Modern
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Intelligence for Wholesale Distribution Professionals

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■ *MDM Interview*

Mexico or China?

Labor may be losing out to logistics in decision to locate production

Globalization has been driven in part by Western firms outsourcing manufacturing to Asia, but the long-term viability of shipping across the Pacific Ocean is under question given high logistics costs and rising wages in those markets.

That's according to Texas A&M University's Supply Chain Systems Laboratory, a research arm of the school's industrial distribution program. The organization is putting together a consortium to study manufacturing trends and how to improve throughput in the Mexico-Central America-Texas region.

Dr. Barry Lawrence, director of the industrial distribution program at Texas A&M University, spoke with MDM recently about the critical factors affecting trade and growth in Mexico, why he thinks labor costs are losing out to logistics, why China and other low-cost countries across the ocean may not always be a viable No. 1 option for production, and business opportunities on the other side of the U.S. border for U.S. manufacturers and distributors.

Lawrence says that U.S. firms have an opportunity to create a symbiotic relationship with Mexican firms by selling products to help them in production or by taking the products into the U.S. for next-level manufacturing.

MDM: Why do you believe labor costs are losing out to logistics in the decision on where to move production?

Barry Lawrence: The labor rates will tend to equalize over time. Salaries will go up in China. In Shanghai, for example, you could train a worker, the worker could work for three years under a contract, and then after three years they go up to the highest bidder. Many companies didn't anticipate this.

They also didn't predict the cost of actual training. The expectation was that the training of Chinese workers would be similar to training a U.S. worker or a little higher. What they didn't factor in was culture, a different belief system, and so on. Of course some did, but it was often underestimated.

The other problem is there's no middle management. China has not had middle management because they haven't had a capitalistic society. So you have to send an expat over there, which costs a lot of money, to train the middle management layer. And then those who are trained – again – might be taken away by other companies.

The Chinese government's answer to this is that they have to move away from the big ports, and that's why they're trying to push production out into the countryside.

But as they do that they're going to incur even higher logistics costs. And the training issue will grow even more extreme. Because of this, we believe that labor costs are gradually going to overwhelm the logistics equation.

MDM: How is this related to the shift to regional manufacturing in Mexico?

BL: Mexico and the U.S. both seem poised for a manufacturing boom on both sides of the border. A manufacturing boom in that area is more beneficial to the U.S. economy than to continue to ship jobs to China.

The real solid proof of this is that Chinese firms are now coming to Mexico to do production. That tells you that the Chinese have recognized that shipping across the Pacific Ocean doesn't make sense. This is something the U.S. firms should take note of.

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Green, Global and the Pendulum of Growth

This issue includes an interview and articles on global market changes, private label strategy, a major international acquisition in the office products distribution sector, an analysis of ESOPs, and how one distributor is leveraging environmentally-friendly product offerings.

My first thought regarding this mix is how different distribution markets look today. "Green" products were not part of the line card ten years ago. But like the happy lobster feeling the temperature of the water rising nicely, maybe my memory isn't perfect when it comes to incremental changes. So I drew some help from the MDM archives.

In 1998, suppliers and distributors were dealing with major structural changes in channels with the growth of integrated supply and impacts of consolidation. This industry was swept by a wave of consolidation. National and regional distributors were building out platforms. Roll-ups, alliances and strengthening marketing groups emerged to give independent distributors options to counter the consolidation trends. This publication was printing (as opposed to posting) articles like *A Primer on IPO Roll-Ups*, not ESOPs as an exit or growth strategy. It's an indication that as market conditions change, growth and exit strategies emerge to offer appropriate options.

From an April 1998 issue of MDM: "The most consistent observation of the last few years is that there is no longer any neat little boxes. It is harder to define markets, customers and even distributors as traditional lines have blurred across product segments and alternate competition has grown."

In this column ten years ago exactly (Jun. 25), I noted: "If you think distribution hasn't joined the global economy, you're more the exception than the rule. Mexico is offering a strong market for distributors, and more are developing export businesses or serving customers' international operations."

North American distributors have built out strong international capabilities, but in ten years we have heard a lot more about manufacturing production moving offshore, the flow of products into (not out of) North America and foreign ownership of distribution here.

Ten years ago, distribution markets were chaotic, confusing and fragmented. They still are, only on a global scale with different threats and opportunities. But, like politics, I'd argue that all distribution is local. It is still the customer relationship, regardless of where it is or where products are sourced, that defines the value of distribution.

■

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Mexico or China?
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Mexico's manufacturing sector has been growing rapidly. The automotive sector is one of the biggest growth areas, and electronics is huge. Aerospace is on the move now and even medical and other sectors are growing.

MDM: How do labor costs compare in Mexico?

BL: They are below the U.S. but not below China – that's the tradeoff companies are examining when deciding whether to open in China or Mexico or the U.S. But I believe they have missed the point.

MDM: Is it just Mexico, or is there growth in Central America as well?

BL: Right now Mexico is the primary area. There are companies opening in Honduras, Panama and Costa Rica, especially. In northern Mexico I can ship by truck through Laredo, TX, into the U.S. But on the other hand I could be in Honduras and ship it by ship and in three days it'd be in Houston.

The Panama Canal is restricted so large container ships can't go through it. But that will change in 2014. I believe at that time there will be an escalation of companies that will go to Central America.

MDM: What are the opportunities in Mexico for U.S. companies?

BL: For example, about 15 percent of what is exchanged in goods between U.S. and China is China buying from the U.S. With Mexico it's about 35 percent. As income grows in Mexico, we can expect that number will continue to increase. Also there are chronic shortages of materials in Mexico that the U.S. could serve if we were to build this relationship in a positive fashion rather than the way we have to date.

A simple example is fabrication. There is a shortage of fabricators in Mexico. The result is that a lot of firms are having a difficult time getting supplies.

You could build additional fabricators in Mexico but meeting U.S. regulations on a lot of these materials is not something Mexicans particularly want to do. So it's more likely the fabricators would be in the U.S. near the border and shipping into Mexico.

Another area is technology. The U.S. has leading-edge technology, for example in automation, which is likely to grow in Mexico. There are many products that Mexico does without simply because distributors are not calling on them.

MDM: Then do you think the market opportunities in Mexico are largely untapped by distributors?

BL: It's a major opportunity for selling into Mexico. As the manufacturing boom goes forward, look for opportunities in Texas and California as new markets open up.

One of the companies already in the consortium has said they want to open up distribution facilities along the Mexican border to serve the maquilas. They currently serve the Texas region, but are being hit with requests from maquilas without even making an effort.

MDM: What's the impact of North American Free Trade Agreement (NAFTA)?

BL: NAFTA did really trigger the manufacturing boom in Mexico and it's one unlike any that Mexico has ever seen. Probably as much as 30 percent to 40 percent of manufacturing jobs can be traced to maquilas and if you add in companies not classified as maquilas, but do similar work, the number jumps even higher. It's led to a lot of trade and logistics and supporting activities in the U.S. Southwest.

If NAFTA were to be scaled back, it would have a devastating impact on the Mexican economy and would undoubtedly affect the U.S. But it would also decrease the opportunities for the U.S. to attract manufacturing to the Southwest and bring manufacturing back from China.

MDM: How are ports driving manufacturing activity?

BL: The ports are a big driver of activity. Many of the maquilas moved to western Mexico to cities like Mexicali and Tijuana to take advantage of the Los Angeles port. But with L.A. under constraints and Panama Canal restricted on large shipments, that has driven activity to central Mexico.

Manufacturing has gone to central and northeast Mexico to be served by ports like Lázaro Cárdenas and Altamira.

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There's a new port planned for Baja California called Punta Colonet. It will be a major port of significant size – to draw down pressure on L.A. And the Panama Canal is due to be expanded by 2014, which at this point means we could see yet another shift. It could be when Central America becomes more important. Honduras, Costa Rica and Panama would run significant ports and manufacturing zones of their own. Panama has already got a successful free trade zone for example.

MDM: What logistical challenges exist in Mexico?

BL: The issue here is the roads in Mexico. It takes a long time and is difficult to get a road built in Mexico. On the Texas side, the problem is congestion. There is a lot of traffic on the Texas highways.

There are also major shortages in truck drivers on both sides of the border. A concern the Mexicans have if Mexican drivers were allowed to drive into the U.S. is that American trucking companies would try to lure them away. Right now they are restricted from driving their trucks into the U.S.

MDM: What are the challenges with customs?

BL: Crossing the border can take anywhere from less than an half an hour at off-peak hours to as long as six hours. During that period the driver has to stay with the truck and is not even able to go to the restroom. If you can imagine 18-wheelers sitting on a bridge idling for six hours, you can imagine the amount of waste associated with that.

The problem is there's not enough capacity for those peak hours. The customs process may have to be redesigned – or capacity has to be increased. Customs is open 12 hours in the U.S. – if you go to China, customs runs 24 hours.

No one would suggest customs should be scaled back or that we should expose our country to any dangers. But process improvements that still protect the integrity of the U.S. border and at the same time make customs a faster pass-through – those are being investigated and implemented on a regular basis.

MDM: How optimistic are you in the consortium's ability to make changes in these areas?

BL: The problem is if you are going to be able to move toward making improvements, you have to have an independent party to say we discovered this, and it should happen this way. It arms the people who want to bring forward the infrastructure improvements.

We're suggesting a study be done to create an optimal configuration for the region – we're looking at what could be so that those that would like to make improvements can make decisions based on that.

As far as customs go – I can't say for certain. The customs service and the U.S. government want to make improvements and have passed a number of measures to smooth the process. They like any organization should be looking at what the next thing is that they could do.

Our study will help them understand the issue from a business viewpoint – from their customers' viewpoint. An analysis that puts numbers to the page from an independent third party could be helpful to them in determining which processes they should improve.

MDM: This consortium falls under the goals of the Texas A&M Global Research Center in Monterrey, Mexico. Can you tell us a little about that project?

BL: The research center is there to help distributors and manufacturers improve throughput in this region. As part of this research center, we are implementing projects to help companies be more successful in manufacturing and logistics throughput between the two countries.

For more information on the Mexico-Texas Trade Corridor consortium, or how you can participate, go to http://supplychain.tamu.edu/consortium/mextex.php, download the pamphlet at this article online or call (979) 845-1463. The consortium will bring together manufacturers, distributors, logistics providers and government entities to understand how to optimize opportunities in this area.

Dr. Barry Lawrence holds the prestigious Harvey Hubbell Professorship in Industrial Distribution at Texas A&M University. He manages the Supply Chain Systems Laboratory and Global Research Center in Monterrey, Mexico. As a faculty member and director of Texas A&M's Industrial Distribution Program, he is involved in graduate, undergraduate, and professional continuing education teaching activities, funded research projects, journal publications, academic society meetings and publications, and industry presentations.

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Mitigating the Risks of Private Label

Brand management means ensuring follow-through on the promise of quality

This article looks at the most common mistakes distributors make in private label and how they can protect their brand in the marketplace with successful branding.

By Lindsay Young

It does not really matter what you call it – private label, private branding, store brand, white label, proprietary brand – coming through on the implied promise of quality or experience that comes with the product line should be front and center. Unfortunately, many distributors who have ventured into private label have not kept a sharp focus on a branding strategy and the risks if not done right.

Brand management, says Evergreen Consulting's Brent Grover, involves creating, growing and protecting a product or group of products sold under a particular name. Here are keys to successful branding, according to Grover:

Designing a product identity that is fresh and relevant to the target market, while also being consistent and in line with the company's image and overall objectives.

Positioning the brand relative to the company's other brands, competitive manufacturers' brands and the brands offered by the distributors' own suppliers.

Promoting the brand to create brand equity.

Pricing the brand correctly in relation to its perceived value and where it is in its lifecycle.

Protecting the brand against competition.

Repositioning the brand when needed to preserve its brand equity.

Meeting company's strategic and return-on-investment objectives.

Ensuring suppliers chosen to manufacture the products maintain the necessary levels of quality and service.

While in retail branding is more of a "pull" relationship – customers' needing to connect with the brand – in business-to-business selling, it is more a "brand push." "Distributors typically rely heavily on personal selling and customer relationships," Grover says.

High Costs, High Responsibility

One of the more common mistakes a distributor makes in private label is underestimating the costs and responsibilities of building and managing a brand, Grover says.

For example, manufacturers employ brand management professionals and engage outside experts to design and manage their brands. Manufacturers also incur considerable research and development costs while a product is being created, tested and brought to market. Manufacturers have to be prepared to spend huge amounts of time and money to protect their brands against incursion by competitors and to defend against infringement against trademarks and other intellectual property.

"It's a complicated deal because you have to become like a manufacturer," United Stationers CEO Dick Gochnauer told MDM earlier this year. "You don't have return privileges, and it's a longer lead time so your inventory investment is greater. If the quality is not right, you have the liability."

But Gochnauer says United Stationers, a master distributor, had to go in the private label direction to serve the needs of its customers. In the office products sector, independent distributors are competing with larger national wholesalers and retailers, such as Staples – all of whom have strong private-label programs.

Sourcing

Another common mistake made by distributors, according to Grover, is "assuming that importing products from Asia is easy." Grover cites a company that has imported high-quality packaging products from Asia for many years. For this company, overseas sourcing is a "core competency," a task they would not consider outsourcing.

Company executives spend a "considerable amount of time" visiting plants in Asia, traveling to many current and prospective suppliers in many countries. "I would guess that the CEO spends 25 percent of his time abroad on at least six to eight major trips each year," Grover says. He says this distributor recognizes that "making one or two trips to trade fairs does not make a distributor into a modern-day Marco Polo. Nor does making deals with a couple of agents who handle imported products."

"A serious private branding program for imported products suggests a serious investment of time and money as well as significant risk," Grover says.

Of course, not all private brands are sourced

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overseas. "In some cases we are sourcing globally from low-cost countries," says Arleen Quinones, marketing manager for HD Supply, which just released two new brands: Seasons and Brigade.

"But not in all cases. Some of these products are being sourced from our domestic suppliers themselves. We want to dismiss the myths out there that proprietary brands or private labels are cheap products. Or that they're low-quality products or synonymous with globally sourced products. Part of it is educating our associates on what proprietary brands are and how they bring value to our customers and our company." HD Supply has a quality assurance team in China for products sourced in that country.

Brand and Price

Though some distributors have done a good job relating price to the brand, others have mismanaged a private brand's positioning. For example, a sales force may perceive private brands as a "bid line," Grover says, using the brand to undercut competitors' prices or sell against their own company's national brands.

"An especially dangerous tactic is offering extended price guarantees on the private brands, but without the backing of the manufacturer," Grover says. "During the recent rounds of price increases in many commodities, these 'uncovered' guarantees burned some distributors."

A private brand can be presented at any price point relative to the value you want to provide. The right branding can command a better price. Grover presented this case study:

A privately held distributor of paper products created an elite brand of toilet tissue and paper towels. The products are supplied in sturdy, attractive corrugated cartons. The individual rolls of toilet tissue are wrapped in beautifully printed shiny paper, and the folded towels are furnished in good-looking sleeves. The products have an elegant name. They are consistently the highest quality products. When you see them in luxury hotels and on top-tier cruise ships, you will likely think it is a national brand.

Balancing Manufacturer Brands

The paper products distributor above contracts with leading manufacturers to produce its private label line and avoids using the private label to undercut regular suppliers. Distributors need to balance their brands with manufacturer brands in advertising and marketing efforts. This can be difficult, Grover says.

"Some distributors have been hasty about creating knock-offs of their suppliers' fast-moving products," he says. "The profit margin potential is compelling, especially for products imported from low-cost sources in Asia."

He cites replacement parts for equipment. It is relatively easy to find inexpensive parts that will fit. The lucrative margins on these parts may tempt some distributors to freely substitute imported parts on orders for the manufacturers' authorized replacement parts, Grover says.

HD Supply uses a mix of domestic and global suppliers for its private brands, due in large part to lead times. For its White Cap Construction Supply business, which wanted to accelerate the introduction of the new private brands, the company turned to current suppliers.

Smaller Distributors

Private branding can be more risky for a smaller distributor, Grover says. "The manufacturers of national brands must grit their teeth when they see their high-equity brands on the retailers' shelves next to the knock-offs in very similar packaging with 'compare to' insignia," Grover says. "The corner drugstore would have a hard time getting away with these hardball marketing tactics."

Some of the largest distributors – Sysco and W.W. Grainger among them – have long-established private label product lines and the resources to support them.

So how can smaller distributors compete? It takes critical mass to spread the cost of a private branding program over an adequate amount of business. One way for a smaller distributor to do this, Grover says, is through a buying or marketing group. The group can produce a brand that is only available to members of the group, volume that provides leverage to negotiate favorable manufacturing costs and reduce transport costs and spread the investment and risk.

Healthcare distribution buying group National Distribution & Contracting Inc. (NDC) manages and markets a private label brand – Pro Advantage – for its roughly 280 distributor members. It also has a dental private label brand. "The real driver in this is to make sure that our independent distributors can remain competitive in the markets that they are serving," says President and CEO Mark Seitz. "It's not a low-cost offering. It's going to be a good product that's a good value – a quality product for an affordable price."

NDC tapped its first director of brand development at the start of this year, partly to oversee the transition the group made from four brands to one this year. "We needed to have an individual who can coordinate all of the mov-

ing parts that go along with that initiative," says Lori Paulson, vice president of marketing. "We also felt that having an individual who would champion the private label program, particularly with Pro Advantage, was key." NDC has also created a marketing team to oversee the overall direction of the brand going forward.

"You can put yourself in the shoes of one of our member customers and say how am I going to protect my position in my account against a company that's much larger, publicly traded, better funded with more available resources?" Seitz asks.

"We tell them to partner with us."

Staples and Corporate Express Deal Changes Retailer's Focus

Ending speculation about the possibility of a hostile takeover, Staples reached a friendly agreement to buy Dutch office supplies distributor Corporate Express NV in a deal valued at €3.1 billion (US$4.8 billion at the current exchange rate). The deal will shift Staples' market focus to 60 percent contract and delivery.

The decision to change the business focus of Staples followed the numbers: delivery in North America for Staples grew 14 percent in 2007, making it the fastest growing and most profitable of the company's offerings. Retail, which currently makes up 60 percent of Staples' business, has been struggling in the current economy.

In addition to the dramatic growth of delivery and contract services, the acquisition provides opportunity to expand in markets where Staples already does limited business, such as Europe where Staples provides mainly catalog delivery service, and opens doors to new markets, including Australia and New Zealand. Corporate Express CEO Peter Ventress will take on the role of president for Staples International and will oversee business operations outside of the U.S. and Canada.

"To be honest, Australia wasn't one of the next two or three things that we needed to do, but it's a very nice billion-dollar-plus business that's making 8-percent margins," Staples COO Mike Miles said at the William Blair & Company Growth Stock Conference on June 18.

Both Miles and Staples spokesman Paul Capelli say because the deal hasn't closed, it's too early to comment on specific changes the acquisition will bring about in both companies. Integration discussions have just begun, Capelli says. The most likely target for employment shifts would be in areas currently served by both. "In New York, you have Staples trucks and Corporate Express trucks passing each other on the streets all the time," Miles says. "We want to be able to improve upon the efficiency in those areas."

The acquisition may slow future expansion of the company as the "law of large numbers" catches up to Staples, Miles says. Instead, growth will be focused on expanding product offerings and improving margins in existing markets.

History of the Deal

The sticking point of the proposed acquisition was twofold for Corporate Express, according to press releases. The company's boards felt the initial offers of €7.25 and €8.00 per share significantly undervalued the company. In addition, the idea of being acquired was contrary to an October decision by the boards that staying a standalone company was in the best interest of Corporate Express.

In an attempt to hold off the deal with Staples, the boards proposed a merger with France-based office supplies distributor Lyreco. The deal was awaiting shareholder approval at a June 17 meeting when Staples upped the ante by bypassing the boards and approaching shareholders directly with an increased offer of €9.15 per share. Corporate Express board members agreed to enter negotiations after Staples announced it had a commitment from 23.3 percent of the shareholders to vote against the Lyreco transaction.

The eventual agreed-to offer of €9.25 per common share represents a premium of 8 percent over the closing share price average in the one-year period ending Feb. 4, 2008. The price is a 114 percent premium over the closing share price on Feb. 4. Feb. 4 was the day before rumors of an offer on Corporate Express began circulating in the market.

As a condition of the acquisition agreement with Staples, the boards for Corporate Express withdrew support for the merger with Lyreco.

Staples, Framingham, MA, is in 22 countries in North America, South America, Europe and Asia. Sales for 2007 were $19.4 billion. Corporate Express, based in Amsterdam, has operations in 21 countries in North America, Europe, Asia and Australia. Sales for 2007 were €5.6 billion (US$8.7 billion at current exchange rates).

- Jenel Stelton-Holtmeier

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The Ups and Downs of an ESOP

Employee Stock Ownership Plan implementations are on the rise

Over the past 10 years, the U.S. has seen solid growth in the number of companies with Employee Stock Ownership Plans in place, increasing overall by nearly 30 percent since 1999, according to one national group. One industry expert says the distribution sector is following that trend. This article looks at the benefits and challenges to moving forward with an ESOP.

By Jenel Stelton-Holtmeier

More companies are starting to look into ESOPs not only as an exit strategy – though that remains the No. 1 impetus – but also as a way to receive tax benefits, fend off purchase by a competitor or improve employee productivity and retention. However, a unique set of challenges comes with those benefits.

The non-profit National Center for Employee Ownership estimates that new companies establish ESOPs at a rate of about 3 percent of the total number each year. Yet, even as new companies enter, some companies are forced to end their ESOPs.

A 2007 study funded by NCEO showed that most companies who dissolve employee ownership plans do so because they are acquired or because they can't manage the repurchase obligation that goes along with having an ESOP.

Even if the ESOP was put in place to fend off acquisitions by a competitor, businesses surveyed for the NCEO study said there were times when a deal was just too good to pass up. Premiums in these deals averaged 57 percent above the ESOP-appraised value, with some as high as 180 percent higher.

The companies that were incapable of handling the repurchase obligation usually failed to consider the impact of a large number of employees cashing out at the same time, often due to layoffs from an economic downturn. Even though the stock valuation decreases with poor economic performance, it is often insufficient to cover the repurchase obligation, the NCEO says.

"You'd have to be very naïve to not have a healthy respect for that obligation when you get into this," says Bob Dill, CEO of Hisco Inc., Houston, TX. Hisco, a $191-million distributor of die-cuts, adhesives and MRO materials to the electronic assembly industry, has been 100 percent employee-owned since 1974. The key to surviving the perfect storm of economics and retirements is to prepare well in advance.

Each year, financial officers at Hisco run an analysis of expected retirements and payouts for the next 10 years. Money is then transferred into a sinking fund to assure that when the time comes, the company is prepared to make the payouts, which it does on the day the employee leaves.

The fact that Hisco owns most of their buildings also provides an extra level of security. If for some reason the fund won't be able to cover the payouts, those assets can be sold to make up the difference, Dill says.

ESOPs create a different working culture, Dill says. As such, there is a constant need to educate new employees on what being an employee-owner means. Hisco employees participate in ESOP conferences and have trainings throughout the year. Even with that, some people, especially those just entering the business, have a harder time with the concept.

"We call it being a Hisco person – either you get it or you don't," Dill says. "Those that don't get it usually choose to move on before too long." Those that do get it, stay. Dill says a large percentage of Hisco's employees have been there for more than 20 years.

ESOPs are not the answer for everyone, says Jon Skelly of PCE Investment Bankers. Every company has different strengths and weaknesses that must be evaluated before making the decision to move ahead. If the company is in a highly cyclical business, such as lumber, leveraging debt at a high point in the cycle may have the company struggling to service the debt at a low point, Skelly says.

In addition, family-owned businesses that have never borrowed, preferring to invest personal capital instead, are often leery of the amount of debt necessary to establish an ESOP.

The current owners have to be prepared to continue to in the business after transferring ownership if they want the business to succeed.

"It's not like an acquisition where the day after it's done you can be off on the beach on vacation," Skelly says. "They'll want to be involved for some time after the transition, especially since a portion of the funding is usually seller-financed."

There are challenges in every type of business that must be managed, and ESOPs are no exception, Dill says. But he says by planning ahead to manage those challenges, the benefits can far outweigh them.

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Industrial & Construction Markets Update

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Hagemeyer Builds Out Green Catalog

When customers started asking for more environmentally friendly options, Hagemeyer North America recognized an opportunity to meet customer needs and help the environment at the same time. The distributor created an all-green catalog.

"A lot of these products are products that we already offered; this catalog is just the first time we've collected them into one vehicle," says Brad Pulver, Hagemeyer North America's vice president for product strategy.

Most environmental offerings focus on electrical, because that's the easiest, Pulver says. But Hagemeyer wants to provide a broad range of products across all three of the distributor's service areas: electrical, industrial and safety.

Hagemeyer will continue expanding the catalog offerings as suppliers expand their own green listings.

The current catalog is 36 pages and includes products and services in five categories: lighting & energy; recycling solutions; chemicals, cleaners & absorbents; paper products; and safety. It launched on June 9 and is available in electronic form or printed on recycled paper.

The move had its challenges. The lack of an "official" standard for green certification made the filtering process more difficult, Pulver says. Some companies use the Leadership in Energy and Environmental Design certification offered through the U.S. Green Building Council; others use independent assessments.

So the vetting process to determine which products meet the highest standards takes longer than it would with a uniform certification, Pulver says.

In addition, not all of Hagemeyer's suppliers had lists available of their environmentally friendly offerings before

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Plumbing & HVAC distributor **Ferguson**, Newport News, VA, has opened a new clearance center in Pomona, CA. The 7,600-square-foot retail space, in an existing warehouse, offers excess inventory and discontinued material from Ferguson warehouses and showrooms in the Southern California area. Ferguson is a **Wolseley** plc company, a UK-based distributor of plumbing, HVAC and building materials.

Chicago-based **Grainger**, facilities maintenance distributor, will open four new facilities, relocate one other, and expand and enhance three existing facilities throughout the U.S. Gulf region. The move is part of the company's market expansion initiative

Gases distributor **Airgas**, Inc., Radnor, PA, has agreed to buy **Refron** Inc., Long Island City, NY, a reseller and distributor of refrigerants that also provides technical services and refrigerant reclamation services. Refron had $93 million in revenues in 2007. Refron will be integrated with Airgas' existing refrigerant and reclamation business as a new company, **Airgas Refrigerants**, Inc.

HVAC distributor **Watsco**, Inc., Coconut Grove, FL, has launched **AC-Doctor.com**, a consumer Web site that offers educational tools to help homeowners identify energy efficient cooling systems to help save money and reduce negative impacts of global warming. ACDoctor.com features energy saving calculators and tips on keeping energy bills low, energy efficiency high and improving the quality of indoor air. Users can compare HVAC systems, connect with contractors and locate financial incentives.

St.Louis, MO-based **Graybar**, a distributor of electrical and communications products, has opened a 12,000-square-foot distribution facility in Gulfport, MS. The company now has 64 locations in the Southeast.

Hisco, Houston, TX, has acquired the distribution division of **B&L Technologies**, a Victor, NY-based capital equipment and materials supplier to the electronics assembly industry. This expansion strengthens Hisco's operations in upstate New York and adds a 6,000-square-foot-facility to the distributor's network.

The stockholders of **Industrial Distribution Group**, Inc., Atlanta, GA, distributor of maintenance, repair, operating and production (MROP) products and integrated supply services, have voted to approve the deal in which the company will be acquired by an affiliate of **Luther King Capital Management**. The closing of the deal is expected to occur in mid-July 2008.

William Sanford, president and COO of **Interline Brands**, Inc., Jacksonville, FL, will step down from his positions immediately. The company will not immediately fill his position.

ProBuild Holdings Inc., Denver, CO, has appointed Bill Myrick as chief operating officer. Myrick joined ProBuild in February 2007.

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Replacement Market a Boon for HVAC Distributor Watsco

As the housing market continues to slump and new installations of central air systems with it, Watsco Inc., Coconut Grove, FL, continues to increase profits by building upon the growing replacement market.

Senior Vice President Barry Logan told attendees at the Piper Jaffray Industrial Growth Conference on June 11 that environmental mandates and aging systems have driven the replacement market to 75 percent of the business Watsco is doing today.

The mandate signed into law in 2001 required that all new air conditioning and heat pump units improve efficiency by 30 percent by 2006. In addition, use of refrigerants that deplete the ozone was to be phased out entirely by 2010.

Though new products don't need to be in place before 2010, Watsco already has begun providing the more environmentally friendly products for their customers, Logan says.

With the new regulations and an increased reliance on cooling systems, Watsco's replacement business has increased an average of 8 percent per year over the last five years. The higher price points of the new systems also help keep gross margins steady.

New construction still matters to the company, Logan says. The growing replacement market allows for better adaptation to the slowdown though.

Watsco still hopes to expand its reach in markets where it is already established, such as Florida where it says it maintains about 25 percent of the market share. In addition, growth plans are in place to enter new markets.

"Air conditioning is something people just can't live without anymore," Logan says. – *Jenel Stelton-Holtmeier*

Distributors Respond to Flooding in the Midwest

Flooding in the Midwest is keeping distributors there busy helping customers recover from the extensive damage the waters brought.

One of the hardest hit was Cedar Rapids, Iowa's second-largest city. The AP reported that about 1,300 city blocks flooded and 24,000 people fled their homes.

In Eastern Iowa, where Cedar Rapids is located, distributors worked long hours to help customers minimize potential damage before and during the flooding.

In one case, a Ferguson employee made a late-night run in heavy rain to the HVAC/plumbing distributor's Waterloo, IA, distribution center – 50 miles each way – to get mechanical plugs for contractors working to prevent floodwaters from seeping into the local hospital.

The distributor worked with contractors throughout the night; unfortunately the floodwaters won out.

Distributors are fighting to keep certain products in stock, such as sump pumps, hot water heaters and water softeners.

They have also added generators, extension cords, tarps, batteries and other products to their offerings.

Terry Whitney, president of Cedar Rapids WinPump Co., says his company – a part of WinWholesale, Dayton, OH – sold no less than 400 pumps in one week, and now is facing a strong demand for water heaters.

He sold about 50 water heaters on Tuesday and he anticipates the demand will increase as residents return and start the cleanup.

Cedar Rapids WinPump sells throughout Eastern Iowa, so WinPump has been able to help customers in other flooded areas, including parts of Des Moines.

Suppliers have kept WinPump in stock, with same-day or next-day special deliveries. A Win company in Omaha also helped with supply.

"We were only out of sump pumps for a total of three hours," Whitney says.

"We made sure we had 80-100 pumps come in each day and things fell into place for us. Suppliers see that people are going to need these products, and it's our responsibility to make sure the product is available."

The closing of highways in and out of the city constrained supply for a couple of days. "As of Tuesday morning, we are seeing a return to normalization in Waterloo," said Ferguson's facility manager there, Shawn Donahue.

"All carriers servicing the distribution center are fully operational and all main roads have reopened. At this point, we are prepared to fully resume all operations." - *Lindsay Young*

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U.S. MARKET ANALYSIS: Industrial Paints MRO

MARKETS UPDATE SUPPLEMENT P. 3

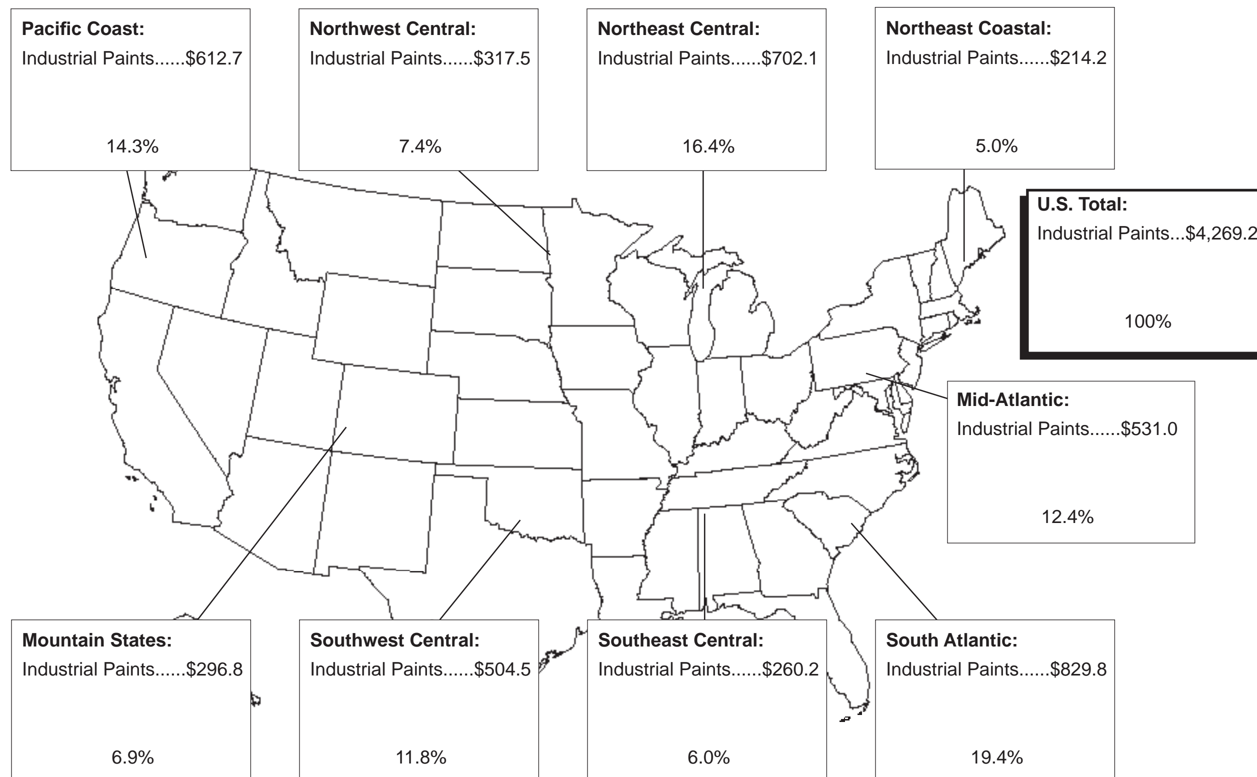
The industrial product group listed here - Industrial Paints MRO - represented a market in 2007 of $4.3 billion, according to estimates by Industrial Market Information, Minneapolis.

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 Industrial Paints MRO (2007 estimates)

SIC CODE	Companies	Ind. Paints Total
1721 Painting & Paper Hanging	76,012	1,072,312,920
1542 Nonresidential Construction	47,371	200,290,470
1611 Highway & Street Construction	23,900	185,374,884
1521 General Contractors-Single Family Housing	305,347	127,252,866
1771 Concrete Work	38,435	123,517,311
1711 Plumbing, Heating & Air Conditioning	150,704	112,119,442
1629 Heavy Construction	16,536	87,688,815
7532 Top, Body & Upholstery Repair Shops & Paint Shops	59,406	83,127,545
2834 Pharmaceutical Preparations	3,481	81,731,004
1541 General Contractors-Industrial Bldgs & Warehouses	11,421	73,307,616

End-user consumption of Industrial Paints MRO by region, millions of $ (2007 est.)



Source: INDUSTRIAL MARKET INFORMATION, INC. (763) 535-7432. © 2008 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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Hagemeyer's Green Catalog
Continued from p. 1 of this section

the launch date. Calls from suppliers are already coming in to update their offerings. "They want to be included in the catalog," Pulver says.

Though the current Hagemeyer green initiative is limited to the U.S. market, a broader program may be on the horizon.

"With our acquisition by Sonepar, we'll be evaluating our joint initiatives and goals to make sure that we complement each other in that realm as well," Pulver says.

Hagemeyer offices in the U.S. celebrated the launch of the new catalog by implementing other green measures within the company.

Recycling bins have been added around the facilities, and employees were given printing guidelines to help reduce paper waste. Styrofoam coffee cups have been phased out, replaced by cups that break down within a year. And, everyone is encouraged to use reusable items whenever possible.

"This service is the right thing to do for our customers and our shareholders as well as the environment," Pulver says.

"We certainly want to be at the forefront of the movement."

Hagemeyer North America Inc. is a distributor of products and services focusing on business-to-business markets in electrical materials, safety products, and industrial products and services throughout North America.

Hagemeyer North America has annual revenues of $1.8 billion. – *Jenel Stelton-Holtmeier*

MDM News Digest
Continued from p. 1 of this section

Private equity firm **Platinum Equity**, Los Angeles, CA, has agreed to sell **PNA Group** to **Reliance Steel & Aluminum Co.**, Los Angeles, CA, for $1.1 billion. PNA Group processes and distributes steel in a variety of forms, including structural beams, tubes, and coiled and rolled steel. Platinum acquired PNA in May 2006.

U.S. wholesale prices increased 1.4% in May, seasonally adjusted. This rise followed a 0.2% advance in April and a 1.1% increase in March.

Privately-owned **housing starts in the U.S.** in May were 3.3 percent below April and 32.1% below May 2007, according to the U.S. Census Bureau and the Department of Housing and Urban Development. In the West, starts were down 34.9 percent year-to-date; the Midwest saw a 31.3% drop; the South a 30.2 percent decline; and the Northeast a 21.4 percent decrase.

Canadian manufacturers' factory sales rose by a sharp 2 percent in April to $49.8 billion, following a weak March (-1.7 percent). Gains were led by the petroleum products industry but still were broadly based as 17 of the 21 manufacturing industries, representing 80 percent of total sales, reported increases. Excluding petroleum, total manufacturing sales climbed 1 percent.

Latrobe, PA-based **Kennametal** Inc. has agreed to sell **On Time Machining Company** to **Kyocera Industrial Ceramics Corp.**, Vancouver, WA. OTM, Wapakoneta, OH, manufactures indexable cutting tools, including drills, aluminum cutting mills and counterbores.

The Stanley Works, New Britain, CT, has agreed to sell its CST/berger laser leveling and measuring business, West Lafayette, IN, to **Robert Bosch Tool Corp**. for $205 million. The operation had 2007 revenues of $80 million.

Richard L. Scott Investments has taken a majority stake in **Drives LLC**, Fulton, IL, a manufacturer of conveyor and power transmission roller chains and auger products. Drives CEO David Vogel said the sale will enable Drives to accelerate growth and expand via acquisition. Vogel will retain the positions of president and CEO.

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