MODERN DISTRIBUTION MANAGEMENT
The Newsletter for the Wholesale Distribution Channel
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The Decline of the U.S. Dollar

Decreasing value hits players in the U.S. market differently

U.S. exports have shot up thanks to a weaker dollar, a windfall for U.S. companies doing business overseas. But not all manufacturers and distributors are benefiting. For those distributors who import from the euro-zone, for example, costs have suddenly spiked, forcing them to reexamine the way they define value in this marketplace.

This article examines the impact of the dollar decline on three groups:

- *U.S. importers,*
- *manufacturers who export to the European Union, and*
- *Canadian distributors who buy from U.S.-based manufacturers.*

By Lindsay Young

Recently, Equipment Controls Co., Norcross, GA, has started to factor the value of the U.S. dollar into its business planning. The gas measurement and control equipment distributor sources most of its product from domestic suppliers. But one of its suppliers – a manufacturer of natural gas regulators – is in The Netherlands.

The Netherlands is a part of the euro-zone, which means as the value of the euro to the dollar goes up, the prices of these products also go up for the U.S. distributor. "Nearly every day now the exchange rate of the euro to the dollar is a record," says Jeb Bell, Equipment Controls president, who said he finds himself watching world markets much more closely than he used to.

The dollar's value has fallen nearly 30 percent since its peak in 2002; at the same time the euro and the Canadian dollar have strengthened.

As of Friday, Dec. 7, the euro was worth US$1.46. "On top of my everyday competitive pressures, I have to come into the market with my costs 50 percent higher than the competition," Bell says. He expects it to remain that way for the next year or two.

"You just have to suck it up," Bell says. "We have to eat the margin to stay competitive and pray you find enough customers that believe in value over lowest price."

Exporters in Good Shape

While importers like Equipment Controls are working to offset losses from the decline of the dollar, manufacturers and distributors who do business in both Europe and the U.S. are seeing stronger sales overseas, offsetting any slowdown they may be seeing in the U.S.

North American Tool Corporation (NATCO), Sterling Heights, MI, a manufacturer of specialty cutting tools, sells in 54 countries. In the past three months, the company has seen a spike in quoting activity and orders from Europe. The manufacturer sells only through distributors. In particular, sales to a master distributor in Belgium have increased to a rapid clip, says Bernie Bowerstock, senior vice president for sales and marketing.

"When suddenly distributors there can buy my product for half the price it sells in the UK or on the European mainland, my delivery time doesn't matter," Bowerstock says. In addition, the value of the dollar more than compensates for rising freight costs.

"We have anywhere from a 47 percent to a 100 percent price advantage right now in the European market. Freight is incidental," he says.

Bowerstock says U.S. manufacturers should look to do business both overseas and domestically. "When things are slow in the U.S., they are not necessarily slow overseas," he says. NATCO has been actively exporting for 12 years. "If you're not

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exporting, you're missing some great opportunities." (Check out www.export.gov for more information.)

Exports, cheaper on the world market because of the weaker dollar, have helped keep the economy humming along nicely in the past couple quarters, partly offsetting the downturn in the housing sector. In September 2007, the latest month available, U.S. exports of goods and services grew by 11.8 percent year-to-date, according to the U.S. Department of Commerce.

Exports comprised 12 percent of U.S. GDP in the third quarter 2007. That's a significant increase: Exports were just 9.7 percent of GDP five years ago, and 5.1 percent 40 years ago, the U.S. Department of Commerce reports.

The largest export markets for U.S. goods were Canada, Mexico, China and Japan in September.

Largest Export Markets for U.S. Goods
Year to date through September 2007

	YTD 2007	
Canada	$183.2B	+5.9%
Mexico	$101.9B	+2.1%
China	$46.8B	+16.6%
Japan	$46.7B	+5.8%

Source: U.S. Dept. of Commerce, Int'l Trade Administration

Currency Exchange Policies

Though exports are growing at a rapid clip, the trade deficit with one of the country's largest trading partners, China, continues to grow. The value of the Chinese currency, the yuan, is one reason for that.

"Currencies have gone far out of line more than they ever have before," says Ernie Preeg, a senior fellow in trade and productivity with the Manufacturers Alliance/MAPI. The U.S. deficit started to balloon in 2000-2001. At this time, "it was clear the U.S. dollar was overvalued," Preeg says.

He says Chinese and other Asian currencies are below market rate, resulting in a "huge trade surplus" for that continent and a trade deficit for the U.S. But the Chinese have been slow to change their exchange rate policies; the low value of the yuan has resulted in strong profits for its exporters and fueled domestic growth. Other Asian nations are loathe to allow their currencies to appreciate significantly; they see China as a chief competitor and want to maintain an even playing field in that region.

In 2005, China announced it would let the yuan float against a basket of currencies. While that has allowed the yuan to appreciate about 10 percent, Preeg says, at the same time the euro has appreciated 30 percent and the Canadian dollar 40 percent. "So, overall, the Chinese yuan is down on a basket basis," he says.

Other countries have started to push for the

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Chinese to allow the appreciation of the yuan, however, and Preeg thinks China may take action in the next few months. "How much will they budge?" he asks. "Any move made in Asia to allow currencies to appreciate will ease the pressure in the exchange between the dollar and the euro and other currencies."

Preeg says that ultimately, to balance out a market-based rate, China needs to go up 50 percent or more. The extent to which the yuan needs to appreciate is hotly debated however, with some saying up to 50 percent and others going up to 100 percent or more. But all agree that something needs to change.

Preeg says companies doing business in China should create a business strategy based on two scenarios, the first of which is that prices remain the same. The second: based on the assumption that the yuan will go up 50 percent or more. Also factor in the current rate of inflation for China. The inflation and exchange rate have a larger impact on labor-intensive businesses.

Reverse in Canada

The U.S. is promoting a stronger dollar, but many Canadians – especially in the manufacturing sector – are bemoaning their dollar's rise. The Canadian dollar hit a high of $1.10 to the U.S. dollar last month, and is now nearly at parity with the greenback – an uncommon occurrence in the history of the neighboring countries.

The shift has made it more difficult for Canadian manufacturers to compete with U.S. manufacturers across the border. "Business is flying out of the country," says Scott Bebenek of Independent Distributors Inc., Toronto, Ontario. IDI is a purchasing cooperative of industrial distributors.

When the dollar is down, he says, manufacturers rely on business from U.S. companies. But the cost of Canadian products, he estimates, has gone up 30 percent to 35 percent over the past two years, and business to distributors is dropping off as manufacturers in Canada slow production.

The other issue: Suppliers that produce in the U.S. or overseas and ship to Canada have not adjusted prices to reflect the appreciated Canadian dollar. "Now that the dollar is even, Canadian distributors are continuing to pay the same for U.S. product," which eats into margins, Bebenek says.

Manufacturers are benefiting from fatter profit margins there, but the distributors in Canada say that their U.S. suppliers should adjust prices to reflect the new exchange rate reality.

"We're urging manufacturers to be transparent in any changes they make to price," he says. Bebenek says his group is proposing suppliers and distributors work together in mitigating losses on either side by pegging the dollar to a band – for example between 95 cents and 1.05. If the Canadian dollar goes above that, suppliers should rollback prices, and if below, price increases would be implemented.

In September, the latest month for manufacturing statistics, the Canadian dollar appreciated 3.1 percent compared with August. Manufacturing sales in Canada fell 0.9 percent in September, continuing a weakening trend from the past half year, according to Statistics Canada. Sales were at the lowest level since October 2006 – third quarter sales overall were down 1.8 percent from the second quarter.

Excluding motor vehicle and parts sales, revenues were down 2.7 percent in September. On an industry-by-industry basis, 15 of 21 Canadian manufacturing sectors decreased, representing two-thirds of sales. New orders dropped 2.5 percent in September after an even sharper 5.4-percent plunge in August.

Proving Value Outside Price

Fluctuations in currency markets are having an impact on bottom lines in every sector of manufacturing and distribution – some more noticeably than others. Those companies that are hurting are using this time as an opportunity to develop the value they add to customers. They understand that it is more important than ever to prove your worth to survive.

For Equipment Controls' Bell, an alternative to the import of natural gas regulators from The Netherlands is not an option. The regulators complement the products the distributor sources domestically and serve as a competitive advantage in the U.S. market. The company recognizes that though the dollar's value has fallen, the value the distributor provides customers does not have to follow suit.

"We are working very hard on the back-end, trying to maximize the value of our ERP system, for example, in our customer relationships," Bell says. "We are also increasing the level of education we provide our staff, including inside sales and product training.

"We want to make sure that when we walk in to see a customer, and say we provide value, that we can back that up."

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First Steps in Strategic Pricing

Break through the barriers in your current pricing practices

MDM Audio Conferences recently featured consultant Mike Marks and attorney Gene Zelek in "Strategic Pricing: Create a Value-Based Approach." The two told participants they must go beyond traditional pricing practices, segment customers and not be afraid to differentiate based on price. This article is based on that audio conference.

If you are implementing a pricing structure from scratch, and want to unfreeze an organization from its old habits, plan for at least 12 months of work to "make it stick." Keep in mind: "It's more than just coming up with a new price sheet and imposing it," says Mike Marks, a principal in Indian River Consulting Group.

Here are a few thoughts to get you started.

Legal Hang-ups

One of the first things people think when the topic of value-based pricing comes up is that they can't do it because legally they must give everybody the same price. That's simply not true, says Gene Zelek, of Freeborn and Peters LLP, Chicago, IL.

Distributors are bound by the Robinson-Patman Act if they sell in interstate commerce, just as manufacturers are, even though few cases are ever brought against distributors. However, the law does not say you must treat everybody the same, Zelek says. "It says that you only have to treat competing customers alike."

Start there. "If I'm selling to one customer who is an OEM and I'm selling to another customer who is an electrical contractor, they don't compete," he explains. "I can charge them different prices."

If they do compete and are in the same geographic area, they must be treated alike unless there is a good reason to differentiate. "I can use value to say this customer brings me more value, and that's not necessarily volume," he says.

In addition, under the law, you are allowed to ask about competitive practices – "It's just looking at what the other guy is doing," Zelek says, "and if it makes sense to me I'll do it."

As long as there is no formal agreement "where competitors get together in a smoke-filled room," following competitors' actions is OK.

Common Pricing Flaws

What are the largest price management flaws hurting profit for distributors? The first: letting field salespeople set pricing in isolation.

Second: Distributors are too slow to pass on price increases.

"They immediately go to the last price the customer paid assuming they would pay that again, when in fact it should be something different."

Zelek says there is often a disconnect at the sales rep level, "particularly if the sales reps are compensated in terms of volume, rather than in terms of profit."

If you implement a value-based system focused more on profit, but reward salespeople based on "how many boxes they move," he says, "it just doesn't work because there is no incentive for them to implement it."

To break free from this ice jam, Marks says distributors should start to measure what is actually done right now.

"What is the distribution of pricing across multiple sales reps or multiple branches?" he says

Moving forward, segment your customers, but not on their size – rather segment based on the importance of your products and services to them.

"The foundation of any rational pricing practice is based on customer segmentation and as an example, if I am a landscape contractor and I'm buying tons of shovels, I'm going to care what that shovel costs, but if I'm an electrical contractor that has one shovel in the truck, and I only replace it when it falls off on the freeway, I couldn't care less," Marks says. "I just want another shovel."

The basic principle of value-based pricing starts with what a customer is buying, not with what a distributor is selling.

"Your margin should go up to the extent that the customer is not core to your business," he says.

"Think about the electrician that needs to buy one shovel and wherever they can get a shovel they're going to get it. … If the product is tertiary to the customer, it means it's very small. They just don't care. The other thing is that the product is slow-moving. In other words, if this

product doesn't sell very often, there should be higher margins."

The core concept in pricing: "What's the right price?" There isn't a magic answer, Marks says. In pricing, build a process and measure changes in elasticity (the change in volume sold relative to price).

"A lot of this is about creating a pricing policy which is subordinate to a pricing strategy, and it's been our experience that most folks don't have that," Marks says.

"When they have problems with pricing they just get a sharper pencil and that's pretty much where it stops."

Selling Your New Scheme

"Distributors have had a lot of revenue increases thanks to the rising increase in commodity prices we've had but many have failed to realize the margin opportunity because they were so slow in passing these costs on," Marks says.

While price increases should always be communicated to your customers, it's important to do it right.

Marks used the example of a wire manufacturer that did a good job of communicating with its customers by listing copper futures on its Web site.

"It was very effective," Marks says. "Instead of trying to hide or pretend that there were going to be increases, they were trying to inform customers so they actually understood how the process went. People don't like to be surprised."

If you've done a good job of getting the customer to pay market, then it shouldn't be difficult to move them up a notch.

"If it turns out you have been overcharging the customer, it's pretty easy. If you've been undercharging them, that's a different issue," Marks says.

"The easiest way to bring them back up is to say, 'By the way, just so you know, the next time you order this there's going to be a price increase,' and you lay out the case." It's best to over-communicate.

Will customers retaliate? Sure. Some will. "Quite legitimately a customer might say, 'We've been buying from you for X price. Now you're moving it up to X-plus. We need to put it out to bid.' … Most people are unwilling to run that risk," Marks says.

Zelek says some distributors are below-market due to the services they bundle with the products. "The distributor is giving away a lot of good stuff for free," he says.

An example: A chemical company was providing consulting services to municipalities but the chemicals, chlorine, fluorine and so on were bought on bid.

"They were constantly getting low-balled," Zelek says, because their costs were high thanks to the technical service they offered.

"For those municipalities that were doing this by bid, the company unbundled the service from the product, and they were competitive. If the municipalities wanted technical service they had to pay for it à la carte."

An electrical distributor that was doing kitting for the industrial market charged a fee for the service.

On bids, they would allow a customer paying within certain terms to deduct part of that fee.

"In other words, if I'm doing the kitting I will build that into the price after I get it, but my original bid puts me on a level playing field with everybody else," Marks says.

Other topics covered in this 90-minute audio conference:

- Fundamentals of value-based pricing
- Segmentation, velocity & life cycle pricing
- Account-specific pricing
- Power buyers & consolidation pressures
- Lawful price signaling
- Rebate management
- Demand creation & pay-for-performance
- Private label impacts

This audio conference, held Nov. 13, 2007, covers pricing from both the manufacturer and distributor perspective. For more information on how to order the CD, go to www.mdm.com/conferences or call 1-800-742-5060.

Michael Marks is managing partner of Indian River Consulting Group, Melbourne, FL (www. ircg.com). He is also a Fellow of the NAW Institute for Distribution Excellence. Eugene Zelek Jr. is a partner in the Marketing Law Group of the Chicago law firm Freeborn and Peters (www.freebornpeters.com) and chairs its Antitrust and Trade Regulation Practice.

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Take Care When Cutting Staff

'Reductions in Force' can spark legal action from those who leave

Finding that a supervisor's comments about an employee's age were admissible circumstantial evidence, and that his employer's reduction in force plan was not a "plan" at all, an appeals court has reinstated the claim of a 57-year-old employee, who had been let go in a Reduction in Force (RIF) that affected over 90 employees.

By Michael Mitchell

Richard Blair had worked as a sales engineer since 1986 for Henry Filters Inc., a manufacturer of industrial filtration systems. In 2001 the new owner of Henry Filters, Durr Ecoclean, decided for business reasons to consolidate the sales force of Henry Filters with two other companies it owned, resulting in a cut back among the sales staff. Blair was one of the employees let go, and believed it was because of his age.

To establish a claim under the Age Discrimination in Employment Act, an employee must show that he is in the protected age group (40 or older), qualified for the job, suffered an adverse employment action such as termination, and was singled out for the action "because of age."

If the employer can articulate a legitimate business justification, the employee must show that the reason given is a pretext. Under typical circumstances employees terminated because of a reduction in force face a fairly heavy burden in establishing that their selection was based on age, since the terminations will have involved other employees as well, and are almost always a legitimate business justification.

In this situation Blair offered as proof of age discrimination the actions and statements of his direct supervisor. A vice president of sales took Blair off a profitable account with Ford Motor Co., and assigned him to a far less productive account with General Motors. The reason? According to the lawsuit: Blair was too old.

Ford buyers were younger and interested in activities like mountain biking – coincidentally, so was Blair's 33-year-old mountain biker replacement. The VP of Sales also threatened to fire Blair if he told anyone about the real reason for the reassignment, according to Blair's allegations.

Finally, the VP of Sales also supposedly made derogatory remarks about Blair's age, including calling him "the old man" at sales meetings, and asking others at a meeting with GM's purchasing department whether "the old guy" could make it up the stairs. Maybe not, but he made it to the courthouse in pretty good shape, filing suit in federal district court in Michigan claiming both age discrimination and a hostile work environment.

In its defense Henry Filters argued that Blair was one of scores of employees let go. In fact, the employee workforce shrank from 143 to 52 during the period 2001 to 2003.

Based on that, and on the company's argument that the VP of Sales did not in fact have the authority to terminate Blair, the district court dismissed Blair's claim of age discrimination, and also found no evidence that the age-related comments created a hostile environment, even if they were made.

The Decision

On appeal the U.S. Court of Appeals for the 6th Circuit saw it differently. Finding that the supervisor's statements were not direct evidence, they nonetheless created a question of fact as to whether Blair's age played a part in the company's decision to terminate him.

As to the business justification of a RIF? Blair should be entitled to try and show that it is a pretext.

As to the district court's finding that the VP of Sales didn't fire Blair at all because he didn't have the authority to do so, the Court noted that, according to the evidence, the vice president frequently threatened to fire salespeople without any contradiction from officials above him, and that he actively participated in hiring and firing decisions.

The VP of Sales, who referred to himself as "the Terminator" according to the Court, was the one who telephoned Blair with the news of his termination (while Blair was on vacation) and signed the letter outlining the terms of Blair's separation agreement.

What about the company's RIF plan? To paraphrase the Court's decision, "What plan?" In the Court's view, this was nothing like a "blueprint" or "objective plan" for a reduction. Instead "the shedding of employees appears to have been chaotic, occurring in fits and starts" with "neither a defined beginning date for, nor a clear plan for the execution of," the RIF.

Because of the lack of objective criteria for the RIF and the age-based comments of an ap-

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parent decision-maker, the Court found a genuine issue of fact, and remanded the case for trial.

But what about the hostile environment claim? Here the company prevailed. The Sixth Circuit agreed with the district court that there was no evidence that the supervisor's comments, even if made, interfered with, or were intended to interfere with, Blair doing his job.

Lessons Learned

RIFs are a part of economic life. In some industries they come even more frequently than in others because of the cyclical nature of the product or service being offered. They need to be handled carefully and thoughtfully.

Of course, terminating employees strictly by length of service is one way to handle these situations, and a safe way at that. But the law doesn't require it (although union collective bargaining agreements may) and often a company would be faced with keeping less productive employees at the expense of harder working ones by following such a plan.

If a company wishes to use other criteria it may – but spell them out in a plan that has been given some thought. Attendance records, skills and abilities, disciplinary records and similar non-discriminatory business reasons are all sufficient to support termination decisions, even if they affect employees who fall into one or more protected categories.

Less objective criteria, such as attitude, customer relations, potential for promotion and the like are a lot more difficult to establish, and so a lot trickier to rely on, but still lawful if used carefully. Using totally subjective criteria, like a supervisor's gut reaction, an employee's popularity, and similar factors, is playing with fire. If something can't be quantified, it's hard to convince a judge or jury that it was real.

If your company is faced with a cutback give careful thought to a number of factors, including what you are going to call it. For example, not all cutbacks are layoffs.

A "layoff" is a term that implies a continuing relationship with the company, and a likelihood that the employee will be called back when work picks up. If that's not what you intend, better to term the action a "termination for lack of work." That truthfully signals to the employee the employment relationship is over, and any future employment will be based on a new application as a new hire.

Similarly, the criteria you end up using should be rational, business-based, and – if you're in doubt about it – reviewed by counsel.

For more information, contact the author, a partner at Fisher & Phillips, at mmitchell@laborlawyers.com or 504-522-3303.

MDM Audio Conferences presents:

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

Adam J. Fein, well-known wholesale distribution industry expert, presents an exclusive first look at how U.S. economic trends are shaping for wholesaler-distributors in the year ahead. Use this CD of this Dec. 6 program to benchmark your 2008 sales and marketing plan with the latest segment-specific economic data and analysis for wholesale distribution channels.

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- Up-to-date data on sales, inventories and employment by line of trade and customers
- Focused insight by the premier researcher in the industry!

More info and order the Webcast CD at www.mdm.com/conferences.

Survey: Paperless Invoices Gain Ground

Distributors must work with customers' invoicing needs

An electrical distributor in the Northeast delivers more than one-third of its invoices by email. More than 95 percent of its contractors who receive their invoices by email said in a survey they are satisfied or very satisfied with the delivery method.

About 70 percent said they like email delivery to "save time" and because they "get their bills faster." Most would recommend email delivery to other contractors. This electrical distributor is not alone in its invoicing practices.

A recent report by Allen Ray Associates, Channel Marketing Group and BillTrust says that as companies become more comfortable with electronic processes, customers are gravitating toward receiving invoices electronically via email or by downloading them off a distributor's Web site. Customers say they can invoice their customers more quickly and improve cash flow, more quickly reconcile purchase orders to invoices, and reduce manpower hours devoted to opening and matching invoices.

Distributors that are using paperless invoicing say they are doing so to reduce costs (paper, postage, toner), reduce manpower expenses, and reduce DSOs and enhance cash flow.

Paperless billing can be done in-house using ERP system or through an outsourced billing service provider. One electrical distributor quoted in the survey said one of its divisions sends one customer its invoices in QuickBooks format via email each night and is being paid in 34 days. Another echoed that sentiment, saying it was "pleasantly surprised" that six of its customers are paying earlier by about 10 days on average.

Here is a snapshot of findings from the report, based on a survey of electrical distributors and customers. Interviews were also conducted.

A trend toward increased faxing and e-mailing of invoices exists. The number of customers receiving invoices by email has gone up to 31 percent from 16 percent in 2006, and 34 percent to 51 percent for faxes. The number downloading invoices from a company Web site remained the same year over year. "With the advent of alternative invoice distribution methods, customers welcome the opportunity to choose how they wish to receive their invoices from their distributors. From a distributor viewpoint, this can represent an opportunity to differentiate.

"What becomes clear is that a strategic view of the invoicing process can help a distributor improve cash flow, reduce unproductive expenditures and create a more tangible connection with their customers," the survey says.

Transition to electronic invoicing is inhibited by technological capacity or lack thereof. One customer said: "Four of my suppliers offer invoices on their Web sites, but our company can only print pdf files of these documents. What we really want is the ability to import or load all of the distributors' generated documents, in particular invoices, into our accounting package." Another customer said it receives more than 525 invoices a month from an independent distributor and has an error rate of 0.01 percent. The key is that he imports his invoices and has negotiated a pricing tolerance level with the distributor. He pays electronically in full every month.

Distributors and customers are both highly concerned about billing errors. According to this survey, errors are common. Thirty-five percent of respondents reported that more than 6 percent of their invoices have errors. Many factors contributed to these errors including backordered items, wrong items shipped, bad descriptions, pricing and quantity.

A distinct difference in time until paid appeared between national distributors and smaller independent distributors. National distributors reported being paid in 33 days while independents were paid within 45-75 days. The survey offers as explanation variations in business mix, credit collection practices or overall ability to offer e-invoicing options. It was also found national distributors are more likely to send invoices electronically.

More than three-fourths of distributors in the survey say they have not surveyed their own customers on e-capabilities and desires. "To achieve parity, and reduce collection time, distributors and their customers need to plug into each other," the survey says. "A key step for distributors is to better understand their customers." *- Lindsay Young*

Channel Marketing Group can be found at www.channelmkt.com, Allen Ray Associates at www.allenray.com, and BillTrust at www.billtrust.com.

MODERN DISTRIBUTION MANAGEMENT VOL. 37, NO. 23
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Industrial & Construction Markets Update

PERSPECTIVE

News that CompUSA will shut its remaining 100 stores and sell off its assets offers some insight for distributors and manufacturers feeling the pressures of consolidation. The downturn of the electronics retailer was not for lack of investment, but likely poor positioning.

Investing in the business in the late 1990s, Mexican telecom and retail store magnate Carlos Slim (now the richest man in the world) took CompUSA private, and the company grew its consumer electronics business through acquisition, including The Good Guys, a California chain.

The Wall Street Journal estimates annual sales last year at $4 billion, but likely to come in at $1.5 billion this year. Early in 2007, it said it would close 126 stores, more than half of its total then.

Anyone who visited a CompUSA had a good chance of having a less-than-stellar service experience. So it's not surprising the company found itself in a bad corner. It was competing with Best Buy and Wal-Mart on the retail side, and Dell and PC catalog vendors on the other. It was outgunned on the low-price and selection side, and clearly could not differentiate on the service side. In fact, Best Buy a few years ago saw its weakness on service and beefed up its service and value-added capabilities.

CompUSA's last survival attempt this year was to target small businesses and affluent consumers, groups with high service needs and potential high margins. They require extremely high customer service levels to outweigh competitor price advantages. Wholesale distribution markets are much more fragmented, but it has become just as hard to compete head-to-head with low-cost providers, whether national chains or catalogs. It is critical to offer distinctive value to customers outside the product boxes.

UK-based **Wolseley** plc will be laying off 1,300 more workers in the U.S. in its second quarter; the global building materials and plumbing distributor reduced headcount by 1,700 in the three months ended Oct. 31, 2007. In total to date, layoffs represent a third of **Stock Building Supply** workforce and 10 percent of the **Ferguson** work force.

Noland Company, Newport News, VA, has cut 45 jobs across the company over the past month due to the national housing downturn, according to the local paper, the Daily Press. Noland, bought by **WinWholesale**, Dayton, OH, in 2005, sells plumbing and HVAC supplies to construction end-markets.

HD Supply has reportedly agreed to sell its **Lumber and Building Materials** unit to **Pro-Build Holdings** Inc. The unit includes 19 lumberyards in the Atlanta area and 20 in Florida.

WESCO International, Inc., Pittsburgh, PA, provider of electrical MRO products and construction materials, has acquired **Monti Electric Supply** Inc., Waveland, MS. Monti Electric has three branch locations and annual sales of $20 million.

Suncoast Roofers Supply Inc., Tampa, FL, has filed for Ch. 11 bankruptcy protection. In its bankruptcy filings, the roofing supplies distributor reported a 57 percent decline in sales over 2006 due to the decline in housing and related markets. For the nine months ended Sept. 30, 2007, sales were about $100 million.

Graybar, St. Louis, MO, distributor of communications and electrical products, has been awarded a new, three-year U.S. Communities Program contract effective Jan. 1, 2008. The company forecasts sales of more than $100 million through the program in 2008.

Airgas, Inc., Radnor, PA, has acquired **Wright Welding Supply**, Inc., an industrial gas and welding supply distributor in Des Moines, IA, and two other distributors in Texas and British Columbia. Together, the three transactions add $22 million in acquired annual sales.

Construction spending during October 2007 was estimated at a seasonally adjusted annual rate of $1,158.3 billion, 0.8 percent below the revised September estimate of $1,168.0 billion, according to the U.S. Census Bureau and the Department of Commerce.

Total transportation and logistics deal volume for 2007 is on pace to exceed 2006 levels, according to Intersections, PricewaterhouseCoopers' quarterly report on M&A in the global transportation and logistics industry. This may be due in part to the effects of the decline in debt market liquidity and stock market volatility felt by financial investors.

Manufacturing expanded in November, say the nation's supply execu-

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MARKETS UPDATE SUPPLEMENT P. 2

tives in the latest Manufacturing ISM Report On Business. The rate of growth in the sector however was down slightly compared with October. The PMI registered 50.8 percent, a decrease of 0.1 percentage point. A reading above 50 percent indicates manufacturing expanded; below 50 percent indicates a contraction.

Lincoln Electric, Cleveland, OH, has acquired **Vernon Tool Company** Inc., a San Diego, CA-based manufacturer of computer-controlled pipe cutting equipment used for precision fabrication. Vernon Tool's annual sales are about $9 million. Its customer base is in industrial construction as well as infrastructure and energy-related segments.

SKF and **GE Aviation** have agreed to establish a new company that will manufacture and repair bearings for GE's engines for large aircrafts. The new company, with SKF holding 51 percent and GE Aviation 49 percent, will be consolidated into the SKF Group and represents an investment of $28 million.

TECSYS Inc., Montreal, (TSX: TCS), supply chain management software company, has acquired **Streamline Information Systems** Limited, a Brantford, Ontario-based software supplier in the industrial distribution sector, for CDN$1.4 million.

The ERIKS Group has agreed to buy **Wielens Beheer** B.V. in Groningen, the Netherlands. Wielens sells electromechanical power transmission equipment parts and services. Wielens serves mainly the industrial maintenance market (MRO) and has annual sales of €22 million.

U.S. distributors' sales of Power Transmission/Motion Control products continue to fluctuate, dropping 5.5 percent from August to September after a 9.9 percent increase in sales the prior month, according to the September 2007 month-end trend data from the Power Transmission Distributors Association.

The **National Electrical Manufacturers Association's Electroindustry Business Confidence Index** for current North American conditions rebounded sharply in November, rising by more than 15 points from a month earlier. At 52.2, the index signaled the first month-to-month improvement in business conditions since April. By contrast, the future conditions index for North America lost ground on the month, slipping to 40 from 42.6 a month ago.

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 4.9 percent in the third quarter of 2007, according to preliminary estimates released by

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Calculation of MDM Inflation Index for October 2007

		BLS Price Indices Oct. '07	BLS Price Indices Sep. '07	BLS Price Indices Oct. '06	% Sales Weight	Weighted Indices Oct. '07 (1)X(4)	% Change Oct. '07 Sep. '07	% Change Oct. '07 Oct. '06
1136	Abr. Prod.	465.2	464.9	450.9	19.1	88.85	0.06	3.16
1135	Cutting Tools	436.3	437.1	432.2	18.9	82.46	-0.19	0.94
1145	Power Trans.	645.4	640.1	619.5	15.4	99.40	0.83	4.19
1081	Fasteners	455.1	455.6	435.1	9.0	40.95	-0.12	4.59
1149.01	Valves, etc.	786.3	791.6	756.3	7.6	59.76	-0.67	3.96
1132	Power Tools	331.0	330.8	326.1	6.5	21.51	0.07	1.49
1144	Mat. Handling	468.8	466.7	454.7	6.2	29.06	0.43	3.09
0713.03	Belting	548.5	552.7	537.2	6.1	33.46	-0.76	2.10
1042	Hand Tools	681.7	681.4	670.1	8.1	55.22	0.05	1.73
108	Misc. Metal	419.8	420.1	410.5	3.1	13.02	-0.07	2.27
"New" October Index		273.6	October Inflation Index			523.68	0.03	2.88
"New" September Index		273.5	September Inflation Index			523.51		
			October 2006 Inflation Index			509.02		

New index reflects 1977=100 base. Other numbers = 1967 base. To convert multiply by .52247

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U.S. MARKET ANALYSIS: Safety Products

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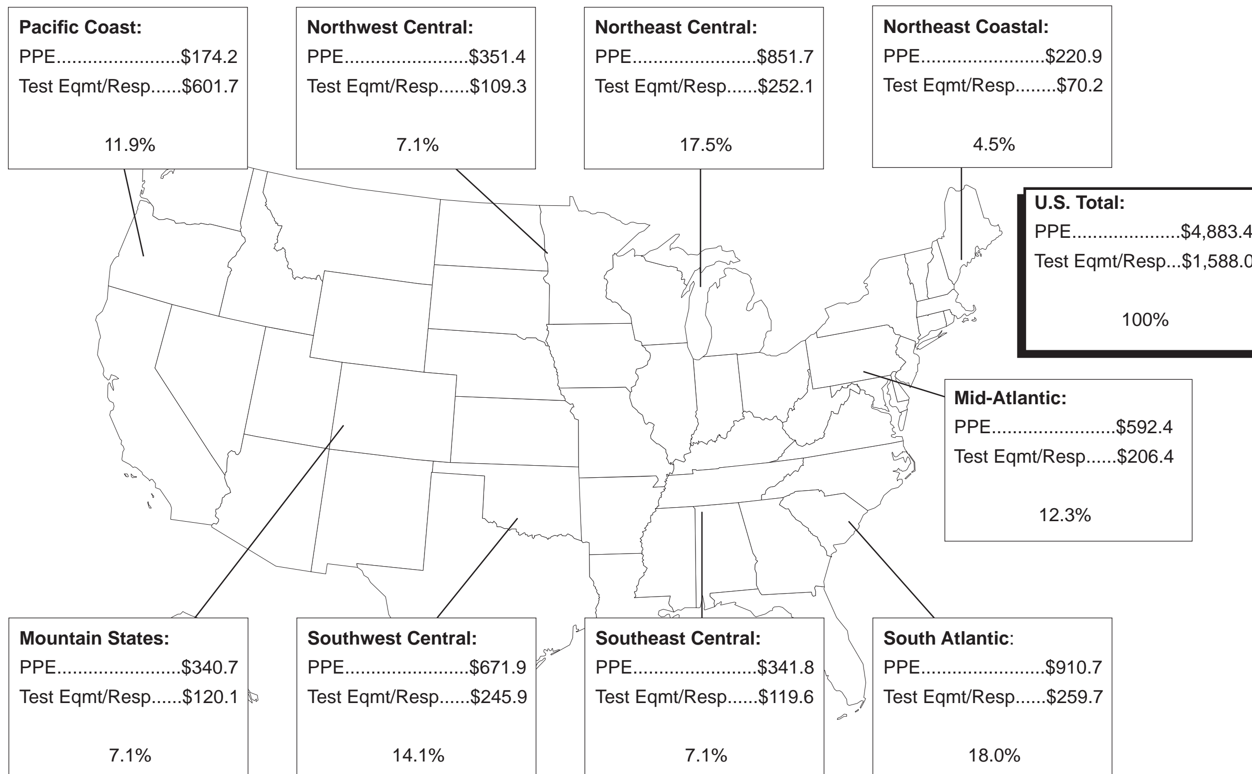
The industrial product group listed here - Safety Products - represented a market in 2007 of $6.5 billion, according to estimates by Industrial Market Information, Minneapolis.

These charts show the top ten industries, by SIC code, consuming these products; and the 2007 end-user consumption of these groups sorted by the nine government market regions.

Top ten industries in $ volume, by SIC code consuming Safety Products (2007 estimates)

SIC CODE	Personal Proteciton Eqmt.	Test Equipment/ Respirators	Companies	Total (Column A + B)
1542 Nonresidential Construction	304,061,019	44,893,809	47,371	348,954,827
1611 Highway & Street Construction	283,260,163	56,313,552	23,900	339,573,715
1623 Water Sewer & Utilities Construction	234,604,285	92,541,546	12,573	327,145,831
1771 Concrete Work	274,776,599	45,106,316	38,435	319,882,916
1629 Heavy Construction, NEC	195,683,601	30,568,219	16,536	226,251,820
1711 Plumbing Heating & Air Cond.	173,046,179	20,932,128	150,704	193,978,307
1731 Electrical Work	161,424,413	6,863,367	104,074	168,287,779
2821 Plastics Materials, Synthethic Resins	84,202,389	65,645,843	1,821	149,848,232
2869 Industrial Organic Chemicals, NEC	75,723,968	70,272,616	1,676	145,996,584
2911 Petroleum Refining	84,330,674	59,638,950	1,422	143,969,624

End-user consumption of Safety Products by region, millions of $ (2007 est.)



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

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MDM News Digest

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the Bureau of Economic Analysis. In the second quarter, real GDP increased 3.8 percent.

Industrial rubber and elastomer product supplier **Redwood Plastics** Corp., a division of **The Redco Group**, has acquired **BC Rubber Supply** Ltd., Langley, BC. Redwood Plastics has seven branches and two manufacturing facilities in the U.S. and in Canada.

Atlanta-based **Zep** Inc. says it is looking for opportunities in independent distribution channels to grow its core business in industrial and institutional cleaning and maintenance chemicals. The company named **HD Supply** and **Grainger** as examples of distributors they could sell through.

Beacon Roofing Supply Inc., Peabody, MA, reported sales grew 9.7 percent to $1.65 billion in fiscal 2007, reflecting acquisitions made during the year. Existing market sales fell 4.8 percent, with decreases in residential roofing and complementary building product sales.

Cooper Industries, Ltd., Houston, TX, has acquired **Hyundai Explosion-Proof Electric Company**, a South Korea-based manufacturer of explosion-proof electrical equipment. HEPEC specializes in explosion-proof Glass Reinforced Plastic lighting, control panels and switchgear and its products are complementary to the current Cooper Crouse-Hinds product offerings.

Parker Hannifin, Cleveland, OH, motion and control technologies supplier, today announced has acquired the **Texas Thermowell Industries**, Beaumont, TX, business of Bravura, Ltd., a manufacturer of temperature sensing protection equipment.

Electrical manufacturer **Legrand**, based in France, is buying **TCL Wuxi**, a Chinese manufacturer specialized in modular and high-current circuit-breakers. The move reinforces Legrand's presence in China. Legrand is already active in the energy-distribution segment in China.

Ingersoll-Rand Company Ltd. has sold its Bobcat, Utility Equipment and Attachments business units to **Doosan Infracore** for $4.9 billion. The combined businesses manufacture and sell compact equipment, including skid-steer loaders, compact track loaders, mini-excavators and telescopic tool handlers; portable air compressors, generators, and light towers; general-purpose light construction equipment; and attachments.

Illinois Tool Works Inc., Glenview, IL, reported revenue growth of 15.6% for the quarter ended Oct. 31, 2007. Base revenues were up 2.2%, due to strength in international markets. North American organic growth was flat in the quarter.

Myers Industries, Inc., Akron, OH, reported sales from continuing operations for the third quarter ended Sept. 30, 2007, were up 15% to $213.9 million. The sales increase includes $29.5 million from the acquisition of ITML Horticultural Products and sales of $8 million from the purchase of material handling lines from Schoeller Arca Systems Inc. North America.

According to various news reports, **84 Lumber** is closing 12 stores in nine states. A spokesman says that all but two of the closing are due to consolidation in markets in the U.S. 84 Lumber is leaving Redding, CA, and Manchester, TN, due to a steep drop in housing starts in those markets.

The Timken Company, Canton, OH, is establishing a joint venture with Chinese heavy equipment manufacturer **Xiangtan Electrica Manufacturing** Co. Ltd. to manufacture ultra-large-bore bearings for main rotor shafts of multi-megawatt wind turbines. The turbines are for the Chinese wind energy market. China has a goal of generating 30 million kilowatts of power from wind energy systems by 2020. The joint venture will build a $38 million facility in Xiantan, in China's Hunan province. Construction will begin in 2008.

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