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Trends in Inventory Management

Economy pushes more distributors to invest in best practices

Effective inventory management practices often get lost in the shuffle when sales are soaring. But distributors can improve profitability by tightening their inventory management practices. This interview reviews current inventory management trends.

Jon Schreibfeder, president of Effective Inventory Management, spoke with MDM recently about how more distributors have recognized the importance of inventory management to their business success.

MDM: How are distributors currently approaching inventory management in light of uncertain economic conditions?

Jon Schreibfeder: People are really tightening their belts. They are much less likely to invest in speculative inventory. They are much more concerned about selling what they buy rather than assuming they will be able to sell whatever they may buy.

People are nervous about inventory they have that is not moving, and they worry about not having funds available to purchase additional inventory.

So they are focusing on forecasting – making better predictions of what they're going to sell. They are getting away from wild guessing.

It may be because sales are hard to generate, so you have to concentrate on those areas that you have some ability to control such as inventory.

MDM: Are you seeing this across all sectors?

JS: I cannot think of a sector that is not looking at their inventory and becoming more conservative about how they're stocking products.

The challenge is that they still have to have what their customers need. They're putting in more thought and using more tools. A lot of distributors have a good set of tools in their software already. They just have never had the incentive to learn how to use them.

MDM: This seems like a great shift.

JS: It's a fantastic attitude. It is the attitude the most successful distributors have had all along.

If you look at the most successful distributors, they have focused on inventory because they've always had the attitude that 'We don't buy what we don't need.' They have money to buy what their customers really want them to have.

MDM: When sales are booming, why don't some distributors work on bettering their inventory management and optimizing the tools they have?

JS: The attitude has been that if we buy it, we'll sell it eventually. Now they're saying, we may not sell it. Or it may take a long period of time to sell it.

MDM: Discuss some of the key elements of effective inventory management.

JS: Forecasting. That is the key element, understanding what your customers want.

MDM: That sounds easy, but isn't effective forecasting difficult?

JS: I wouldn't use the term difficult. You need to be organized and you need to take a focused approach. You do not necessarily need higher level mathematics. You just have to figure out what is going to work

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Managing the Customer Service Life Cycle

Every business tends to put on a full-court press to get customers in the door. Many have processes to build existing customer relationships into larger ones. Fewer businesses have a process for saying goodbye or retrieving ex-customers. But in tightening markets, distributors often see customers jump to a lower-price competitor. How often do you experience a customer returning after a year, or after they realize the better value your company delivers? What percentage of "lost" customers return?

These issues came to mind following an unpleasant experience closing the account with our credit card processor. I switched to a more cost-competitive service after four-plus years (three-year agreement with automatic annual renewal) with an Omaha-based affiliate of my local banking relationship.

My final statement included an early termination fee. So I called to find out what that meant. Imagine my surprise to find out that if you terminate before the anniversary date, you're charged (I learned later that the fee is a "compensatory payment" to mitigate the lost revenues through the contract period. Now there's a value-based revenue model!). The patient customer service representative explained that it was company policy to not inform terminating customers of that fee because it was part of the signed agreement. That's not entirely accurate, as it was not on the page with the schedule of fees that I signed. But I did sign that I would be bound by the company's terms and conditions, all 74 pages of fine print in a separate document. Shame on me.

I said that I felt the policy was a sleazy way to treat good customers of four years and requested to speak with a supervisor. That's when I learned of another policy - they no longer escalate early termination fee calls to supervisors. Smart supervisors! Why waste time dealing with someone who doesn't want to be a customer anymore?

My next request was for the name and phone number of the president, naively thinking (under elevated blood pressure conditions) that the buck stops at the top. No can do for security reasons. But I can fax or mail to "Attn: Office of the President."

I'll make a bold guess that I am not one of their largest customers. But there are ways to communicate and market to departing customers – even small ones – in a positive way. I'd also argue there are ethical ways to end contracts that keep the door open for renewing the relationship under changed conditions. Ex-customers can be the best prospects, especially if the experience, including leaving, was positive. ■

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Inventory Management
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for the different patterns of demand in usage. It's not that difficult of a process.

This is what always amazes me – people think it's this massive task that you need a PhD to handle. You just need to be organized and focused.

The more time you spend on forecasting, the more money you can make. It is probably the most effective thing you can do to increase the profitability of your company.

MDM: What else should distributors consider?

JS: Determining what your customers really want. By this I mean it's very rare to have zero tolerance for stockouts. Every distributor experiences a certain level of stockouts. And every distributor has to know those products that you can never be out of.

We're also seeing distributors trying to obtain more reliable shipping and lead times from vendors because the more reliable the shipments are, the less you need to stock.

We're seeing a lot of situations where they are negotiating purchases on a yearly basis so they make smaller, more frequent orders to the vendor.

This increases flexibility in preventing stockouts because we can replenish stock more often. But it also decreases overall inventory investment. Again, because replenishments should be arriving far more often.

We're seeing a lot more interest in really utilizing and working with various versions of economic order quantity formula, or looking at additional discounts you see by buying large quantities against the cost of carrying that inventory for a longer period of time.

People are also much more aware of the need to know what is in their warehouse. Their on-hand quantities are very important. No one has ever said they didn't want to know what was in their warehouse, but they didn't put the importance on it that we see today.

They are looking at what's selling and what is not selling, ranking the inventory and classifying the products based on requests for the product, cost of goods sold, number of days supply you have on hand, and so on.

MDM: What can you do with that information?

JS: You stop stocking certain products, and you work to liquidate excess inventory in those products you don't want to keep. There are a number of ways to liquidate inventory. Anything you can get above the cost of disposal is found money.

If it's not going to be moved in the reasonable future – 12-24 months – what can we get for it today? More and more people are getting away from being emotionally involved with their inventory. The idea was that we can't get rid of it because someday somebody will want it.

MDM: How are distributors and their suppliers working together?

JS: I'm very enthusiastic. I am seeing more win-win agreements. Distributors are more willing to share their projections on what they will sell – and vendors are providing lower prices allowing distributors to buy lower quantities more frequently.

This helps the vendors in their production cycle so they don't have to make gigantic quantities at one time. More and more manufacturers are trying to get to a just-in-time inventory situation. It helps distributors because they don't have to invest in six months of material.

The more progressive vendors are really taking an active role in setting up partnerships in more than just name only with their distributor customers.

MDM: What can distributors do if they don't have cooperative suppliers?

JS: Many manufacturers don't have much competition – the distributor is basically stuck in the relationship.

But what we're seeing when competition does surface, when the distributor does have alternatives for what they're going to buy or offer their customers, they'll go there.

Progressive vendors realize that for the long-term success of everyone they need to foster a cooperative atmosphere. Profitability models show that everybody makes more money when people cooperate.

MDM: What keeps channel partners from cooperating?

JS: Two things – one is fear and going into the unknown.

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The other is that they are focused on short-term goals rather than long-term goals. A lot of manufacturers that are publicly traded are focused on quarterly results – they have to make a single quarter look very good so they say, 'I want to sell my distributors a ton of inventory to make the numbers this quarter looks good.' That often means the next-quarter shipments and sales will be down.

MDM: Does size of distributor matter when looking at tools to improve inventory management?

JS: Business practices should be common among small and large distributors. Large distributors have some advantages in that they have economies of scale.

Smaller distributors have an advantage because they are often more flexible and can change more quickly. I see advantages on both sides.

There are very good distributors who are small and very good distributors who are large. It really depends on the attitude of upper-level management.

MDM: What are you seeing in regards to technology adoption? Are more distributors embracing these tools?

JS: More and more distributors are looking at software and warehouse automation tools that will lower their overall inventory and also lower the cost of filling orders. In a way I'm surprised at a lot of the smaller distributors really going after this aggressively.

More tools are available and the tools that are available are getting better and more cost-effective. We do a return on investment analysis and if a new technology can pay for itself between 12 and 18 months it's usually a good idea to go forward with it.

MDM: What is driving this change in inventory management mindset among distributors?

JS: People are becoming profit-oriented. A few years ago a lot of people were just interested in expanding their market share. They didn't care what the profit was. They just wanted to capture more of the market, and thought the profit would take care of itself.

Jon Schreibfeder is the president of Effective Inventory Management and can be found online at www.effectiveinventory.com.

Best Practices in Inventory Management

Jon Schreibfeder says inventory management should be a part of overall strategic planning.

1. Protect your company against theft.
2. Establish an approved stock list for each warehouse. Only order non-stock or special order items customers have committed to buying.
3. Assign and use bin locations.
4. Record all material leaving the warehouse.
5. Process paperwork in a timely manner.
6. Set appropriate objectives for your buyers. Buyers should be judged on customer service level, inventory turns and return on investment.
7. Make sure employees are aware of the cost of bad inventory management.
8. Ensure stock balances are accurate and will remain accurate.
9. Determine most advantageous replenishment path for each item in the warehouse.
10. Specify guidelines for setting reorder method and other purchasing parameters to maximize inventory turns and minimize stockouts.
11. Document replenishment procedures.
12. Establish goals for the next two years on each branch and major product line.
13. Initiate an ongoing dead stock and excess inventory control program.

Source: www.effectiveinventory.com

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Latin American Market Opportunities

Trends in Brazil, Mexico and Argentina: Automotive strength buoys region

An analysis of the three major markets in Latin America – Mexico, Brazil and Argentina – forecasts solid growth for manufacturing markets in the region for the remainder of 2008 and into 2009. The author of that analysis, based in the region, spoke with MDM about what sectors are driving the growth.

By Jenel Stelton-Holtmeier

All sectors of manufacturing in Latin America will likely see some growth in 2009, but automotive manufacturing has had particular strength partly due to internal demand in Brazil and Argentina, says Fernando Sedano, author of the Manufacturers Alliance/MAPI Latin America Outlook 2008-2009.

Mexico, the third market included in the analysis, has seen slower growth because of its close economic ties to the U.S., but has begun to make up ground through exports to Europe and Asia. The three markets were chosen for analysis because they are responsible for more than 80 percent of manufacturing output in the region.

"The economy in Brazil has just skyrocketed in recent years. That's helping to drive the region's numbers up," Sedano says. "Interest rates – while still relatively high – have come down enough where people are starting to be able to buy things like cars that they couldn't buy before."

Based on the weighted survey, MAPI forecasts overall manufacturing output in Latin America will expand by 4.9 percent in 2008, slightly above the expansion seen in 2007. Brazil is expected to expand 6.8 percent in 2008. The size and scope of Brazil's manufacturing industry is a key factor in the positive outlook for the region.

Mexico will increase output a modest 2 percent. Argentina, currently the smallest of the three economies, will continue to expand by 7.5 percent, down from the 9 percent growth it experienced in 2007.

The forecast also indicates that manufacturing production growth will ease to 4.4 percent in 2009, with deceleration in Brazil and Argentina, but slight improvement in Mexico. "The problem for Mexico is its tight relationship with the U.S.," Sedano says. "If the U.S. goes down, Mexico will follow, although with a lag period. But it also means that when the U.S. recovers, Mexico will too."

In developing the forecast, Sedano collected data on 16 manufacturing sectors from the national statistical agencies of each country, assigning weighted average annual production indexes for each industry.

The weights are determined by a country's sector value added in U.S. dollar terms. Brazil carries a weight of 48.7 percent in the survey; Mexico holds 38.7 percent. Argentina's manufacturing output makes up the remaining 12.6 percent.

"Because each country utilizes different data standards, it doesn't make much sense to spend the time and effort to include data from countries not focused on manufacturing in the analysis," Sedano says. "For example, Chile has a growing economy as well, but most of its industries are focused on service and raw materials. It doesn't produce much manufacturing output."

Barring any major shocks to the Latin American countries, 14 of the 16 segments are expected to experience growth for the remainder of 2008. In 2009, Sedano believes all 16 segments will be expanding, albeit it at a slower rate.

"Rising inflation, coupled with currency appreciation, will slow Brazilian-based manufacturers; higher interest rates and weak U.S. demand will put a ceiling on Mexico's manufacturing activity; and Argentina's rising costs — among other macroeconomic concerns — will likely curb the strong expansion of the past five years," Sedano said.

Three industries account for roughly 40 percent to 45 percent of the region's manufacturing and, therefore, are keys to the forecast: food and beverages; motor vehicles; and machinery and equipment.

The automotive manufacturing sector is expected to grow by 10 percent for the region for 2008, primarily in Argentina and Brazil as the two countries expand to meet growing internal demand. Exports of vehicles in those two countries have also increased dramatically, as demand improves in Europe, Asia and other Latin American countries.

"Even Mexico has managed to stay in positive territory by exporting to new countries other than the U.S.," Sedano says.

According to the MAPI report, Mitsubishi, Volkswagen and General Motors each increased their manufacturing presence in Mexico in

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2007 and 2008 to produce new products, which helped strengthen the state of Mexican manufacturing. Expansion in this sector is expected to be 7.6 percent in 2009 for the region.

Growth in the machinery and equipment industry is forecast at 11 percent for 2008 and 9.7 percent in 2009. The largest industry in the region, food and beverages production, is also expected to expand by 4.8 percent in 2008 and 4.1 percent in 2009.

The wood products segment continued its downward path in the first quarter of 2008, shrinking 3.5 percent compared with the prior year. Output in Brazil represents about 80 percent of total output for the region in this sector.

To offset losses from the slow residential housing market in the U.S. that has driven demand downward, wood products manufacturers have found solid demand in European and Asian countries. That demand is expected to return the sector to growth in 2009.

Overall, the economies of Latin America are looking strong, Sedano says. A four-month farmers' strike in Argentina caused some concern in the second quarter but numbers have shown recovery in July.

Although the problems that led to the strike have yet to be resolved, any future impact should be much less than has already been seen.

The region's economy has also benefited from solid prices in the raw materials and natural resources market, according to Sedano.

Though the commodities market falls outside the scope of the MAPI report, the market does have a clear impact manufacturing sectors.

Many of the countries not included in the manufacturing survey rely on raw materials and natural resources to support their economies.

Global prices in the segment have been moderating but are not expected to face a sharp decline anytime soon.

Order Sedano's report at www.mapi.net.

Latin America's Key Growth Sectors

These three segments - food and beverages, automotive and machinery and equipment - account for roughly 40 percent to 45 percent of the region's manufacturing.

	Forecast	
Estimated % Chg.	**2008**	**2009**
Overall Manufacturing Output	4.9	4.4
Food & Beverages	4.5	4.1
Automotive Sector	10.0	7.6
Machinery & Equipment	11.0	9.7

Source: Manufacturers Alliance/MAPI, www.mapi.net

Legislative Outlook 2009

NAW outlines top proposals that may be affected by Nov. election

This article looks at five key issues distributors and manufacturers should watch closely in the next year.

By Jenel Stelton-Holtmeier

The U.S. House of Representatives plans to adjourn for the year on Sept. 26.

And, with the August recess not over until Sept. 8, Jade West, senior vice president for Government Relations for the National Association of Wholesaler-Distributors, doesn't expect much more to get done before a new Congress takes its place in January.

However, distributors and manufacturers may want to keep their eye on a few critical issues going into the next session.

Energy

The prices of finished energy goods – including home heating oil, gasoline and lubricating oils among others – increased 28 percent from July 2007 to July 2008, according to the Bureau of Labor Statistics. The impact of those steep increases has been felt across all segments – business and consumer – and has drawn much attention to what the National Association of Manufacturers calls "the increasing demands on our country's dwindling energy supply."

"If anything is going to be passed in those last three weeks, an energy bill is a definite possibility," West says. "It will at least be talked about."

But while everyone has the desire to do something to offset the economic hardship caused by skyrocketing prices, no one can seem to agree on how best to address the issue. Before the August recess, a bipartisan group of 10 senators presented a compromise bill with the

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hopes of moving forward. As yet, it appears that neither side is happy with the provisions.

The proposal targets three areas: transitioning vehicles to non-petroleum-based fuels, conservation and energy efficiency; and targeted, responsible domestic production of energy resources.

Funding would be made available to auto manufacturers for the research and development of alternative fuel vehicles, and tax credits to consumers who utilize alternative energy options. In addition, it would open limited offshore drilling options for oil exploration.

Alternative Minimum Tax Patch

When the AMT code was written in 1969, it failed to account for future inflation, West says. As such, a code meant to target fewer than 200 people now affects millions.

The annual patch is meant to alleviate some of the inflationary expansion by extending increased exemptions for another year. If the patch fails to pass, which West does not expect to happen, the AMT would expand to millions more in the middle class.

"Extenders Package" Tax Bill

The Jobs, Energy, Families, and Disaster Relief Act of 2008, commonly referred to as the "Extenders Package," extends a variety of provisions slated for reconsideration by Congress, including some that overlap the Alternative Minimum Tax patch.

"This bill is of critical importance to businesses in general, but manufacturers in particular, because it renews the tax credit for certain research and development activities," West says. "If it doesn't pass, companies will need to start restating their earnings very quickly."

The likelihood of passage is fairly high, but far from assured in the current Congress. In particular, the Extenders Package has faced heavier opposition than normal because of the energy bill debate and the inclusion of credits for using alternative renewable energy sources.

Repeal of LIFO

A few years ago, Congress began discussing repeal of the Last In First Out (LIFO) tax accounting method used by many distributors in warehouse accounting. The method was viewed by some legislators as a tax loophole that provided undue benefits to businesses.

"This is one of those issues that we watch like a hawk because it is so problematic to our members," West says. "If LIFO is repealed, it would amount to a significant tax increase for thousands of distributors who warehouse goods."

The issue was introduced during this Congress but referred to committee. Though unlikely to be reintroduced this year, there's always a chance that it will come up again, West says.

In addition, some of the discussion has moved to eliminating LIFO through regulation from the Securities and Exchange Commission, a move that also concerns West: "We really need to be able to keep an eye on what's going on with this."

Employee Free Choice Act

First introduced in 2005 and reintroduced every year since, the Employee Free Choice Act was designed to make it easier for employees to form unions or collective bargaining units by allowing organization through petition rather than election.

Employees could sign a card or petition showing their support for the appointment of an individual as a bargaining representative.

"I predict that this bill will be the top issue for labor groups when the new Congress comes into session in January," West says. The bill passed the House last year but stalled in the Senate.

Proponents of the bill say it allows for employees who want to organize to do so without having to put in a lot of money or fear retaliation for exploring organization.

Opponents say the bill allows unions to eliminate the secret ballot and opens the door to harassment of workers who disagree. They also say the legislation puts unreasonable time limits on the bargaining units, allowing only 120 days to reach a labor agreement before being forced into binding arbitration.

"Until the energy issue hit, this was the biggest issue we dealt with for this year because it had to be," West says. "It's a major rewrite of the current labor laws."

This issue also has West watching the November elections closely. With the Presidency, the entire House of Representatives and one-third of Senate seats at stake, it's hard to predict how favorable the climate will be in the national government come January, she says.

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Forecast: GDP Growth Will Slow in 2008 and 2009

The weakness in the U.S. economy shows no signs of immediate abatement, and significant challenges may last well into 2009, according to a new report.

The Manufacturers Alliance/MAPI Quarterly Economic Forecast predicts that inflation-adjusted gross domestic product (GDP) growth will slow to 1.6 percent in 2008 and decelerate to 1.3 percent in 2009. The 2009 GDP forecast is down from 1.9 percent growth projected in MAPI's May report.

Manufacturing production growth is expected to sink into negative territory in 2008, declining 0.5 percent following an already low 1.7 percent growth in 2007. It is forecast, though, to return to positive range, albeit a weak 1.6 percent, in 2009.

The previous quarterly MAPI report had forecast production to grow by 0.4 percent in 2008 and by 3.1 percent next year.

Production in non-high-tech industries is anticipated to decline 1.8 percent this year and to grow by 0.2 percent in 2009. There is, however, positive news in the computers and electronics products sector. High-tech industrial production is expected to rise 15.7 percent in 2008 and 14.7 percent in 2009.

The GDP account for inflation-adjusted investment in equipment and software should increase by 0.8 percent in 2008 and by 2.3 percent in 2009. The largest percentage gains in capital equipment spending will come in the aforementioned high-tech sectors. Inflation-adjusted expenditures for information processing equipment are expected to rise 8.1 percent in 2008 and 5.7 percent in 2009, up from 6.9 percent and 3.3 percent, respectively, in the May report.

In addition, the forecast calls for industrial equipment expenditures to decline by 0.4 percent this year and to further decline by 7.1 percent in 2009. The latter figure compares with a previously anticipated 2.8 percent loss in 2009 in the May report. The outlook for spending on transportation equipment calls for an 18.2 percent decline in 2008 followed by a recovery to 7.6 percent growth in 2009.

Spending on non-residential structures is expected to retrench over the next two years.

Exports and imports, however, will likely continue to buttress the soft economic environment. Export growth should continue to outpace that of imports by a wide margin. Inflation-adjusted exports should rise 8.4% in 2008 and 7.3% in 2009, while imports are expected to decline by 1.4 percent this year and to increase by only 0.4 percent next year.

The forecast is for the unemployment rate to average 5.4 percent in 2008.

Manufacturers Alliance/MAPI Economic Forecast: 2007-2009

	Actual	Forecast	
Estimated % Chg.	**2007**	**2008**	**2009**
Gross Domestic Product	2.0	1.6	1.3
Total Consumption	2.8	1.0	0.7
Durables	4.8	-2.4	-2.5
Nondurables	2.5	1.0	0.4
Services	2.6	1.7	1.4
Nonresidential Fixed Investmt	4.9	3.7	-1.2
Equipment Software	1.7	0.8	2.3
Information Processing Eqmt	9.6	8.1	5.7
Industrial Equipment	1.4	-0.4	-7.1
Transportational Eqmt	-12.6	-18.2	7.6
Structures	12.7	9.9	-7.9
Residential Fixed Investmt	-17.9	-21.3	-7.5
Exports	8.4	8.4	7.3
Imports	2.2	-1.4	0.4
Prices			
Consumer Prices	2.9	4.6	2.6
Excl. Food and Energy	2.3	2.4	2.5
Producer Prices, Finished Gds	3.9	7.7	2.3

	2007	2008	2009
Energy			
Imported Crude Oil ($ per barrel)	$67.1	$105.8	$104.8
Natural Gas Wellhd Price ($mmbtu)	$6.2	$9.1	$8.7
Nonfarm Inven. Chg. (billions)	-$4	-$38	-$4
Light Vehicle Sales (millions)	16.1	14.0	14.2
Housing Starts (millions)	1.341	0.940	0.989
Unemployment Rate (%)	4.6	5.4	6.0
Payroll employment (% chg.)	1.1	0.0	-0.1
Production (% chg.)			
Manufacturing - SIC Basis	1.7	-0.5	1.6
Computers & Electronic Prods	11.4	15.7	14.7
All Less Comp., Commun., & Chips	0.7	-1.8	0.2
Factory Oper. Rate (% cap)	79.4	77.5	77.1

Source: Manufacturers Alliance/MAPI Quarterly Economic Forecast, www.mapi.net

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Industrial & Construction Markets Update

VOL. 38, NO. 16 | AUGUST 25, 2008

Barnes: New Products Help to Better Serve VMI Customers

Barnes Distribution, distributor of maintenance, repair, operating and production supplies and a business of Barnes Group Inc., launched its new master catalog, adding more than 4,200 new products to its regularly stocked items. The new products are in the welding, hose and fittings categories.

"We're tailoring our product line to customers of our Vendor Managed Inventory services," Brian Koppy, of Barnes' investor relations and communications, says.

The addition of products in welding, hose and fittings also reinforces the vertical marketing strategy the company announced last year in the transportation, manufacturing, government and natural resources markets.

"As part of our market segmentation strategy, we are focusing on fewer market segment," Koppy says. "It's not about having the largest product offering. It's about having the right products for the right customers at the best value."

Barnes' VMI services comprise most of the distributor's customer base in North America. "We're listening to the voice of our customers, and what kind of product they want to have in stock in their shops," he says.

To that end, Barnes Distribution has complemented their welding product, fittings and hoses categories, moving some products from special order status to regularly stocked. "Then we can go out and leverage our purchasing power," Koppy says. "Instead of ordering one-offs, we're ordering a year's worth of supply. We can lower the cost, and that cost is translated into lower cost for the customer as well."

Barnes is also leveraging its global sourcing unit, in which it has invested significantly in the past 12 months. - *Lindsay Young*

United Stationers Inc., Deerfield, IL, master distributor of business products, reported its wholly owned subsidiary, United Stationers Supply Co., has agreed to buy the New Jersey business of **Emco Distribution**, LLC, for $15 million.

Industrial Rubber Products, Inc., Hibbing, MN, has agreed to be acquired by affiliates of two private equity firms: **Lime Rock Partners**, Westport, CT, and **Thompson Street Capital Partners**, St. Louis, MO.

Transcat, Inc., Rochester, NY, a distributor of professional grade test, measurement and calibration instruments and accredited provider of calibration and repair services, has acquired **Westcon**, Inc., a Portland, OR-based test and measurement instruments distributor and calibration services provider, in a transaction valued at $7.2 million.

Norandex Building Materials Distribution, Hudson, OH, a distributor of exterior siding, windows, and doors, has opened two new branch locations in Portland, OR, and Austin, TX. In Portland, Norandex has acquired limited assets from **Crown Building Materials**, which began operations as Norandex Building Materials Distribution on Aug. 15.

WinWholesale Inc., Dayton, OH, has opened Winnelson companies in Lakeland, FL, Bloomington, IL, and Clinton, MO, to provide residential and commercial contractors with plumbing supplies, equipment and accessories.

Atlas Copco Tools and Assembly Systems LLC, USA, a U.S. arm of Swedish manufacturer Atlas Copco, acquired **Industrial Power Sales**, Inc., Raleigh, NC, a distributor of tools, assembly systems and material handling equipment.

Illinois Tool Works Inc., Glenview, IL, announced that it plans to divest its Decorative Surfaces segment consisting of the Wilsonart and related laminate businesses and the Click Commerce industrial software business. Wilsonart was acquired in 1999 and Click was acquired in October 2006.

Alfa Laval Group, a manufacturer in transfer, centrifugal separation and fluid handling, has acquired **Hutchison Hayes Separation**, Houston, TX, a provider of separation equipment, parts and services to the U.S. energy-related industries. Hutchison Hayes' sales in 2007 were about SEK 150 million.

Air Liquide America Specialty Gases LLC, Houston, TX, will raise prices on gases, equipment and services beginning Sept. 1, 2008. Prices will increase between 5 percent and 20 percent for cylinder oxygen, acetylene, carbon dioxide, hydrogen and other gas products. Prices for helium will be increased between 20 percent and 25 percent. In addition, cylinder rental fees will be increased by 10 percent while delivery charges will be increased by 25 percent.

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MDM News Digest
Continued from p. 1 of this section

Hagemeyer has released its 2008-2009 Safety Products catalog. Hagemeyer's user-friendly catalog is an expanded version of the original safety catalog and now includes products for the industrial, governmental and industrial hygiene communities. The 652-page catalog also features safety and firefighting products.

U.S. wholesale prices rose 1.2 percent in July, seasonally adjusted, the Bureau of Labor Statistics of the U.S. Department of Labor reported. This increase followed a 1.8-percent jump in June and a 1.4-percent rise in May.

U.S. industrial production increased 0.2 percent in July after having advanced 0.4 percent in June. In July, the capacity utilization rate for total industry edged up to 79.9 percent, a level 1.1 percentage points below its average for 1972-2007.

Canadian manufacturers reported $52.5 billion in sales in June, up 2.1 percent from May and the fifth increase in six months. In constant dollars, manufacturing sales increased 0.6 percent to $47 billion in June. Industrial prices for petroleum and coal, chemical products, wood products, and motor vehicles rose notably during the month.

June U.S. manufacturing technology consumption totaled $360.43 million, according to the Association For Manufacturing Technology and the American Machine Tool Distributors' Association. This total was level with May, and up 2 percent from the total of $353.40 million reported for June 2007. Year-to-date, 2008 is up 15.3 percent compared with 2007.

Atlanta, GA-based **The Home Depot**, a home improvement retailer, reported sales of $21 billion for the second quarter of 2008, a 5.4 percent decrease from the same period 2007. Profit was $1.2 billion, down 25 percent from second quarter 2007. For the first six months, sales were down 4.5% to $40.7 billion. Profit was down 40 percent.

San Francisco, CA-based **Building Materials Holding Corp**., a provider of building materials and construction services to professional residential builders and contractors, reported sales of $385 million for the second quarter of 2008, a decrease of 41 percent from the same quarter a year ago. The company reported a net loss of $31.9 million compare to a profit of $19.4 million for second quarter 2007.

The second quarter results put **BMHC** in viola-

continued on back page

Calculation of MDM Inflation Index for July 2008

		BLS Price Indices Jul. '08	BLS Price Indices Jun. '08	BLS Price Indices Jul. '07	% Sales Weight	Weighted Indices Jul. '08 (1)X(4)	% Change Jul. '08 Jun. '08	% Change Jul. '08 Jul. '07
1136	Abr. Prod.	492.8	486.0	465.2	19.1	94.12	1.41	5.93
1135	Cutting Tools	443.3	442.5	436.3	18.9	83.79	0.18	1.62
1145	Power Trans.	693.5	677.6	640.4	15.4	106.81	2.35	8.29
1081	Fasteners	487.7	481.2	448.3	9.0	43.90	1.35	8.80
1149.01	Valves, etc.	835.9	841.6	786.9	7.6	63.53	-0.67	6.23
1132	Power Tools	336.8	336.3	329.0	6.5	21.89	0.13	2.36
1144	Mat. Handling	498.0	491.4	463.3	6.2	30.88	1.34	7.49
0713.03	Belting	584.9	575.5	544.3	6.1	35.68	1.62	7.45
1042	Hand Tools	717.2	701.5	678.0	8.1	58.09	2.23	5.78
108	Misc. Metal	452.9	441.3	418.2	3.1	14.04	2.62	8.31
"New" July Index		288.8	July Inflation Index			552.71	1.23	6.03
"New" June Index		285.3	June Inflation Index			546.01		
			July 2007 Inflation Index			521.28		

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

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McJunkin Red Man Corp. Files for Initial Public Offering

MARKETS UPDATE SUPPLEMENT P. 3

McJunkin Red Man has registered with the SEC for an initial public offering of its common stock for $750 million. The company will be listed under the symbol "MRC."

McJunkin Corp. and Red Man Tool and Supply merged in late 2007. At the time, Goldman Sachs owned a majority share of McJunkin.

McJunkin Red Man is a distributor of industrial and oilfield pipe, valve and fittings in North America, operating 250 locations in the U.S., Canada, Nigeria and Puerto Rico.

The company has a significant presence in the oil and gas, chemical and petrochemical, refining processes, power company, manufacturing and mining industries.

According to the SEC filing, the company said it generates about 90 percent of its sales from the energy industry. In the SEC filing, McJunkin Red Man said it has benefited from growth trends in the energy industry.

"This growth in spending has been driven by several factors, including underinvestment in North American energy infrastructure, production and capacity constraints and anticipated strength in the oil, natural gas, refined products and petrochemical markets.

"While current prices for oil and natural gas are high relative to historical levels, we believe that investment in the energy sector by our customers would continue at prices well below current levels," according to the filing.

More than 50 percent of the company's pro forma sales in 2007 were attributable to multi-year maintenance, repair and operations (MRO) contracts. For the 12 months ended Dec. 31, 2007, on a pro forma basis, the company reported sales of $3.9 billion, adjusted EBITDA of $370.4 million and profit of $150.8 million.

During the 12 months ended Dec. 31, 2007, on a pro forma basis, 46 percent of the company's sales were attributed to upstream activities, 22 percent to midstream activities and 32 percent to downstream and other processing activities which include the refining, chemical and other industrial and energy end markets.

Plans for Growth

The SEC filing provided some insight into the distributor's historically closely-held growth plans. It said it wants to become the largest global distributor of PVF and related products to the energy and industrial sectors.

The strategy is to increase organic market share and expand into new geographies and end markets, further penetrating the Canadian Oil Sands and downstream sector, pursuing selective strategic acquisitions and investments, increasing recurring revenue through integrated supply, MRO and project contracts, and increasing operational efficiency.

The distributor says it plans to continue expanding within North America but that "attractive opportunities" exist to expand internationally. The distributor currently has just one branch outside North America. It is looking particularly in West Africa, the Middle East, Europe and South America. The distributor also sees opportunities in new end markets, including pulp and paper, food and beverage and other general industrial markets.

McJunkin Red Man also sees "attractive growth areas" in Canada. Improvements in mining and in-situ technology are driving investment in the area, according to the SEC filing, as well as what it says is the second largest recoverable crude oil reserve in the world behind Saudi Arabia. The distributor has made recent inventory and facility investments in Canada, including a new 60,000-square-foot distribution center near Edmonton, and has opened additional locations in Western Canada.

The company says there are opportunities to expand in the industrial MRO market in Canada. The distributor says the industry remains "highly fragmented" and that a "significant number" of small and larger acquisition opportunities exist for McJunkin Red Man.

Company History

Both Red Man and McJunkin have rich family roots, though McJunkin is roughly 50 years older. In 2001, McJunkin launched a strategic growth plan to make five acquisitions in two years, and pursue aggressive organic growth initiatives.

By 2005, sales had grown to more than $1.4 billion. McJunkin is in more than 100 locations in 28 states.

Red Man was founded in 1977. The company began as a distributor of oil country tubular goods after acquiring the distributorships of U.S. Steel Corp. and Lone Star Steel Company.

In 1987, Red Man started its growth spurt, buying the 22 supply stores of Superior Supply Co., two from American Energy Tubular and later Arrow Pump Supply Inc. assets.

It's acquired at least half a dozen companies since 1990. Most recently, it acquired Bear Tubular, Marcus Hook, PA, a $15 million piping distributor in the Northeast U.S. - *Lindsay Young*

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MARKETS UPDATE SUPPLEMENT P. 4

Hagemeyer Releases New Safety Products Catalog

Hagemeyer has released its 2008-2009 Safety Products catalog. The 652-page catalog features safety, industrial hygiene, and firefighting products.

"We carefully selected a comprehensive assortment of products that will meet the needs of our customers," says Brad Pulver, senior vice president, product strategy and marketing. "In addition, we have designed the product assortment to assist customers in experiencing a 'one-stop' shopping experience, allowing our customer to focus on their core business or service, by not having to waste time on finding safety products from multiple sources."

Hagemeyer's user-friendly catalog is an expanded version of the original safety catalog and now includes products for the industrial, governmental and industrial hygiene communities.

Product categories include: Air & Environmental Monitoring, Cleanroom & Critical Environment, Communications, Domestic Preparedness, Facility & Industrial Safety, Firefighting & Technical Rescue, First Aid, Medical & Health, Head, Eye, Face & Hearing Protection, High Visibility & Traffic Control, Law Enforcement & Tactical, Outdoor Safety, Protective Apparel, and Respiratory Protection.

Hagemeyer North America, Inc. is a distributor of products and services focusing on electrical materials, safety products, and industrial products and services.

MDM News Digest

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tion of certain financial covenants. The company has received a temporary waiver from its lenders to allow for borrowing up to $60 million through Sept. 30 while it is negotiating a permanent amendment with lenders to better reflect current economic conditions.

Five Star Products, Inc., New York, NY, distributor of paint sundry and hardware products in the Northeast and Middle-Atlantic states, reported revenue for the second quarter were down 12.5 percent to $31.4 million. Profit was $98,000, compared with profit of $567,000. The distributor reported sales for the first six months of 2008 were down 4.4 percent. The net loss was $609,000. As previously announced, **National Patent Development Corp.**, which owns 82% of Five Star, and NPDV Acquisition Corp., a subsidiary of National Patent, have agreed to buy Five Star's common stock.

RONA Inc., Boucherville, Quebec, reported sales of $1.47 billion for the second quarter, a slight increase from the same quarter 2007. Profit was $80.1 million, a 7 percent decrease from the prior year. Same-store sales for the period were down 4.4 percent. For the first half of 2008, sales were up 1.6 percent. Profit dropped 14.8 percent.

General Bearing Corp., West Nyack, NY, reported sales of $35.1 million for the second quarter ended June 28, 2008, an 8 percent increase. Profit was down 15.5 percent. For the first six months, sales were up 7.9 percent and profit down 22.1 percent.

Industrial distributor **Applied Industrial Technologies**, Cleveland, OH, reported sales in 2008 increased 3.7 percent to $2.1 billion from fiscal 2007. Profit rose 11 percent to $95 million. CEO David Pugh says about half of the top 30 industries Applied serves were down, and the other half were flat to up in the past year.

Lawson Products, Inc., a Des Plaines, IL-based distributor of services, systems and products to the MRO and OEM marketplaces, reported sales of $126.3 million for its second quarter ended June 30, 2008, a decrease of 2.2% from the prior year quarter. The company reported a loss of $29.7 million.

Find more distribution news daily at www.mdm.com.

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