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Inventory Reductions On Tap

Distributors' challenge: Adapt to downturn but maintain service levels

Effective inventory management practices are gaining importance as distributors reduce inventory levels in response to demand drops and a renewed focus on cash flow. This article examines best practices for approaching the task.

By Lindsay Young

In mid-November, sales for many distributors – with few exceptions – plummeted. Distributors were caught with excess inventory in an environment of much lower demand.

Many distributors are now working down inventory to maximize cash flow. And they have returned to a focus on the basics: accurate forecasting, reliable safety stock parameters, improving communication with vendors and getting a good handle on the product that is already in their warehouses so they can avoid overstocking.

A top concern for distributors is how to adapt inventory practices to match the downturn without adversely affecting customer service.

Common Mistakes

Jon Schreibfeder of Effective Inventory Management Inc. says slashing inventory without a plan is one mistake many distributors make in times like these. "If you do this in a methodical way, with a plan, you can reduce expenditures but maintain high levels of customer service," he says.

That means buying enough to last between orders, and having accurate safety stocks and lead times. Avoid having too much safety stock, he says.

"See if you can place smaller orders more frequently. Often vendors will agree to do that rather than run the risk of you becoming a slow-paying customer," Schreibfeder says.

Another area to keep a close eye on: duplication of inventories. Some distributors are centralizing the warehousing of slow-moving products, and keeping fast-moving product in their branch locations. Slow-moving products are transferred as needed.

"In a way, you can say we're taking the fat out of the warehouses," Schreibfeder says.

F.W. Webb, a Bedford, MA-based regional distributor of plumbing, heating, cooling and piping products, is moving inventory from branches with excess to branches in need. It is also recalling excess from branch locations to its Distribution Center before purchasing more from vendors.

Charlie Slattery, senior vice president of purchasing for F.W. Webb, says multi-branch distributors may fare better in this arena.

"If you are a single-location distributor, you only have the vendor to turn to for a return goods authorization, and considering the current sales climate, they are all reluctant to take back any material which only reduces their sales further," he says.

Slattery says a good way to approach a vendor for a return authorization is to return slow-moving goods with an order of equal or greater value in fast-turning inventory that will sell in the next few months. "This way the vendor is not looking at a net reduction in their sales," Slattery says.

On the other side of the market, he says F.W. Webb sees value in helping customers.

"We will work with any good loyal customer to take back any reasonable amount of excess inventory," he says. "This goodwill gesture will pay dividends when the market changes."

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INSIDE

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Distribution Models in Flux

Arguably, there has never been so much stress put on so many wholesale distribution businesses. By necessity many distributors are revising the models that have served well as successful growth engines – for decades in many cases. Revision is an understatement for some, as they see revenues drop double digits and radical changes in customer buying behavior.

Some distributors are making changes out of necessity. Others have built a business based on long-term strategic plans, and they have the most options for coming out of this current downturn stronger. These options have the potential to yield significant market share and competitive advantage over the next 12-24 months.

We are in a major transitional period in this industry as companies adapt to these new market conditions and different customer behaviors. The winners who gain ground over competitors will be those who 1) invest in process improvement and 2) fully leverage their technology toolkits.

Many distributors are dealing with daily cash flow issues as customers shut down plants or dramatically cut back on production. Even the most strategic distributors don't have much room to position for the future when they face a 20 percent or more revenue drop month to month. Even so, it's critical to be pragmatic and think about positioning for when opportunities start coming back.

And some distributors are doing just that. They are focusing on process improvement by tapping specific IT tools – warehouse management systems, inventory management/forecasting optimization, pricing, business intelligence, routing and e-billing – in their existing ERP or through add-ons.

One way to look at this is that traditionally distributors have been masters of orchestrating product flow and the sales process. When sales are great, process weakness can be papered over with dollar bills. Not so today. The needed shift taking place is where distributors fully take advantage of their pivot point and trusted relationships in the supply chain to extract and manage information better, then translate it into real value for customers and suppliers. That's fundamentally different than driving profitability by increasing sales volume alone.

It's also why distributor-supplier relationships are under so much strain now. "Partnerships" based on volume alone don't cut it; distributors and manufacturers have a great opportunity to shuffle their decks to come up with the best hand in a very different game. ■

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Forecasting

Schreibfeder says one of the primary changes distributors should make to their current inventory management strategy is in forecasting.

"People are still using models that take into account six, seven, eight months of history," he says. Instead, include just the past three months, taking an average and considering trends.

Ken Wellington, vice president-professional service for integrated supply services company Storeroom Solutions Inc., says that few companies forecast well. His company uses actual and historical numbers to maintain appropriate inventory levels.

The company is working off the expectation that 2009 will be the "year of the total down," he says. 2010 will stabilize, and demand will strengthen in 2011.

Along with forecasting, Schreibfeder works with distributors to adapt their replenishment models. Overall, Schreibfeder advises distributors keep replenishment quantities low and turnover high.

"If we can order from the vendor every two weeks, no matter what the profitability is, we're pushing turnover," he says. "We have to be very careful to make sure we don't run out of stock. Lead times and safety stock are very important."

Instead of using the economic order quantity model, which focuses on maximizing profitability, many distributors are shifting to a replenishment model that maximizes cash flow.

Recognizing that one model does not always fit all, some distributors are focusing on cash flow for some product lines, and profitability for others.

Distributors may be enticed to take advantage of deals to buy in bulk from manufacturers who are also trying to pare inventory. Many are deciding not to buy because cash is tight.

"It's much easier to layoff inventory than it is to layoff people," Schreibfeder says. "Sometimes they take advantage (of the deals), and sometimes they don't. It depends on profitability and cash on hand."

Another way to improve cash flow and profitability is to pay close attention to commodity price indexes for the products sold. "Now is a very good time to challenge every purchase made," Wellington says.

"Everyone in the country is reducing pricing, but if you don't ask, you will not get the price reduction. You have to constantly challenge the supply base to make sure you're not getting an exorbitant mark-up."

Lead Times

Lead times from many vendors are excellent right now because they have excess capacity and inventory, but Slattery expects that to change as manufacturers slow production; also, they may not be able to gear up as quickly when the excess is gone and demand returns.

Slow-moving items have brought challenges, according to Wellington. "The supply base is reducing its inventories," he says. "Some of the parts that are slow-moving but needed are no longer there. So the lead times are going out on those. It's spotty right now, but I see it getting worse."

Schreibfeder says lead times are also dependent on the health of the vendor. "We're seeing many cases where unreliable vendors are struggling to stay in business, and lead times are getting longer," he says. Those vendors are unable to get the raw materials they need due to a credit hold, or have fewer employees, so can produce less.

In some industries, some vendors have gone under, leaving remaining vendors in a position where they have to serve the entire industry, Schreibfeder says.

"It's very important that buyers keep in contact with vendors so they know what lead times currently are," he says, "and establish relationships where they are a preferred customer."

A Different Strategy

Jack Bailey, president and CEO of IDC-USA, a cooperative of 86 member-distributors in the industrial space, says that IDC generally increases its inventory in response to a downturn. "We think that more and more members are going to be looking to us to stock products," he says. "We're carrying the inventory, so they don't have to."

What's more, many IDC members are shifting discretionary purchases to IDC to take advantage of the buying power the cooperative has. In turn, members gain wider margins.

"We have to have the inventory," Bailey says. "They are trying to manage cash flow. They will need product, and when they go online to view our inventory, I want to have that product in stock."

continued on next page

IDC is so convinced increasing its inventory is the right move it went ahead with doubling the size of its Indianapolis, IN, distribution center last summer.

IDC is also in a unique position to take inventory off of manufacturers' hands. "We usually can strike a better deal with manufacturers if we can do a block purchase," he says.

Wellington of Storeroom Solutions says his firm also sees opportunity for growth despite the downturn.

Companies are looking for ways to reduce costs and inventories. Because SSI owns the inventory, using their services eliminates concerns about inventory devaluation for the client companies.

Technology Tools

More distributors are showing interest in technology that helps them better manage their inventory.

They are either considering new packages or seeking training from current providers to fully take advantage of software they already have.

"We're extremely busy right now with our current clients helping with training and deploying new features with their software," says Jeffrey Porter, vice president for business development at inventory management software provider RockySoft Corp.

To wit, leads are up. "Inventory is under the microscope," Porter says.

"A lot of these folks are caught with more inventory than they need and they are trying to prevent this happening in the future," he says. "They're recognizing that in good times, sales growth covers up inventory management weaknesses. In downturns, bad practices and lack of good systems and processes become very visible."

Preparing for the Upswing

While it may not feel like it at times, demand will bounce back. "Historically, the more dramatic the downturn, the more dramatic the recovery," Schreibfeder says.

"Whether that will happen this time or not, who knows? But what we're banking on is that we have adequate safety stock to cover us when the economy turns around."

That means assessing the inventory situation every four weeks. "As soon as we see an increase in activity, we will have to revise our model again," he says.

The short-term forecasting model is adequate for the beginning of an upturn, Schreibfeder says. When the recovery is in full swing, distributors can revert to their pre-downturn forecasting methods.

Manufacturer lead times as demand returns should also be top of mind. Communication with vendors will remain crucial. "It will take them some time to fully recover," Schreibfeder says.

MDM Interview, Part 2

Graybar: The People Factor

CFO talks about how distributor makes retaining top talent a top priority

MDM Editor Lindsay Young sat down with Graybar Senior Vice President and CFO Beatty D'Alessandro at the January meeting of the National Association of Wholesaler-Distributors. The second part of this interview focuses on how Graybar is addressing the recruitment, retention and training of its employees. Part 1, published Feb. 25, 2009, can be found online at www.mdm.com.

MDM: What does Graybar do to encourage its employees to continue their education and training?

Beatty D'Alessandro: We offer tuition reimbursement plans for employees in undergraduate and select graduate programs. We also provide all employees with extensive training that helps them work more effectively.

Our training programs cover a wide range of topics, including products, technology, and procedures, along with job skills such as customer service, sales and management. We believe training and development are essential for every employee at every level of the company. We see it as an investment.

MDM: How did the idea come about for your training program in connection with Rutgers University?

BD: The idea initially came about when Kathy Mazzarella was running HR for the company.

(She is now a Senior VP of Sales & Marketing for the Comm/Data business.) She recognized the need to prepare our future leaders for advancement.

We, the rest of the senior executives, agreed and felt the need to give them an accelerated development program, focused on our industry and the tools we use in our business.

We also wanted it to include a rigorous academic curriculum that sharpened our employees' analytical skills and introduced them to diverse perspectives on business issues.

We looked for a program like this but it really didn't exist. When we approached Rutgers University they were very interested in our vision and agreed to help us build a program.

The program is about a year long, is taught with inside and outside resources, and is case study driven. It covers the entire range of business topics, with a strong emphasis on finance and management. During the program, participants also work on internal consulting projects, which they present to the company's senior management.

As officers, we get the opportunity to see managers who generally are mid-career, ready to make the move into high-visibility, high-responsibility roles.

We even serve as advisors to the teams throughout the program. It gives us an opportunity to get to know them individually, see them in action and understand their strengths. As a result, when positions open up, it is easier for us to sponsor or support their advancement.

MDM: How many participate?

BD: On the average we've had 20 employees in each class (called "cohorts"). We've completed three cohorts so far. I believe it has added a lot of value to the company and to the employees.

We continue to refine the program with each group, taking what we've learned along the way and making the program even better for the next group.

MDM: Every distributor faces some challenges in the retention of talent. How does Graybar view this issue?

BD: All aspects of our relationship with our employees are a top priority.

As an employee-owned company, we have a long tradition of promotion from within. So the person who today is a branch manager, 20 years from now could literally be the president of the company.

Finding the right people with the right values, making sure they have the right opportunities and providing them with the right training is something that we take very seriously.

Our focus on employees and on making sure the value that's created inside of the company finds its way to the employees is not a secondary consideration, it is a key focus. The hard work of our employees and employee-owners creates value for the company.

We transfer that wealth to our employee-owners through cash dividends, stock dividends, profit sharing, and our defined benefit pension plan.

These are all long-term benefits that typically increase in value the longer an employee stays with the company. We've been able to move many millions of dollars into our loyal and long-term employees' hands this way.

The model is built around people who are going to come and stay versus people who job-hop around the industry.

If you stay with us for 10 years, you'll likely stay for your whole career because you can see the long-term commitment of the company to our employees.

MDM: Demographically the younger employee may not be as inclined to stay longer term.

BD: True; however, we're finding that the younger employees that choose to stay are the ones that have a long-term perspective.

Most employees don't walk through the door, instantly know this is a special place, and say, "I'm never going to change jobs again."

But once they get started, they find out that it's a really very ethical good company with many good opportunities and a real concern for our employees. And before they know it, they are hooked.

Employees that have a long-term view are a great fit for our company.

Wolseley to Exit Stock Building Supply

Distributor prefers joint venture, but will close U.S. unit if necessary

Wolseley examines options for its beleaguered U.S. building materials business unit, which despite dramatic cost reductions continues to be a significant drag on the group's overall performance.

By Jenel Stelton-Holtmeier

UK-based distributor Wolseley plc is once again looking to exit its U.S.-based Stock Building Supply operations, this time by Aug. 1, 2009. Even after extensive cost-cutting measures last fall that included reducing headcount by an additional 3,000 and closing 86 branches, the business lost $246 million last year.

Stock Building Supply is heavily reliant on housing starts in the U.S., which declined from around 750,000 in Oct. 2008 to about 460,000 in January.

"Enough is enough," John Whybrow, chairman of the board, says in a Webcast on the Wolseley site. "We cannot go on with markets deteriorating like that."

Wolseley said it prefers a joint venture partner for the business, though closing Stock – the worst-case scenario for Wolseley – remains an option. "We are determined to exit the business," CEO Chip Hornsby says.

Stock's reliance on a single commodity – 40 percent of revenues are from lumber sales – and a single sector – 70 percent of business is from new residential construction – are unattractive to the group.

Housing starts are not expected to return to 1 million for another three years; three years ago, starts were above 2 million, according to the company.

Wolseley's Central and Eastern Europe business is also under strategic review. Though many sites are successful in Central and Eastern Europe, particularly Switzerland, the size of operations may not justify continuing there, Hornsby says.

That does not mean any operations are slated for closure or sale, with the exception of operations in Hungary, which were sold in February.

Wolseley said it wants to focus on its North America Plumbing and Heating unit, as well as UK, Ireland, Nordic and French operations. Although it did say it would not allocate "further expansionary capital" to France until financial performance improves.

The North America Plumbing and Heating unit – made up of Ferguson and Wolseley Canada – and Nordic operations under the DT Group remain healthy despite the economic downturn. Focus in these areas will be on maintaining that health and in expanding market share in the severely fragmented markets. Ferguson and DT each hold about a 10 percent market share in their respective regions.

In the UK/Ireland and France, the company will focus on repositioning itself within the existing markets to strengthen market share and growth opportunities.

"We plan to gain share from our weaker competitors as they suffer through the same consequences we face," Hornsby says.

Wolseley also provided a financial restructuring update, saying it will initiate a share sale to raise £1 billion (US$1.4 billion) to reduce debt. Wolseley will also secure €1 billion, two-year debt facility starting in August 2011 if the company is successful in raising the funds.

The moves are another step in response to a rough couple of years for the distributor. Since Aug. 1, 2007, the company has reduced headcount by 17,000, and closed 713 branches.

Sales for the first six months ended Jan. 31, 2009, were up 3.2 percent to £8.28 billion (US$11.4 billion). Wolseley recorded a loss of £777 million for the term, as compared to a profit of £79 million the prior year period.

Sales improved in all sectors except for the UK and Ireland, which fell 12.5 percent, and U.S. building materials (Stock), which fell 7.1 percent.

In response to continued slowdowns in the North American markets, Ferguson has reduced headcount by 2,067, or about 10 percent, and closed 44 locations since July 31, 2008. Wolseley Canada closed six branches. North American divisions account for 51 percent of Wolseley revenue.

In Europe, cost-cutting measures have resulted in headcount reductions of 3,785 and the closures of 260 branches in the first six months.

Wolseley said that it believes the downturn in the UK, Irish and Nordic economies is likely to be more severe than experienced in the rest of Continental Europe.

If market deterioration continues, further measures will be undertaken to offset losses, including the possibility of selected disposals of underperforming properties.

Steep Decline in Canada Employment

New report shows that 322,000 manufacturing jobs were lost from 2004-2008

Canada lost nearly 322,000 manufacturing jobs from 2004 to 2008, with more than one in seven manufacturing jobs disappearing over the period. More than 1.5 million jobs were created in the rest of the economy during this period, according to a recent report from Statistics Canada.

The losses resulted in the erosion of the share of manufacturing jobs in the economy. In 2004, manufacturing represented 14.4 percent of total employment; in 2008, the proportion was 11.5 percent.

Almost all manufacturing industries have seen a sharp decline since 2004. Of the 23 studied, only six showed job growth from 2004 to 2008, including transportation equipment – excluding automobiles and automobile parts (9.2 percent), oil and coal products (8.5 percent), and computer and electronic products (7.4 percent).

Conversely, 17 industries had job losses, often in high proportions. Textiles and clothing, which has long been one of the largest manufacturing employers in the country, was the hardest hit among the manufacturing industries. From 2004 to 2008, clothing manufacturers and textile and textile product mills saw almost half of their jobs disappear.

The Canadian automotive industry was also hard hit. Automotive parts manufacturing lost more than one-quarter of its employees from 2004 to 2008, while motor vehicle manufacturing lost one-fifth.

Parts manufacturers saw their jobs go from 139,300 to 98,700, countering the strong growth from 1998 to 2004. Motor vehicle manufacturers lost 15,900 jobs between 2004 and 2008, following a rather modest job growth of 5.0 percent from 1998 to 2004.

All industries related to wood and paper are suffering. Wood product manufacturers lost 57,300 jobs from 2004 to 2008, which more than negated all of the growth experienced from 1998 to 2004 (37,900 jobs).

The entire lumber industry has experienced major challenges in these past few years, including the imposition of antidumping and countervailing duties by the U.S. from 2002 to 2006, the increase in energy and raw materials prices, the decrease in the demand for and price of lumber and the increase in the exchange rate of the Canadian dollar.

The paper manufacturing industry has been in a downturn for 10 years, employment having declined successively by 14.7 percent from 1998 to 2004 and by 12.7 percent from 2004 to 2008. Mirroring the slump in the paper industry, the printing industry lost 10.5 percent of its jobs from 2004 to 2008.

In six provinces, at least one in ten manufacturing jobs were lost from 2004 to 2008. The largest drop was in Ontario, where 198,600 jobs, almost one in five (18.1 percent), disappeared in only four years. Significant drops were seen in Newfoundland and Labrador, New Brunswick, Quebec, British Columbia and Nova Scotia.

Small towns and rural areas were as likely as very large cities to replace lost manufacturing jobs with jobs in other industries, for example, in the service sector or in construction. However, in small towns and rural areas, such jobs are often much lower paying than manufacturing jobs.

These trends are not unique to Canada — manufacturing has been declining in many countries. The situation in Canada was noticeable for being somewhat delayed, with manufacturing jobs beginning to decline only in 2004, while other countries had already registered significant job losses for several years.

The U.S., which continues to be Canada's largest trading partner, lost close to one-quarter (4.1 million) of its manufacturing jobs between 1998 and 2008.

Examining industrial production, measured by gross domestic product (GDP), provides a different perspective than employment data. Industrial production was in a slump from 2004 to 2007, and dropped 3.7 percent in the first two quarters of 2008.

Each year, industrial production increased less than the total overall production. However, production generally decreased less than employment, meaning that some of the job losses can be attributed to increased productivity in manufacturing industries. In 3 out of 4 years from 2004 to 2007, and 7 out of 10 years from 1998 to 2007, labor productivity increased more quickly for manufacturing industries than for the economy as a whole.

While production was decreasing, businesses were becoming more efficient and could produce more with the same workforce.

The full report is available from Statistics Canada at www.statcan.gc.ca. (Find the full link at this article online at www.mdm.com.) Source: Statistics Canada

Industrial Outlook: 2010 Recovery

MAPI/Manufacturers Alliance: Just 1 of 24 industries will grow in 2009

While the U.S. recession has intensified in the past three months, and as financial contagion spreads to other regions of the world, a harsh 2009 may give way to a moderate rebound in 2010, according to the Manufacturers Alliance/MAPI U.S. Industrial Outlook: Accelerating Decline, a quarterly report that analyzes 27 major industries.

"It is clear that a global recession is in progress," said Daniel J. Meckstroth, Ph.D., MAPI Chief Economist and author of the analysis. "A severe recession among our global partners has caused exports to decline, thereby removing a previously positive support to the economy, particularly to the manufacturing sector.

"Fortunately, we see an eventual end to the current recession, perhaps by late 2009," he added.

"A second round of federal fiscal stimulus, this time of major proportions; growing pent-up demand as spending is postponed; lower commodity prices, particularly oil; lower mortgage and borrowing rates resulting from Federal Reserve monetary stimulus; and declining imports will all contribute to a rebound in industrial production activity in late 2009."

On an annual basis, MAPI forecasts manufacturing production to fall 9 percent in 2009 and grow 3 percent in 2010.

Manufacturing industrial production, measured on a quarter-to-quarter basis, declined at a 16 percent annual rate in fourth quarter 2008 after falling at a 9 percent annual rate in the third quarter.

Non-high-tech manufacturing production declined at a steep 15 percent annual rate in the fourth quarter of 2008. Non-high-tech manufacturing production is expected to decline 8 percent this year and rebound a modest 2 percent in 2010.

High-tech industrial production fell at a 29 percent annual rate in the fourth quarter of 2008. MAPI predicts it will decline 10 percent in 2009 and post 6 percent growth in 2010.

There was a significant downturn in the 2008 fourth quarter figures for manufacturing. Seven of the 27 industries tracked in the report had inflation-adjusted new orders or production above the level of one year ago, two fewer than reported in the third quarter, while 20 industries had production below the level of one year ago.

The largest drop came in housing starts which fell by 43 percent.

Steel production declined 41 percent, material handling equipment dropped by 25 percent, and industrial machinery and domestic electronic computer equipment production each decreased by 23 percent.

Meckstroth finds that no industries are in the accelerating growth (recovery) phase of the business cycle; seven are in the decelerating growth (expansion) phase; 17 industries appear to be in the accelerating decline (either early recession or mid-recession) phase; and three 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 2009 and 2010. The recession in the manufacturing sector is expected to last throughout this year, with MAPI forecasting only one of 24 industries to show gains—aerospace products and parts is predicted to grow by 7 percent in 2009.

A turnaround is anticipated to begin in 2010, with 19 of 24 industries expected to expand, led by housing starts at a healthy 84 percent increase.

While no other industry is forecast to grow by double digits in 2010, 14 are expected to increase between 4 percent and 6 percent.

Four industries are expected to experience negative change in both 2009 and in 2010, with mining and oil and gas field machinery showing the most weakness.

The industry is expected to decline by 13 percent in 2009 and by 24 percent in 2010. The others are domestic electronic computer equipment (16 percent decline in 2009, 13 percent in 2010), private, non-residential construction (12 percent and 17 percent, respectively), and electrical equipment (10 percent and 1 percent, respectively).

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Canadian Manufacturing Sales Decline in 2008

Canadian manufacturing sales posted a 0.5 percent decline in current dollar sales to $604.5 billion in 2008, the lowest level since 2005.

Through the first half of 2008, high industrial prices lifted manufacturing sales. In constant dollars, the volume of goods manufactured fell a steep 6.6 percent to $547.2 billion, the third successive annual decline and the lowest level since 2001.

A slight majority of goods-producing industries (12 of 21) reported lower sales (in current dollars). A sharp pullback in demand for new automobiles and housing contributed to substantial declines in the motor vehicle (-22.0 percent), motor vehicle parts (-20.8 percent), and wood products (-13.1 percent) industries.

Overall, sales of durable goods fell 5.6 percent in 2008.

These declines were partly offset by higher sales in the non-durable goods sector (+5.6 percent), which were led by petroleum and coal products (+22.2 percent) and food (+5.2 percent).

Soaring commodity prices during the first half of 2008 contributed to increased sales. Both prices and sales dropped off significantly in the final two quarters of 2008 as the global economy slowed.

December Sales

Canadian sales declined 8 percent to $44.2 billion in December, reflecting almost equal decreases in both volume and price, according to Statistics Canada. This was the largest monthly percentage decline since the start of the current series in January 1992.

Constant dollar manufacturing sales, measured in 2002 prices, decreased by 4.4 percent in December.

Declines were widespread in December, as sales fell in 20 of 21 manu-

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Industrial distributor **Lewis-Goetz and Company**, Inc., Pittsburgh, PA, has acquired **Transport Parts Inc.**, a Minneapolis-based distributor of industrial hose and accessories serving the transportation and industrial markets of Minnesota. The acquisition extends Lewis-Goetz's footprint into the northern Midwest.

Huttig Building Products, Inc., reported sales of $671 million for 2008, down 23.3 percent from 2007. The distributor of building materials recorded a year-end loss of $35.4 million, compared to a loss in 2007 of $8.2 million. For the fourth quarter 2008, sales were $126 million, down 30 percent from fourth quarter 2007. A loss of $15.4 million was recorded for the quarter, compared to a loss of $5.8 million for the same period a year ago. In March, Huttig announced the closures of its facilities in Atlanta, GA, and Indianapolis, IN.

Construction spending during January 2009 was estimated at a seasonally adjusted annual rate of $986.2 billion, 3.3 percent below December. The January figure is 9.1 percent below January 2008. Spending on private construction was at a seasonally adjusted annual rate of $682.6 billion, 3.7 percent below the revised December estimate of $709 billion. Estimated seasonally adjusted annual rate of public construction spending was $303.7 billion, 2.3 percent below revised December estimate of $311 billion.

The Conference Board **Employment Trends Index** fell sharply in February. The index now stands at 91.0, decreasing 3.2 percent from the January revised figure of 94.0, and down 21.7 percent from a year ago. The 19-month-long decline in the Employment Trends Index is seen in all eight of its components, most notably over the past six months in temporary-help hires and part-time workers for economic reasons.

The **manufacturing sector** contracted again in February, according to the latest Manufacturing ISM Report on Business from the Institute for Supply Management. ISM reported: "While production has slowed its rate of decline, employment continues to fall precipitously. Prices continue to decline, but price advantages are not sufficient to overcome manufacturers' apparent loss of demand. Survey respondents appear generally pessimistic about recovery in 2009. Some express hope that the stimulus package will help their industry." None of the 18 manufacturing industries in the survey reported growth.

Real gross domestic product decreased at an annual rate of 6.2 percent in the fourth quarter of 2008, (from the third quarter to the fourth quarter), according to preliminary estimates released by the Bureau of Economic Analysis. The decrease primarily reflected negative contributions from exports, personal consumption expenditures, equipment and software, and residential fixed investment.

The **Timken Company**, Canton, OH, is realigning its organization to improve efficiency and reduce costs. As the company streamlines its operating structure, it expects to cut its salaried workforce by up to 400 positions in 2009. Over the past 15 months, the company has lowered production

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MDM News Digest
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and cut its manufacturing workforce by approximately 2,500 positions. **M&A deal activity** fell by 38.7 percent globally in January, according to the latest Robert W. Baird & Co. monthly M&A market analysis. It's the largest monthly decline since Sept. 2001, the firm says. Dollar volume for January was up 14.6 percent, but excluding the Pfizer-Wyeth deal, global M&A volume was down 40 percent.

January **U.S**. **manufacturing technology consumption** totaled $94.95 million, according to the American Machine Tool Distributors' Association and the Association for Manufacturing Technology. This total was down 59.2 percent from December and down 71.9 percent from January 2008.

Flowserve Corp., Dallas, TX, reported sales for the fourth quarter ended Dec. 31, 2008, were $1.17 billion, up 5.4 percent over further quarter 2007. Profit improved 19.3 percent to $114.4 million. For the full year 2008, sales were $4.47 billion, an increase of 18.9 percent from the prior year. Profit was up 73 percent to $442 million.

Kaman Corp., Bloomfield, CT, reported fourth quarter sales of $316.4 million, an increase of 16.2 percent over fourth quarter 2007. Profit declined 71.8 percent to $6.8 million. For the full year 2008, Kaman reported sales of $1.25 billion, an increase of 15.4 percent over 2007 sales. Profit declined 36.3 percent to $35.6 million. The increase in sales was comprised of organic growth of 8.4 percent and growth from acquisitions of 7.0 percent.

Gibraltar Industries, Inc., Buffalo, NY, reported sales of $249.4 million for the fourth quarter ended Dec. 31, 2008, a drop of 10.9 percent from the prior-year period. For the 12 months ended Dec. 31, 2008, sales were $1.23 billion, up 3 percent from 2007. The increase in sales was driven primarily by acquisitions completed in 2007.

Dutch holding company the **ERIKS group** reported sales for 2008 were €1.13 billion (US$1.44 billion), up 19.2 percent over 2007. Profit improved 20.1 percent to €52.5 million (US$67.1 million). Organic growth accounted for 4.7 percent of growth.

United Rentals, Inc., Greenwich, CT, reported fourth quarter sales of $791 million, a decline of 14.5 percent from fourth quarter 2007. The company recorded a loss of $853 million for the quarter, as compared to profit of $153 million a year ago. For the full year, sales were $3.3 billion, down 10.8 percent from the prior year. The full year loss was $704 million.

Calculation of MDM Inflation Index for January 2009

		BLS Price Indices Jan. '09	BLS Price Indices Dec. '08	BLS Price Indices Jan. '08	% Sales Weight	Weighted Indices Jan. '09 (1)X(4)	% Change Jan. '09 Dec. '08	% Change Jan. '09 Jan. '08
1136	Abr. Prod.	514.2	512.1	479.1	19.1	98.20	0.41	7.31
1135	Cutting Tools	452.0	450.6	438.7	18.9	85.43	0.30	3.03
1145	Power Trans.	725.4	724.2	654.2	15.4	111.71	0.17	10.89
1081	Fasteners	491.5	492.9	467.7	9.0	44.24	-0.27	5.08
1149.01	Valves, etc.	856.1	854.4	792.4	7.6	65.07	0.21	8.04
1132	Power Tools	338.5	344.7	328.6	6.5	22.00	-1.80	3.03
1144	Mat. Handling	522.4	524.7	473.9	6.2	32.39	-0.44	10.22
0713.03	Belting	608.4	607.4	548.5	6.1	37.11	0.16	10.92
1042	Hand Tools	741.0	734.5	687.2	8.1	60.02	0.88	7.83
108	Misc. Metal	455.7	457.7	425.8	3.1	14.13	-0.43	7.03
"New" January Index		298.0	January Inflation Index			570.30	0.15	7.49
"New" December Index		297.5	December Inflation Index			569.46		
			January 2008 Inflation Index			530.55		

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

Manufacturing, Construction Employment Continues to Fall in February

Widespread job losses continued in the manufacturing sector in February, with a decline of 168,000 jobs, according to the Bureau of Labor Statistics.

Much of that decline was in durable goods, which was down 132,000. Specifically, fabricated metal products had a 28,000 decrease, and machinery fell by 25,000.

Employment in nondurable goods manufacturing fell by 36,000 in the month.

Construction lost 104,000 jobs in February; employment in that industry has fallen by 1.1 million since peaking in January 2007.

Two-fifths of that decline occurred in the past four months. Employment fell in both the residential and nonresidential sectors in February.

Employment declined in most major industry sectors in February, with the largest losses in professional and business services, manufacturing and construction. Health care continued to add jobs over the month.

The number of unemployed persons increased by 851,000 to 12.5 million in

February, and the unemployment rate rose to 8.1 percent.

Canadian Wholesale Revenues Decrease 3.4% in December

Canadian wholesale sales declined 3.4 percent to $42.8 billion in December, the largest month-over-month decrease since August 2003, according to Statistics Canada. In terms of the volume of sales, wholesale sales fell 3.6 percent.

The decline in sales reflected both lower export demand for Canadian goods, a significant part of which flows through wholesale markets, and weaker sales in Canada.

In December, five out of seven sectors, which account for about two-thirds of wholesale sales, reported declines. The machinery and electronic equipment sector declined 4.5 percent in December. The automotive products sector declined 3.4 percent to $6.5 billion.

Wholesalers in the building materials sector reported a 4.8 percent decrease, reflecting declines in the three trade groups: building supplies, metal products and lumber and millwork. Only two sectors posted an increase in sales in December: the food, beverages and tobacco sector) and the personal and household goods sector.

The largest decline in December occurred in the "other products" sector, which includes such categories as recycled product, office supplies, ag products, and chemicals.

Sales in this broad sector, which accounted for almost 40 percent of the decline in total wholesale sales, fell 10.4 percent.

The main contributors were declines in agricultural chemical and other farm supplies, non-agricultural chemicals, and recyclable metals. Since August 2008, when this sector reached a high of $6.7 billion, sales have fallen 23.1 percent.

By Province

Wholesale sales were down in all 10 provinces. In Ontario, they fell 1.3 percent and in Quebec, they dropped 3.6 percent.

In December, lower sales of motor vehicles and declines in the "other products" sector were the major contributors to the decreases in Ontario. In Quebec, the decline reflected weakness in a number of sectors led by "other products" and building materials.

In the West, the largest decline occurred in Saskatchewan, where sales have lost a quarter of their value since August 2008.

In Alberta, sales fell 6 percent, while British Columbia posted a 6.1 percent decline. Sales in both provinces reflected weakness in the "other products," machinery and electronic equipment and building materials sectors.

Declines in the Atlantic provinces ranged from 2.1 percent in Nova Scotia to 6.4 percent in Prince Edward Island.

Inventories

Inventories edged up 0.1 percent in December. Of the 15 wholesale trade groups, nine reported higher inventory levels, including apparel, pharmaceuticals, building supplies and motor vehicle parts and accessories.

These increases were partially offset by declines in computer and other electronic equipment and lumber and millwork inventories.

The slowdown in sales and rise in inventories led to an increase in the inventory-to-sales ratio from 1.32 in November to 1.37 in December.

Source: Statistics Canada

MARKETS UPDATE SUPPLEMENT P. 4

Canada Manufacturing Sales: 2008
Continued from p. 1 of this section

facturing industries. The printing and related support activities industry recorded the only increase (+0.1 percent).

Manufacturing sales in the petroleum and coal products industry fell 18.4 percent to $4.4 billion.

Sales have decreased by almost $3.8 billion from the peak of $8.2 billion reached in June 2008. Falling prices largely explain the lower value of sales.

In the motor vehicle industry, sales declined 14.2 percent to $3.2 billion. Motor vehicle parts manufacturing fell 17.6 percent, as parts' manufacturers struggled with a sharply reduced demand from the auto assembly plants.

Primary metal manufacturers also reported substantially lower sales, down 14.4 percent to $3.5 billion. Both falling prices and deteriorating global demand depressed the value of sales.

By Province

All provinces, with the exception of Prince Edward Island, posted lower manufacturing sales in December, ranging from a drop of 14.2 percent in both Nova Scotia and Saskatchewan to a 2.4 percent decrease in Manitoba.

Ontario's manufacturing sales declined 9.2 percent to $20.3 billion. Decreases in transportation equipment, petroleum and coal products and primary metals accounted for nearly three-quarters of the overall provincial decline.

Sales in British Columbia decreased 8.7 percent. The drop in sales reflected declines in the wood products, primary metals and non-metallic mineral products industries.

Alberta's manufacturing sales fell 8.5 percent in December, on the heels of a 5.7 percent drop in November. Key industries which were down over the month included petroleum products, chemical products and fabricated metal products.

Manufacturing sales in Quebec dropped by 5.3 percent, which was attributable to the petroleum and coal products industry and the primary metals industry.

In the Atlantic provinces as a whole, manufacturing sales were down 8.7 percent, again reflecting the sizeable drop in petroleum product prices.

Inventory-to-Sales

Following a 0.8 percent decrease in November, inventory levels dropped another 1.9 percent to $66.4 billion in December.

Petroleum and coal products (-12.5 percent), motor vehicles (-11.4 percent) and motor vehicle parts (-8.4 percent) manufacturers were among the major contributors to the inventory decline. Specifically, price decreases contributed to the lower value of inventory in the petroleum and coal products industry.

The inventory-to-sales ratio increased to 1.50 in December, a level not seen since October 2001. This nine-point jump was the largest month-to-month change since the start of the current series in 1992, moving the ratio well above its three-year average of 1.31.

The inventory-to-sales ratio is a measure of the time, in months, that would be required to exhaust inventories if sales were to remain at their current level.

Unfilled Orders

Unfilled orders declined 2.8 percent to $68.7 billion in December. Aerospace products and parts orders decreased 3.5 percent to $37.4 billion, while computer and electronic products were down 3.3 percent to $4.1 billion. Unfilled orders for railroad rolling stock also declined 3.2 percent to $2.0 billion.

Excluding the aerospace industry, which comprised approximately half of the total backlog, unfilled orders decreased 1.9 percent in December. New orders dropped 12.9 percent to $42.2 billion in December.

New orders in the transportation equipment industry fell by $3.2 billion, representing approximately half the overall decrease.

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