Modern
DISTRIBUTION MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 38, NO. 17
SEPTEMBER 10, 2008

■ *MDM Interview*

Take Strategy to the Front Lines

Harvard's Robert Kaplan on linking strategy with operations

Many leaders understand the importance of matching strategy with operations, but few companies have systems in place to actually do so, according to Robert Kaplan and David Norton, creators of the widely used Balanced Scorecard performance measurement tool and leading advocates for customer profitability analysis. Kaplan recently spoke with MDM Editor Lindsay Young about the challenges inherent with effective strategy implementation in a wholesale distribution company.

In their latest book, *The Execution Premium: Linking Strategy to Operations for Competitive Advantage*, Kaplan and Norton present a formal systems approach to implement strategy at every level of an organization. The authors' six steps, as shown in the graphic on page 4 of this issue, are:

- Develop the strategy by clarifying goals and conducting strategic analysis.
- Plan the strategy by selecting theme-based measures, targets and initiatives, along with accountability for performance.
- Align organizational units and employees to your strategy.
- Plan operations through priority setting and resource allocation.
- Monitor and learn from operations and strategy.
- Test and adapt the strategy.

The book integrates strategies outlined in the authors' four previous books as well as other management tools, such as activity-based costing and strategy development.

MDM: How do you believe economic conditions – good or bad – affect or motivate managers in developing and monitoring strategy implementation?

Robert Kaplan: In good times business is expanding, and it's easy for managers not to pay much attention to strategy because they are making money and markets are expanding. So it becomes more important when times get tough.

At that point you have to cut back some of the capacity and spending that you've been doing during the growth stage. If you're not careful you end up not just slashing waste and inefficiency and excess capacity but you end up slashing into the building of capabilities that you need to come out of any economic slowdown in even stronger shape.

It's important to distinguish between your spending on operations providing internal capacity from the spending you do that is building strategic capability.

During the slowdown you have to look much more closely at all the spending programs and all the capacity you have put in and hold onto only those that you want to sustain into the future. That's where strategy helps you focus.

MDM: Many distributors have anywhere from two to hundreds of branch locations spread throughout a region or the country. How do you effectively involve branch leadership and employees in applying strategy to operations knowing that branch managers are constantly juggling so many roles?

RK: You talk about a juggling act, and it is. The word balance comes in here. They have to be excellent locally. They have to be excellent branch managers and have efficient local operations. But the balance is they also have to deliver on the corporate strategy and the value proposition to the

continued on page 3

INSIDE

mdm.com®

PERSPECTIVE ■ *Commentary by Thomas P. Gale*

A Difference in Degrees

As a pivot point in the flow of products from the point of manufacturing to end use, distributors have several key roles – scout, gatekeeper, product and solution provider, marketer, arbiter. Every successful distributor combines these roles into a unique set of skills that creates value for customers as well as suppliers. Distributors create the most efficient market system into highly fragmented industries and local economies by effectively managing these market relationships both upstream and down. It's a fairly simple equation that is complex to execute well.

Not that most distributors have time to sit around and ponder their place in the universe. But that's just it. The interview that leads this issue touches on a key differentiator that separates a relatively few excellent companies from a whole lot of pretty good ones. And the issue isn't about available resources of large versus small companies. It's about focus.

You can't have 1,000 strategic partners no matter how large you are. Too many distributors and manufacturers operate as though you can. As Robert Kaplan advises, you have to make a strategic choice about who your partners are. Identify the 10 or 20 that are important to moving your organization forward. With all the buzz about lean and tightening the ship in a tough economy, it's ironic that the focus tends to stay within the four walls of the company, particularly for a distributor! How many of your resources are drained trying to manage too many supplier relationships? Or too many unprofitable customer relationships?

That's where strategy separates companies, particularly in the current turbulent cycle where distributors and manufacturers have to dig harder for growth. Too many suppliers have been slow to adjust relationship management away from strictly a sales volume metric. And too many distributors have been content to pile on product lines to drive revenue growth.

Kaplan advocates his Balanced Scorecard methodology to help manage relationships with partners beyond financial measures. "Talking about the measures that will govern the relationship is a great way to forge partnership with key suppliers and key customers. Then you should periodically monitor how you are doing on that relationship."

Companies that extend their measurement and management systems to their strategic suppliers and customers have a clear advantage. They spend more time creating opportunities than reacting to circumstances, many beyond their control. ■

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

Publisher
Thomas P. Gale
tom@mdm.com

Editor
Lindsay Young
lindsay@mdm.com

Associate Publisher
Craig Riley
craig@mdm.com

Marketing Director
Kim Sorensen
kim@mdm.com

Staff Writer
Jenel Stelton-Holtmeier
jenel@mdm.com

Contact Information
Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.
3100 Arapahoe Avenue, Ste 500A, Boulder, CO 80303
Tel: 303-443-5060 Fax: 303-443-5059
Website: http://www.mdm.com

Subscription Rates
To subscribe to Modern Distribution Management, please call 303-443-5060, email tom@mdm.com or **http://www.mdm.com.**

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

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

ISSN 0544-6538

Taking Strategy to the Front Lines
Continued from page 1

customers. That is what managers get paid for: to keep operational efficiency and strategic direction in a good balance. And you can do both.

When you have a dispersed organization, that's when communication becomes extremely important. The customer thinks you are one company. They don't think you are hundreds of companies.

If you're trying to create a value proposition to customers, it's important that the value proposition is supplied by every one of your outlets. And having a local operating manager not following the corporate brand or strategy just undermines your positioning.

It's important to have awareness by every branch manager that they are operating under the umbrella of the parent corporation and have to follow the value proposition in how they work with customers, employees and suppliers.

I recognize that communication is not easy, but in today's age with the Internet and other enhanced communications, it's a lot easier. It's critical for the corporate leadership to establish not just a clear vision and mission but a clear strategy and communicate that so that every branch manager understands it.

Using a system like the Balanced Scorecard is a way of reinforcing that because the Balanced Scorecard is not just about short-term operational efficiency. It's about creating customer loyalty, creating value for customers, upgrading employees and working effectively with suppliers. The Balanced Scorecard is a great way of communicating the strategy of the company even when there are hundreds of dispersed branches around the country.

MDM: In your new book, you talk about putting as much thought into communicating strategy to your employees as you would with advertising to new or current customers. How do you recommend distributors approach this?

RK: We do advocate that you treat your internal communications as importantly as your external marketing messages. Ultimately the strategy is not implemented by the executive team at corporate headquarters. It is implemented some by the branch managers but also by the front-line employees. They are closest to the process, to the customers and to the orders. They are working with the manufacturers.

It's so much more powerful when every employee is not just doing their job but understands that the way they do that job is contributing to the overall success of the company. It really empowers them to align and do their jobs differently or better to help the company achieve its strategic goals.

This is why you have to understand whether the company is trying to be lower cost to its customers or trying to be more of a strategic partner at solving a set of needs or trying to give the customers a lot of options and flexibility. Employees that understand that can work better in their day-to-day jobs in helping the company realize the strategy. They can't do that unless first they're aware of the strategy, and they understand the strategy.

MDM: How should distributors view their channel partners in developing strategy?

RK: We've seen that companies are starting to extend their measurement and management systems to strategic partners such as suppliers and customers. You can't do this with 10,000 suppliers and 10,000 customers. But if you can identify those that you feel are really strategic, you can work with them to develop a sense of a shared strategy to make both of you better off by working together.

It enables the relationship to be governed by more than financial measures – such as cost or price – and you can talk about what each group is trying to achieve using the Balanced Scorecard. You can agree on metrics that both parties will work to achieve.

Talking about the measures that will govern the relationship is a great way to forge partnership with key suppliers and key customers. Then you should periodically monitor how you are doing on that relationship.

It's another tool a manager can use to talk more intelligently with strategic partners. The strategy will help to tell you who those are so you can go from the 10,000 to the 10 or 20 that are important to moving your organization forward.

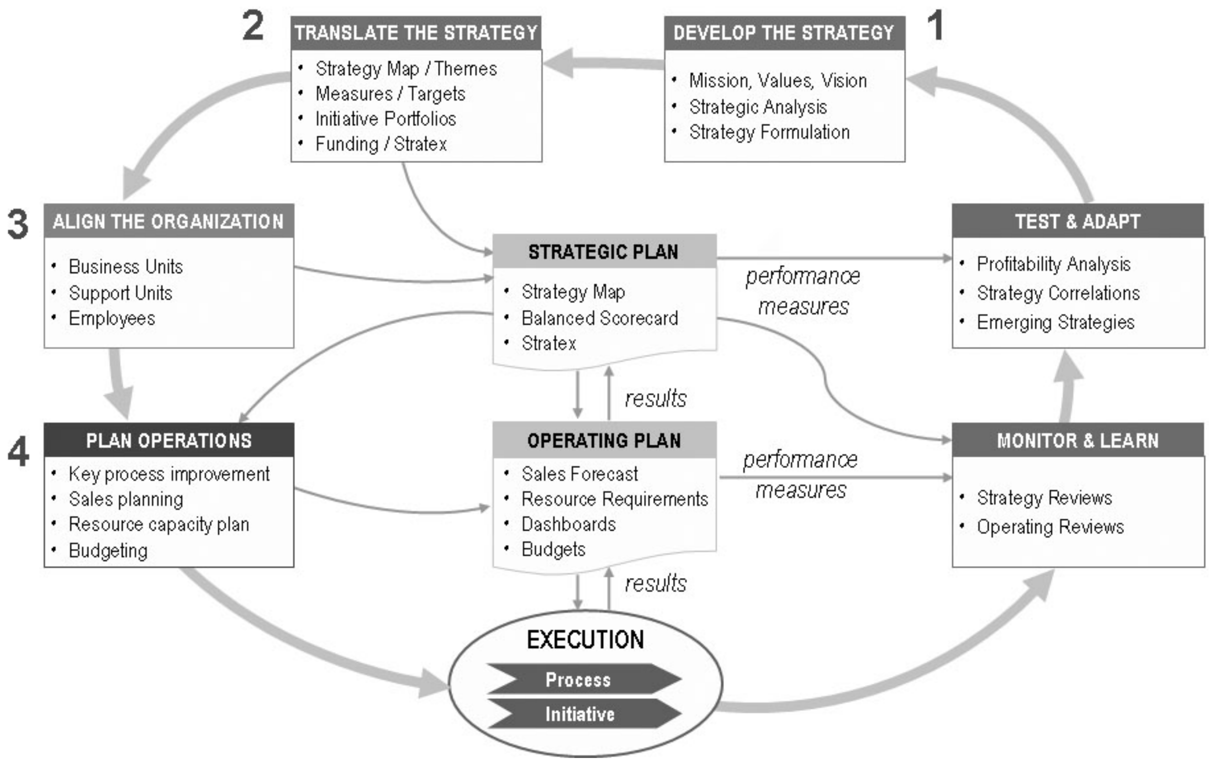
MDM: You say businesses cannot "attempt to meet the expectations of all the existing and potential customers" they could serve. Is this a common mistake companies make and what are the consequences of this?

RK: First you have to make a strategic choice.

continued on next page

Linking Strategy to Operations - The Palladium Management System

This model is featured in the book, *The Execution Premium*, by Robert Kaplan and David Norton.



Source: Palladium Management Group, Copyright © 2008

Are we are going to be the low-cost distributor, offering the lowest-cost buying experience?

That would be on price but also on reliability of delivery and no errors in products we ship and invoicing and other aspects. Generally that would mean you have a less extensive product line because the more scope you have the more expensive you are.

Or are we going to be customer-intimate, and understand our customers' needs and work with them as a partner as their total solutions provider?

That's a more expensive relationship. It means we assign account managers to the customers to understand them and work with them and then arrange our operations to meet their needs. It's very plausible and can be a very successful strategy but it's very different from being a low-cost strategy. You have to find customers that value that relationship.

Or you can say we're going to be on the upper end and tell customers they can order what they want whenever they want it. You will carry all the SKUs. That's expensive and very high-end service.

In a way those are three generic strategic choices. What you typically can't be is all three. One should be your dominant position. You can optimize your operations and people around that value proposition.

The second part of this is that within one of these strategic themes, you will have customers that deviate. They still may want special services or want to be more efficient. It goes back to having a good costing system.

Distributors operate with low margins, and so it would be easy for a customer behaving in a different way – with smaller order sizes, manual vs. electronic ordering and payment, special delivery requirements – to take a profitable relationship to unprofitable.

Ultimately you do have to measure your cost-to-serve at the individual order level and the individual customer level. Sometimes the cost system done well can mediate making a complete strategic choice and allow you to serve different classes of customers.

MDM: How do you feel about firing customers?

RK: I usually say firing customers is the last thing we do. So if you find you have unprofitable customers, first examine your own processes. The customers may be unprofitable because your internal processes are not efficient in working with them.

So the first message is heal thyself and make sure your processes in serving that customer are reasonably efficient. If you're persuaded that you are efficient, the reason the customer is unprofitable may be because of the special services the customer is asking for, which are inherently more expensive.

Then you try pricing those special services. Often the customers' behavior will change when you get the pricing correct. They'll see the benefits of ordering in larger quantities, giving more lead time, more standard ship arrangements, and more standard packaging. They have the choice now as to how much they value the special features and services vs. how much they are willing to pay for them. That usually solves the problem.

Sometimes you can say to the customer that maybe if you just increased your average order size by 15 percent it would take an unprofitable relationship and make it profitable. Or you try to get a higher share of that customer's spending.

Those are the options you have – only if these don't work do you start to think of raising the price or encouraging the customer to find another supplier that can meet their needs better. But there are a whole series of things you can do to transform unprofitable customers to profitable ones.

MDM: Today's distributor is focusing more on profitability. In doing so, many distributors are looking at improving their pricing. How can distributors be sure they are making the right changes?

RK: First, be sure you have the right data and instrumentation before you move forward on re-pricing. And the second is strategic orientation, which relates to how you think of your various customers or suppliers.

If you've thought about your strategy you probably have identified those suppliers and customers that are most important to your growth position.

With pricing you need to be cautious. If you are too aggressive you risk losing important suppliers and customers. If you've identified some suppliers and customers as non-strategic – or nice to have if you can make money with them but not central to your position – the short-term economics play a greater role in how you approach that group on pricing.

Strategic customers may not be as profitable as you like, but if you think you can build business with them because they are part of your strategy then you might want to give some time for that relationship to expand because the profitability may increase as they order more from you or order in better ways.

The data and instrumentation actually takes me back to my other interesting methodology, Activity Based Costing, which has been applied a great deal in distribution companies. As you look at major pricing initiatives you have to really make sure you understand your cost-to-serve.

Pricing should not be across the board. It has to be very rifle-like and targeted. Unless you really track the costs of working with the customers, you can end up making some big mistakes in the way you price. The same story goes for suppliers – it depends on how the suppliers work with you and your cost of maintaining relationships with them – two suppliers with the same purchase volumes could have vastly different profitability.

MDM: The last chapter of your book focuses on the creation of an Office of Strategy Management, with a small group of professionals focused solely on ensuring a company's strategy is carried out. How can a smaller company approach this idea?

RK: It's a specific set of roles and responsibilities to make sure there are resources provided for strategic initiatives and that employees' objectives and incentives have a strategic component. In the last chapter we identified all of the processes associated with strategy execution. We do believe somebody has to make sure that gets done.

In a larger company you can have a team of two or three people, but in a smaller company you have to ask someone with an existing job to find some extra time to help you do that.

Or maybe you take two people – the chief financial officer and the chief human resources officer – and they accept that as their night job to keep the organization moving forward and focused on effective strategy execution.

Robert Kaplan and David Norton's book, The Execution Premium: Linking Strategy to Operations for Competitive Advantage, *is available through Harvard Business Press at hbp.harvardbusiness.org, amazon.com and national bookstores.*

More Optimism in MDM Survey

Compared with six months ago, more readers believe economy will stabilize

The twice-yearly MDM Survey on the Economy was conducted during the last two weeks of August. A similar survey was conducted in February. Here's what MDM found overall, as well as a breakdown in distributor and manufacturer responses.

By Jenel Stelton-Holtmeier

Concern over the state of the U.S. economy has grown among MDM readers over the past six months even as more believe conditions may soon stabilize.

Concern over the current state of the economy grew most among manufacturers who responded to the survey, with 25.4 percent saying they were "very concerned" and 59.7 percent answering "concerned." In February, those numbers were 25 percent and 50 percent, respectively.

Distributors showed slightly less concern, with 24.1 percent being "very concerned" and 56.2 percent "concerned" in the August survey.

Overall, 84.1 percent of respondents answered "very concerned" or "concerned" in August's survey. At the same time, respondents showed less pessimism about the future of the economy than they did six months ago.

Readers who believe the economy will worsen dropped to 28.6 percent from 46.5 percent in February. More than 13 percent believe it will improve over the next six months, almost double from the prior survey.

Though automotive and residential construction continued to be the most cited segments where respondents are seeing slowdowns, more expressed that all sectors are being impacted, especially those tied to consumer spending.

"The closer you get to the consumer, the harder things get," wrote one industrial distributor.

An electrical manufacturer says: "While residential construction is down significantly, commercial, industrial and the electric utility markets seem strong. This will get us through to 2009-2010 when I anticipate the residential market to return."

Reality Sets In

In February, a number of respondents believed that any talk of a possible recession would be self-fulfilling.

If the responses to August's survey are any indication, that attitude has shifted.

Few respondents declared that the economic slowdown was a result of media hype, though there was little agreement on the source of concern.

Some common responses included: increased energy prices, raw material inflation, a weak dollar, the residential housing slump, and weakness in the financial sector, including banks and the stock market.

"I haven't seen business this bad since 1981," says one building materials distributor. "Nothing leads me to see a recovery in 2009."

Some respondents are seeing a silver lining in the slowdown. One manufacturer says: "Slowdowns can help companies rethink what's important and better plan for the future."

The Power to Price

Nearly half of respondents believed they would have greater power to increase prices over the next six months. In February, just 35 percent felt they could justify passing on price increases, citing customer aversion.

The difference, according to one JanSan distributor, is that times have changed: "The justification for price increases gains greater credibility and acceptance with each month that passes."

And it's not always a choice. Slim margins and increased materials costs have led to significant increases from some manufacturers.

"Distributors cannot afford to absorb the increases from manufacturers," one distributor says.

Other Results

Nearly 45 percent of respondents expect no change in the size of workforce at their companies, even though about a quarter of respondents say they are currently considering layoffs as a cost-cutting measure.

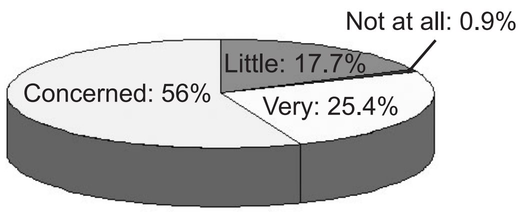
More distributors, 31 percent, expect to make an acquisition in the next six months than did in February, when just 20 percent said they had acquisition plans.

Nearly a quarter of respondents are either planning to outsource some in-house functions in the next six months or are beginning to look into the option. Information technology is the most likely candidate for outsourcing.

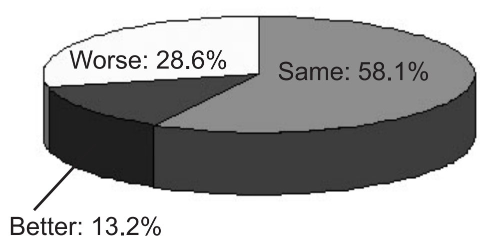
MDM Survey on the Economy

MDM Reader Survey on the Economy results were taken from 234 responses to an online survey. Nearly 61.5% of respondents were distributors, 29.6% manufacturers, and the remaining 9% split among consultant, software provider, manufacturer rep and other.

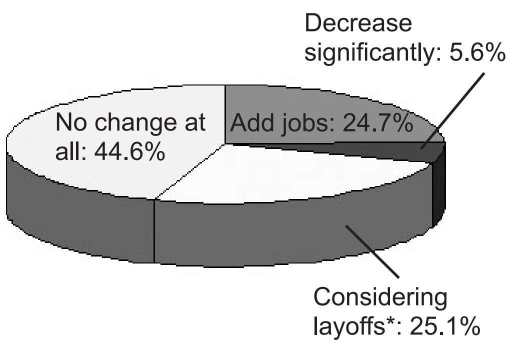
How concerned are you about the current state of the U.S. economy?



How do you expect the U.S. economy to fare over the next six months?

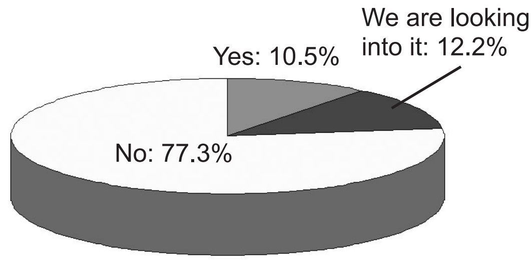


How do you expect the size of your workforce to change over the next six months?

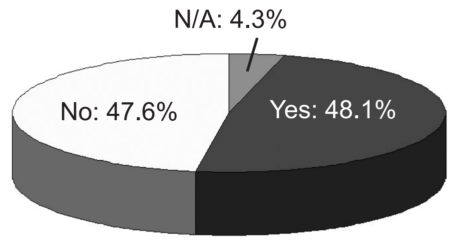


* - Considering layoffs as a cost-reduction strategy, but there are no plans for significant cuts yet.

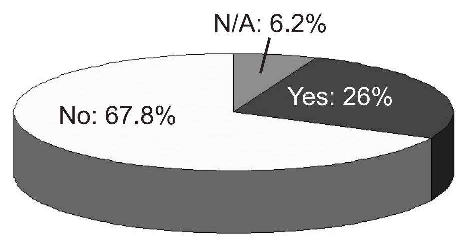
In the next six months, are you planning to outsource any functions you currently do in-house?



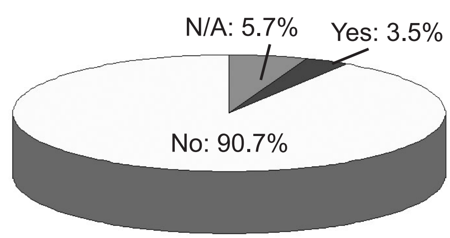
Do you expect to have more power to increase prices in the next six months than you do now?



Do you plan to make an acquisition in the next six months?



Do you plan to sell your business, part of your business or change its ownership structure in the next six months?



Labor Productivity Improves in Wholesale Sector 2006-2007

Labor productivity – defined as output per hour – increased in the wholesale sector in 2007 by 2.1 percent from 2006 to 2007, according to a new report from the Bureau of Labor Statistics. Unit labor costs increased as well.

Between 1987 and 2007, labor productivity in wholesale trade increased at a 3.3 percent average annual rate.

2006-2007

Output per hour grew in 12 of 19 detailed wholesale trade industries in 2007. (See table below.) Commercial equipment wholesalers experienced the largest productivity gain, 13.7 percent.

Sectors seeing decreases were motor vehicles and parts, lumber and construction supplies, metals and minerals, druggists' goods and miscellaneous durable and nondurable goods.

Unit labor costs fell in seven of the 19 detailed industries, but rose 1.9 percent in wholesale trade overall.

At the subsector level, productivity advanced 2.2 percent in 2007 in durable goods and 1.7 percent in nondurable goods.

Long-Term Trends

From 1987 to 2007, labor productivity rose 3.3 percent per year in wholesale trade, on average. Output increased 4.1 percent per year and hours grew 0.7 percent per year. Labor productivity rose in 17 of the 19 detailed industries.

The fastest growth in output per hour occurred in commercial equipment wholesalers and electric goods wholesalers, 15.6 percent and 8.9 percent per year, respectively.

Unit labor costs rose in all but two of the wholesale trade industries over the period, and increased 0.9 percent per year overall in the wholesale trade sector.

Percent change in output per hour, output, hours, compensation, and unit labor costs 2006-2007

	2007 Employment (thousands)	Output per Hour	Output	Hours	Labor Comp.	Unit Labor Costs
Wholesale Trade	**6227.0**	**2.1%**	**3.8%**	**1.7%**	**5.8%**	**1.9%**
Durable Goods	**3232.0**	**2.2**	**3.8**	**1.5**	**5.0**	**1.2**
Motor Vehicles & Parts	369.0	-0.5	1.1	1.7	4.2	3.0
Furniture & Furnishings	120.0	0.4	3.2	2.8	2.1	-1.1
Lumber & Construction Supplies	266.0	-8.0	-11.4	-3.7	-3.0	9.5
Commercial Equipment	674.0	13.7	13.2	-0.4	7.5	-5.1
Metals & Minerals	134.0	-5.5	-3.5	2.2	5.1	8.9
Electric Goods	364.0	5.8	9.0	3.0	6.2	-2.6
Hardware & Plumbing	265.0	0.2	-1.4	-1.6	3.8	5.2
Machinery & Supplies	709.0	0.3	4.1	3.8	4.5	0.3
Miscellaneous Durable Goods	332.0	-3.2	2.0	5.3	6.1	4.1
Nondurable Goods	**2160.0**	**1.7**	**3.6**	**1.9**	**4.6**	**1.0**
Paper & Paper Products	145.0	6.9	-1.8	-8.1	-3.1	-1.3
Druggists' Goods	224.0	-4.9	0.5	5.7	6.5	6.0
Apparel & Piece Goods	163.0	1.2	3.8	2.6	0.3	-3.4
Grocery & Related Products	760.0	5.7	6.6	0.9	5.2	-1.3
Farm Product Raw Materials	76.0	6.0	3.6	-2.3	1.9	-1.6
Chemicals	140.0	1.5	4.1	2.6	5.5	1.3
Petroleum	103.0	-0.2	5.0	5.2	7.6	2.5
Alcoholic Beverages	158.0	1.0	4.9	3.8	5.1	0.2
Miscellaneous Nondurable Goods	391.0	-3.9	-0.1	4.0	6.1	6.2

Source: Bureau of Labor Statistics

mdm.com

Industrial & Construction Markets Update

VOL. 38, NO. 17 | SEPTEMBER 10, 2008

Fastenal Agrees to Settlement of $10M in Wage-Hour Case

Industrial and construction supplies distributor Fastenal Company, Winona, MN, has agreed to settle a class action wage-hour lawsuit that claims Fastenal misclassified employees as assistant managers and as a result those employees were denied overtime as required under the Fair Labor Standards Act and several state statutes.

Two former employees originally filed the suit against Fastenal on Oct. 18, 2007. Fastenal has agreed to pay $10 million in cash to cover claims by eligible class members, plaintiff attorneys' fees and costs and payments to named plaintiffs.

The distributor denies the allegations in the lawsuit, but says it has agreed to enter the settlement to avoid significant legal fees, the uncertainty of a jury trial, distractions to operations and other expenses and management time. Lawsuits filed under the FLSA are often lengthy and costly for an employer.

The 60-year-old federal Fair Labor Standards Act is known more commonly as the wage-hour law. FLSA prescribes standards for basic minimum wage and overtime pay and affects most private and public employment. More than 130 million workers in 7 million workplaces are covered by the FLSA, or close to 90 percent.

Under the law, employers must pay employees at least the minimum wage for hours worked; must keep accurate records of daily and weekly hours worked; and must pay the 1.5 times their regular hourly rate for all time worked over 40 hours, unless they are exempt as defined by the law.

The latter is the sticking point for the former Fastenal employees who have filed suit against Fastenal. The former Fastenal employees claim that the distributor misclassified them as assistant general managers to avoid paying them overtime wages.

Motion Industries, the industrial parts group of **Genuine Parts Company**, Atlanta, GA, has acquired **Drago Supply Company**, a regional industrial supplies distributor headquartered in Port Arthur, TX. Drago Supply has eight locations in Texas, Arkansas and Louisiana.

DXP Enterprises, Inc., Houston, TX, has acquired Massachusetts-based **PFI**, LLC, for $65 million. PFI distributes fasteners, rivets and hose clamps. The company has locations in Georgia, North Carolina, Illinois, Ohio, Texas, California, Massachusetts and Florida.

Interline Brands, Inc., Jacksonville, FL, distributor and direct marketer of maintenance, repair and operations products, has acquired **Eagle Maintenance Supply**, Inc., a $17 million distributor of janitorial and sanitary supplies to the institutional marketplace.

Precision Castparts Corp., a Portland, OR-based manufacturer of metal components for aerospace, power generation, automotive and general industry, has agreed to acquire **Airdrome Holdings**, LLC, which consists of **Airdrome Precision Components** and **AF Aerospace** Ltd.

Anixter International Inc., Glenview, IL, distributor of communication products, electrical and electronic wire & cable, fasteners and other small parts, has acquired French distributor **Sofrasar** SA and partnership interests and shares in Germany-based **Camille Gergen** GmbH & Co, KG and **Camille Gergen Verwaltungs** GmbH. Anixter is paying $40 million in cash and assuming $19 million in debt.

Graybar, St. Louis, MO, distributor of electrical, telecommunications and networking products and related supply chain management and logistics services, reported a 5.5 percent increase in sales in the first half 2008 to $2.7 billion. Profit grew 19 percent to $47.4 million.

Bunzl plc reported sales for the six months ended June 30, 2008, were up 14 percent. Bunzl also recently purchased **Marca Protección Laboral** SL and **Marvel Protección Laboral** SL. Marca and Marvel supply personal protection equipment, principally workwear and clothing, to redistributors throughout Spain. The company has also acquired the business of **Higiene en Colectividades** SA, a distributor of cleaning and hygiene products.

U.S. manufacturing contracted in August, according to the latest **Manufacturing ISM Report on Business**. The PMI indicates a slight decline in manufacturing during August. This month's report shows the first signs of lower prices as the Prices Index fell significantly, though still at an inflationary level. Export orders picked up additional momentum.

New orders for manufactured durable goods in July increased $2.9 billion or 1.3 percent to $219.3 billion, the U.S. Census Bureau announced. This was the third consecutive monthly increase and followed a 1.3 percent June increase. Excluding transportation, new orders increased 0.7 percent. Excluding defense, new orders increased 2.8 percent.

continued on p.2

MDM News Digest
Continued from p. 1 of this section

The **Canadian price indexes for manufactured goods and raw materials** registered lower monthly growth in July than in the previous four months, increasing 0.4 percent and 1.4 percent respectively, primarily as a result of the slowdown in the rise of petroleum prices. The Canadian dollar rose 0.4 percent in relation to the U.S. dollar in July, after declining 1.7 percent in June.

Parker Hannifin Corp., Cleveland, OH, manufacturer of motion and control technologies, has acquired German manufacturer **Lingk & Sturzebecher** of Stuhr, Germany. L&S's composite material technology will enable Parker to develop hydraulic components with significantly reduced energy burden for the power systems of machines equipped with hydraulics.

Baldor Electric Company, Fort Smith, AR, a manufacturer of industrial electric motors, power transmission products, drives and generators, has acquired **Poulies Maska**, Inc., Ste-Claire, Quebec, a manufacturer of sheaves, bushings, couplings and related mechanical power transmission components.

3M, St. Paul, MN, has acquired **Polyfoam Products** Inc., a structural adhesives company specializing in foam adhesives for tile roofing and other adhesive products for the building industry.

Zilliant, provider of price optimization and management software, has formed a strategic alliance with **Advanous**, a provider of pricing and margin management solutions to distributors. The alliance focuses on the distribution sector of Zilliant's business and leverages distribution-focused Advanous' industry expertise.

Kennametal Inc., Latrobe, PA, has agreed to acquire **Tricon Metals & Services**, Inc. Closing is planned for October 2008. Tricon will become part of Kennametal's Advanced Materials Solutions Group (AMSG).

Canadian Building Permits Increase 1.8% in July After Falling in June

After declining 5.3 percent in June, the value of building permits increased 1.8 percent to $6.4 billion in July, mainly as a result of multi-family dwelling permits in Central Canada and industrial construction intentions in Saskatchewan.

In the residential sector, the value of building permits rose 2.7 percent to $3.7 billion, mainly as a result of an increase in the value of multi-family dwelling permits in Ontario, Quebec and Manitoba.

In the non-residential sector, the value of building permits edged up 0.6 percent to $2.7 billion. An increase in industrial construction intentions more than offset declines in both commercial and institutional permits.

Residential

After two consecutive monthly declines, municipalities issued $1.5 billion worth of permits for multi-family housing in July, up 9.6 percent from June.

At the same time, single-family permits declined 1.4 percent to $2.2 billion. Ontario accounted for more than half of the decline, while Quebec posted a second consecutive monthly increase in single-family housing.

Municipalities approved 19,518 new residential dwellings in July, up 12.0 percent. This was due to a 24.4 percent increase in multi-family units. The number of single-family units approved declined 1.4 percent to 8,257.

Non-residential

Following a volatile pattern, the value of industrial permits increased 26.3 percent to $503 million, following a 29.4 percent decline in June. The increase in July was mostly explained by the higher value of permits for mining buildings in Saskatchewan.

Construction intentions for commercial buildings declined 3.7 percent to $1.5 billion, a second consecutive decline after reaching $1.7 billion in May. The decrease was due mainly to lower construction intentions for trade and services buildings and warehouses. British Colombia and Ontario posted declines in several commercial categories.

After three consecutive monthly increases, the value of institutional permits decreased 4.0 percent to $759 million, mainly as a result of declines in permits for health buildings in Ontario, Alberta and Quebec. *Source: Statistics Canada*

MAPI Quarterly Industrial Outlook: Decline is Forecast Through End of 2008

MARKETS UPDATE SUPPLEMENT P. 3

The U.S. manufacturing recession continued its downward trend in the second quarter and medium-term prospects show only minimal improvement, according to the Manufacturers Alliance/MAPI Quarterly Industrial Outlook — Second Quarter 2008, a report that analyzes 27 major industries.

"Automakers drastically cut production in the second quarter to clear out bloated stocks, and housing-related industries continued to reel from the gloom in residential construction," said Daniel J. Meckstroth, chief economist for the Manufacturers Alliance/MAPI and author of the analysis.

"The declines in these major manufacturing industries, directly and indirectly, depress many other industries in the sector."

On an annual basis, MAPI forecasts a decline in the industrial sector this year. Manufacturing production is expected to fall 0.5 percent in 2008 before showing marginal improvement to 1.6 percent growth in 2009.

Manufacturing industrial production, measured on a quarter-to-quarter basis, declined at a 1 percent annual rate in first quarter 2008 and at a 3.9 percent annual rate in second quarter 2008.

"High tech industries such as computers, communications equipment, and semiconductors continue to post double-digit unit volume growth and thus helped cushion a more severe downturn that occurred in non-high tech manufacturing," Meckstroth said.

Non-high tech manufacturing production declined at a severe 5.2 percent annual rate in second quarter 2008 and is forecast to decline 1.8 percent overall in 2008.

There was a significant downturn in the 2008 second quarter figures for manufacturing. Eleven of the 27 industries tracked in the report had inflation-adjusted new orders or production above the level of one year ago, three less than reported in the first quarter.

Fourteen industries had production below the level of one year ago, and two remained flat.

Four industries enjoyed strong double-digit, year-over-year growth in the second quarter, led by communications equipment at 21 percent; mining and oil and gas field machinery had 15 percent growth; private non-residential construction enjoyed 13 percent growth; and aluminum and alumina improved by 11 percent.

The largest drop came in housing, with a 30 percent decline in housing starts, while motor vehicle and parts production fell by 15 percent. Industrial machinery production dropped by 12 percent.

Largest Increases, Declines

MAPI forecasts that communications equipment and mining/oil and gas machinery will see the largest increases through the end of 2008, and electric lighting equipment, appliance production and construction equipment will decline.

	Forecast
Estimated % Chg.	**2008**
Overall Manufacturing Production	-0.5
Communications Equipment	17.0
Mining and Oil and Gas Field Machinery	13.0
Electric Lighting Equipment	-10.0
Appliance Production	-10.0
Construction Machinery	-9.0

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

Meckstroth writes that one industry, alumina and aluminum, is in the accelerating growth (recovery) phase of the business cycle; 13 are in the decelerating growth (expansion) phase; seven industries appear to be in the accelerating decline (either early recession or mid-recession) phase; and six are in the decelerating decline (late recession or very mild recession) phase of the cycle.

The report also offers economic forecasts for 24 of the 27 industries for 2008 and 2009.

This year will continue to pose challenges for the manufacturing sector with MAPI forecasting only 11 of 24 industries to show gains, led by communications equipment at 17 percent growth, and mining and oil and gas field machinery improving by 13 percent.

The status quo will linger in 2009, again with only 11 of 24 industries expecting growth, five fewer than in MAPI's previous report. Aerospace products and parts is the lone industry forecast to grow by double digits, 10 percent, in 2009.

Seven industries are expected to experience negative change in both 2008 and in 2009 with electric lighting equipment, appliances, and construction machinery showing the most weakness.

Electric lighting equipment is expected to decline by 10 percent in 2008 and by 9 percent in 2009, while appliance production is anticipated to drop by 10 percent and by 8 percent, respectively.

Construction machinery is forecast to decline by 9 percent in 2008 and then by 8 percent in 2009.

MARKETS UPDATE SUPPLEMENT P. 4

Second-Quarter Machine Tool Consumption Up 15.3% Year-to-Date

June U.S. manufacturing technology consumption totaled $360.43 million, according to AMT - the Association for Manufacturing Technology and the American Machine Tool Distributors' Association.

This total, as reported by companies participating in the USMTC program, was level with May, and up 2.0 percent from the total of $353.40 million reported for June 2007. With a year-to-date total of $2,318.34 million, 2008 is up 15.3 percent compared with 2007.

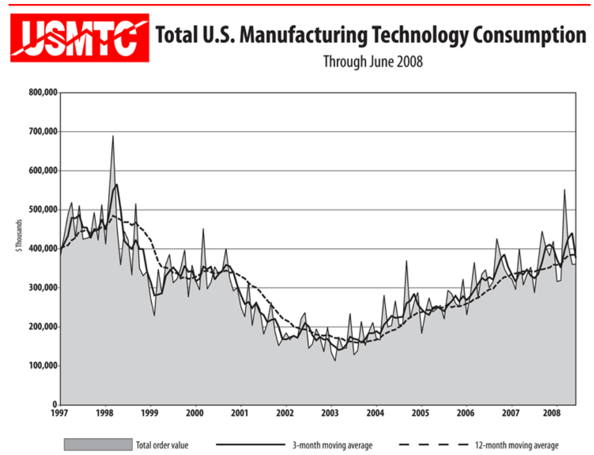
These numbers and all data in this report are based on the totals of actual data reported by companies participating in the USMTC program. "I think everyone is excited that the underpinning for productivity in our economic growth – manufacturing technology equipment – continues to grow at double digit rates through the second quarter," said John B. Byrd III, AMT president.

The report, jointly compiled by the two trade associations representing the production and distribution of manufacturing technology, provides regional and national U.S. consumption data of domestic and imported machine tools and related equipment. Analysis of manufacturing technology consumption provides a reliable leading economic indicator as manufacturing industries invest in capital metalworking equipment to increase capacity and improve productivity.

U.S. manufacturing technology consumption is also reported on a regional basis for five geographic breakdowns of the U.S.

Northeast Region

June manufacturing technology consumption in the Northeast Region totaled $53.08 million, slightly higher than May's $52.68 million, but



down 24.0 percent when compared with the total for June a year ago. The $328.34 million year-to-date total is off 3.5 percent when compared with 2007 at the same time.

Southern Region

At $61.34 million, June manufacturing technology consumption in the Southern Region was up 35.1 percent when compared with May's $45.41 million and up 23.6 percent when compared with June a year ago. With a year-to-date total of $378.30 million, 2008 is 43.6 percent ahead of the comparable figure for 2007.

Midwestern Region

June manufacturing technology consumption in the Midwestern Region stood at $121.06 million, 2.5 percent less than May's $124.17 million, but up 21.0 percent when compared with June 2007. The $787.98 million year-to-date total is 39.5 percent higher than the 2007 total at the same time.

Central Region

With a June total of $76.55 million, Central Region manufacturing technology consumption was 21.0 percent less than May's $96.89 million and off 5.5 percent from the total for last June. The $537.22 million year-to-date total is down 0.8 percent when compared with 2007 at the same time.

Western Region

Western Region manufacturing technology consumption rose to $48.39 million in June, up 17.6 percent when compared with May's $41.15 million, but off 8.6 percent from the June 2007 total. At $286.50 million, the 2008 year-to-date total is 4.7 percent less than the comparable figure for 2007.

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

Questions, comments, article proposals, address changes or subscription service to: Gale Media, Inc., 3100 Arapahoe Avenue, Ste 500A, Boulder, CO 80303. Tel: 303-443-5060. Fax: 303-443-5059. Website: http://www.mdm.com

ISSN 0544-6538

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