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The Challenges in Downsizing

Distribution executives face tough decisions on present, future needs

Distributors across many sectors face a decision many never faced before: whether to implement layoffs. This article offers insight from two distributors on deciding who, when and how, as well as expert opinion on best practices in this difficult time.

By Lindsay Young

Business is off about 40 percent from a year ago for one industrial distributor in the Midwest. As a result, for the first time in 22 years, the owner has had to lay off roughly a fifth of his small staff.

"It was one of the worst days of my life," he says.

The fear in employees' eyes as they walked to the conference room the day the layoffs were announced was palpable, he says. The process has taken an emotional toll on him and the remaining workers.

For many distributors, a dramatic drop in demand in the past four months has forced them to make the difficult decision to lay-off employees who, in distributorships, are like family. For many companies, it is the first time they've had to take such a step. "It's a painful experience for management," says Nancye Combs, a human resources consultant to the industry.

Distributors of course aren't alone. Since December 2007, the U.S. has lost 5.1 million jobs, with two-thirds of that in the past five months. Wholesale trade saw a decline of 31,000 in March, with nearly all the decline in durable goods. The unemployment rate is at 8.5 percent.

The list of announced work force reductions seems to be unending recently. Some sectors have been harder hit than others – building materials distributors have announced thousands of layoffs in the past two years. Builders FirstSource for example cut headcount by 39.3 percent in 2008. Huttig Building Products reduced its work force 45.5 percent from the second quarter 2006 to the end of 2008.

Manufacturers also continue to face a crunch. Just this month 3M announced it was offering buyouts to 11 percent of its U.S. work force, or 3,600 employees.

A broad-based and unexpected drop in sales in November for many has meant compensating for the drop by doing an in-depth analysis of the business – finding ways to save money but also positioning for when business turns around.

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Top Concern Among Distributors: Maintaining 'Survivor' Morale

The owner of the industrial distribution company says he survived three layoffs at a manufacturing firm in the 1980s. The work "didn't disappear," so he worked harder for less money and lived in fear of being in the next group of employees asked to leave.

"People need to come to work happy and motivated," he says.

How layoffs are handled makes a huge difference in the productivity and morale of remaining staff. These days, layoffs are not unusual, which means that although they might not surprise those who are laid off, the fear of being laid off is always present. In a recent survey, 60 percent of respondents said they were afraid of losing their jobs.

Some companies have the attitude that those remaining "ought to be happy to have a job."

"I think that's a simplistic short-term mentality," says John Salveson of Salveson Stetson Group. He says that many

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INSIDE

PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Be the Right Answer for Your Customers

There's an old joke about a headache going away because you stopped hitting your head with a hammer. That's one way to view the few pieces of good economic news trickling out over the past four weeks. Most analysts are getting excited because certain economic indicators are not falling as fast as they were.

Whether we have hit bottom is still wild speculation. The important thing is that these signs of hope are necessary precursors to a recovery. We have to wait to see if they are real. It's encouraging that the first wave of good and less-bad news at the end of March has been more or less sustained into mid-April.

Even the steel industry and the deep pit it has been in has started to look better. And this week's market and positive earnings reports from banks, of all places, continue to at least offer a glimpse of a rebound. That's how recoveries are born.

One economist sound bite has resonated for me in particular: "If you think you know this economy, then you don't know this economy." It is refreshing to hear an economist admit defeat. But it is also another way of saying what is on all our minds – the current conditions are unprecedented, and let's hope the "new economy" has the same capacity to rebound as quickly as it tanked. This leads to a much more practical exercise, one you have some control over. Now is the time to figure out how to make all this instability work in your favor.

From our conversations, distributors are experiencing an unprecedented level of uncertainty from one month to the next. Historic sales patterns aren't reliable; sales performance is all over the map. Long-held customer accounts are revisiting supply relationships (not good for incumbent), but new opportunities are emerging for the same reason (good for the outsider).

This round of vendor musical chairs - when customers are open to new sourcing options – is part of the cycle. How (and if) you are adequately prepared to react is a topic for sales planning and customer retention strategy. It means that customers are through panic mode and into finding answers – innovative or not – on how to cut more cost or be more productive and efficient. If you aren't helping to frame what that looks like, your competitors are. Now is the time to be proactive in preserving your best customer relationships, and aggressively pursuing new and old opportunities.

Many companies don't go knocking on the doors that haven't been open in a while. Review the "inactive" customer file, prioritize it, and find the best way to get inside again, whether by personal contact or otherwise. ■

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Downsizing

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The Decision

In a way, many companies are benefiting from the current state of the economy. "The employees are not surprised," says John Salveson of Salveson Stetson Group, an executive search firm. Salveson has consulted with companies on downsizing issues. "I think there is a strong case already made (for downsizing)." Employees know the amount of product going out the door has fallen substantially.

Of course, that doesn't make the decision to downsize an easy one. Most distributors have implemented salary cuts and other cost reductions, as well as considered shortened workweeks or other measures in hopes they could avoid what turned out to be unavoidable.

After deciding to move forward on downsizing, distributors approach perhaps the most difficult part: determining who will go.

The industrial distributor made the decision on whom to lay-off based on performance; the company had always kept accurate employee files with regular performance reviews.

Another distributor, based in the South, says he looked at the cost of individual employees versus the return they provided the company. In many cases, if an employee was not versatile – a valuable trait in a small company – the distributor had to put them on the short list. The distributor, whose business is closely tied to new-home sales, had to let four employees of his 21 go.

Maintaining Service Levels

The first round of layoffs for the industrial distributor was based on performance reviews, but if the owner faces another round, he says he will conduct a deeper analysis of work flow and the impact layoffs would have on customer-facing employee groups.

He says he wants to avoid slashing the same percentage from each department, because there may well be a negative effect on customer service levels: "You don't want to shoot yourself in the foot."

Salveson says if distributors have a choice of taking expense out of back-office functions versus the parts department where the employees spend their days talking with customers, they should lean toward the former.

"Most companies are saying we just want to be around when the recovery begins," Salveson says. To that end, it's important to cater to existing customers by keeping it easy to do business with you.

"Know what your customer considers important about the service you give them, and what they don't consider important. You need to know why people choose you over someone else."

Getting Strategic

Traditionally many distributors have chosen to lay-off based on seniority. Workload is also considered. Which areas of the business are less busy, and so need fewer workers? Performance is another key indicator used.

Salveson says that this works when a company has a robust performance management system.

"If you don't, there is no way to determine who your underperforming people are," he says. "There are opinions on who they are, but that doesn't make them the underperforming people.

"You want to keep the highest performers that you can." He quoted Warren Buffet: When the tide goes out, you find out who has been swimming naked. "That's especially true with talent," Salveson says.

A strategic approach to the process is to look at where the business is going. This may take a deep review of the business and the creation or revision of a strategic plan. "You've got to match up where the business is going with the people who have the right skills sets going forward," Salveson says.

In other words, get the right people on the bus, as "Good to Great" author Jim Collins would say.

The distributor in the South took a hard look at his work force when he made the decision where to make cuts. He is also re-evaluating the company's strategic plan. As a result, he has a much better handle on where to devote resources when the upswing begins.

Implementation

It's key to have a plan and, as much as possible, to stick to it, Salveson says. "Don't cut 20 people in March, then six people in June, and 12 people in July," he says. "You're better cutting more and cutting earlier. It can be harmful when people are waiting for the other shoe to drop."

Downsizing is painful, but if business conditions call for more significant cuts, he recommends doing it all at once. In the same vein, Combs says not to set false expectations for workers who are laid off. Managers sometimes

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have a tough time telling those workers that the company is eliminating those jobs altogether.

"Don't say it will just be for a month or two," Combs says.

If it's true, "say there is potential you might call those employees back, but not count on it."

Legal Risks

The industrial distributor says that half the employees he had to lay off were in a protected class. "There's always a risk," he says.

Taking heed of that risk is important. A rule of thumb from Combs: If a layoff appears discriminatory, if challenged, it will probably be difficult to fight in court "even if there was no intention of doing wrong." If a protected class – over 40-years-old, race, gender, etc. – is disproportionately affected by a layoff, claims are possible.

A quick look at the Equal Employment Opportunity Commission's online news release page (http://www.eeoc.gov/press/index.html) is enough to see how frequently discrimination cases are brought against companies of all sizes.

In March, the EEOC reported that workplace discrimination filings with the federal agency were at a record high in Fiscal 2008 – 15 percent higher than the previous year. Perhaps even more interestingly, filings based on age and retaliation saw the largest annual increases. Recent legal developments have made filing for age discrimination easier.

In addition, as one Wall Street Journal article postulates, it's also possible that as layoffs grow, more companies are acting illegally in choosing older, higher-paid staffers to let go.

The EEOC speculates that the surge in filings in 2008 was partly due to economic conditions, as well as other factors, including employees' increased awareness of the law and

Survivors

Continued from page 1

leaders are so relieved to get through layoffs they often forget to pay extra attention to workers who are still employed.

"The employees who stay with your company often must take on more work with fewer resources – while still reeling from the loss of their colleagues," he says.

The so-called survivors will watch carefully to see how employers treat outgoing employees – starting with how employers let them know they were laid off. "You have to treat people with dignity and with respect," Salveson says. "The people remaining with the company are going to be watching you like a hawk," Salveson says.

Constant contact with those who remain is key. Companies that tell those who remain why they implemented layoffs and acknowledge that those who remain are upset, will benefit from the honest. Best practices dictate providing your employess with the bigger picture.

Outside of layoffs, what is the company doing to improve its financial position? Run down a list: renegotiating leases, cutting management salaries by x percent, and so on.

Employers should avoid painting the situation as "gloom and doom" or the best people may leave, Combs says. "But we want to draw a realistic picture, and you want them to know it was hard (to make the decision)."

Employers should acknowledge they don't expect the remaining 80 employees, for example, to do the job the company was doing with 100 employees. "Tell them that you give them permission to look at their jobs and let you know what you should keep doing, and what you will stop doing because you no longer have time to do it, or you now have no support. Empower people to rework how they doing things," Salveson says.

One distributor says he has tried to be honest with employees who remain. He posted a monthly chart tracking the company's financial progress and held regular meetings. The company's state has stabilized, so he hopes no more layoffs will be necessary.

But if an employee asks whether there will be more layoffs – and they will – Salveson says to avoid saying, "No." Tell the remaining employees that you hope not, but that you can't predict what will happen, Salveson says: "Employees know you can't say no."

Employees can be asked to help mitigate the impacts of current conditions. One example: asking a particular department to cut x amount from their budget. They may know where waste is better than company leaders.

A controls distributor says the initial announcement that the company was doing layoffs inspired those remaining to step it up a notch. After a 10-minute layoff talk, the employees discussed how they could improve sales and margins, and solve other problems. "I think they rallied around it."

demographic shifts in the work force. More information on EEOC-enforced laws is available at its Web site, www.eeoc.gov.

In addition to paying heed to discrimination laws, distributors are also finding themselves paying closer attention to another law they may not have had to in the past: the federal Worker Adjustment and Retraining Notification Act, or WARN. The law governs how employers handle laying off large groups of employees or the closure of facilities.

It requires notice of at least 60 days in advance to employees and related groups, such as labor unions, the state's dislocated worker unit, and an appropriate unit of local government.

Though the federal law may not apply to many of the smallest distributors, some states have "mini" versions of the WARN Act, which cover smaller employers and smaller layoff groups.

Helping Employees Out

Compared with the past, Combs says she is detecting much more careful deliberation by distributors over the layoff process: "Management is very concerned for the well-being of the employees." To that end, distributors are doing what they can to help employees out; but Combs says she has seen the level of severance pay drop from the norm. Many distributors are providing two to four weeks of pay.

Lee Hecht Harrison, a talent management company, found in a recent survey that in comparison with 2001 - the last downturn - employees and employers have become "more sophisticated about separation best practices." More employers are diversifying their severance offerings to include outplacement services.

Combs says that smaller distributors struggle more with providing outplacement services, but can still offer some form of assistance. (See outplacement article below.)

Preparing for the Upswing

In addition to juggling laws, ensuring workers that remain (and who leave) are well taken care of, and in general dealing with falling sales, distributors are also cautious about not cutting too deeply so that their trained work force will be prepared for when demand strengthens.

The industrial distributor says he also views the situation as an opportunity to realign the company's resources to the company's future plans. He thinks that he will add positions to sales and marketing after addressing the distributor's most immediate needs.

Salveson says that unfortunately many companies cut staff so severely that when the recovery begins, they do not have the talent they need to react. He recommends evaluating business processes when downsizing to identify whether your now-reduced staff can handle an upswing when it happens.

"Alternatively, create a talent acquisition plan that is immediately ready to execute when business conditions improve in order to bring on the talent required to support future growth."

■ *MDM Interview*

Helping Employees Find New Work

Outplacement services is one benefit employers are providing after layoffs

Skip DeVilling, president of DeVilling & Associates, LLC, a Sarasota, FL-based executive employment search firm, recently spoke with MDM Associate Editor Jenel Stelton-Holtmeier about how companies can help laid-off employees through outplacement programs.

MDM: Many companies are having to turn to layoffs in order to survive the recession. What are the broader impacts of these moves?

Skip DeVilling: Labor is the easiest thing to cut. It can be done at any level and the results are immediate. Executives aren't immune, and if you cut one high level executive position, the savings there can be significant.

That doesn't mean that they can't be done better. Communication is important. Providing support after the lay off, such as severance packages or outplacement programs, can help send the message that the company cares about helping employees get through the experience.

MDM: What is an outplacement program?

SD: Outplacement programs are programs – usually 60 or 90 days – that help revitalize the career continuation search. And what I mean by that is, take a person who has been in a career for 10, 20 years who is told that they're being laid off. They're like a deer in the headlights, not knowing where to go or what to do. It's a traumatic experience.

These people haven't had to search for a job in those 10 or 20 years, which means they haven't written a resume in 10 or 20 years. Outplacement programs help relearn the resume and cover letter writing process, sharpen interview skills and adapt the job seekers' attitude to how to find a job in the current climate.

The company that did the layoffs pays for it, provides it as a benefit to its workers.

MDM: Why would a company offer these types of programs?

SD: It sends a message to the employees who are still there that the company really does care about its workers. Circumstances are just what they are. Layoffs are way up. Unemployment is more than 8 percent. And that's just the people who have filed for unemployment. The real numbers could be higher. Workers are not isolated from the news.

Huge companies have been offering these programs for some time now. Now we're seeing more of an uptick, not only in companies offering them but from more individuals using these programs.

Previously, we saw more executives looking for different jobs using the service. Now, it's more people at more levels. Instead of just a president or CEO, it may be a regional sales manager in Denver who discovers she can't find any jobs on her own.

MDM: What about companies that may not have the resources to provide a full outplacement program? Are there things they can do to ease the transition?

SD: There are a lot of things that can be done by management. The layoff of employees is the single most devastating blow to an organization for those being downsized and for the employees remaining.

First and foremost, a reduction strategy should be formalized. Who? Why? And how? Make sure that all the information is available at the time of the action and for later conversations. The reason for follow-up conversations is because the employees will hear little other than "you have been laid off."

Needs of the laid-off individuals should be discussed and a plan, no matter how big or little, should be made available: i.e. resumes, assistance in locating employment, help with computer research into local networks, etc. You can be creative and every little bit of effort helps. Remember, the remaining employees are watching. How you downsize will affect how you grow in the future.

MDM: What are some of the biggest mistakes you see being made by people reentering the workforce after being laid off?

SD: It all depends on the person. I've had a person bring in a resume that looked like a 2-year-old put it together. That's not going to get anyone a higher level job.

But another person may have problems with interview skills. The interview process today is very different than it was 25 years ago. Now, applicants have to take competency tests, behavioral tests, personality tests, and so on.

Even how to dress for an interview is something that sometimes gets forgotten. You may have come from a very casual work environment but that's not going to work in the interview scenario.

It's a very competitive market right now. Companies can't stand a bad hire anymore. Programs like ours can help potential employees refine and remember how to be in the job market.

Opportunities in the Stimulus Package

Nearly $200B in spending could benefit distributors, Adam Fein says

The negative perception some have of the stimulus package may be grounded in part in truth, says Adam Fein of Pembroke Consulting. But there are positives to be found in the American Recovery and Reinvestment Act of 2009 (ARRA). Fein presented his review of the opportunities and impacts of the bill for distributors in a recent MDM Webcast.

By Jenel Stelton-Holtmeier

While the economic stimulus package may not be perfect, Adam Fein saw a potentially damaging level of pessimism in some of the responses to a survey conducted the week the bill passed. About one-fifth of executives indicated they would decrease their focus on growth initiatives because of the stimulus bill, Fein says.

Fein recommends distributors turn their heads from the bad, and instead consider areas where they can benefit from new initiatives. He identified more than $200 billion with potential in the package. "You need to understand the facts – the good, the bad and the ugly – about what is actually in the bill," Fein says.

The Details

Much of the $787 billion in the ARRA falls into categories with little impact on distributors, Fein says. These include government investment in social programs, such as Medicaid, or to individual tax cuts.

About $65 billion will be spent directly by the federal government on goods and services, many of which may be provided by distributors. For example, the Department of Defense is receiving $7.4 billion for renovation, repair and construction of facilities in the U.S. and U.S. territories, while the Department of Energy has been given $4.5 billion to modernize the electrical grid.

"If this is a place where you already do business with the government, or are considering doing business, I view this as a hunting license," Fein says. "This is a place where a substantial amount of money will be spent."

The package also allocates funds to states for localized projects. Nearly $60 billion has been set aside for infrastructure development in states, and an additional $78.6 billion is earmarked for non-infrastructure state projects.

New highway construction, bridge repairs, new schools – these are the types of projects included in these categories. If your business is involved at all in these sectors, even providing safety equipment, for example, contacting the local and state governments now can give your company an advantage in the bid process, Fein says.

Taking Advantage

The time to look for projects is now. Because of provisions included in the ARRA, the funding of any project must be done transparently. State governments and municipalities must provide lists of planned projects that have been approved.

Money that is not placed into obligation for specific projects by March 5, 2010, will go back into the federal treasury. This means that distributors and contractors will be able to review the plans soon.

In fact, Fein says that many organizations are already providing lists of projects. The Department of Defense has published a document detailing how the money allocated to them will be used. A good starting point is the official Web site: www.recovery.gov. The site includes milestones related to the stimulus funds and links to individual state and agency pages that will be managing the projects in the areas previously listed.

Going Green

"A major element of this bill is the move to green," Fein says. "The programs are all across the board – alternative energy, energy efficiency, school, smart grid, R&D, and so on."

State energy programs already in place will receive a funding increase of about 70 percent over 2008 to $3.1 billion. Right now, those programs are asking for suggestions for projects, meaning now is the time for distributors to get a jump on building out proposals.

In addition to increased funding for existing plans, new programs are being implemented in areas like energy efficiency and conservation. Grants will be provided to improve everything from insulation to rewiring, with about 68 percent of funds allocated by local governments.

If green hasn't been a big part of your business, now is the time to consider it, Fein says.

"It's not just putting in new insulation; it's supporting the people who are putting in the new insulation," he says.

Monthly Wholesale Trade: Sales and Inventories for February 2009

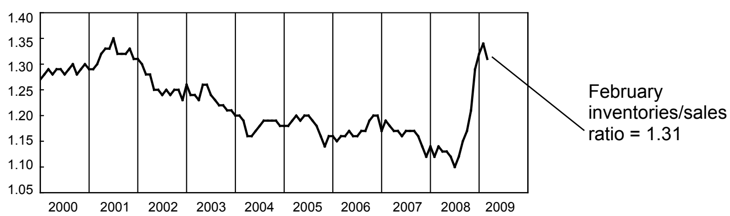
February 2009 sales of merchant wholesalers, except manufacturers' sales branches and offices, were $319.7 billion, up 0.6 percent from January and down 14.3 percent from February 2008, according to the U.S. Census Bureau. February sales of durable goods were up 2.0 percent from last month, but were down 14.8 percent from a year ago. Compared to last month, sales of motor vehicle and motor vehicle parts and supplies were up 3.7 percent, while sales of metals and minerals, except petroleum, were down 5.6 percent. Sales of nondurable goods were down 0.4 percent from last month and were down 13.8 percent from last year. Sales of chemicals and allied products were down 4.6 percent from last month.

Inventories. Total inventories of merchant wholesalers were $419.3 billion at the end of February, down 1.5 percent from the revised January level, and were down 1.7 percent from a year ago. The January preliminary estimate was revised upward $0.2 billion. End-of-month inventories of durable goods were down 2.4 percent from last month, but were up 0.7 percent from last February. Inventories of motor vehicle and motor vehicle parts and supplies were down 7.9 percent from last month and inventories of furniture and home furnishings were down 3.0 percent. End-of-month inventories of nondurable goods decreased 0.2 percent from January and were down 5.5 percent compared to last February. Inventories of farm product raw materials were down 5.4 percent from last month, and inventories of paper and paper products were down 4.8 percent.

Inventories/Sales Ratio. The February inventories/sales ratio was 1.31. The February 2008 ratio was 1.14.

Monthly Inventories/Sales Ratios
of Merchant Wholesalers: 2000-2009

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Monthly wholesale trade: Sales and inventories February 2009

NAICS Code	Business Type	Sales $ millions	Inventories $ millions	Stock and Sales ratio	% Change in Sales 1/09-2/09	% Change in Sales 2/08-2/09	% Change Inventory 1/09-2/09	% Change Inventory 2/08-2/09
42	U.S. Total	319,727	419,337	1.31	0.6	-14.3	-1.5	-1.7
423	Durable	144,811	262,865	1.82	2.0	-14.8	-2.4	0.7
4231	Automotive	18,544	38,990	2.10	3.7	-29.5	-7.9	-4.5
4232	Furniture & Home Furnishings	4,434	7,339	1.66	1.2	-15.4	-3.0	-10.1
4233	Lumber & Other Construction Materials	7,994	13,760	1.72	2.9	-19.5	-0.8	-5.8
4234	Prof. & Commercial Equip. & Supplies	27,750	31,411	1.13	0.1	-6.7	-0.2	-2.1
42343	Computer Equipment & Software	13,728	10,119	0.74	1.4	-8.7	0.0	-5.6
4235	Metals & Minerals	10,453	26,714	2.56	-5.6	-24.3	-2.6	7.8
4236	Electrical Goods	24,958	33,162	1.33	2.1	-3.8	-1.8	-1.1
4237	Hardware, Plumbing, & Heating Equipment	6,338	13,704	2.16	0.3	-10.2	-1.8	-5.4
4238	Machinery, Equipment & Supplies	26,540	72,727	2.74	3.1	-10.0	-1.1	9.0
4239	Miscellaneous Durable	17,800	25,058	1.41	6.7	-20.9	-0.8	-3.1
424	Nondurable Goods	174,916	156,472	0.89	-0.4	-13.8	-0.2	-5.5
4241	Paper & Paper Products	7,356	6,938	0.94	0.3	-7.3	-4.8	-2.7
4242	Drugs	33,353	32,622	0.98	0.8	5.9	2.7	-1.8
4243	Apparel, Piece Goods & Notions	10,229	17,068	1.67	3.2	3.7	-0.4	3.5
4244	Groceries &Related Products	43,116	27,600	0.64	-0.4	-1.4	-0.4	4.3
4245	Farm-product Raw Materials	16,104	17,075	1.06	0.7	-17.4	-5.4	-36.6
4246	Chemicals &Allied Products	6,924	8,667	1.25	-4.6	-17.8	-0.8	-5.9
4247	Petroleum &Petroleum Products	29,831	12,794	0.43	-3.7	-45.6	2.5	-14.0
4248	Beer, Wine & Distilled Beverages	9,060	11,166	1.23	0.1	8.3	0.6	6.9
4249	Miscellaneous Nondurable Goods	18,943	22,542	1.19	0.8	0.5	0.3	2.7

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis.
Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.

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Industrial & Construction Markets Update

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MAPI Report: China Surpasses U.S. as Leading Exporter

The most dramatic development in world trade in recent decades has been the rapid rise of China in surpassing the U.S. as the leading exporter of manufactured goods, especially in Asian markets.

This radical shift of market shares in Asian markets has important consequences for U.S. commercial and geopolitical interests, according to a new Manufacturers/MAPI report, "China Displaces the United States as Dominant Exporter of Manufactures in Asian Markets: What Happens Next?"

Ernest Preeg, Senior Fellow in Trade and Productivity and report author, argues that in geopolitical terms the rise of China as an economic hegemon in Asia, together with a declining U.S. trade position, increases Chinese political influence in the region, which is a growing concern among Asian nations as well as for U.S. foreign policy interests.

Preeg highlights the alarming reversal of export leadership between the U.S. and China from 2000 to 2008 to principal Asian trading partners — Japan, South Korea, Taiwan, Australia, and India – and five members of ASEAN — Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

U.S. exports to the aggregate markets grew from $133.9 billion in 2000 to $159.4 billion in 2008, or by 19 percent. Chinese exports, however, soared from $71.3 billion in 2000 to $356.1 billion during this time frame, or by 399 percent.

In relative terms, U.S. exports were 88 percent higher than Chinese exports in 2000, while Chinese exports more than doubled U.S. exports in 2008.

The change is even more pronounced in the technology-intensive machinery, telecommunications, and electronics sector. In 2000, U.S. exports were almost four times larger than

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Matheson Tri-Gas, Inc., Basking Ridge, NJ, a manufacturer and supplier of industrial, medical, electronics and specialty gases and welding supplies, has agreed to buy **Valley National Gases**, Independence, OH, from New York-based private equity firm CI Capital Partners LLC. Matheson is a subsidiary of Taiyo Nippon Sanso Corporation, a producer of industrial, medical, electronics and specialty gases headquartered in Japan.

Valley National Gases, Independence, OH, has launched a new line of safety products through the VNG "Safety Products Catalog." The line includes 12,000 items.

Barnes Distribution, North America, a business of Barnes Group Inc. is expanding its stainless steel fasteners product line by nearly 50 percent, adding more than 1,200 new items to its stocked inventory. The MRO supplies distributor offers more than 750,000 products, including 2,000 in-line stainless steel fasteners, to its customers ranging from food processors to chemical plants to pharmaceutical markets. The enhancement to the stainless steel fastener line further expands Barnes' vendor managed inventory (VMI) service.

HD Supply Facilities Maintenance, San Diego, CA, a distributor of maintenance products and operating supplies to the multifamily industry, released its 2009 catalog with 20,000 stocked maintenance, repair and operating (MRO) products, including 2,800 new items.

WinWholesale Inc., Dayton, OH, has opened **St. Jacob Winwater Works** Co. in St. Jacob, IL, to provide general, utility and municipal contractors in Southern Illinois with waterworks, sanitary sewer and storm sewer supplies.

MSC Industrial Direct Co., Inc., a distributor of metalworking and maintenance, repair and operations supplies to industrial customers throughout the United States, reported sales for the second quarter ended Feb. 28, 2009, were $351.9 million, a decline of 19.4 percent from the second quarter a year ago. Profit declined 44.6 percent to $26.3 million. Fiscal year-to-date, sales were $784.9 million, down 10.2 percent from the first half of fiscal year 2008. Profit was down 24.3 percent.

H.B. Fuller Company, St. Paul, MN, has agreed to acquire **Nordic Adhesives**, a developer and manufacturer of flexible packaging adhesives based in Buxtehude, Germany. Nordic had sales of US$9 million in 2008.

MAPEI, Deerfield Beach, FL, has acquired **All-Purpose Adhesive Company**, Dalton, GA. APAC manufactures environmentally friendly adhesives for the installation of floor-covering materials such as resilient flooring, carpet, ceramic tiles and vinyl composition tiles. APAC will be incorporated into the MAPEI Group.

John Crane, Morton Grove, IL, a division of global technology business Smiths Group, acquired **Orion Corporation**, a Grafton, WI-based designer and manufacturer of hydrodynamic bearings for energy and general

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industrial markets. Orion designs and manufactures hydrodynamic bearings for high speed turbine, generator, compressor and gear drive applications for the power generation, oil and gas and general industrial markets.

February 2009 **sales of merchant wholesalers**, except manufacturers' sales branches and offices, were $319.7 billion, up 0.6 percent from January and down 14.3 percent from February 2008, according to the U.S. Census Bureau. February sales of durable goods were up 2.0 percent from last month, but were down 14.8 percent from a year ago. Total inventories of merchant wholesalers, except manufacturers' sales branches and offices, were $419.3 billion at the end of February, down 1.5 percent from the revised January level, and were down 1.7 percent from a year ago.

The **Conference Board Employment Trends Index** fell again in March. The index now stands at 90.1, down 2.3 percent from the February, and down 22.1 percent from a year ago. The 20-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 Industrial Supply Association (ISA) has announced the recipients of its **2009 American Eagle Awards**. This year's winners were ARC Abrasives (Value-Added Manufacturer), Duncan Industrial Solutions (Value-Added Distributor), and Weinacht and Associates (Value-Added Independent Manufacturers' Representative). Iowa Machinery is the winner of this year's Corporate Citizenship Award. Walter Surface Technologies and Acklands-Grainger have both won this year's Value-Added Partner Award.

New orders for manufactured goods in February increased $6.1 billion or 1.8 percent to $352.2 billion, according to the U.S. Census Bureau in a preliminary report. This followed a 3.5 percent January decrease. Excluding transportation, new orders increased 1.6 percent. Shipments, down seven consecutive months, decreased 0.1 percent. Unfilled orders decreased 1.4 percent. Inventories decreased $6.2 billion, or 1.2 percent, to $529.7 billion.

Manufacturing contracted again in March for the 14th consecutive month, according to the latest Manufacturing ISM Report on Business. None of the 18 manufacturing industries reported growth in March.

The first quarter **Baird Industrial Distribution Survey**, from Robert W. Baird & Co. Inc., indicates revenues were down significantly during the quarter, with both the six-month and full-year forecasts slightly better than current trends. Pricing and gross profit margins appear to be holding relatively steady. The survey also shows 68 percent of respondents expect some level of benefit to their business as a result of U.S. Government stimulus efforts.

In February, Canada's **Industrial Product Price Index** (IPPI) rose 0.4 percent compared with January, due to both the depreciation of the Canadian dollar against the US dollar and increases in the prices for precious metals and petroleum products, according to Statistics Canada. The **Raw Materials Price Index** (RMPI) advanced 1.7 percent compared with January, pushed up by rising crude oil prices. Year over year, the IPPI grew 1.6 percent in February. From February 2008 to February 2009, raw material prices fell 30.7 percent.

Real gross domestic product – the output of goods and services produced by labor and property in the U.S. – decreased at an annual rate of 6.3 percent in the fourth quarter of 2008, (from the third quarter to the fourth quarter), according to final estimates released by the Bureau of Economic Analysis. In the third quarter, real GDP decreased 0.5 percent.

Zep Inc., producer of cleaning and maintenance products, reported a net loss of $0.9 million in the second quarter fiscal 2009. Sales were at $114.6 million in the second quarter, down 13.9% from the prior-year period. Sales in the first half fiscal 2009 were $243.8 million, down 11.9 percent from the prior-year period. The company reported a net loss of $2.5 million, versus $8.2 million net income in the prior year.

Castrol Industrial North America Inc., Naperville, IL, is implementing changes designed to increase the efficiency and effectiveness of its North American manufacturing, storage and distribution operations. "The sharp economic downturn is having a significant impact on

Distribution Financial Metrics and Trading Multiples

(Data as of March 31, 2009)

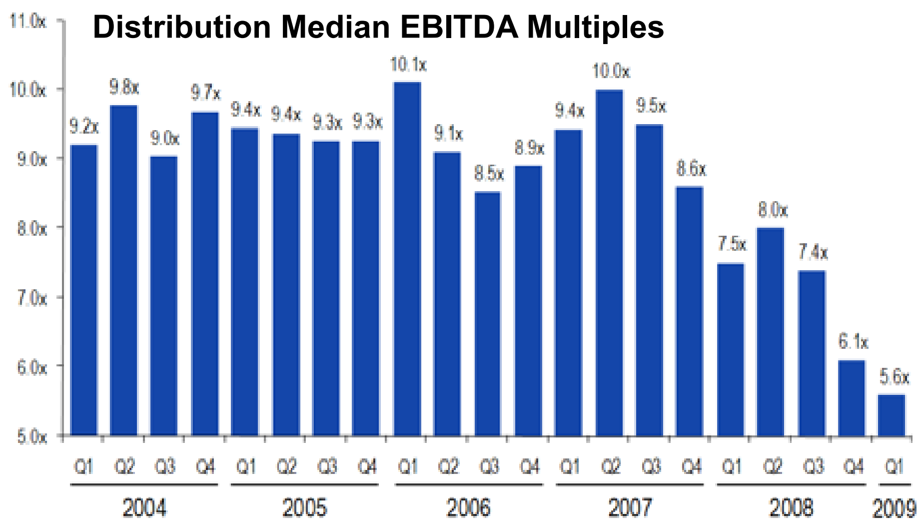
($ in millions)

Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Gross Margin	LTM EBITDA	LTM EBITDA Margin	EV to LTM Sales	EV to LTM EBITDA	ROIC	Working Capital/Sales
Airgas Inc. *	ARG	$4,581	$4,444	17.4%	52.3%	$764	17.2%	1.0 x	6.0 x	10.0%	6.9%
AM Castle & Co.	CAS	306	1,501	5.7%	14.8%	86	5.8%	0.2	3.5	8.8%	16.8%
Anixter International Inc. *	AXE	2,215	6,137	4.8%	23.5%	427	7.0%	0.4	5.2	11.3%	25.0%
Applied Industrial Technologies Inc.	AIT	801	2,106	1.3%	27.0%	161	7.6%	0.4	5.0	15.2%	16.6%
Barnes Group Inc. *	B	1,032	1,362	(4.0%)	37.8%	218	16.0%	0.8	4.7	12.1%	21.4%
Beacon Roofing Supply Inc. *	BECN	949	1,849	11.1%	24.0%	150	8.1%	0.5	6.3	9.4%	15.5%
BlueLinx Holdings Inc.	BXC	405	2,780	(27.5%)	11.5%	26	0.9%	0.1	N/M	0.8%	9.2%
Builders FirstSource, Inc. *	BLDR	285	1,035	(32.4%)	21.6%	(48)	N/M	0.3	N/M	N/M	12.6%
Building Materials Holding Corp.	BLGM	311	1,601	(32.5%)	17.9%	(42)	N/M	0.2	N/M	N/M	12.5%
Bunzl plc	BNZL	3,887	6,086	(14.5%)	25.8%	504	8.3%	0.6	7.7	11.0%	7.5%
DXP Enterprises Inc.	DXPE	296	737	65.8%	28.1%	59	8.0%	0.4	5.0	10.1%	18.6%
Fastenal Co. *	FAST	4,689	2,340	13.5%	52.8%	490	20.9%	2.0	9.6	26.5%	31.6%
Genuine Parts Co.	GPC	5,275	11,015	1.6%	29.7%	889	8.1%	0.5	5.9	17.9%	22.8%
Houston Wire & Cable Company *	HWCC	171	361	0.5%	23.7%	41	11.3%	0.5	4.2	22.3%	28.6%
Huttig Building Products Inc.	HBPI	30	671	(23.3%)	18.4%	(21)	N/M	0.0	N/M	N/M	7.3%
Interline Brands Inc. *	IBI	615	1,196	(3.5%)	37.6%	109	9.1%	0.5	5.7	7.5%	24.5%
Kaman Corp.	KAMN	406	1,254	15.4%	26.5%	86	6.8%	0.3	4.7	12.0%	24.4%
Lawson Products Inc.	LAWS	107	485	(5.3%)	57.5%	29	5.9%	0.2	3.7	10.0%	17.7%
MSC Industrial Direct Co. Inc. *	MSM	2,070	1,691	(3.7%)	46.4%	308	18.2%	1.2	6.7	20.9%	24.5%
Park-Ohio Holdings Corp.	PKOH	392	1,069	(0.3%)	14.5%	70	6.6%	0.4	5.6	9.4%	22.8%
Pool Corp *	POOL	960	1,784	(7.5%)	28.9%	129	7.3%	0.5	7.4	12.6%	17.1%
Reliance Steel & Aluminum Co.	RS	3,652	8,719	20.2%	24.8%	951	10.9%	0.4	3.8	13.0%	19.4%
Rexel SA	RXL	5,400	17,972	15.0%	23.8%	930	5.2%	0.3	5.8	6.6%	12.4%
Smith International Inc.	SII	8,665	10,771	22.9%	31.8%	1,906	17.7%	0.8	4.5	15.4%	31.2%
Watsco Inc. *	WSO	949	1,700	(3.3%)	26.0%	106	6.2%	0.6	9.0	11.2%	18.1%
WESCO International Inc. *	WCC	1,850	6,111	1.8%	19.7%	368	6.0%	0.3	5.0	13.3%	13.0%
Wolseley plc	WOS	6,732	24,252	(25.6%)	27.6%	1,134	4.7%	0.3	5.9	4.8%	11.3%
WW Grainger Inc. *	GWW	5,360	6,850	6.7%	42.8%	900	13.1%	0.8	6.0	22.2%	15.0%
Median		$955	$1,817	0.9%	26.2%	$155	8.0%	0.4 x	5.6 x	11.3%	17.4%

* = Companies covered by Baird Research

The table above highlights key financial metrics and trading multiples for 30 publicly traded distributors in the industrial and building products industries.

The table below illustrates historical median EBITDA multiples for the above companies calculated using LTM EBITDA as of the quarter shown and the enterprise value as of the last day of the quarter. Please see Definitions at bottom of page.



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Definitions. LTM means latest twelve months. Enterprise Value ("EV") means market capitalization of a company's equity plus preferred stock plus total interest bearing debt (including capitalized leases) net of any cash or cash equivalents. EBITDA means earnings before interest, taxes, depreciation and amortization. In certain cases earnings have been adjusted for certain disclosed income or expense items considered to be non-recurring in nature. ROIC means return on invested capital and is defined as tax-effected EBIT divided by the sum of the book value of equity plus net debt. Working Capital is calculated as current assets, less cash, minus current liabilities excluding short-term borrowings and current portion of long-term debt.

U.S.-China Exports
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Chinese exports, $74.8 billion compared to $19.1 billion, while in 2008 Chinese exports more than doubled U.S. exports, $150.4 billion compared to $67.2 billion.

Therefore, over the eight-year period, Chinese exports increased by 687 percent while U.S. exports declined by 10 percent.

Preeg concludes that there is no simple solution to this sustained loss of market share by the U.S., and he advocates a comprehensive strategy integrating domestic and international policy objectives.

The full report can be found at www.mapi.net.

Chicago Fed Midwest Manufacturing Index Declines in January

The Chicago Fed Midwest Manufacturing Index decreased 0.4 percent in February to a seasonally adjusted level of 83.8 (2002 = 100). Revised data show the index declined 6.7 percent in January, to 84.2.

The Federal Reserve Board's industrial production index for manufacturing fell 0.7 percent in February. Regional output in February was down 22.2 percent from a year earlier – lower than the 13.8 percent decline in national output.

The region's steel sector output moved down 4.7 percent in February after declining 6.2 percent in January. The nation's steel output was down 2.7 percent in February.

Regional steel output dropped 30.8 percent from its February 2008 level, and national steel output fell 21.2 percent.

The Midwest's machinery sector output decreased 4.2 percent in February after moving down 3.1 percent in January. The nation's machinery output decreased 2.8 percent in February. Regional machinery output in February was 18.9 percent below year-earlier levels, and national machinery output was down 14.2 percent.

The Midwest resource sector's output edged down 0.1 percent in February after decreasing 0.8 percent in January.

The increase from January to February in food production was offset by decreases in the other four subsectors — chemical, paper, wood, and nonmetallic mineral production.

The national resource sector's output ticked down 0.1 percent in February. Compared with a year ago, regional resource output was down 10.9 percent in February, and the national resource output declined 9.5 percent.

Regional auto sector production rose 7.7 percent in February after dropping 21.7 percent in January. The nation's auto output increased 2.1 percent in February. The Midwest's automotive output was down 38.0 percent in February relative to its year-ago value, and the nation's auto output was down 22.5 percent.

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many of our customers" says Dave Fuerst, president. "It is crucial for us to continue driving our own efficiency efforts to be competitive in the marketplace." Among the changes announced was the consolidation of manufacturing operations at Castrol's Warminster, PA, site, which will drive further scale and procurement efficiencies for the business and create a world-scale industrial fluid manufacturing and supply operation.

Castrol will close a smaller manufacturing plant in Vernon, CA. Castrol also announced it would consolidate its East and Midwest warehousing and logistics operations to a single site in the East coast and close some smaller depots.

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