Analysis: U.S. MRO Products**

The market size in 2007 for the MRO industrial product group is \$445.7 billion.

**Pages 4-6**

#### **Monthly Wholesale Trade: September**

Inventories/sales ratio dips to new low.

**Page 8**

#### **Third-Quarter Construction Data**

Housing starts and construction spending are down year-to-date.

**Page 3 of Industrial  
and Construction  
Markets Update**

#### **Hoboken Files Ch. 7 Bankruptcy Petition**

No. 1 wood flooring distributor in U.S. closes its doors.

**Page 4 of Industrial  
and Construction  
Markets Update**

mdm®

ways have providers that offer specific functionality, such as third-party logistics, warehouse automation or CRM solutions.

**MDM:** How should distributors think about managing IT resources through this period of consolidation?

**DL:** The biggest thing I would suggest to distributors would be: Don't look at new technology. If what you have is working, focus more on using what you have 110 percent. I have seen so many distributors move to the next generation of technology for technology's sake, when really they are buying features they might already have; they just either don't know it or don't use it. They would get the biggest bang for their buck by investing in training and education for the products they already have. By doing this, I feel most distributors will get nice gains in their businesses from an efficiency standpoint, so they can afford to sit back and watch the marketplace settle out. When we acquired Trade Power (Array), some of the customers panicked and spent hundreds of thousands of dollars on Eclipse, only to have Activant buy Eclipse a few years later. Hindsight is 20/20, but the Trade Power customers that focused on using their current technology better were the real winners.

**MDM:** There's a lot of hype and jargon about the emergence of the Web, standardization and use of EDI. What are the real issues?

**DL:** Anybody with a system bought in the last ten years probably has the capability for EDI or connecting to the Internet. They might need to spend some money on their current technology to make it all happen. This connectivity is critical to the survival of a distributor's business. They should focus on connecting their business through the supply chain – the ability for customers to connect to them and for them to connect to their suppliers.

The danger is that some people will buy that new system just to gain this capability, spend a year or two implementing, and then find out their old system had the ability to connect. So by buying a new system, they end up where they wanted to be but with a lot more cost and disruption to their business.

**MDM:** So what's best practice for improving your ability to communicate up and down the supply chain? Is it standardization or is it just the wiring?

**DL:** It's probably a combination of both. For example, when we worked with 3M, the wiring could be done instantaneously; all you needed was an Internet connection. 3M had very good data. That typically was not the case with distributors' data. So it would take six months to a year to get the distributor's database cleaned up. And when I say cleaned up, it's not that they didn't have the correct UPC codes, it's that often they had the same items in their database

## MODERN DISTRIBUTION MANAGEMENT

*Founded in 1967  
by J. Van Ness Philip*

**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>

### Subscription Rates

To subscribe to Modern Distribution Management, please call 303-443-5060, email [tom@mdm.com](mailto:tom@mdm.com) or <http://www.mdm.com>.

Subscriptions are available by online delivery and/or first-class mail. Three-year archives of MDM are available online to subscribers. Previous-year archives are available at a discounted rate to current subscribers.

Published twice monthly; \$345/yr., \$365 U.S. funds other countries; \$169 each additional subscription to a company (\$189 other countries). For group subscription rates and site licenses, please contact Tom Gale at 303-443-5060.

Copyright © 2007 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.

ISSN 0544-6538

### MDM Editorial Advisory Board

**David K. Barth**  
Member of the Board of Directors of the  
Industrial Distribution Group

**Kevin Boyle**  
Vice President Industrial Distribution and Channel  
Management for the Loctite Industrial Division of  
Henkel Technologies

**Larry Goode**  
CEO of RT Dygert International, Inc.

**Julia Klein**  
President and CEO of C.H. Briggs Hardware Co.

**Stuart Mechlin**  
Vice President, Industrial Supply Division of  
Affiliated Distributors

**Walter W. Norton Jr.**  
President and COO of Norton Electric Wholesale

four, five or six times. When they set their data up 15 or 20 years ago, they didn't have a way to handle multiple units. So they set that item up four or five times. Or they didn't know how to handle customer-specific items; if they sold the same item to five different customers and the customers called it five different things, they would set the item up five different times. The important point is that new technology won't automatically solve these housekeeping problems.

**MDM:** A number of trade associations have tried to drive the adoption of standards and data-sharing. How important is that?

**DL:** When you look at Wal-Mart, Home Depot and the grocery industry, it appears to me that those industries are almost 100-percent compliant with standardization of items and being able to communicate. There really is no 600-pound gorilla driving this in distribution, either at the end-user, distributor or manufacturer level. It would be a huge efficiency gain if people would adopt standards, but we're having the same discussion as ten years ago and it doesn't seem like compliance has increased more than a couple of percentage points.

**MDM:** Aren't there too many proprietary competitive reasons to not promote standardization for most players?

**DL:** That's the argument, but the efficiencies you gain would overcome that. You have to be competitive on your value-add as a distributor or a manufacturer. A smart buyer, if they are just buying on price, is going to figure out the different item codes from whomever they buy from. I think the efficiencies gained would far outweigh the loss of a little bit of competitive advantage by having standardization of nomenclature.

**MDM:** So what's going to make it happen?

**DL:** End-users are so fragmented and so are distribution channels. There isn't a Wal-Mart buying wholesale distribution items. A distributor like Grainger or MSC might be able to drive their suppliers to standardize. Industrial manufacturers could drive it, but I don't think we'll see a high level of adoption until the mindset changes. It might be a generational shift. Or perhaps competitors come in from global markets to force the issue. Then U.S. manufacturers

might realize they can make their channel more efficient and compete better by creating standards.

**MDM:** Is the starting place cleaning up your database? If a smaller distributor devotes the resources, will they really gain any competitive advantage?

**DL:** Absolutely. There are a few areas of pay-back. With clean data, they can communicate with their partners effectively, so in some cases they can go into larger end-users who are probably using some type of standardized purchasing system. Beyond that, a clean database yields big benefits in the normal, everyday transactions. All of a sudden, customer service reps are selling customers the right items. They didn't realize how many errors were caused by their data not being correct.

They also received tremendous benefit managing their inventory because, instead of having five different items that were really the same item, they now have one item. There are stories where distributors go from 10,000 SKUs to 3,000 SKUs. They really only had 3,000 SKUs, but they were managing 10,000. The cost is tremendous, so there's this side benefit of getting your database cleaned that you don't think about it, but once it is done, you say, "Wow, it just seems that things are going a lot smoother."

It also flows to the vendor and customer sides. When you start these database cleansing projects, you often take the next steps to clean up the customer and vendor database. You start putting standards in place on how to set up vendors and customers. And again you reduce errors because standards are in place.

**MDM:** How will the Web and online purchasing tools change customer and vendor relationships?

**DL:** Where the Web becomes very powerful is as a tool for engineering, for example, to find out what products are available. Instead of having to call a distributor they can get all the information over the Web. But from a buying standpoint, you're going to buy from the guy that brings you the most value. Sure, you will have multiple places to buy so you can keep people honest, but I don't think the technology will end up doing price shopping for you, because there is so much

**MDM Interview with Doug Levin**  
Continued on p. 7

## U.S. MARKET ANALYSIS: MRO Product Consumption in 2007

According to the MDM/Industrial Market Information MRO Market Analysis, the U.S. market size in 2007 for the 126 MRO industrial product groups is \$445.7 billion. (Prior-year data available at [www.mdm.com/databank](http://www.mdm.com/databank) are not directly comparable due to slight variations in product groups included.)

Estimates are based on data compiled by Industrial Market Information, Minneapolis, MN, and analyzed by MDM. Definitions for the 126 individual product categories used to estimate the market size are on p. 6 of this section.

Two aggregate subgroups were measured as well (see charts on next page). **Manufactur-**

**ing & Utilities** sectors consumed \$229.8 billion in MRO products across these 126 product groups.

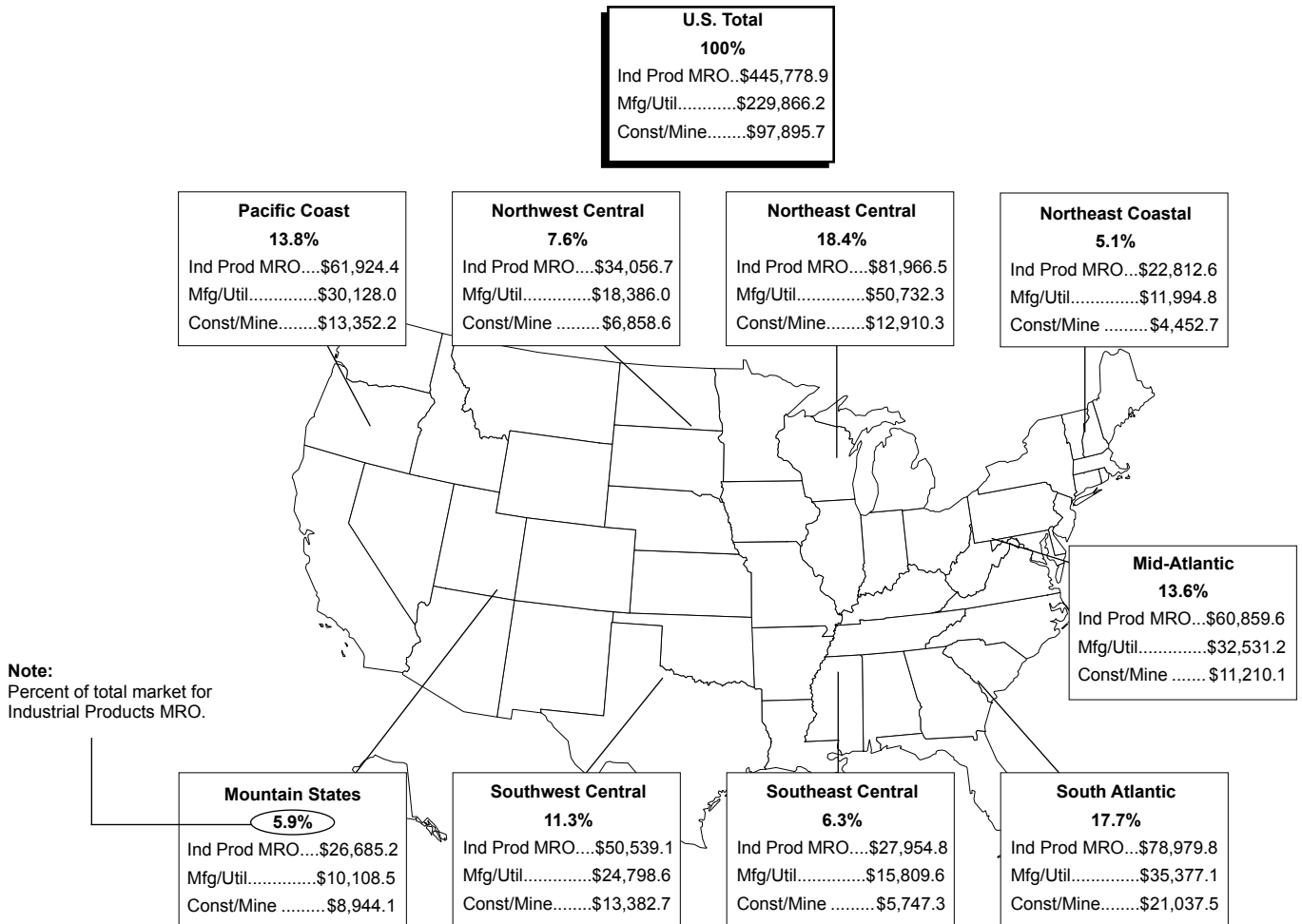
**Construction & Mining** sectors consumed \$97.8 billion in these MRO products. The graphic below shows consumption by region. The charts on the next page show consumption by industry.

Note that the two subgroups above don't total the total **Industrial Products MRO** estimate, as this \$445.7-billion total market estimate includes additional industries and service sectors beyond the Manufacturing/Utilities and Construction/Mining groupings.

## Regional Market Analysis: MRO Products 2007

**End-user consumption of MRO Products by region, in millions of \$ (2007 estimates).**

Note: The top line total for each region includes additional industries and service sectors beyond the Manufacturing/Utilities and Construction/Mining groupings provided below. Therefore the top line IS NOT the sum of the lower two lines.



Source: INDUSTRIAL MARKET INFORMATION, INC. (763) 535-7432. © 2007 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](http://www.imidata.com)

## Industry Market Analysis: MRO Products 2007

### Total U.S. MRO: Top 10 industries for MRO use

#### Top ten industries in \$ volume, by SIC code, consuming MRO Products (2007 estimates).

Note: The total U.S. consumption includes additional industries and service sectors beyond the Manufacturing/Utilities and Construction/Mining groupings provided below in the lower two charts.

SIC Code	All-MRO	Company Count
1731 Electrical Work	28,566,062,168	104,386
1711 Plumbing, Heating & Air Conditioning	17,707,429,130	150,966
8062 General Medical	12,468,494,953	10,329
2621 Paper Mills	9,113,231,914	1,956
1542 Nonresidential Construction	8,813,059,626	47,633
2834 Pharmaceutical Preparations	6,552,707,835	3,556
2086 Bottled & Canned Soft Drinks	7,282,021,975	1,901
5812 Eating Places	5,350,823,920	378,352
1521 General Contractors - Single Family Housing	5,231,119,335	305,690
5411 Grocery Stores	5,013,664,672	161,442

### Manufacturing & Utilities: Top 10 industries for MRO use

#### Top ten Manufacturing/Utility industries in \$ volume, by SIC, consuming MRO Products (2007 est.).

SIC Code	Manufacturing & Utilities MRO	Company Count
2621 Paper Mills	9,113,231,914	1,956
2086 Bottled & Canned Soft Drinks	7,282,021,975	1,901
2834 Pharmaceutical Preparations	6,552,707,835	3,556
2033 Canned Fruits & Vegetables	4,917,392,087	1,098
4911 Electric Services	4,822,182,728	7,723
3089 Plastics Products	4,482,355,728	10,544
3714 Motor Vehicle Parts	3,953,019,033	5,257
2631 Paperboard Mills	3,865,788,790	669
2844 Perfumes, Cosmetics & Other Toilet Preparations	3,710,387,497	2,831
2033 Industrial Organic Chemicals, NEC	3,702,445,321	1,681

### Construction & Mining: Top 10 industries for MRO use

#### Top ten Construction/Mining industries in \$ volume, by SIC, consuming MRO Products (2007 est.).

SIC Code	Construction & Mining MRO	Company Count
1731 Electrical Work	28,566,062,168	104,386
1711 Plumbing, Heating & Air Conditioning	17,707,429,130	150,966
1542 Nonresidential Construction	8,813,059,626	47,633
1521 Single Family Housing	5,231,119,335	305,690
1623 Water, Sewer & Utilities	4,690,465,569	12,634
1611 Highway & Street Construction	4,272,148,991	23,997
1541 Industrial Building	4,254,501,139	11,544
1629 Heavy Construction	3,878,337,932	16,592
1771 Concrete Work	3,446,999,415	38,469
1721 Painting & Paper Hanging	2,296,668,227	76,085

## Defining the MRO Product Markets

How big is the market for MRO products? The answer depends on what products you include in the market basket.

Industrial Market Information, Minneapolis, provided the data based on 126 MRO products. Here are the products used in the market analysis on the previous two pages.

Abrasive Grain Grit Shot	Gases-Indl Non-Weldng	Petro Metal Cutting	Switchgear Equipment MRO
Abrasives Bonded	Gases-Indl Welding	Petro Metal Forming	Tape
Abrasives Coated	Gaskets & Packings MRO	Petro Surface Coatings	Telecommunication Eqpt MRO
Abrasives Super (Dia&Cbn)	Gauges Indst Inst-MRO	Pkg-Bags Industrial Papr&Plstc	Test-Instr Elec Prtbl-Bnch
Adhesives MRO	Gear Drives & Spd Rducrs	Pkg-Plastic Containers X-Bot	Tool Boxes & Chests
Adhesives Packaging	MRO	Pkg-Ship Containers Paper	Tools Assmbly For Electronics
	Generatr Set-Power Spply MRO	Pkg-Spclty Boxes Paper	Tools Cutting Carbide
Bearings Ball MRO		Plastic Flexbl Tube MRO	Tools Cutting H.S. Steel
Bearings Mounted MRO	Hoists	Plastic Rigid Sht&Plate MRO	Tools General Hand
Bearings Roller MRO	Hose&Ftgs Hyd/H-P MRO	Plastic Rigid Sht&Plate Pkg	Tools Power Air
Bottles Cans & Drums All	Hose&Ftgs Non-Hyd/Pn MRO	Plastic Rigid Tube MRO	Tools Power Electric
Brushes General Maint	HVAC Maint-MRO	Plastic Rigid Tube Pkg	Tools-Hand Precisn Measr
Brushes Industrial	Hydr Pumps & Motors MRO	Plastic Film MRO	Transfrmrs Power MRO
Brushes Painting & Prep	Hydraulic Cyl MRO	Plastic Film Pkg	Transmssn Belts MRO
	Hydr-Valve Fltrs Misc MRO	Plastic PVF MRO	
Casters MRO		Plumb-Fixt Ftgs-Trim Maint MRO	
Chain Drive MRO	Janitorial Supplies	Pneumatic Cylinders MRO	Valves Pipe Ftgs-MRO
Chain Link MRO		Pneumatic Tube & Ftg All	
Circuit Protection Dev MRO	Light Bulbs(W/O Trans) MRO	Pneumatic Vlvs-FRL's MRO	Weldng_Equ Cstn&Maint MRO
Clutches & Brakes MRO	Light-Bulb Transprtn MRO	Pumps Industrial MRO	Wire Communications MRO
Components Modules MRO	Light-Fxtr Transprtn MRO		Wire Elect/Pwr X-Comm MRO
Compressor Indst MRO	Light-Fxtr W/O-Trans MRO	Refrigratr Com'l/Ind Maint MRO	Wire Small-Diam MRO
Computers Business MRO	Linear Accsories MRO		Wire-Rope Slings Chain-Ftg
Computers Processing MRO	Linear_Act & Positnrs MRO	Safety Persnl Protectn	Wiring-Dev Current MRO
Const-Supl: Rope Ldrs Shvl		Safety Test-Eqpt & Resprtrs	Wiring-Dev Non-Cur'nt MRO
Contrlrs Gen-Indst P/C MRO	Machine Tool Access'res	Saw Blades	
Contrlrs Specialty Indst-MRO	Monitormg Panel Eqpt/Ind MRO	Sealants MRO	
Controls Gen-Indst Eqpt MRO	Motors Fractional HP MRO	Seals Mech Auto MRO	
Controls Motor & Drive MRO	Motors Integral HP MRO	Seals Mech Indst MRO	
Controls Process Inst MRO		Sheaves MRO	
Controls Vari-Spd Drvs MRO	O-Rings MRO	Shelvg Rcks-Lkrs-Bnchs	
Conveyor Belting Flat MRO		Sprockets MRO	
Conveyors & Conveyg Eqpt	Packaging Tape	Steel Alloy MRO	
Couplings Flex-Hyd-U MRO	Paint Maint MRO	Steel Carb_Bars MRO	
	Paint Spray-Eqpt MRO	Steel Carb_Pipe MRO	
Fasteners Non-Trhded MRO	Petro Highly-Ref Lubs&Synt	Steel Carb_Plate MRO	
Fasteners Threaded MRO	Petro Hydraulic Oils	Steel Carb_Sheet MRO	
Files	Petro Indst-Oil & Grease	Steel Carb_Tube MRO	
		Steel Cbn-Strctl MRO	
		Steel Stainless MRO	

**MDM Interview with Doug Levin**

Continued from p. 3

more than price that can affect your overall profitability. Good buyers understand this and will buy the product for the business that brings them the most value.

However, I think we will see more of the on-line purchasing tools that are very powerful, like an Ariba or CommerceOne. In some cases you can eliminate buyers and let your engineers and end-users do the procurement. The portal software takes care of your specific business rules of who is allowed to buy and how it is sourced. If an engineer buys something not authorized, it automatically alerts their manager to approve it or not. Distributors need the technology to integrate into those customer systems so the order goes directly into the distributor system to get the full efficiencies.

Right now it's the largest customers who are using these tools. As that technology becomes more available, that's going to be a huge value-add that a distributor can offer to their customers or in some cases the larger customers will buy themselves and then want to integrate it to the distributor system.

**MDM:** What are the key challenges you see for both software providers and distributors in the next few years?

**DL:** From the software-provider standpoint, I think the biggest challenge is going to be addressing the 10- to 20-percent specific needs for a niche market. The needs of a fastener distributor are 10-20 percent different than those of an electrical, plumbing or medical distributor. The biggest challenge is balancing development efforts, sales efforts, support efforts across those 10-20 percent differences, because those differences are 80 percent of that distributor's core needs.

The second biggest challenge will be adapting to new technologies such as software-as-a-service because you really have to build your product from scratch. It's difficult to take an existing legacy technology and make it work effectively over the Internet.

For the distributor, it's how to react and adapt to a global economy. Not only are they dealing with global manufacturers, but now customers are overseas. Do they follow their customers and how do they work with suppliers that are overseas and vice-versa?

The next issue would be making sure they're running their businesses as efficiently and as effectively as possible. Don't buy more technology until you're using everything you have! Investi-

gate the cost of getting your existing technology to do something that you might think, "I need to buy a whole new system to get that," because it probably will be less expensive to take your existing technology and make it do what you want.

From a functionality standpoint, the race is a tie. Almost all systems have the same functionality these days. These companies have been in business long enough to build all the features a distributor wants. Look at that 10-20 percent of functionality that might be specific for your industry. So then the next two key questions are these: "Which technology provider is going to be around for the long haul?" and "Who is going to provide the best implementation and support services long-term?"

There is no silver bullet that all of a sudden is going to make your business much more efficient. Focus some resources in using the systems, getting the data to be optimal, getting the data set up properly and getting everybody trained on the best way to use the technology. That approach will produce the biggest ROI with the least amount of dollars spent.

*Doug Levin currently provides business consulting services to both technology companies and distributors. He may be reached at 215-327-8232 or [DougLevin@comcast.net](mailto:DougLevin@comcast.net).*

MDM Audio Conferences presents:

## **Wholesale Distribution Economic Outlook: Adam Fein's First Look at 2008**

Webcast Dec. 6, 2007 at 1PM EST

Benchmark your 2008 sales and marketing plan with the latest segment-specific economic data and analysis for wholesale distribution channels. Join Dr. Adam J. Fein, well-known wholesale distribution industry expert, on Thursday, Dec. 6, as he presents an exclusive first look at how U.S. economic trends are shaping up for wholesaler-distributors in the year ahead. For more information:

<http://www.mdm.com/conferences/fein07.html>

## Monthly Wholesale Trade: Sales and Inventories for September 2007

September 2007 sales of merchant wholesalers, except manufacturers' sales branches and offices, after adjustment for seasonal variations and trading-day differences but not for price changes, were \$366.8 billion, up 1.3 percent from the revised August level and were up 9.9 percent from the September 2006 level. The August preliminary estimate was revised upward \$1.3 billion or 0.4 percent. September sales of durable goods were up 0.3 percent from last month and were up 4.6 percent from a year ago. Compared to last month, sales of motor vehicle and motor vehicle parts and supplies were up 4.1 percent, while sales of metals and minerals, except petro-

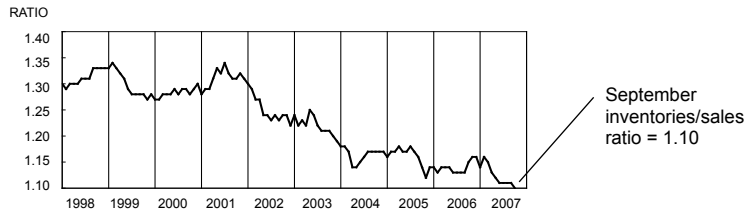
leum, were down 3.7 percent. Sales of nondurable goods were up 2.1 percent from last month and were up 15.1 percent from last year. Sales of petroleum and petroleum products were up 7.7 percent from last month, and sales of farm product raw materials were up 5.2 percent.

**Inventories.** Total inventories of merchant wholesalers, except manufacturers' sales branches and offices, after adjustment for seasonal variations but not for price changes, were \$404.5 billion at the end of September, up 0.8 percent from the revised August level and were up 5.2 percent from a year ago. The August preliminary estimate was revised upward \$2.3 billion, or 0.6 percent. End-of-month inventories of durable goods were up 0.7 percent from last month and were up 1.3 percent from last September.

**Inventories/Sales Ratio.** The September inventories/sales ratio for merchant wholesalers, except manufacturers' sales branches and offices, based on seasonally adjusted data, was 1.10. The September 2006 ratio was 1.15.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 1998-2007

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

## Monthly wholesale trade: Sales and inventories September 2007

NAICS Code	Business Type	Sales \$ millions	Inventories \$ millions	Stock and Sales ratio	% Change in Sales 8/07-9/07	% Change in Sales 9/06-9/07	% Change Inventory 8/07-9/07	% Change Inventory 9/06-9/07
42	U.S. Total	366,826	404,549	1.10	1.3	9.9	0.8	5.2
423	Durable	172,149	250,783	1.46	0.3	4.6	0.7	1.3
4231	Automotive	28,678	38,098	1.33	4.1	7.8	1.0	-1.5
4232	Furniture & Home Furnishings	6,051	7,962	1.32	1.2	3.5	-0.5	6.1
4233	Lumber & Other Construction Materials	10,349	14,179	1.37	-2.0	-11.9	-0.9	-8.7
4234	Prof. & Commercial Equip. & Supplies	29,650	32,647	1.10	-2.4	4.5	0.7	6.9
42343	Computer Equipment & Software	15,485	12,518	0.81	-2.6	3.7	2.0	9.8
4235	Metals & Minerals	13,157	23,352	1.77	-3.7	-4.4	-0.6	-4.2
4236	Electrical Goods	26,038	32,255	1.24	2.1	2.3	0.4	1.3
4237	Hardware, Plumbing, & Heating Equipment	7,943	15,392	1.94	-0.1	3.8	0.9	3.8
4238	Machinery, Equipment & Supplies	30,324	64,157	2.12	2.1	11.4	1.3	4.1
4239	Miscellaneous Durable	19,959	22,741	1.14	-2.0	11.5	1.3	0.6
424	Nondurable Goods	194,677	153,766	0.79	2.1	15.1	1.0	12.2
4241	Paper & Paper Products	8,183	6,858	0.84	-0.2	5.7	0.5	7.2
4242	Drugs	32,874	31,406	0.96	-2.9	3.6	-1.5	0.2
4243	Apparel, Piece Goods & Notions	11,046	15,854	1.44	-1.2	4.9	-0.1	6.7
4244	Groceries & Related Products	43,220	27,347	0.63	1.0	11.1	-0.2	11.3
4245	Farm-product Raw Materials	17,690	20,665	1.17	5.2	56.8	9.6	82.8
4246	Chemicals & Allied Products	8,743	9,174	1.05	4.1	9.3	0.9	4.7
4247	Petroleum & Petroleum Products	44,596	12,844	0.29	7.7	27.7	-1.5	-1.3
4248	Beer, Wine & Distilled Beverages	8,723	10,507	1.20	0.8	7.0	1.6	11.7
4249	Miscellaneous Nondurable Goods	19,602	19,111	1.97	1.6	9.4	0.8	10.0

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis. Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.



# Industrial & Construction Markets Update

## PERSPECTIVE

As a good friend once observed, success in distribution is not so much hitting home runs or triples, but executing singles well and celebrating the occasional double. (The baseball analogy might be a little late but only because the World Series ended too early).

It would be nice to apply that thought to the area of data standards in distribution, but we can't. There are some isolated sectors where there have been successes, most notably in electronics and electrical product sectors. But most areas in distribution have been striking out or at best getting an infield hit every once in a while. Not surprising really, when you consider how fragmented this industry is at every level.

For more than 20 years, there have been efforts to connect distributors with other distributors and with manufacturers. Dead-stock bulletin boards, exchanges, portals, data file formats – these have all been the right idea at one time. And a few efforts have had real but often small impacts on reducing errors, costs and redundancies.

When you think that the use of the Internet is now more than ten years old, you have to ask how well your company and your network of suppliers are really using the tools now available.

What this industry needs now is leadership in data standards. It will likely take a perfect storm to get beyond the mostly incremental improvements to date. As successes in some sectors illustrate, there needs to be a 600-pound gorilla to drive standards. Ten years ago in the electrical industry, it took a group of pioneer manufacturers to get the top 10-15 electrical products manufacturers together. Today, we probably need even more intensive global and economic pressures to keep data standards moving forward. It won't happen without a strong leader stepping up.

**Hagemeyer** and **Rexel** entered exclusive negotiations aimed at finalizing an agreement under which Rexel would make an all-cash offer of €4.85 per share, approximately €3.1 billion in total, or US\$4.5 billion. Under the agreement, Hagemeyer's Management and Supervisory Boards would recommend Hagemeyer accept this offer. The offer is up from Rexel's original bid of €4.60, which had valued the company at US\$4.3 billion. Rexel's agreement with **Sonepar** will stand to sell Sonepar the American, Asian-Pacific and select European activities of Hagemeyer.

**3M**, St. Paul, MN, has acquired **Standard Abrasives**, a manufacturer of coated abrasive specialties and non-woven abrasive products for the metalworking industry. Standard Abrasives employs 375 people and is headquartered in Simi Valley, CA. 3M has also agreed to acquire **Bondo Corp.**, a manufacturer of auto body repair products for the automotive aftermarket and various other professional and consumer applications.

**Wolseley plc**, the UK-based global distributor of plumbing and heating products to professional contractors and a supplier of building materials, announced five bolt-on acquisitions for an aggregate of 84 million pounds Sterling (US\$174 million). In a full year, these bolt-on acquisitions are expected to add 109 million pounds (US\$226 million) to total revenue.

Wolseley subsidiary **Stock Building Supply** has purchased three companies in commercial and industrial markets in the U.S., and HVAC and plumbing distributor **Ferguson** has acquired one in southwest Colorado.

**Womack Machine Supply Company**, Dallas, TX, has acquired Salt Lake City, UT-based **Interstate Hydraulics, Inc.** Interstate Hydraulics distributes many of the same product lines as Womack and operates a hydraulic repair center in Salt Lake City. The addition of IHI allows Womack Machine Supply to expand its distribution and service of fluid power and automation products into Utah, Arizona, Nevada and most of Idaho.

**Airgas Inc.**, Radnor, PA, has acquired **Central Welding Supply Inc.**, an industrial packaged gas distributor with three locations south of Dallas, TX. Also effective Nov. 1, 2007, it has acquired **Texas Industrial Gas Inc.**, with one location in Houston, TX.

**WESCO International, Inc.**, Pittsburgh, PA, a provider of electrical MRO products and construction materials, has acquired **J-Mark Inc.**, Phoenix, AZ. J-Mark, with four locations in the U.S. and annual sales of \$30 million, is a provider of interior products and components to the manufactured housing industry.

**Ainsworth Lumber Co.**, Vancouver, Canada, has entered into an agreement with the direct-purchaser plaintiffs in the OSB Antitrust Litigation. Under the agreement, Ainsworth will pay US\$8.6 million to be distributed across the settlement class. Five building products distributors had filed a class-action lawsuit against manufacturers of OSB, including Ainsworth,

continued on next page

**MARKETS  
UPDATE  
SUPPLEMENT  
P. 2**

alleging the suppliers suppressed supply to raise prices to unprecedented highs, despite increasing demand.

Dutch distributor **Hagemeyer** has acquired **SIA Energo**, an electrical distributor in Latvia. The acquisition of Energo, through Hagemeyer's fully-owned Finnish subsidiary **Elektroskandia Oy**, follows on the acquisition of **Kolorits**, announced earlier this week.

Economic activity in the **manufacturing sector expanded in October**, say the nation's supply executives in the latest Manufacturing ISM Report on Business. However, manufacturing growth slowed to its lowest level since March 2007.

**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 3.9 percent in the third quarter 2007, according to advance estimates released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 3.8 percent.

**Regal Beloit Corp.**, Beloit, WI, has acquired **Alstom's** motors and fans business in India. The business is in Kolkata, India, and manufactures low and medium voltage industrial motors and fans for the industrial and process markets.

Electrical distributor **McNaughton-McKay Electric Co.**, Detroit, MI, has acquired **S+S GmbH** and **S&D GmbH** in Wegberg, Germany, the largest Rockwell Automation distributor in Germany. S+S/S&D will operate under the name of Mc-Mc GmbH, McNaughton-McKay's German subsidiary.

**HD Supply**, Atlanta, GA, diversified wholesale distributor of construction and maintenance products, has tapped Tom Lazzaro, president of HD Supply's Interiors business (CTI), as president of the Construction Supply business (HD Supply White Cap).

Weaker sales of automotive products and machinery and electronic equipment pushed **wholesale sales in Canada** substantially lower in August, bringing to an end a string of three straight monthly increases. Wholesale sales fell 2 percent to an estimated \$43.2 billion in August.

**Parker Hannifin Corp.**'s Parker Aerospace has acquired **Shaw Aero Devices, Inc.**, Naples, FL, a producer of aerospace components and equip-

ment. The business had sales of \$45 million in 2007

**Moro Corp.**, Wayne, PA, has acquired **J & J Sheet Metal Works**, Vestal, NY. J & J fabricates and installs commercial grade sheet metal products used in the heating, ventilating and air conditioning (HVAC) industry.

Electrical supplier **Legrand** has acquired **Macse**, a Mexican producer of metal cable trays. The move strengthens Legrand's presence in Mexico, where sales have risen 15 percent since the year's start. Macse reported 2006 sales of close to €10 million (US\$14 million).

**Schneider Electric** has finalized the formation of **Delixi Electric**, its new 50/50 joint venture in China for low-voltage products. The joint venture will be focused on the manufacturing, marketing and distribution of low-voltage products to the Chinese market.

**SPX Corp.**, Charlotte, NC, has agreed to buy **APV**, a global manufacturer of process equipment and engineered solutions primarily for the sanitary market, for 250 million British pounds (US\$510 million). APV is a division of **Invensys plc**, an industrial automation, transportation and controls group based in London.

**Alfa Laval** – supplier in heat transfer, centrifugal separation and fluid handling – has agreed to acquire Finnish industrial cooling company **Fincoil-teollisuus Oy** from **Carrier Corp.**, a subsidiary of **United Technologies Corp.** Alfa Laval will pay SEK 425 million in cash (US\$67 million).

**Saint-Gobain Gypsum** has moved into Vietnam through the purchase of **Vinh Tuong Joint Venture**, created at the beginning of 2007 and owned by Vinh Tuong Corp., Universal Cement (Taiwan) and Compact Resources (Singapore).

**Air Liquide Deutschland GmbH** is planning to set up one of the largest units in Germany for the liquefaction of gases (nitrogen, oxygen and argon) in the Ulm region to reinforce its supply network there for industrial gases. The start-up of the unit is scheduled for the end of 2009.

Diversified industrial manufacturer **Eaton Corp.**, Cleveland, OH, has acquired **Arrow Hose & Tubing Inc.**, Guelph, Ontario, a manufacturer of specialty thermoplastic hose and tubing for the industrial, food and beverage, and agricul-

## U.S. Construction Statistics: Third Quarter 2007

### Year-to-Date Housing Starts (in thousands)

	U.S. Total	Northeast	Midwest	South	West
YTD September 2006	1,442.6	128.8	225.2	733.9	354.7
YTD September 2007	1,079.6	110.2	165.5	545.3	258.6
Change YTD September 2007	-25.2%	-14.5%	-26.5%	-25.7%	-27.1%

### Year-to-Date U.S. Construction Spending (in thousands)

	Year-to-Date September 2007	Year-to-Date September 2006	% Change
<b>Total Construction</b>	<b>872,244</b>	<b>900,985</b>	<b>-3.2</b>
<b>Total Private Construction 1</b>	<b>659,467</b>	<b>710,684</b>	<b>-7.2</b>
<b>Residential</b>	<b>405,426</b>	<b>493,657</b>	<b>-17.9</b>
<b>Nonresidential</b>	<b>254,041</b>	<b>217,026</b>	<b>17.1</b>
Lodging	20,317	12,541	62.0
Office	40,592	33,697	20.5
Commercial	60,902	53,364	14.1
Health care	27,240	24,402	11.6
Educational	12,239	10,186	20.2
Religious	5,622	5,718	-1.7
Amusement and recreation	6,603	6,692	-1.3
Transportation	6,202	5,910	4.9
Communication	18,612	15,558	19.6
Power	27,846	22,451	24.0
Manufacturing	26,539	25,236	5.2
<b>Total Public Construction 2</b>	<b>212,778</b>	<b>190,301</b>	<b>11.8</b>
<b>Residential</b>	<b>5,409</b>	<b>4,521</b>	<b>19.6</b>
<b>Nonresidential</b>	<b>207,369</b>	<b>185,780</b>	<b>11.6</b>
Office	7,339	6,222	18.0
Commercial	2,728	2,394	14.0
Health care	5,975	4,649	28.5
Educational	61,203	54,206	12.9
Public safety	6,771	5,305	27.6
Amusement and recreation	8,288	6,751	22.8
Transportation	16,135	13,909	16.0
Power	7,693	6,496	18.4
Highway and street	56,799	54,053	5.1
Sewage and waste disposal	17,867	16,775	6.5
Water supply	11,425	10,725	6.5
Conservation and development	4,065	3,926	3.5

For monthly updated numbers:

[www.mdm.com/databank](http://www.mdm.com/databank)

Source: U.S. Census Bureau

tural markets. The business had 2006 sales of \$12 million.

**Katy Industries, Inc.**, Arlington, VA, has agreed to sell its Electrical Products Group, comprised of **Woods Industries Inc.** and **Woods Industries (Canada) Inc.**, to **Coleman Cable Inc.** for \$45 million.

**Barnes Group Inc.**, Bristol, CT, aerospace and industrial components manufacturer and distributor, reported third quarter 2007 sales of \$360.4

million, an increase of 11.9 percent. Profit was \$27.7 million, up 46.7 percent.

**Interline Brands, Inc.**, Jacksonville, FL, a distributor and direct marketer of maintenance, repair and operations products, reported sales were up 5.1 percent in the third quarter 2007 ended Sept. 28. Sales were \$330.2 million.

**MDM News Digest**

Continued on p. 4 of this section

**MARKETS  
UPDATE  
SUPPLEMENT  
P. 4**

## Top Wood Flooring Distributor Hoboken Files Ch. 7 Bankruptcy

After closing down earlier this month, the largest independent wood flooring distributor in the U.S. at more than \$600 million in sales, Hoboken Wood Flooring LLC, Wayne, NJ, has filed a voluntary petition for Chapter 7 bankruptcy in the U.S. Bankruptcy Court for the District of Delaware.

According to a report from local paper The Record, sales had fallen about 25% each month for the past year - the commercial business development manager for the company attributed the sales losses to the housing downturn, competition from manufacturers going direct, and the company's push to expand nationally.

The latter was emphasized in a Floor Covering Weekly report published shortly after private equity firm Code, Hennessy and Simmons bought the company in 2005 at the peak of the residential housing boom for what some estimated as more than 7X EBITDA, a high multiple considering the coming downturn in Hoboken's

key markets. Hoboken bought Superior Products, Elkridge, MD, in January 2006.

Code Hennessy and Simmons has successfully invested in other distribution companies including Beacon Roofing Supply, which is now public. (One potential fallout from the failed investment: Private equity firms that had shifted their focus to distribution may flee.)

While there were likely several factors leading to the fall of Hoboken, the downturn in residential construction compounded those. Industry sources also say Hoboken may have been pushed to pursue an aggressive private-label strategy, creating conflict with its traditional vendors.

The distributor is facing a lawsuit from two wood flooring manufacturers, Columbia Flooring Inc., and Millwood Specialty Flooring Inc., filed in New Jersey District Court on Oct. 30, 2007, demanding more than \$1 million in overdue payment for product.

### MDM News Digest

Continued from p. 3 of this section

**Industrial Distribution Group, Inc.**, Atlanta, GA, reported sales fell 3 percent to \$134.3 million in the third quarter ended Sept. 30, 2007. Profit was \$1.3 million, compared with profit of \$1.8 million in the prior-year period. Year-to-date, sales were down 3 percent.

**Rexnord LLC**, Milwaukee, WI, diversified manufacturer in power transmission and water management products, reported sales for the second quarter ended Sept. 29, 2007, were \$453.9 million, an increase of 52.3 percent. Organic growth was 8.6 percent. Power transmission sales were up 9.3 percent to \$325.9 million, an increase of \$25.9 million.

**RONA**, Boucherville, Quebec, reported sales in the third quarter 2007 were \$1.35 billion, up 6.7 percent over the third quarter 2006. Profit was up 5.9 percent to \$59.4 million. Excluding contributions from major acquisitions, consolidated sales increased 2.5 percent.

**Milacron Inc.**, Cincinnati, OH, global supplier of plastics-processing technologies and industrial fluids, reported a net loss for the quarter ended Sept. 30, 2007, of \$4.5 million, on sales of \$204 million.

**RBC Bearings Inc.**, Oxford, CT, manufacturer of highly-engineered precision plain, roller and ball bearings for the industrial, defense and aerospace industries, reported sales for its second quarter 2008 were \$78.2 million, an increase of 6.8 percent. Profit was \$8.7 million.

**Rockwell Automation, Inc.**, Milwaukee, WI, reported full year 2007 sales of \$5 billion, up 10% from 2006. Foreign currency translation added 3 percentage points and acquisitions added 1 percentage point to the growth rate. Profit was \$1.48 billion, which includes an after-tax gain of \$868.2 million related to the Power Systems divestiture. Excluding this and other one-time charges, profit was \$597 million for the year.

**MODERN  
DISTRIBUTION  
MANAGEMENT**

*Founded in 1967  
by J. Van Ness Philip*

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>

ISSN 0544-6538

To subscribe to Modern Distribution Management, please call 888-742-5060, email [tom@mdm.com](mailto:tom@mdm.com) or <http://www.mdm.com>. Subscriptions are available by online delivery and/or first-class mail. Published twice monthly; \$345/yr., \$365 U.S. funds other countries; \$169 each additional subscription to a company (\$189 other countries).

Copyright © 2007 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.