

Online Marketing Gains Momentum

Why distributors should integrate the Web into their marketing plans

Online marketing offers a natural extension of a wholesale distributor's business model. And the real beauty of the medium lies in the ability to track response and focus efforts to yield the best results. This article looks at the importance of leveraging the interactive power of the Internet to win and strengthen customer relationships.

This article is excerpted from Outlook 2009: An Executive's Companion to Facing the Forces of Change – Lead the Way in the Supply Chain, published by the National Association of Wholesaler-Distributors.

By Thomas P. Gale

As the National Association of Wholesaler-Distributors' *Facing the Forces of Change*® study pointed out, customers are using the Internet to bypass some of the information, education, and sales functions distributors have traditionally provided.

For example, the study reported that the percentage of customers gathering price information from a wholesaler-distributor's Web site more than doubled

between 2003 and 2006, and is expected to double again by 2012.

Wholesaler-distributors are starting to respond to this shift in customer behavior. According to the Outlook 2009 survey, distributors plan to more than double their online marketing efforts in the next five years, from just under 10 percent of their total marketing budget today to more than 20 percent in 2012.

That's a significant increase. These numbers align fairly closely with estimates for the overall increase in online advertising spending in the U.S. and migration of advertising dollars from broadcast and print media to online media. Some distributors are investing significantly higher percentages of their total marketing budget.

One industrial MRO distributor said in the Outlook 2009 survey: "We have two full-time people building flyer and Web site content and a marketing executive who spends almost all of his time managing salespeople. If you exclude sales and look at our meager marketing budget, we are probably spending 50 percent of costs

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Lessons Learned in Online Marketing

By Thomas P. Gale

As publisher of a 40-year-old subscription newsletter reporting on the wholesale distribution industry, I've seen a rapid shift in how our audience of wholesale distribution executives increasingly accesses our online offerings – on the Web, mobile devices and email.

Here are some of the lessons I've learned as we've built out our online information service in the past five years.

Lesson 1: Web site = Marketing Hub

Web sites have tended to grow haphazardly to serve many masters within a company. Marketing has to drive its development and architecture, and integrate transactional functions under the primary objectives of lead generation and customer service.

Combine the current successful marketing mix with e-mail and search engine marketing (SEM) to funnel customers to the Web site. A user-friendly

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PERSPECTIVE ■ *Commentary by Thomas P. Gale***The Next Phase of Repositioning**

In our latest Webcast on June 9, the "2009 Mid-Year Economic Update," Dr. Adam J. Fein examined the latest quarterly data and trending to give a clearer picture for what the remainder of this year and 2010 might hold for distributors. I recommend you listen and view the slides of this one-hour free event, by going to www.mdm.com/conferences.

Here are Dr. Fein's key points, each of which he discussed along with outlooks on housing and construction markets, as well as other major wholesale distribution sectors:

- The recession is not over, but we are at or near the bottom.
- The latest economic data shows many sectors are either stabilizing or getting worse at a slower rate.
- While the 2009 outlook for many wholesale distribution sectors has worsened, we are still on track for recovery in 2010.
- The recovery will probably be slow compared to historical norms. However, there is a credible scenario developing for unexpectedly rapid growth in 2010/2011.
- Be prepared for significant economic volatility and new risks associated with the coming economic recovery.

The real value of Dr. Fein's presentation was the concise way he put the macroeconomic

trends into perspective for specific wholesale distribution sectors. He also provided some economic scenarios for wholesale distribution executives to consider as the recovery progresses. With as much continued volatility as Dr. Fein and other economists predict, this type of scenario planning is more important than ever.

Based on the data and reports MDM continues to hear as this second quarter comes to a close, this first half of 2009 will go down as the two worst consecutive quarters for many wholesale distribution companies serving industrial and construction markets. The third and fourth quarters will likely stabilize and show some improvement for some of the leading sectors, but widespread recovery won't start until 2010.

I've had countless conversations with executives who said they planned on a 5-10 percent revenue drop for 2009, but have seen double that number. The past six months have been focused on defensive work to stay viable, and there have been dramatic shifts in sales, customer behavior, banking and credit relationships. No matter what industry, everyone is focused on the present. Where customers used to replace, they are now repairing to hold onto cash. With some hope, the second half can shift companies to a rebuilding phase, repositioning to serve the customers and markets you can grow. ■

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Online Marketing Gains Momentum

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unpaid by manufacturer's coop funds on our Web site today, and that should grow to 60% by 2012."

Wholesale distribution as an industry is about to become much more interactive. We'll see a larger investment in online marketing and much more rapid adoption of online marketing tools in wholesale distribution markets for a simple reason—return-on-investment (ROI). In spite of spam and the sometimes wacky World Wide Web, strategic use of the Internet offers buyers and sellers enormous leaps in efficiency.

Much of the attention on electronic commerce and the Internet in wholesale distribution has naturally focused on back-office operational and transactional efficiencies, such as paperless ordering, invoicing, payment, inventory, and order status.

Product sectors with low average order size and high transaction volumes, such as industrial MRO, have seen the most ROI in these areas.

As distributors refine back-office processes with technology to increase visibility for customers, suppliers, and associates, the logical next step is to focus on how to leverage online tools—whether e-mail or the Web—to integrate front-end marketing functions.

The Marketing Capabilities Gap

Many wholesale distribution companies today would not define marketing as a core competency, but rather as a complement to a strong sales effort. Traditionally, that has centered on the sales force, call centers, direct mail, print advertising, and events such as trade shows and open houses.

Fewer still would characterize themselves as "digitally advanced" when it comes to marketing. Some traditional catalog marketers are notable exceptions, because that segment migrated first to CD format in the 1990s and then to Web-based catalogs as an extension of its core business model.

Traditional branch-based distributors need to create a more comprehensive and integrated approach to marketing, simply to meet the challenges so well described in *Facing the Forces of Change*. Traditional competitive boundaries—whether defined by product, geography, or exclusivity—have decreased in every line of trade.

Customers are finding alternative sourcing options globally, and they often are using the Internet to make those connections. In many product lines, distributors have had to develop

new markets and customer segments to replace lost business in traditional markets.

Over the next three years, we'll see a significant marketing gap emerge in wholesale distribution channels.

Marketers who communicate effectively with this growing online-savvy customer segment will connect to a broader universe of prospects and deepen relationships within existing customer bases.

Quite simply, distributors who integrate an online component into their marketing strategy to match the estimated potential of this emerging customer segment will gain advantage in two critical areas: customer acquisition and account penetration.

The core engine of effective online marketing is the company Web site. First-generation Web sites typically are developed as brochureware—often a direct transplant of a distributor's line card and other basic printed contact and company information. Second-generation Web sites include interactive transactional systems and e-commerce tools.

Third-stage e-commerce sites, which will expand in wholesale distribution markets over the next few years, include conversion architecture to turn Web site visitors into customers. Based on their online behavior, these customers can then view a more interactive, customized Web site based on products bought and Web site pages viewed.

Using Metrics

Online marketing tools also offer significant cost reduction and shorter lead times for production of marketing materials, as well as flexibility to focus messaging to specific niches or even to specific individuals. In terms of metrics, the bedrock of efficient marketing, online marketing provides precise customer behavior data quickly to refine efforts.

For example, the most advanced Web sites integrate the transactional tools from the distributor's main business information system—order entry, price, and inventory information—with customer relationship management (CRM) tools to create interactive marketing opportunities. Based on product inquiries, Web pages visited, and product orders, the system generates follow-up e-mails or custom Web pages with complementary offers or resources that might

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Purchase OUTLOOK 2009 and the Facing the Forces of Change® report together and save: www.naw.org/ftfol09bundle.

add value for that person's identified area of interest.

Leading distributors will take the knowledge-based personal relationships built through powerful outside sales efforts and transfer these core capabilities into the interactive ways their online segments want to do business.

They will convert Web site visitors into customers by giving them carrots – product and service information that builds trust and communicates the unique value the distributor delivers. They will participate as product and solution experts in online discussions and customer networks, and even create online communities to position as market and product solution experts. The level of online engagement can transform how customers feel about a particular

distributor, product, or brand. Your Web site is a central touch point for customer transformation because online communities influence brand perception and decision making. Delivering a user experience that is uniquely designed and customized, service-oriented, and collaborative translates in ways that create brand awareness, drive transactions, build brand preference, and increase loyalty.

Customers have already been trained to expect a functionally fast site where they can click and shop. In the future, effective online selling will focus much more on the interactive ways in which distributors differentiate their Web site – ease of use, depth of information, and how well that site can customize content to match specific interests.

Online Marketing Lessons

Continued from page 1

site is increasingly the most powerful marketing tool as the hub for lead-generation.

User-friendly Web sites have little to do with fancy graphics (unless you are a graphics design firm). They are carefully designed to motivate a desired action and move the relationship forward. It might be as simple as getting a first-time visitor to sign up for a company e-mail, convert a repeat visitor into a customer, or present customized offers based on past viewing or buying behavior.

Lesson 2: Be Respectful

Everyone hates spam. We are also overwhelmed when Google returns thousands of sites for a simple keyword search. While search engines can scan the globe, they can't speak directly to customer problems and needs as effectively as focused e-mail and Web marketing.

The most effective way to penetrate online customer segments is by carefully nurturing these relationships. Use incentives through the Web site, direct mail, and inside and outside sales to build e-mail lists.

Be very clear about permission, privacy, and your respect for the reader's time. Build trust by avoiding strong-arm sales pitches. It takes only one unsolicited or deceptive offer to end the relationship.

Lesson 3: Quality Drip Marketing Works

Once you've established a relationship, repetitive messages work well in business-to-business marketing. Respectfully executed, e-mail marketing is most effective when delivering a

valuable and predictable message.

A monthly e-mail newsletter can update customers and prospects on innovative solutions to their business problems and new capabilities that address their needs, as well as reinforce the positive and trusted brand your company represents in the marketplace. A weekly brief product application or solution "tip of the week" positions you as the expert.

Lesson 4: CRM, Meet Branding

CRM runs the gamut from struggling to get outside sales to use Microsoft Outlook to sophisticated Enterprise Resource Planning system integration with Internet-based ordering to generate marketing materials. Every company sends a message with every e-mail, whether promotional or day-to-day correspondence sent by every employee. Every Web site visit is a customer experience with your company's brand.

Online marketing tools also offer more interactive ways to engage customers and learn more about buying behaviors. Marketers can refine efforts based on the data gathered from every resource – Web site traffic, customer order history, and e-mail campaign response. As companies develop more knowledge about customer segments, they can customize offerings to meet identified segment needs.

Ultimately, a company can create customized branding messages into each of its core segments that yield much better results than a traditional single-branded strategy that most companies have used.

U.S. MARKET ANALYSIS: MRO Product Consumption in 2008

According to the MDM/Industrial Market Information MRO Market Analysis, the U.S. market size in 2008 for the 126 MRO industrial product groups is \$495.9 billion. (Some prior-year data available at www.mdm.com/databank are not directly comparable due to slight variations in product groups included.)

Estimates are based on data compiled by Industrial Market Information, Minneapolis, MN, and analyzed by MDM. Definitions for the 126 individual product categories used to estimate the market size are on p. 7 of this section.

Two aggregate subgroups were measured as well (see charts on next page). **Manufactur-**

ing & Utilities sectors consumed \$250.8 billion in MRO products across these 126 product groups.

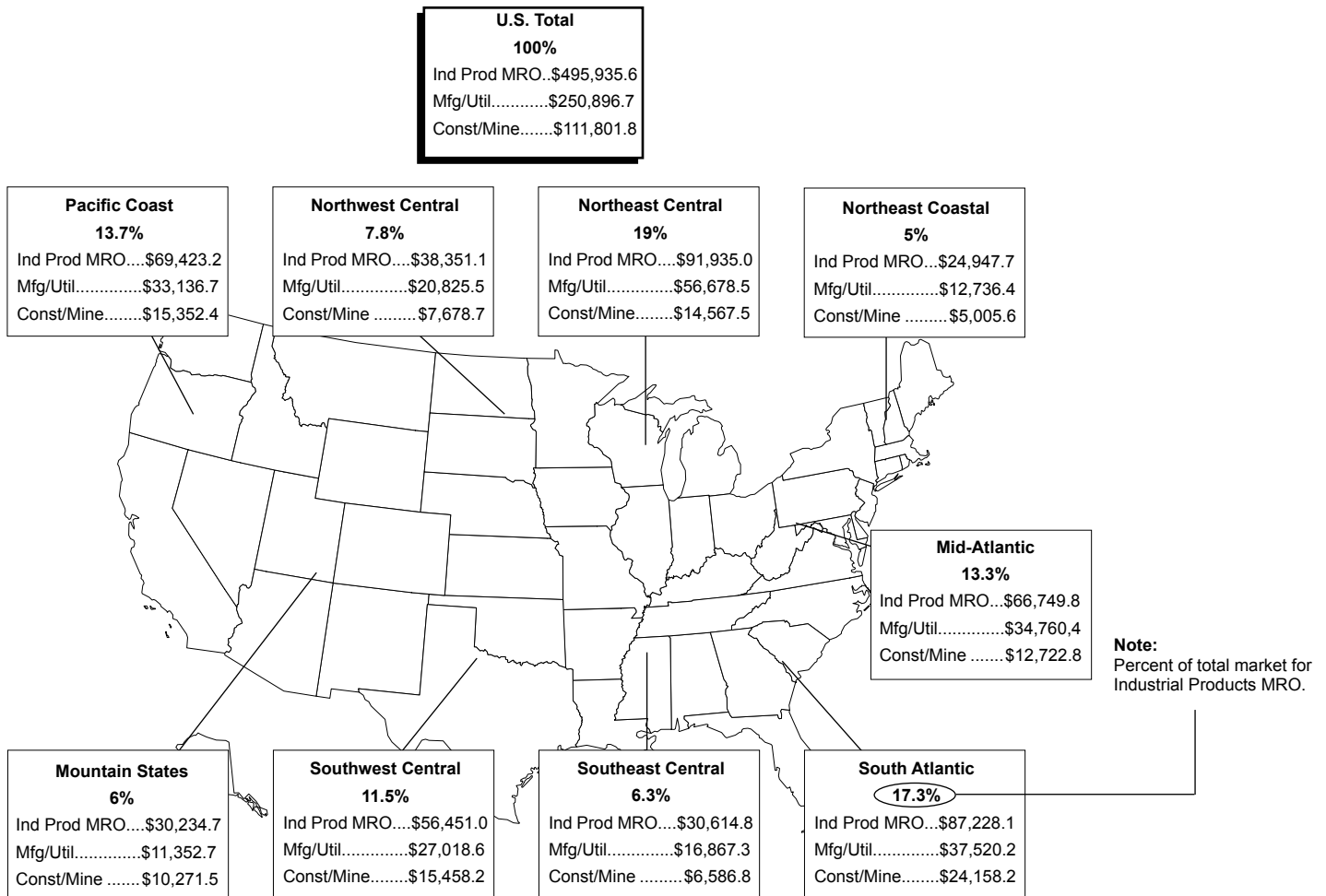
Construction & Mining sectors consumed \$111.8 billion in these MRO products. The graphic below shows consumption by region. The charts on the next page show consumption by industry.

Note that the two subgroups above don't total the total **Industrial Products MRO** estimate, as this \$495.9-billion total market estimate includes additional industries and service sectors beyond the Manufacturing/Utilities and Construction/Mining groupings.

Regional Market Analysis: MRO Products 2008

End-user consumption of MRO Products by region, in millions of \$ (2008 estimates).

Note: The top line total for each region includes additional industries and service sectors beyond the Manufacturing/Utilities and Construction/Mining groupings provided below. Therefore the top line IS NOT the sum of the lower two lines.



Source: INDUSTRIAL MARKET INFORMATION, INC. (763) 535-7432. © 2009 Industrial Market Information, Inc., Minneapolis, MN. All rights reserved. Industrial Market Information has more than 200 industrial product profiles available at the county level. www.imidata.com

Industry Market Analysis: MRO Products 2008

Total U.S. MRO: Top 10 industries for MRO use

Top ten industries in \$ volume, by SIC code, consuming MRO Products (2008 estimates).

Note: The total U.S. consumption includes additional industries and service sectors beyond the Manufacturing/Utilities and Construction/Mining groupings provided below in the lower two charts.

SIC Code	All-MRO	Company Count
1731 Electrical Work	33,746,362,275	112,431
1711 Plumbing Heating & Air Conditioning	19,392,469,799	168,931
8062 General Medical & Surgical Hospitals	13,161,359,370	9,431
2621 Paper Mills	10,960,807,267	2,315
1542 General Contractors - Nonresidential	10,133,767,506	49,119
2086 Bottled & Canned Soft Drinks	8,067,606,134	1,886
2834 Pharmaceutical Preparations	7,214,969,410	3,658
1521 General Contractors - Single-Family Housing	6,315,148,405	356,578
8211 Elementary & Secondary Schools	5,455,040,810	112,370
5411 Grocery Stores	5,394,003,274	172,155

Manufacturing & Utilities: Top 10 industries for MRO use

Top ten Manufacturing/Utility industries in \$ volume, by SIC, consuming MRO Products (2008 est.).

SIC Code	Manufacturing & Utilities MRO	Company Count
2621 Paper Mills	10,960,807,267	2,315
2086 Bottled & Canned Soft Drinks	8,067,606,134	1,886
2834 Pharmaceutical Preparations	7,214,969,410	3,658
4911 Electric Services	5,209,300,370	7,676
2033 Canned Fruits, Vegetables, Preserves, et al.	4,943,335,161	1,118
3089 Plastics Products, NEC	4,832,727,812	10,303
2631 Paperboard Mills	4,544,165,730	711
2869 Industrial Organic Chemicals, NEC	4,268,186,273	1,848
2026 Fluid Milk	4,072,794,192	525
3714 Motor Vehicle Parts & Accessories	4,061,037,794	5,252

Construction & Mining: Top 10 industries for MRO use

Top ten Construction/Mining industries in \$ volume, by SIC, consuming MRO Products (2008 est.).

SIC Code	Construction & Mining MRO	Company Count
1731 Electrical Work	33,746,362,275	112,431
1711 Plumbing Heating & Air Conditioning	19,392,469,799	168,931
1542 General Contractors - Nonresidential	10,133,767,506	49,119
1521 General Contractors - Single-Family Housing	6,315,148,405	356,578
1623 Water Sewer & Utilities	5,074,292,858	12,521
1541 General Contractors - Industrial Buildings	5,044,673,575	12,143
1611 Highway & Street Construction	4,895,878,365	26,771
1629 Heavy Construction, NEC	4,538,317,533	17,182
1771 Concrete Work	3,976,993,926	41,402
1522 General Contractors - Residential	2,459,088,209	55,606

Defining the MRO Product Markets

How big is the market for MRO products? The answer depends on what products you include in the market basket.

Industrial Market Information, Minneapolis, provided the data based on 126 MRO products. Here are the products used in the market analysis on the previous two pages.

Abrasive Grain Grit Shot	Gases-Indl Non-Weldng	Petro Metal Cutting	Switchgear Equipment MRO
Abrasives Bonded	Gases-Indl Welding	Petro Metal Forming	
Abrasives Coated	Gaskets & Packings MRO	Petro Surface Coatings	Tape
Abrasives Super (Dia&Cbn)	Gauges Indst Inst-MRO	Pkg-Bags Industrial Papr&Plstc	Telecommunication Eqpt MRO
Adhesives MRO	Gear Drives & Spd Rducrcs	Pkg-Plastic Containers X-Bot	Test-Instr Elec Prtbl-Bnch
Adhesives Packaging	MRO	Pkg-Ship Containers Paper	Tool Boxes & Chests
	Generatr Set-Power Spply MRO	Pkg-Spcilty Boxes Paper	Tools Assmbly For Electronics
Bearings Ball MRO		Plastic Flexbl Tube MRO	Tools Cutting Carbide
Bearings Mounted MRO	Hoists	Plastic Rigid Sht&Plate MRO	Tools Cutting H.S. Steel
Bearings Roller MRO	Hose&Ftgs Hyd/H-P MRO	Plastic Rigid Sht&Plate Pkg	Tools General Hand
Bottles Cans & Drums All	Hose&Ftgs Non-Hyd/Pn MRO	Plastic Shape Tube/Rod/Bar MRO	Tools Power Air
Brushes General Maint	HVAC Maint-MRO	Plastic Shape Tube/Rod/Bar Pkg	Tools Power Electric
Brushes Industrial	Hydr Pumps & Motors MRO	Plastic Flex_Film&Sht MRO	Tools-Hand Precisin Measr
Brushes Painting & Prep	Hydraulic Cyl MRO	Plastic Flex_Film&Sht Pkg	Transfrmrs Power MRO
	Hydr-Valve Fltrs Misc MRO	Plastic PVF MRO	Transmssn Belts MRO
Casters MRO		Plumb-Fixt Ftgs-Trim Maint MRO	
Chain Roller MRO	Janitorial Supplies	Pneumatic Cylinders MRO	Valves Pipe Ftgs-MRO
Chain Link MRO		Pneumatic Tube & Ftg All	
Circuit Protection Dev MRO	Light Bulbs(W/O Trans) MRO	Pneumatic Vlvs-FRL's MRO	Weldng_Equ Cstn&Maint MRO
Clutches & Brakes MRO	Light-Bulb Transprt MRO	Pumps Industrial MRO	Wire Communications MRO
Components Modules MRO	Light-Fxtr Transprt MRO		Wire Elect/Pwr X-Comm MRO
Compressor Indst MRO	Light-Fxtr W/O-Trans MRO	Refrigratn Com'l/Ind Maint MRO	Wire Small-Diam MRO
Computers Business MRO	Linear Accsories MRO		Wire-Rope Slings Chain-Ftg
Computers Processing MRO	Linear_Act & Positnrs MRO	Safety Persnl Protectn	Wiring-Dev Current MRO
Const-Supl: Rope Ldrs Shvl		Safety Test-Eqpt & Resprtrrs	Wiring-Dev Non-Cur'nt MRO
Contrlrs Gen-Indst P/C MRO	Machine Tool Access'res	Saw Blades	
Contrlrs Specialty Indst-MRO	Monitormg Panel Eqpt/Ind MRO	Sealants MRO	
Controls Gen-Indst Eqpt MRO	Motors Fractional HP MRO	Seals Mech Auto MRO	
Controls Motor & Drive MRO	Motors Integral HP MRO	Seals Mech Indst MRO	
Controls Process Inst MRO		Sheaves MRO	
Controls Vari-Spd Drvs MRO	O-Rings MRO	Shelvg Rcks-Lkrs-Bnchs	
Conveyor Belting Flat MRO		Sprockets MRO	
Conveyors & Conveyg Eqpt	Packaging Tape	Steel Alloy MRO	
Couplings Flex-Hyd-U MRO	Paint Maint MRO	Steel Carb_Bars MRO	
	Paint Spray-Eqpt MRO	Steel Carb_Pipe MRO	
Fasteners Non-Trhded MRO	Petro Highly-Ref Lubs&Synt	Steel Carb_Plate MRO	
Fasteners Threaded MRO	Petro Hydraulic Oils	Steel Carb_Sheet MRO	
Files	Petro Indst-Oil & Grease	Steel Carb_Tube MRO	
		Steel Cbn-Strctl MRO	
		Steel Stainless MRO	

Monthly Wholesale Trade: Sales and Inventories for April 2009

April 2009 wholesale revenues were \$309.4 billion, down 0.4 percent from March and 19.5 percent from April 2008, according to the U.S. Census Bureau. April sales of durable goods were down 1.9 percent from last month and were down 23.4 percent from a year ago. Sales of motor vehicle and motor vehicle parts and supplies, were down 7.8 percent from last month and sales of metals and minerals, except petroleum were down 6.5 percent. Sales of nondurable goods were up 0.8 percent from last month, but were down 16.1 percent from last year. Sales of farm product raw materials were up 10.5 percent from last month and sales of beer, wine,

and distilled alcoholic beverages were up 2.6 percent.

Inventories

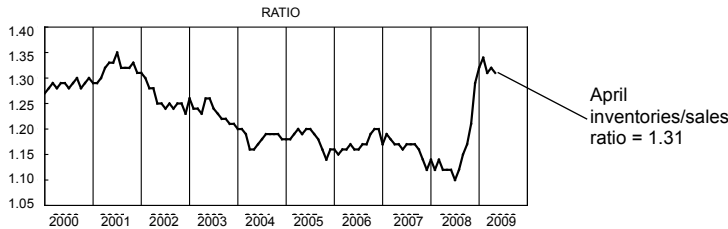
Total inventories were \$405.4 billion at the end of April, down 1.4 percent from the revised March level and were down 6.2 percent from a year ago. End-of-month inventories of durable goods were down 2.2 percent from last month and were down 5.9 percent from last April. Inventories of metals and minerals, except petroleum, were down 6.8 percent from last month and inventories of motor vehicle and motor vehicle parts and supplies were down 4.5 percent. End-of-month inventories of nondurable goods were virtually unchanged from March, but were down 6.6 percent compared to last April. Inventories of apparel, piece goods, and notions were down 2.6 percent from last month, while inventories of paper and paper products were up 2.8 percent.

Inventories/Sales Ratio

The April inventories/sales ratio was 1.31. The April 2008 ratio was 1.12.

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 April 2009

NAICS Code	Business Type	Sales \$ millions	Inventories \$ millions	Stock and Sales ratio	% Change in Sales 3/09-4/09	% Change in Sales 4/08-4/09	% Change Inventory 3/09-4/09	% Change Inventory 4/08-4/09
42	U.S. Total	309,352	405,449	1.31	-0.4	-19.5	-1.4	-6.2
423	Durable	136,600	249,853	1.83	-1.9	-23.4	-2.2	-5.9
4231	Automotive	16,945	35,457	2.09	-7.8	-36.2	-4.5	-14.3
4232	Furniture & Home Furnishings	4,308	6,974	1.62	0.0	-20.3	-2.9	-14.4
4233	Lumber & Other Construction Materials	7,601	12,930	1.70	-0.9	-26.2	-3.1	-10.6
4234	Prof. & Commercial Equip. & Supplies	28,528	30,083	1.05	0.9	-5.7	-1.0	-7.6
42343	Computer Equipment & Software	14,193	9,706	0.68	-0.6	-6.7	-0.6	-12.0
4235	Metals & Minerals	8,832	22,684	2.57	-6.5	-39.7	-6.8	-13.5
4236	Electrical Goods	24,580	31,608	1.29	4.1	-11.3	-1.7	-7.5
4237	Hardware, Plumbing, & Heating Equipment	5,975	13,695	2.29	-3.0	-18.8	-0.2	-4.6
4238	Machinery, Equipment & Supplies	25,635	71,795	2.80	-1.9	-15.4	-1.0	5.8
4239	Miscellaneous Durable	14,196	24,627	1.73	-7.4	-45.0	-0.5	-6.9
424	Nondurable Goods	172,752	155,596	0.90	0.8	-16.1	0.0	-6.6
4241	Paper & Paper Products	7,321	6,825	0.93	0.0	-12.0	2.8	-4.0
4242	Drugs	33,145	32,414	0.98	0.4	4.6	1.2	0.7
4243	Apparel, Piece Goods & Notions	10,261	16,092	1.57	-1.1	-2.1	-2.6	-3.1
4244	Groceries & Related Products	41,731	26,785	0.64	-1.9	-5.0	0.4	-0.4
4245	Farm-product Raw Materials	17,310	18,486	1.07	10.5	-14.0	1.5	-28.8
4246	Chemicals & Allied Products	6,779	8,028	1.18	1.5	-20.1	-1.3	-15.8
4247	Petroleum & Petroleum Products	28,697	13,702	0.48	2.1	-47.4	-1.3	-9.0
4248	Beer, Wine & Distilled Beverages	9,200	11,075	1.20	2.6	5.9	-2.1	6.0
4249	Miscellaneous Nondurable Goods	18,308	22,189	1.21	-2.3	-6.7	-0.1	-2.4

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.

Bankruptcies in the Channel: BMHC and Western Tool Supply

Three years of precipitous declines in the residential construction market have taken their toll on distributors reliant on that sector. In the past three months, at least four distributors have filed for Chapter 11 bankruptcy protection, with two filing in mid-June.

On June 16, Building Materials Holding Corp., Boise, ID, filed for reorganization in the U.S. Bankruptcy Court in the District of Delaware. The building materials and construction services supplier has seen sales decline by more than 50 percent since 2006, from \$3 billion annually to \$1.3 billion in 2008.

The prior week, Western Tool Supply, Salem, OR, submitted a petition to the U.S. Bankruptcy Court in the District of Oregon. Sales for the distributor of tools, fasteners and related parts to contractors fell off 25 percent from 2007 to 2008.

Building Materials Holding Corp.

The filing by BMHC is the culmination of "a series of unforeseen and, unfortunately, unavoidable events" that began with the downturn in the U.S. housing market, according to documents filed by BMHC on June 16. As of March 2009, single-family starts were below 400,000 – the lowest rate since World War II.

"The restructuring will provide us with increased liquidity to navigate the current market challenges while creating a capital structure that will better support our long-term growth objectives," says CEO Robert E. Mellor.

"Importantly, this agreement caps a series of actions we have taken to aggressively respond during this unprecedented housing downturn."

Actions by the company outside of the court include reducing its workforce by more than 75 percent – from a peak of 22,824 employees in June 2006 to current levels around 5,500 – and selling,

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Chicago, IL-based **Grainger**, broad line distributor of facilities maintenance products, said it plans to become a 53 percent majority owner of **MonotaRO**, a direct marketer of MRO supplies in Japan. Grainger expects to invest \$4 million through a tender offer bid process later this summer. MonotaRO started as a joint venture between Grainger and Sumitomo Corp. in 2000. The business offers more than 110,000 products to more than 320,000 customers. In 2008, MonotaRO had revenues of \$136 million and operating earnings of \$11 million.

Industrial distributor **DGI Supply**, a DoAll company, has agreed to acquire **Tool Crib Supply**, an industrial distributor based in Bensenville, IL, according to a report by Quality Magazine. DGI's plan is to combine Tool Crib Supply's inventory with its own and move order fulfillment to Wheeling, IL, its home base.

Order intake volume at Swedish manufacturer **Sandvik** gradually declined in April and May to a level 40 percent to 50 percent lower than last year. As a result, the company has reduced staff by 6,000 since October, and work hours will be reduced by 15 percent to 20 percent for about 12,000 to 14,000 workers beginning in June. Ten production sites will be permanently closed.

Platinum Equity, Los Angeles, CA, has acquired the wire harness and electrical distribution business of **Alcoa**, Pittsburgh, PA. Financial terms of the acquisition were not disclosed. The sale includes operations in 13 countries and involves approximately 17,500 employees.

Canadian wholesale sales in current dollars fell 0.6 percent to \$40.3 billion in April. In terms of the volume of sales, wholesale sales were up 0.5 percent. This was the first increase since September 2008. In April, four of the seven sectors, accounting for two-thirds of total wholesale sales, declined. Sales in the building materials sector fell 2.9 percent in April.

Global manufacturers shipping to the U.S. market increased 2 percent in May, according to Panjiva, a firm that tracks overseas suppliers. It is the third monthly increase in a row. According to Panjiva, the number of significant manufacturers appearing on its Watch List fell from 31 percent to 30 percent in May. The percentage of significant buyers doing business with a Watch List supplier in the preceding three months fell from 41 percent to 40 percent in May.

Wholesale prices moved up 0.2 percent in May, seasonally adjusted, the Bureau of Labor Statistics reported. At the earlier stages of processing, prices received by producers of intermediate goods rose 0.3 percent following a 0.5 percent decline a month earlier, and the crude goods index climbed 3.6 percent after rising 3 percent in April. Before seasonal adjustment, the Producer Price Index for Finished Goods increased 0.5 percent in May to 170.8 (1982 = 100).

Industrial production decreased 1.1 percent in May after having fallen a downward-revised 0.7 percent in April, according to the Federal Reserve.

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MDM News Digest

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The average decrease in industrial production during the first three months of the year was 1.6 percent. Manufacturing output moved down 1.0 percent in May with broad-based declines across industries.

Housing starts went up 17.2 percent in May to an annual rate of 518,000, compared with April, according to the latest figures from the U.S. Census Bureau and the Department of Housing and Urban Development. The number is 45.2 percent below May 2008.

Canadian manufacturing sales edged down 0.1 percent to \$41 billion in April, according to the latest report from Statistics Canada. Sizeable gains in the transportation equipment industry were offset by weakness in other industries. Excluding the transportation equipment industry, manufacturing sales decreased by 2.8 percent. Constant dollar manufacturing sales gained 0.4 percent in April. Although manufacturing sales remaining largely unchanged in April, sales decreased in 16 of 21 manufacturing industries.

Canadian industries operated at 69.3 percent of **production capacity**, down 5.6 percentage points from the previous quarter. It was the first time that industrial capacity use fell below the 70 percent level since the start of the data

series in 1987. Of the 21 major industries in the manufacturing group, 18 registered lower rates.

Both U.S. and Canadian manufacturers experienced a drop in sales in April 2009 according to sales data released by the **Power Transmission Distributors Association**. U.S. manufacturers' sales were down 11.0 percent in April 2009 when compared to March 2009. Canadian manufacturers' sales were down 3.0 percent compared to March 2009. Confidence in the market remained the same this month, holding a current negative position between 4.6 and 4.9.

Illinois Tool Works Inc., Glenview, IL, reported operating revenue decreased 26 percent for the three months ended May 31, 2009, due to a 23 percent decrease in base revenues and a 9 percent decline in contributions from currency translation. Acquisitions contributed 6 percent to revenues in the three month period.

Actuant Corp., Milwaukee, WI, reported sales for the third quarter ended May 31, 2009, were \$290 million, down 35 percent from the prior year. Core sales declined 33 percent. The diversified industrial company recorded a loss of \$17.6 million for the term. Year to date, sales declined 23 percent to \$970 million. The net loss for the nine months was \$2.8 million.

Calculation of MDM Inflation Index for May 2009

	BLS Price Indices May '09	BLS Price Indices Apr. '09	BLS Price Indices May '08	% Sales Weight	Weighted Indices May '09 (1)X(4)	% Change May '09 Apr. '09	% Change May '09 May '08
1136 Abr. Prod.	523.1	526.9	484.8	19.1	99.90	-0.73	7.90
1135 Cutting Tools	451.5	452.3	441.2	18.9	85.33	-0.18	2.34
1145 Power Trans.	724.5	726.0	673.2	15.4	111.57	-0.22	7.61
1081 Fasteners	477.2	478.5	478.0	9.0	42.95	-0.28	-0.17
1149.01 Valves, etc.	859.4	859.4	826.9	7.6	65.31	0.00	3.93
1132 Power Tools	339.2	339.0	336.1	6.5	22.05	0.07	0.92
1144 Mat. Handling	519.5	520.9	486.2	6.2	32.21	-0.28	6.84
0713.03 Belting	606.1	606.1	578.1	6.1	36.97	0.00	4.84
1042 Hand Tools	740.0	738.6	701.1	8.1	59.94	0.18	5.54
108 Misc. Metal	453.4	452.9	436.5	3.1	14.06	0.12	3.88
"New" May Index	298.0	May Inflation Index			570.28	-0.21	5.01
"New" April Index	298.6	April Inflation Index			571.48		
		May 2008 Inflation Index			543.09		

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

The Year in Review: Canada Wholesale Trade in 2008

Like most sectors in the Canadian economy, the wholesale industry was hard-hit by the global economic downturn in the final months of 2008, according to Statistics Canada's annual report on the wholesale trade industry, "Wholesale Trade: The Year 2008 in Review." The economy shrank at an annualized rate of 3.4 percent in the fourth quarter, while the U.S. economy contracted by 6.2 percent.

The wholesale sector posted strong growth in the first half of 2008. The decline started in October. A fourth-quarter slump in Canada's exports (-4.7 percent), imports (-6.4 percent) and retail sales were reflected in wholesale sales, which were down 6.3 percent in December compared with September.

Most sectors experienced declining sales in the final months of 2008, including the other products sector and the automotive products sector, whose sales were down 18.9 percent and 11.1 percent in December compared with September.

Automotive product sales posted four monthly declines in the first nine months of 2008, and the downturn in sales accelerated in the last three months of the year.

The weakness in wholesale revenues continued in early 2009; preliminary figures for January and February show a decrease of 3.9 percent and 0.6 percent, respectively.

Overall: Slower Growth in 2008

Canadian wholesalers reported the lowest growth in sales in the past five years, thanks the downturn in the Canadian economy in the fourth quarter and the slump in the automotive industry, according to the Statistics Canada

report.

Wholesale sales rose 3 percent in 2008 to more than \$532 billion, a lower growth rate than in 2007, when the sector saw a 5.4 percent increase. The slower growth largely reflects sales declines in automotive products sector. Excluding automotive product sales, the growth rate in wholesale trade was 6.1 percent in 2008.

Despite the economic downturn, five of seven sectors reported higher sales in 2008. The downturn in the automotive products sector was partly offset by the strong performance of the machinery and electronic equipment sector and the other products sector.

Machinery and electronic equipment, the largest sector in terms of sales, recorded 7.1 percent growth in 2008. Higher sales were seen in the machinery and equipment group, reflecting investment in infrastructure and expansion in mining and oil industries. Fertilizer prices drove increases in the other products sector.

By province, wholesalers in Alberta and Saskatchewan posted larger gains than in other provinces – accounting for more than 80 percent of the increase in sales at the national level. Ontario, on the other hand, saw its first decline in sales (-0.6 percent) since 1993. The province fell below 50 percent of national sales for the first time since 1995.

Automotive Products

Companies in the automotive products sector reported their lowest sales since 2001. Since 2003, sales in this sector were rising at a lower average annual rate than overall wholesale revenues, pushing its share of total sales down from 21 percent in 2003 to 16 percent in 2008.

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2008 Wholesale Revenues by Sector in Canada

Wholesaler-distributor revenues in Canada were \$532.4 billion last year, up 3 percent.

Sector	Annual Change
Farm Products	-3%
Food Products	3.7%
Pharmaceuticals	10.5%
Motor Vehicles	-13.6%
Motor Vehicles Parts/Accessories	1.7%
Building Supplies	0.7%
Lumber & Millwork	-12.4%
Computer & Other Electronic Eqmt	5%

Here's the breakdown in sales increases or decreases by sector for 2008:

Sector	Annual Change
Office & Other Professional Eqmt	2.3%
Other Products	15.9%
Apparel	4%
Household & Personal Products	-0.2%
Alcohol & Tobacco	5.9%
Metal Products	8.8%
Machinery & Equipment	10.4%

Source: Statistics Canada, www.statcan.gc.ca

Bankruptcies in the Channel

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closing or consolidating 78 business units.

BMHC reached an agreement with secured debtors to receive debtor-in-possession financing for the pre-negotiated reorganization plan submitted with the voluntary petition. The financing plan received interim approval from the bankruptcy court on June 17.

Under the proposed plan, BMHC will maintain normal operations and continue to pay employee wages, salaries and benefits in the usual manner.

The company intends to make payment for goods received and services provided to it on or after the filing date in the normal course of business and in accordance with the terms of existing supplier agreements.

In addition, under its proposed Plan of Reorganization, BMHC expects to pay in full suppliers of goods provided in the 20 days before filing and those with claims of under \$5,000.

Currently, there are no plans to further reduce headcount, though it remains a possibility if conditions continue to deteriorate.

Western Tool

According to a June 10 filing, submitted to the court by Western Tool Supply President Kevin Kiker, the distributor of tools, fasteners and

related parts to contractor customers has seen sales drop "precipitously" in 2009. Gross sales in 2007 were \$67.5 million, and in 2008 fell to \$50.8 million. No figure was provided for year-to-date sales in 2009.

At its peak, the distributor had 61 stores in 13 states through U.S., and additional locations in Canada. Canada's locations were named House of Tools; the Canadian unit filed for bankruptcy in that country in May 2009, according to a separate court filing.

As of the bankruptcy filing, Western Tool operated 32 stores. It reduced its headcount from 174 on Jan. 1, 2009, to 98 as of June 9, 2009.

The goal of the Ch. 11 filing, according to Kiker, is to preserve cash, stabilize operations, get out of unprofitable leases, and utilize the resources available under the Bankruptcy Code.

The reorganization strategy includes closing remaining East Coast stores and warehouses, terminating the leases of underperforming stores in California and the Pacific Northwest, reducing staff, evaluating the company's marketing strategy and implementing other necessary changes.

The company expects to emerge from Ch. 11 "as a lean, but profitable, business entity," according to the filing.

Year in Review: Canada Wholesale Trade

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Wholesale sales of automotive products dropped 10.6 percent in 2008 compared with 2007, and the entire decline can be attributed to the motor vehicle group (-13.6 percent). In contrast, the sales of auto parts wholesalers were up 1.7 percent.

Machinery & Electronic Equipment

This sector recorded its fifth consecutive sales gain in 2008, with a 7.1 percent increase in sales to more than \$117 million.

Since 2004 sales in this sector have climbed nearly 36 percent, well above the average growth rate for overall wholesale sales over the same period.

The machinery and equipment group (a part of this sector) had nearly \$60 billion in sales.

The expansion in machinery and equipment group sales are largely due to heavy demand for agricultural machinery in Alberta and Saskatchewan and to increased investment in oil and gas development machinery in Alberta.

Canadian businesses were incentivized to invest in machinery as the Canadian dollar appreciated against the U.S. dollar in the first eight months of the year. Much of the machinery sold in Canada is sourced from the U.S. and priced in U.S. dollars.