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MODERN DISTRIBUTION MANAGEMENT
The Newsletter for the Wholesale Distribution Channel

Helping Customers Go Green

Energy savings departments also help customers save money

In addition to saving money by energy-efficient improvements to their own facilities, some distributors are helping customers go green by promoting products that lessen their impact on the environment, including energy-efficient motors, drives and lighting, windows, fittings, cleaners and finishers, and water-saving products.

By Lindsay Young

Not only does the eco-friendly product trend help the environment, if done right, distributors can take advantage of this to become *the* source of green expertise for their customers; in turn, distributors can become *the* source for eco-friendly products in their markets.

Portland, OR-based Eoff Electric Supply, a subsidiary of Sonepar USA, has done just that. For the past 12 years, it has worked to help customers cash in on energy savings, cutting their monthly bills by as much as 50 percent just by switching out their lighting.

The distributor's energy management specialist, Gil Amestoy, heads up projects aimed at cutting energy usage and costs for customers in commercial and industrial facilities including office complexes and manufacturing plants. His main focus is lighting, though the distributor also looks at motors and drives.

Demand for the distributor's services continues to grow.

Selling the Service

Eoff has 11 branches: two in Southwest Washington and the rest in Oregon. The distributor was recently recognized for its work in energy savings by The Energy Trust of Oregon.

Amestoy said the big-picture goal is to contribute to the State of Oregon's goals in reducing energy consumption in the region, slowing the construction of new power plants and dams. Amestoy, passionate about the cause and his job, does the same at his home where he uses solar power.

Amestoy travels throughout the sales regions and conducts physical audits of customer plants. He looks at the fixtures in place and then shares samples of products that can help those customers become more energy-efficient. The customer ultimately buys those energy-efficient products through Eoff.

In one case, Amestoy removed all 400- and 1000-watt metal halides from a manufacturing facility and replaced them with a

continued on next page

The Value of Employee Input

The parent company of Eoff and Friedman, France-based Sonepar, is working to push green practices throughout the organization with its global BLUEWAY program, launched in 2005 and aimed at educating customers about eco-friendly products that use less energy and fewer natural resources.

BLUEWAY is primarily focused on energy-saving lighting, partnering with Sylvania, but also encourages use of other green products. The program also includes a recycling service for its customers.

The program's start was a case study in itself, with the company seeking creative input from its 30,000 employees. From that, the company narrowed the list down to the 27 best ideas, and executives in each of 29 countries took ideas from that list that would work best for their markets.

Sonepar in the U.S. consists of 11 inde- companies with more than 200 branches.

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4 lamp and 6 lamp T5/HO system – energy-efficient lighting. The project resulted in close to $40,000 in annual savings for the facility.

Amestoy works closely with outside salespeople to sell the program to customers. He also conducts trainings for outside salespeople, as well as contractors and their customers.

The program is not only about helping the environment. For the distributor, it's about providing value to the customers. "People look to us because they know we have the expertise," says Mike Lindner, Eoff's director of industrial automation and energy management.

Still, Eoff must sell customers' financial officers on the payback. "They want to be green," Lindner says. "But the reality is, in the end it does come back to the bottom line."

Staying Up-to-Date

But to stay indispensable to its customers, Eoff must stay up-to-date on rapidly emerging technologies such as LED lighting, which Amestoy says could cut Eoff's customers' energy bills again by half. "It's going to be huge," he says.

Fiber optics, now widely used in Europe, is another area to watch.

Amestoy stays in the know by reading trade publications, working with vendors and local utility companies, attending seminars and making his way to a lighting trade fair each year, where new products are introduced.

"We must stay ahead of the game," Lindner says, especially as more distributors start to stock energy-efficient products.

Just Starting Off

Another Sonepar USA subsidiary, Friedman Electric, Exeter, PA, is just getting started on its efforts in this arena.

Friedman recently established an Energy Solution Division, dedicated to energy savings. The new division will help customers address the rising costs of energy in Pennsylvania and New York. The division is headed by Energy Products Specialist Tom Herron. The new division focuses on selling energy-efficient products. According to a release, "Although there are some upfront costs associated with retrofitting existing systems, the long-term cost savings far outweigh any costs associated with installation."

Harron says that Friedman does an energy analysis for customers, comparing their current system with a proposed system and the savings they can achieve.

In addition to selling customers energy-efficient products, Friedman has teamed with a local tax-focused law firm that can work with its customers further on benefiting from laws that allow deductions for energy-efficient upgrades.

Customers can potentially see a return on their investment in under two years.

Friedman also partners with vendors who conduct energy training seminars for customers and Friedman's employees on eco-friendly products.

Says Harron: "We've taken the approach where we want to be different in the market, and be an ally and not just someone they buy products from."

MODERN DISTRIBUTION MANAGEMENT

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Home Depot's New DC Strategy

'Rapid Deployment Centers' aimed at improving inventory turnover, in-stocks

The Home Depot, Atlanta, GA, which sold off its wholesale operations mid-2007 but continues to target professionals with its Own the Pro initiative, needed a more effective way to manage inventory for its lower-volume stores and seasonal and promotional products.

"The existing Home Depot supply chain worked great for high-volume stores, which had no trouble making frequent orders to vendors for direct store delivery to allow them good in-stocks and inventory turnover," Mark Holifield, Home Depot's Senior Vice President-Supply Chain, told analysts in HD's recent annual earnings results call with analysts.

"But in lower-volume stores, without an effective central distribution network, our store associates are forced every day to make the tough choice of being out-of-stock or overstocked due to vendor minimum order quantities, long wait times and unreliable replenishment."

HD has created an "optimal distribution center network strategy model" to guide its DC network decisions.

The goals: To move from a central distribution penetration of about 20 percent of product flow, measured by cost of goods sold, to about 75 percent of product flow; and to operate fast-flow distribution centers with the capability to process faster moving goods, called rapid deployment centers (RDCs). The third goal in optimizing HD's supply chain: to operate lumber and bulk DCs along with traditional stock-and-pick DCs.

The optimal network would include more than 20 fast-flow RDC facilities, Holifield says.

"We place a DC level order, a single order for the 100 stores, so we reduce the number of purchase orders that we send to the vendor by 99 percent. We reduce the number of orders that he has to pick by 99 percent," he explains.

"And we reduce the number of shipments by the same amount. So it's a single bulk shipment into the RDC. And at the RDC, we break that down by store and use the information we have on inventory at that point what's needed in each store to allocate what's needed to the store.

"So it's more handling in the RDC, but we gain benefits in terms of the in-stock and inventory turns. And as we roll vendors onto this, we work with them to take the costs out that they're saving in terms of fewer orders to process."

HD is piloting the rapid deployment distribution centers in its existing network. In March 2007, it kicked off a rapid deployment center pilot in Atlanta, GA, including 67 area stores and 20 vendors. To do this, HD converted part of an existing DC.

The results, according to Holifield, were "better in-stock at the stores, reduced lead times, improved shipment integrity, and improved inventory turnover."

Currently, the Atlanta-area RDC serves 99 stores and processes products from nearly 100 HD vendors. The second RDC was opened in Chicago in January.

HD's target is to have 40 percent of its U.S. stores receiving RDC service and 30 percent of those stores' product flow, measured in cost of goods sold, on the RDC program going into 2009.

The company expects to complete its RDC rollout by 2010 and invest about $260 million in the project. "These fast-flow facilities are much simpler to set up, much smaller in general, and much lower in capital investment," Holifield says.

"We felt that this was the fastest way to make that acceleration from 20-percent to 75-percent central distribution penetration."
- Lindsay Young

Survey: Wholesalers Have Low Expectations for 2008

Concerns about the economy and a steep drop in plans for hiring led to a steep decline in the confidence of distribution and wholesale companies during the fourth quarter of 2007, according to the latest Small Business Research Board report.

The study indicated that the Distribution & Wholesale Small Business Confidence Index dropped to 31 during the fourth quarter or 10 points (nearly 25%) from the 41 recorded during the prior quarter.

The third quarter 2007 report was the first wholesale and distribution industry confidence index issued by the Small Business Research Board.

Declines in two of the three major categories comprising the confidence index contributed to the lower fourth quarter results.

Of the respondents, 24% said they believed the economy would improve during the next 12 months, which was 13 points fewer than the 37 who expressed such optimism during the third quarter.

Concurrently, only 15% of the participants said they would increase hiring during the coming 12 months.

This was 19 points fewer than the 34% who said they had plans for increased hiring when polled during the third quarter.

By contrast, 54% of the owners and managers participating in the poll said they believe revenues will increase during the coming 12 month period. This was 2 points more than the 52% who expressed the same opinion during the prior quarter.

Backed by Private Equity

What does it mean, competitively, to be owned by a private equity firm?

This article looks at the impact of private equity on the industrial distribution market. The impact can be seen in other distribution sectors, as well. The author says that increased private equity ownership has fundamentally changed the corporate and strategic landscape of the distribution industry.

By Brad Yates

Worldwide M&A activity reached a record $3.8 trillion over the first nine months of 2007, according to Dealogic.

Much of the activity was directly attributed to private equity firms, which raised nearly $200 billion worldwide during the year. In particular, industrial distribution experienced unprecedented private equity investment.

Over the last two years, 21 private equity firms have made 46 platform and add-on investments in numerous sub-sectors of industrial distribution including general mill supply, tool shop/construction supply, electrical, industrial rubber, industrial gases, industrial lubricants, safety, fluid power, wire & cable, integrated supply, waterworks/utility, and industrial PVF.

Today, nearly every sub-sector of industrial distribution has at least one private equity-owned competitor.

Increased private equity ownership in industrial distribution has fundamentally changed the corporate and strategic landscape of our industry. Traditional strategic, entrepreneurial or family-owned companies will need to adapt to successfully compete with the resources and capital available to PE-backed businesses.

Addressing this uneven playing field will be essential for continued viability in this increasingly competitive environment, especially as the industry approaches a period of less robust growth in 2008 and 2009.

Development Under PE Ownership

Like all owners, private equity firms seek to maximize value for the shareholders of a company.

However, their relatively short investment time horizon of three to five years and their portfolio approach to investing creates a company dynamic that can be very different from a traditional strategic, entrepreneur, or family-owned business.

Perhaps the biggest change that occurs when a company is acquired by a private equity firm is the immediate focus on growth, both organic and through acquisitions.

A private equity firm with a five-year investment horizon will want to optimize a company's growth strategy, readily pursuing new market opportunities and acquisitions.

Whereas a family owned business may be more risk averse with a focus on protecting the family's net worth, a private equity-owned business can be more proactive in pursuing a comprehensive growth strategy. It is not uncommon to see a company significantly increase its growth rate and profitability after being acquired by a private equity firm.

Backed by the experience of working with and succeeding with other portfolio companies, in many ways, PE-backed businesses are better equipped to evaluate and take advantage of business opportunities.

On the acquisition front, it is not uncommon for a private equity firm to assist a portfolio company in reviewing and executing acquisitions so as to increase the company's activity level.

In some cases, private equity owners will be more willing to consider key acquisitions because they recognize the strategic value that comes from quickly adding size and scale to a business.

This is particularly true in a positive economic environment where there is ready access to capital to execute these "add-on" acquisitions and where a strong M&A environment can justify a buy and build strategy.

Picking up a key acquisition may allow the private equity firm to significantly increase the value of the combined company in a future liquidity event.

Living with Leverage

Another change that occurs when a company comes under private equity ownership is the increased amount of debt that is placed on the company as a result of the private equity transaction.

The use of leverage allows a private equity firm to pay a higher price for a company and can ultimately drive higher returns on their investment.

As the future owner of the business, the private equity firm has every incentive to make sure that it is an appropriate amount of leverage that the company can support.

The significant number of private equity transactions and the relatively low number of defaults on transaction debt demonstrates that, for the most part, private equity firms have been prudent in their use of leverage. In fact, the U.S. leveraged loan default rate ended 2007 at a 10-year low of 0.1 percent for Moody's-rated issuers, down from 0.6 percent in 2006. (Reuters, Jan. 30, 2008)

A private equity owned business must learn to live with leverage. In a positive economic environment, the use of leverage can be a great tool to accelerate growth and drive equity returns to the shareholders. However, in a slowing economic environment, a private equity-owned company may need to be more conservative in pursuing its strategic initiatives in order to support the debt on its balance sheet.

This defensive approach in a softening economy creates a clear opportunity for strategic, entrepreneur, or family-owned businesses.

Rise of Strategic Buyers

Until mid-2007, strategic buyers were losing out in auction after auction, as multiples were pushed to new heights by private equity with fresh capital and access to credit.

To ensure survival, strategic/family-owned industrial distributors focused on core competencies: executing their business plans, tightening operating expenses and maintaining customer relationships. However, we have entered a period of slow economic growth, punctuated by a slowdown in private equity transactions.

The record nine-month 2007 M&A volumes were deceptively buoyed by an extraordinary first half of the year. In the third quarter, the credit crunch left a noticeable impact on worldwide deal volumes, which were off 42% to $1 trillion compared to $1.7 trillion in the second quarter.

With debt not readily available for any transaction, private equity firms have moved more cautiously, protecting their cash flows, cutting company operating costs and fully integrating companies already in their portfolios.

In this environment, strategic buyers have a distinct advantage as their PE-backed competitors employ a more conservative operating strategy.

On the acquisition front, less competition for deals and the ability to use cash and/or stock with no financing contingency translates into a very favorable acquisition environment for strategic buyers. Strategic buyers can take an offensive approach to entering new markets.

Pursue acquisitions that generate additional growth and profitability. Consider opportunities to enter adjacent product and geographic markets.

Focus on deals where there is the ability to generate meaningful cost and revenue synergies by eliminating redundant expenses and leveraging product and service opportunities into the acquired company.

The opportunity is ripe for larger distribution companies to acquire smaller competitors that may be more susceptible to a worsening business environment.

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Private equity involvement has been a boon to the industrial distribution industry, with increased transaction activity, enhanced valuations and attention by the broader market.

Private equity has played a prominent role in many successful distribution companies including Interline Brands, Wesco, Houston Wire & Cable, Rexel, and Edgen Murray. An improved credit environment and strengthening economy will renew private equity appetite.

In the meantime, traditional strategic, entrepreneurial or family-owned companies should consider the current environment as a unique window of opportunity to pursue both organic and acquisition growth strategies.

Brad Yates is a managing director at Stephens Inc., where he provides expertise in middle-market investment banking to the industrial distribution market. Stephens Inc. is a full-service investment banking firm headquartered in Little Rock, AK. For further information, contact Yates in the firm's Atlanta, GA office at 404-461-5100 via e-mail at byates@stephens.com.

Proposals to Change FMLA Regulations

Government looks closer at controversial parts of employee leave laws

For some time now, business groups have been calling for a substantial overhaul of FMLA regulations that have proven to be unduly vague, cumbersome, and in some cases, completely out of touch with the realities of today's workplace. It seems that those requests are no longer falling on deaf ears. On Feb. 11, the Department of Labor took a substantial step toward regulatory reform by publishing a Notice of Proposed Rulemaking in the Federal Register.

By Steven Bernstein

Once implemented, the final rules will contain regulatory language based upon comments submitted during the review process. Although a final set of new regulations is still months away, a spokesperson for the administration expressed her desire to implement changes by the end of President Bush's term. The proposed rules will remain open for public comment through April 11, 2008.

Years in the Making

The proposed rules would represent the first significant update to FMLA regulations that have gone unchanged since their implementation back in 1994. Large segments of the business community have been calling for changes ever since. This movement gained substantial momentum in December of 2006, when the DOL first issued its "Request for Information" on the FMLA.

Six months later, the DOL issued an extensive report detailing over 15,000 separate comments. At that time, the most substantial areas of concern revolved around use of unscheduled intermittent leave, employee notice, medical certification, interaction between FMLA and the ADA, and definitions for a serious health condition.

Unfortunately, the report stopped short of offering any specific proposals for regulatory change. These proposed rules move us one step closer in that direction.

Potential for Relief

Over the years leading up to the proposed rules, several aspects of FMLA consistently generated controversy, including: 1) the use of unscheduled intermittent leave; 2) the definition of "serious health condition"; and, 3) the medical certification process.

In response to concerns expressed by a number of business groups, the DOL is proposing to allow employers to condition use of unscheduled intermittent leave upon compliance with uniform call-in procedures. Our firm had also called for a limitation upon use of intermittent leave to four-hour blocks of time. Unfortunately, the proposals would leave intact existing provisions allowing for leave in partial-hour increments.

With regard to serious health conditions involving three consecutive calendar days of incapacity, the proposed rules would make clear that an employee must make two separate visits to a healthcare provider within 30 days of such incapacity. The regulations would also require those employees who allegedly suffer from chronic health conditions to demonstrate that they have seen a physician at least twice per year, as opposed to the "periodic" language that had been utilized before.

The DOL is also proposing a number of

changes with regard to the medical certification process, many of which were long overdue. For the past several years, employers have called for more latitude to pursue information beyond the scope of the current certification form. The process has also given rise to confusion among physicians called upon to complete the form, and employees who are compelled to then clarify the information.

Under the proposed rules, employers would be permitted to contact healthcare providers directly for purposes of clarifying or authenticating a certification form. Currently, such communications may only take place between a healthcare provider designated by the employer and the employee's treating physician. The rules would also allow employers to request annual recertifications for serious health conditions lasting more than a year, and semi-annual recertifications for those conditions vaguely described as "lifetime" or "unknown."

Responding to requests for clarification on the impact of FMLA waivers, the proposed rules reinforce existing provisions allowing for retroactive (but not prospective) waiver of rights, expressly stating that DOL need not supervise such waivers. The proposed rules would address other FMLA provisions that have either been invalidated or challenged in the courts, including sections dealing with joint employment and coordination between dates of leave approval and commencement.

FMLA: The Next Political Football

Perhaps not surprisingly, some Democrats on Capitol Hill are already reacting to the proposed regulatory changes. A pair of Senators lashed out at the provisions during a recent hearing, characterizing them as an attempt to "chip away" at the current framework.

Sen. Kennedy (D-Mass) suggested that the rules would impose added burdens upon those workers who genuinely need FMLA leave, while Sen. Dodd (D-Conn) characterized certain proposals as "humiliating" to those who suffer from chronic illness. Sen. Dodd went on to question why "we offer no paid leave as a nation, when the European standard is 10 paid months?"

Although such rhetoric is not unusual in a campaign year, there remains the possibility that the proposed regulations could themselves be jeopardized in the event that they are issued near the end of the administration's current term. Such "midnight regulations" have been stricken down before on the heels of elections, to the extent they sweep an opposing party into control of both houses of Congress. This is expected to be a hot political issue over the next several months, and it certainly bears watching.

Other Changes on the Horizon

The year is barely two months old, yet it has already been a busy one for FMLA. This past month, President Bush signed the National Defense Authorization Act into law, providing extended FMLA leave protection to close relatives of uniformed service members.

The new law amended FMLA in two key respects, creating entitlements in the form of up to 26 weeks of "caregiver" leave, and additional rights in the form of "active duty" leave. The former provision is already in effect. The latter provision, which provides up to 12 weeks of FMLA-qualifying leave for any "qualifying exigency" arising out of a close family member's active duty commitment, is not scheduled to take effect until issuance of final regulations due out in the coming weeks.

As we approach the fifteenth anniversary of FMLA's passage, the story is not likely to end there. Democrats in Congress have already proposed other statutory amendments to FMLA, including a provision that would provide mandatory paid leave for various qualifying reasons.

Senators Dodd and Kennedy recently advised an assembled group of reporters that they would continue to push for paid family and medical leave provisions similar to those benefits recently granted to the families of service members. Other proposals on the horizon include extension of statutory coverage to smaller employers and other employee-friendly provisions.

For all of these reasons, the FMLA landscape is an evolving one, and employers should follow these developments closely. If you are interested in learning more about the recent amendments, the proposed regulations, or their potential impact upon current policies and procedures, or if you would like us to comment on them on behalf of your company or trade organization, please contact your Fisher & Phillips attorney.

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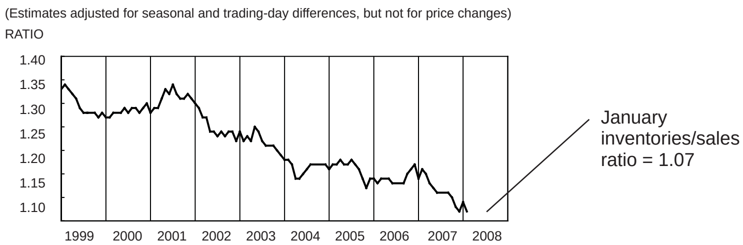
Monthly Wholesale Trade: Sales and Inventories for January 2008

U.S. wholesale trade revenues in January 2008 were $387.7 billion, up 2.7 percent from December and up 15.1 percent from January 2007. The December preliminary estimate was revised upward $0.7 billion or 0.2 percent. January sales of durable goods were up 2.4 percent from last month and were up 5.1 percent from a year ago. Compared to last month, sales of metals and minerals, except petroleum, were up 4.2 percent and sales of furniture and home furnishings were up 3.7 percent. Sales of nondurable goods were up 3.0 percent from last month and were up 24.8 percent from last year. Sales of farm product raw materials were up 16.1 percent from last month and sales of petroleum and petroleum products were up 3.5 percent.

Inventories. Total inventories of merchant wholesalers were $414.8 billion at the end of January, up 0.8 percent from the revised December level and up 6.4 percent from a year ago. End-of-month inventories of durable goods were up 0.6 percent from last month and were up 1.7 percent from last January. Inventories of furniture and home furnishings were up 1.9 percent from last month and inventories of machinery, equipment, and supplies were up 0.9 percent. End-of-month inventories of nondurable goods increased 1.2 percent from December and were up 14.9 percent compared to last January. Inventories of farm product raw materials were up 5.7 percent from last month and inventories of apparel, piece goods, and notions were up 2.1 percent.

Inventories/Sales Ratio. The January inventories/sales ratio for merchant wholesalers, except manufacturers' sales branches and offices, based on seasonally adjusted data, was 1.07. The January 2007 ratio was 1.16.

Monthly Inventories/Sales Ratios
of Merchant Wholesalers: 1999-2008



Source: U.S. Census Bureau

Monthly wholesale trade: Sales and inventories January 2008

NAICS Code	Business Type	Sales $ millions	Inventories $ millions	Stock and Sales ratio	% Change in Sales 12/07-1/08	% Change in Sales 1/07-1/08	% Change Inventory 12/07-1/08	% Change Inventory 1/07-1/08
42	U.S. Total	387,727	414,820	1.07	2.7	15.1	0.8	6.4
423	Durable	175,083	253,740	1.45	2.4	5.1	0.6	1.7
4231	Automotive	27,622	39,311	1.42	3.2	-0.1	-0.7	1.8
4232	Furniture & Home Furnishings	6,163	8,089	1.31	3.7	1.1	1.9	4.5
4233	Lumber & Other Construction Materials	9,507	14,400	1.51	-1.5	-13.9	-0.1	-2.9
4234	Prof. & Commercial Equip. & Supplies	30,546	32,411	1.06	0.2	5.2	0.3	3.0
42343	Computer Equipment & Software	15,673	12,023	0.77	-3.3	4.1	1.4	2.6
4235	Metals & Minerals	14,109	23,066	1.63	4.2	2.8	1.1	-6.7
4236	Electrical Goods	26,573	33,014	1.24	1.6	2.4	0.2	1.7
4237	Hardware, Plumbing, & Heating Equipment	8,069	15,357	1.90	1.1	7.1	-0.3	5.8
4238	Machinery, Equipment & Supplies	30,821	68,836	2.14	0.8	10.4	0.9	4.1
4239	Miscellaneous Durable	21,673	22,256	1.03	9.0	22.7	2.9	1.3
424	Nondurable Goods	212,644	161,080	0.76	3.0	24.8	1.2	14.9
4241	Paper & Paper Products	8,366	7,035	0.84	0.0	4.9	1.9	7.5
4242	Drugs	34,450	31,865	0.92	0.9	7.4	-0.6	3.6
4243	Apparel, Piece Goods & Notions	11,304	15,791	1.40	4.2	9.6	2.1	2.5
4244	Groceries &Related Products	45,410	27,505	0.61	2.0	11.5	-0.1	7.5
4245	Farm-product Raw Materials	21,137	23,012	1.09	16.1	73.3	5.7	58.7
4246	Chemicals &Allied Products	8,980	9,367	1.04	0.8	8.8	-1.4	5.3
4247	Petroleum &Petroleum Products	54,107	14,781	0.27	3.5	63.5	-3.4	25.9
4248	Beer, Wine & Distilled Beverages	8,664	10,795	1.25	-3.2	5.6	1.6	9.7
4249	Miscellaneous Nondurable Goods	20,226	20,929	1.03	0.1	15.5	4.6	23.5

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.

MODERN DISTRIBUTION MANAGEMENT VOL. 38, NO. 06
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Industrial & Construction Markets Update

PERSPECTIVE

In the movie *Groundhog Day*, the main character wakes up each morning doomed to repeat the exact same day, until he realizes he can change his life and do better.

That movie might be a useful management tool as we move through the current downturn in the economic cycle. As noted in an upcoming interview in MDM, Al Bates has been conducting financial performance surveys of distributors for nearly three decades. He has a wealth of data on how distributors have done across multiple business cycles. So is this cycle any different? We are going to come out of this recession the same way we came out of 2001-02, he said. Distributors will give up the same ROA they have in every cycle, then rebuild sales, add too many people and overhead, then cut when the next downturn comes. Start the cycle again. Sales solve all problems!

Bates thinks there's a better way. "Why do you want to keep repeating the same thing over again? Why not try to make some fundamental changes that will last forever?" Not surprisingly, Bates suggests distributors shift from a sales-volume mindset to one of profitability. He offers solid company financial planning advice. Bonus: This book is also useful as a toolkit for short-term financial management tips in a down cycle. (He also uses data to poke holes in distribution conventional wisdom, so it makes for a good read).

On a broader level, his observations and book are timely for the transition taking place in many distribution companies as the next generation of managers come online. The entrepreneurial drive that built those companies needs a stronger financial platform to sustain growth and stay competitive. Getting out of the traditional sales-driven feast-and-famine cycle is a critical step.

Weyerhaeuser Company, Federal Way, WA, has sold its Containerboard Packaging and Recycling business to **International Paper** for $6 billion in cash. The transaction includes nine containerboard mills, 72 packaging locations, 10 specialty-packaging plants, four kraft bag and sack locations and 19 recycling facilities.

RBC Bearings Inc., Oxford, CT, manufacturer of precision plain, roller and ball bearings for the industrial, defense and aerospace industries, has acquired **A.I.D.** Corporation and **BEMD**, Inc. for $5.9 million in cash and assumed liabilities. AID/BEMD, in Clayton and Canton, GA, respectively, manufacture integrated bearing assemblies and aircraft components for the commercial and defense aerospace markets. The two companies had combined revenues of $12 million for the year ended Dec. 31, 2007.

New York-based **Alcoa** Inc. has acquired **Republic Fastener Manufacturing** Corp. and **Van Petty** Manufacturing. The two aerospace fastener manufacturing businesses are in Newbury Park, CA, and employ a combined 240 people.

Berkshire Hathaway Inc. has completed its acquisition of 60 percent of **Marmon** for $4.5 billion. The firm will acquire the rest of the manufacturing holding company through staged acquisitions over a five- to six-year period based on future earnings. Marmon Group includes more than 125 manufacturing and service businesses that operate independently within diverse business sectors.

Privately-owned U.S. housing starts in February were 0.6 percent below January and 28.4 percent below February 2007.

Canadian manufacturers started 2008 with a modest but positive lift in sales. Manufacturing sales increased by 1.3 percent in January to $49.3 billion, as the sector struggled to spring back from the three-year low posted in December. However, manufacturing sales, which have been trending downward for much of the last year, remained 7.1 percent below the recent peak reached in March 2007. Much of the weakness continued to come from the motor vehicle and parts industry.

Wholesale prices in the U.S. rose 0.3 percent in February, seasonally adjusted, the Bureau of Labor Statistics of the U.S. Department of Labor reported. This increase followed a 1.0-percent advance in January and a 0.3-percent decline in December. Core inflation moved up 0.5 percent in February after increasing 0.4 percent a month earlier.

Saint-Gobain has finalized its acquisition of the **Maxit** group from **HeidelbergCement**. The cost of the transaction is €2,091 million. Maxit is a manufacturer of industrial mortars. The deal nearly doubles the size of Saint-Gobain's industrial mortars business and is part of its strategy to develop a stronger presence in construction markets. Maxit has 103 plants in 30 countries.

continued on next page

MARKETS UPDATE SUPPLEMENT P. 2

The American Trucking Association announced it is projecting **record-high diesel fuel prices in 2008**. The association said the trucking industry will spend $135 billion on fuel, based on current fuel price forecasts. This is $22 billion more than in 2007.

Swiss fasteners distributor **Bossard Group** reported sales in 2007 were up 7.4 percent from the year before. The sales increase is due to organic growth. Sales in Europe were up 16.3 percent, with strongest gains in Southern Europe (+37 percent), and Eastern Europe (30 percent). In the U.S. sales fell 3 percent. In Asia, sales rose by 7 percent.

Electrical supplies distributor **Hagemeyer** is expanding to accommodate business growth in the Greenville-Spartanburg area. The new location in Greenville adds to Hagemeyer's 300 locations across the U.S.

San Francisco, CA-based **Building Materials Holding** Corp., a provider of building materials and construction services to professional residential builders and contractors, reported sales for the fourth quarter 2007 fell 30 percent to $419 million. For the year, sales decreased 29 percent to $2.3 billion from $3.2 billion in 2006. Net loss for the year was $312.7 million.

Actuant Corp., Milwaukee, WI, reported sales for its second quarter ended Feb. 29, 2008, were up 17 percent to $400 million, with 4 percent core sales growth. Sales for the first half were $815 million, up 19 percent. Core sales increased 4 percent. Net earnings for the six months rose 13 percent to $49.7 million.

Illinois Tool Works Inc. reported operating revenues went up 13.8 percent for the three months ended Feb. 29, 2008, due to contributions from acquisitions. Industrial Packaging sales were up 11.9 percent; construction products up 2.2 percent, polymers and fluids up 35.6 percent, power systems and electronics up 6.1 percent, and transportation up 13 percent.

International Wire Group, Inc., Camden, NY, reported sales for the fourth quarter ended Dec. 31, 2007, were down 3.9 percent to $176.7 million. The decrease was primarily due to an increase in tolled copper volumes, but was partially offset by greater sales volume, higher customer pricing/mix and the impact of a stronger euro versus the U.S. dollar.

Saint-Gobain announced it made 70 acquisitions in 2007, with more than 80 percent of those in Building Distribution and Construction Products Sectors. The 53 acquisitions in the Building Distribution Sector added 291 new outlets. The largest acquisition was Norandex, a manufacturer and distributor of vinyl sidings in the U.S.

Parker Hannifin Corp., supplier of motion and control technologies, filed a petition with the U.S. Department of Commerce and the International Trade Commission alleging unfair competition from the dumping of valves used in air conditioning systems by two manufacturers in China. Specifically, the petition alleges that Sanhua group and DunAn group have and continue to sell front-seating service valves for residential air conditioners into the U.S. market at prices below their cost of production in China.

According to various news reports, **84 Lumber** Co. has closed nine stores. The company said a slowing housing market was part of the reason for the closings. 84 Lumber, Eighty-Four, PA, has closed nearly 90 stories in the past two years.

Houston, TX-based **Cooper Industries** has acquired Swedish manufacturer **Filtronic** AB, which is now part of the Cooper Tools Division. Filtronic manufactures mobile filter systems to protect workers from toxic gases, smoke and dust. Filtronic has distributors in Europe, North America, Australia and Asia. Cooper has $5.9 million in annual sales.

U.S. industrial production fell 0.5 percent in February after having increased 0.1 percent in January. Much of the decrease in February resulted from a weather-related drop of 3.7 percent in the output of utilities. In the manufacturing sector, output decreased 0.2 percent in February, and declines were fairly widespread across industries. The output of mines moved up 0.4 percent. At 113.7 percent of its 2002 average, total industrial production was 1.0 percent above its year-earlier level. The **capacity utilization** rate for total industry in February fell 0.6 percentage point, to 80.9 percent, the lowest rate since November 2005.

HD Supply Utilities recently opened its newly completed headquarters and branch warehouse in Orlando, FL. The new facility houses the HD Supply Utilities Orlando branch and a 52,000-square-foot warehouse with hurricane-proof tilt walls, allowing the business to serve its customers' emergency response needs.

Wolseley CEO: 'Housing Market Has Deteriorated Considerably'

Wolseley revenues for the six months ended Jan. 31, 2008, increased 2 percent to £8.02 billion (US$16 billion at current exchange rates) Profit fell 23.1 percent for the period primarily due to losses at Stock Building Supply in the U.S.

"Where Stock is concerned, the market has deteriorated considerably. It's beyond anything that we've experienced, in my view, since World War II. If you look at housing starts, they've dropped from 2.2 million to under 1 million. We're in a situation where we've made significant headcount and cost reductions," said Chip Hornsby, Wolseley CEO.

"Now we've got to be able to begin to anticipate what's going to happen next, particularly where that organization is concerned. So we've gone in and begun to look at it more from a strategic standpoint and surgically, region by region, to determine exactly, not only what our objectives are in the short term, but also longer term. There are markets that we really don't think will return to any level of normal housing starts even beyond this cycle.

"Where Ferguson is concerned, it's a matter of going in and trying to anticipate what's going to happen next, particularly with the markets outside of the residential sector that they've been involved with in the past."

In the first half, Wolseley cut 4,000 employees, excluding acquisitions. In the past 18 months, headcount has been reduced by 10 percent, or around 10,000. In the U.S., the group reduced headcount by 5,250, about one-third of the work force. At Ferguson, headcount was reduced by 2,700, or about 12 percent.

North America

U.S. housing continued to negatively impact Wolseley's North American division.

Ferguson sales rose by 3.2 percent to $5.5 billion due to acquisitions. Organic revenue was down 2.7 percent. Profit was up by 4.9 percent to $350 million. Ferguson's total branch numbers increased by 36 to 1,453 locations.

Stock Building Supply sales fell 25.7 percent to $1.8 billion, reflecting a 22.8 percent decline in sales volumes. Stock reported a loss of $89 million. Stock's branch numbers reduced by 22 during the first half to 286 locations.

Wolseley Canada sales in local currency increased by 3.7 percent to C$684 million, including 2.3 percent organic growth. Branch numbers in Canada were reduced by 3 to 257.

Europe

Europe revenue increased by 15.8 percent, of which 0.5 percent was from organic growth.

Outlook

Wolseley expects business conditions in a number of its markets to become more challenging over the next few months:

In the U.S., the housing market is likely to deteriorate further and put additional pressure on the RMI market. The commercial and industrial market is likely to remain stable for the next few months, but soften thereafter.

In Canada, the domestic economy should remain positive although the new residential housing market is likely to continue to slow from recent high levels.

Growth rates in European markets are likely to slow, but the RMI and commercial and industrial segments, that drive the majority of Wolseley's business, are expected to remain marginally positive.

Report: Canadian Construction Industry Should Expect Lower Profits in 2008

After a 22 percent drop in profits last year, Canada's residential construction industry can expect profitability to decline further in 2008, according to the Conference Board's Canadian Industrial Outlook: Canada's Residential Construction Industry – Winter 2008.

"With a growing inventory of new homes, declining housing starts and weaker price growth, builders' profits are expected to shrink over the next two years," said Valérie Poulin, economist.

Profits are expected to fall slightly from 2007 levels to $3.3 billion in 2008. Profitability is expected to decrease by another four percent in 2009, before improving gradually beginning in 2010.

However, profit margins will remain higher than historical norms, staying above their 17-year average over the next four years.

Pent-up housing demand appears to be satisfied, which, along with slower economic growth, is leading to a lengthy slowdown in the housing market. Waning affordability of houses, following years of price increases, is also detracting from the industry's performance. When declining affordability is coupled with economic uncertainty, many potential purchasers are expected to postpone their decision to buy homes.

Canada Wholesale Revenues & Inventories: January 2008

MARKETS UPDATE SUPPLEMENT P. 4

Canadian wholesalers shook off a disappointing December to start the New Year with a flourish, helped in part by a price driven surge in the sale of agricultural chemicals, according to Statistics Canada.

Sales by Canadian wholesalers rose a healthy 2.6% in January to $44.1 billion, effectively offsetting the 2.6% drop recorded in December.

In January, six of the seven wholesale sectors reported higher sales, led by very strong growth in the "other products" sector (+11.4%). Wholesalers of machinery and electronic equipment (+2.2%), food, beverage and tobacco products (+2.1%) and building materials (+1.7%) were the other major contributors to January's increase in sales.

Sales in constant dollars, which remove the impact of price changes to provide an indicator of volume sales, increased by 3.5 % during the month.

Gains in Machinery & Electronic Equipment

Wholesalers of machinery and electronic equipment put a soft December (-1.3%) behind them as sales moved ahead by 2.2% in January to $9.5 billion. This was the fourth increase in five months for this sector.

All three trade groups that make up this sector reported higher sales in January: sales of computers and other electronic equipment rose 3.4%, office and professional equipment was up 3.0%, while sales of machinery and equipment posted a more modest rise of 1.2%.

With businesses continuing to take advantage of the strong Canadian dollar to invest in new machinery and equipment, prospects for this sector remain positive. According to the latest Survey of Private and Public Investment, overall investment in machinery and equipment is expected to increase for a sixth consecutive year in 2008, up a further 5.7%.

By Province

Nearly all the provinces and territories recorded higher sales in January. Among the regions, the most notable gains were in the Prairie provinces.

Saskatchewan led the way with a 12.8% jump, its largest increase since February 2005. The gain was entirely attributable to the surge in the "other products" sector, which in this province consists almost entirely of wholesalers of agricultural chemicals. This sector was also a major factor behind the province's rapid sales growth throughout 2007.

Higher sales in the "other products" sector also accounted for much of the 8.9% increase in Manitoba. Other areas of strength were the automotive products and personal and household goods sectors.

After falling for the first time in seven months in December, sales in Alberta resumed their upward trajectory (+4.4%) in January. Higher sales of food, beverage and tobacco products, "other products" and machinery and electronic equipment were behind much of the gain.

In Quebec, widespread gains helped bring to an end a string of three consecutive monthly declines, with January sales up 3.3%. Increases were most apparent in the automotive products, building materials and machinery and equipment sectors.

In Ontario, weakness in the automotive products sector was offset by stronger sales of "other products" and machinery and equipment, leading to an overall gain of 1.1%.

Inventories Decline

Inventories fell for the second straight month in January, down 0.8% to $54.6 billion following a 0.7% decline in December.

Inventory levels fell in 10 of the 15 wholesale trade groups. Wholesalers of motor vehicles reported the largest decrease in inventories, down 3.6% to $4.5 billion. Inventories within this trade group have been on a generally downward trend since the end of 2006.

Inventory-to-Sales Ratio

January's increase in sales, with the drop in inventories, led to a significant drop in the inventory-to-sales ratio from 1.28 in December to 1.24 in January, its lowest level since July 2007.

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