

Conditions Ripe for Better Pricing

How to get over the hurdles that stop some from getting there

Brent Grover of Evergreen Consulting recently spoke with MDM about the importance of the concepts outlined in his latest book, "Strategic Pricing for Distributors: Tools and Rules for Building Higher Margins." Grover writes that strategic pricing can result in an increase of 200 or more basis points (2 percentage points) of gross margin percentage. "It's far more dramatic than slashing the staff or reducing sales commissions," he tells MDM. This article looks at why now is a good time to implement a new pricing strategy and analyzes the importance of two key aspects: the sales team and technology.

Grover's book, written as part fable featuring the fictitious Mahoning Distributors, and part practical guide, was released by the National Association of Wholesaler-Distributors Institute for Distribution Excellence and is available at www.naw.org/publications.

By Lindsay Young Konzak

Research for the new book, "Strategic Pricing for Distributors: Tools and Rules for Building Higher Margins," found that less than 4 percent of distributors interviewed were totally satisfied with their pricing management process, and 29 percent were mostly satisfied. On the flip side, more than 50 percent were less than satisfied.

For those who were satisfied to some degree, author Brent Grover found some similarities in how they've approached pricing. They grant less authority to inside and outside sales reps, are more likely to employ customer segmentation and pricing sensitivity analyses, and, interestingly, tended to be smaller. The companies indicating more satisfaction with their pricing practices also are more profitable as measured by return-on-sales and ROI.

For those who aren't satisfied or are still looking for some improvement, Grover believes now may be a good time to make

a change. In fact, even top-performing distributors can do better, he says.

"The best-run companies we have worked with – those who know how to gain market share, control people and non-people expenses, and manage assets – do not have good pricing processes," he says. "Now, when it's so hard to grow sales, distributors have three choices: cut costs, squeeze cash out of the balance sheet, and improve margins. Most of them are doing the first two very well, but not the third."

Improvement Potential

"There is an excellent opportunity to improve margins right now," Grover says. "Just as much opportunity as when business is good."

In fact, Grover points out that from 2004-2007 many distributors experienced more severe margin deterioration than some are seeing now partly because prices from suppliers were going up so rapidly, and "the salespeople who didn't have enough information to do their job and did not delegate acted like pricing clerks, tried to pass along increases to customers, but failed to do so."

Back to the present, where many distributors are facing rough sales conditions and declining prices. Grover contends that distributors have an opportunity to build margins by not passing on decreases as quickly or as fully as they are coming to them. Another reason now is a good time to explore strategic pricing: Many distributors are reaching the limits of bank borrowing. They are dealing with stressed lenders that want to contract the credit available to distributors. Bankers want more collateral and higher performance.

"If you are borrowing from a bank with loan covenants based on profitabil-

continued on page 4

INSIDE

Commentary: The Fear Factor in Change

Taking a risk and making change can bring high ROI, but it takes courage to move in that direction.
Page 2

2Q Inflation by Commodity Group

Pricing trends for the second quarter.
Pages 4-6

A Glance at Latest Economic Indices

Data points to a possible recovery in near future.
Page 7

Monthly Wholesale Trade: May 2009

Sales inch up; inventories continue to fall.
Page 8

Distribution Comparables: 2Q

Quarterly financial metrics and trading multiples for 28 publicly traded distributors.
Page 3 of Industrial and Construction Markets Update



PERSPECTIVE ■ *Commentary by Lindsay Young Konzak***The Fear Factor in Change**

Here at MDM we are in the midst of implementing some positive changes in how we do business. We are especially excited about one in particular, which we will be revealing to you in the next couple of months.

Our operations are different from a distributor's – MDM is a part of Gale Media, which is a specialized publishing and research business – but through our work, we are reminded of the challenges that come with change. Undoubtedly, these challenges transcend industry lines.

While we hope the ROI will be positive, there is only so much a business can control. And that's the fear factor in change.

But it's also exciting and provides a great opportunity for the company. We recognize the only way to continue growing is to make this investment of time and energy. We feel like we've done many things right, such as hiring a specialist to oversee the work. We've deployed a cross-functional team to make sure we are covering our bases and to ensure buy-in. And while we've set out a pretty good plan, we understand you cannot plan for everything. So we've learned to be flexible and to change course when needed.

In this issue's lead article, "Conditions Ripe for Better Pricing," Brent Grover of Evergreen Consulting addresses the challenges in making

changes to a distributor's pricing system. In fact, pricing is one of the most sensitive areas for a distributor to change due to its direct impact on the sales force and how it is accustomed to operating. He recognizes that, but has also seen firsthand the potential for high ROI when change is done right.

Change is a lot of work and it can take a long time to see the ROI. Keeping a company focused on the end goal can be challenging. As quoted in an old Knowledge@Wharton article on implementing strategy: "There are more people involved in executing strategy today – and execution takes longer than people expect. So you develop a strategy, but you have to go throughout the organization and through dozens of planners to make sure it is carried out. Once execution starts, it could be one or two years, or even require a three-to-five year time frame." (*Link to the article online at mdm.com.*)

Another obstacle? Internal resistance. As the same article points out, "People lose power, resources, autonomy, or they perceive that they might lose autonomy." Many distributors have experienced this pushback.

But some distributors have pushed forward anyway, found ways to address these issues and gain buy-in. As a result, they have reaped the rewards of taking this risk. ■

MODERN DISTRIBUTION MANAGEMENT

*Founded in 1967
by J. Van Ness Philip*

Publisher
Thomas P. Gale
tom@mdm.com

Editor
Lindsay Young Konzak
lindsay@mdm.com

Associate Publisher
Craig Riley
craig@mdm.com

Associate Editor
Jenel Stelton-Holtmeier
jenel@mdm.com

Contact Information

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

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

Subscription Rates

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

Subscriptions are available by online delivery and/or first-class mail. Eight years of archives of MDM are available online to subscribers.

Published twice monthly; \$345/yr., \$365 U.S. funds other countries; \$169 each additional subscription to a company (\$189 other countries). Six-month and two-year terms are now available. For group subscription rates and site licenses, please contact Hadley Fable at 303-443-5060.

Copyright © 2009 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm.com are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.

ISSN 0544-6538

MDM Editorial Advisory Board

Kevin Boyle
Vice President Industrial Distribution and Channel Management for the Loctite Industrial Division of Henkel Technologies

Larry Goode
CEO of RT Dygert International, Inc.

Julia Klein
President and CEO of C.H. Briggs Company

Stuart Mechlin
Senior Vice President, Industrial Supply Division of Affiliated Distributors

Walter W. Norton Jr.
President and COO of Norton Electric Wholesale

Doug Savage
President and CEO of Bearing Service Inc.

Conditions Ripe for Better Pricing

Continued from page 1

ity, then you've got to generate profitability to demonstrate you're worthy of a loan," Grover says. He says improving company profitability is also a good way to attract more capital to the industry. "We need to convince investors this is a good place to put their money."

Sales Challenge

In research for the book, Grover found that the more autonomy salespeople had, the less satisfied management was with the results. And the more autonomous salespeople were, the less profitable the company was. These results highlight the importance of tackling hurdles to better pricing that lie in the sales department.

"We don't feel you can talk about distributor strategic pricing without including sales management, sales training and sales compensation in the conversation," Grover says.

Compensation plans are perhaps one of the most difficult areas for distributors to tackle. Not knowing what can work, or whether they'll see internal resistance, makes distributors nervous to change things. "Most distribution companies have compensated their salespeople based on straight commission and income variable on gross margin dollars," Grover says. In the book he says that a compensation plan often stands as a proxy for management: Management expects salespeople to "do the right thing" and optimize margins, which doesn't always happen.

"That type of commission plan is only a first cousin of paying the sales force to simply generate volume," Grover says. "The sales reps figured this out long ago, but many companies under-manage the sales group by thinking that the commission plan is doing the managing for them. Most of the reps are going for volume, most of the time."

But, Grover says, it's sometimes tough for salespeople to do right as many salespeople are often well-trained on product knowledge and basic sales skills such as presentation and time management, but undertrained on pricing and negotiations. "Without adequate information they are not in a position to be good negotiators. Often a salesperson's information on market pricing comes from a small percentage of his overall customer base – and often that competitive intelligence comes from customers who are not in the same customer segment or size range. In other words, 'salespeople are often flying blind,'" Grover says.

He says managers must encourage salespeo-

ple to be more than pricing clerks. In the book, Grover asks managers to teach the sales staff to delegate routine pricing functions for most customers to support staff. "Competent sales reps can become more effective by delegating pricing activities for their smaller customers and less-sensitive items to the support staff," Grover says. "Being a pricing clerk is not the highest and best use of the sellers' time."

Building a salesperson's negotiation skills will also help. "With larger customers, and sensitive items, the selling process gives way to negotiation," Grover says. "Outstanding negotiators get great results not by using dirty tricks but because they have superior information. Strategic pricing mines the data and analyzes market pricing for like customers on like items.

"Sales reps succeed in high-level negotiations by arming themselves with market-driven information." Unfortunately, many times customers usually have the better information, and in many cases, finish negotiations in a better position than the sales rep.

Unlocking Market Data

Using technology, fresh, actionable market pricing information can be unlocked from distributors' data, and turned into valuable knowledge the sales force and managers can use.

"The heart and soul of strategic pricing is putting analytics to work on the distributor's transaction database," Grover says. "What's going on here is taking the most recent 12 months of transactions – every customer, every item – and sorting the data. Segmenting customers, segmenting products, identifying customer pricing sensitivity and levels of resistance.

"It's heavy-lifting for people, but an easy assignment for a powerful computer."

Grover says that any distributor with \$25 million or more in annual sales has the capacity to implement a system to manage pricing analysis and change. More distributors are using pricing analytics through their current ERP systems, and others are taking advantage of pricing modules offered through Software as a Service, hosted elsewhere, cutting down on on-site IT investment. Still, the approach distributors take to technology is key.

"Strategic pricing provides powerful information, but it doesn't not 'automatically' appear in the distributor's pricing files," he says. "Part of the implementation job is rethinking the pric-

continued on next page

4

To order copies of "Strategic Pricing for Distributors: Tools and Rules for Higher Margins," go to www.naw.org/publications or call (202) 872-0885.

ing process, and exploring ways to get more out of the ERP system's pricing module."

A Part of Strategy

Of course, pricing involves more than just the sales team and technology – rejiggering a company's pricing requires involvement from all departments in a distributorship. A cross-functional team should be deployed, and management should lead the charge and make clear pricing's importance, Grover says.

Grover says that because pricing is part of strategy, it should be made a priority. "It has to do with the way the company deploys its sales force and the way it sets prices. That is basic strategy.

"... It's how the distributor expresses its value proposition to the customer." He says that pricing translates the value provided to the customer into value for the company.

Keeping it "elegantly simple" is the key to ensure a new pricing system is effective, Grover writes. "A well-designed system will produce

pricing recommendations for specific customer-item combinations as well as pricing guidelines for groups of like customers and groups of like items," he says. "An outside rep, inside rep, or anyone else can produce a consistent, market-driven quote for any customer-item combination."

Pricing Leadership

Distributors certainly face hurdles in optimizing their pricing practices. But strong leadership involvement can help the company to overcome those. In addition, distributors should tap a qualified manager to take on responsibility for pricing as all of or part of his job description.

Leadership also must ensure that constant monitoring takes place to avoid back-sliding to prior pricing practices. If back-sliding does occur, the distributor can course-correct and move forward. In doing so, "many distributors have demonstrated sustained margin improvement and continuous improvement over several years," Grover says.

Inflation by Commodity Group

Pricing trends for the second quarter 2009

These select product groups provide a snapshot of inflation trends based on the Producer Price Index from the U.S. Bureau of Labor Statistics. Second quarter 2009 is compared with second quarter 2008, second quarter 2009 with first quarter 2009.

Page 5:

Abrasives
Adhesives & Sealants
Cutting Tools & Accessories
Hand & Edge Tools
Fasteners
Power-Driven Hand Tools
Ball & Roller Bearings
Mechanical Power Transmission Equipment
Valves, Except Fluid Power
Pumps, Compressors & Equipment
Industrial Gases
Welding Machinery/Equipment

Page 6:

Fluid Power Equipment
Plumbing Fixtures & Fittings
Hardware
Sanitary Paper Products
Plastic Resins & Materials
Specialty Cleaning, Polish & Sanitary Products
Industrial Safety Equipment
Softwood Lumber

Metal-Forming Machine Tools
Metal-Cutting Machine Tools

Online Only (www.mdm.com/databank)

Electrical Machinery/Equipment
Industrial Material Handling Equipment
Hardboard, Particleboard, Fiberboard Products
Hardwood Lumber
General Millwork
Plywood
Construction Products from Plastics
Gypsum Products
Air Conditioning & Refrigeration Equipment
Tools, Dies, Jigs, Fixtures, Industrial Molds
Fluid Power Valves
Food Commodities (12 product groups)

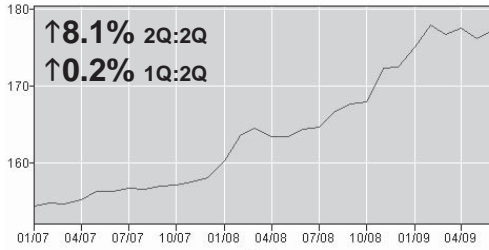
Key

↑11.6% 2Q:2Q (2Q '08 with 2Q '09)

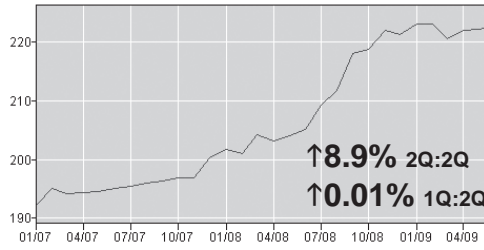
↑1.8% 1Q:2Q (1Q '09 with 2Q '09)

Full Inflation by Commodity Group Data, including past data, is available in the Current Issue at www.mdm.com/issues and at the MDM Databank, www.mdm.com/databank.

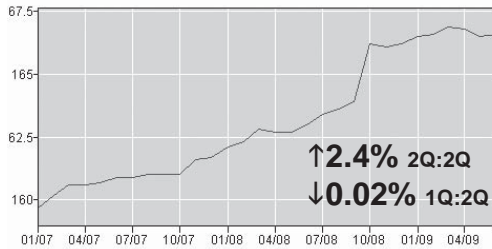
Abrasives



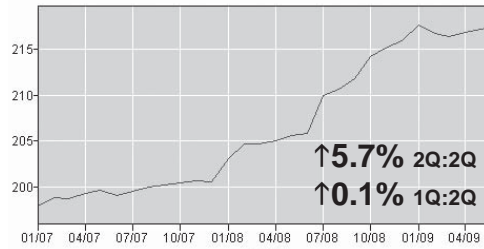
Adhesives & Sealants



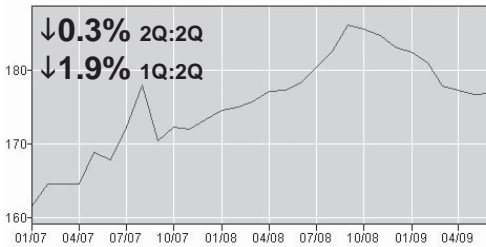
Cutting Tools & Accessories



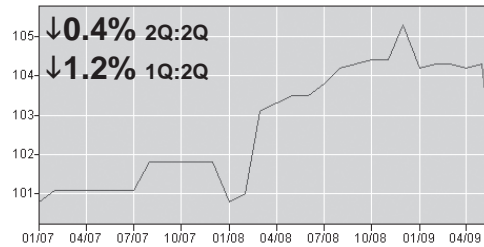
Hand & Edge Tools



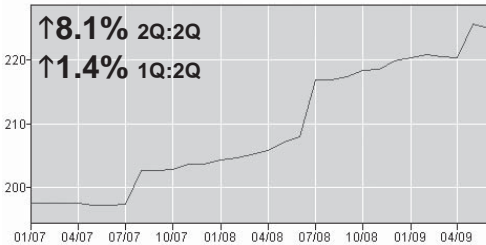
Fasteners



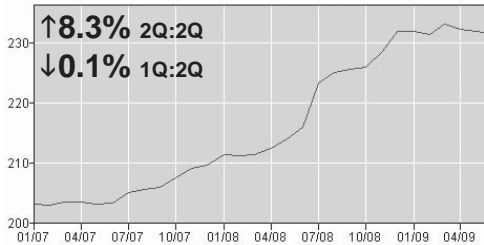
Power-Driven Hand Tools



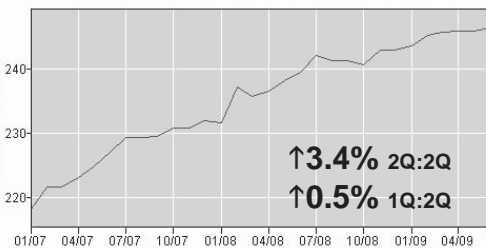
Ball & Roller Bearings



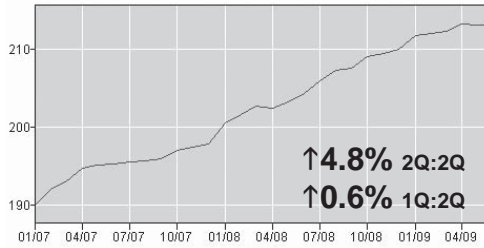
Mech. Power Transmission Eqpt.



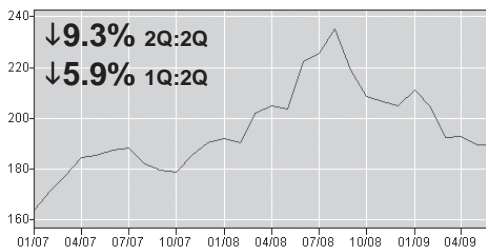
Valves, Except Fluid Power



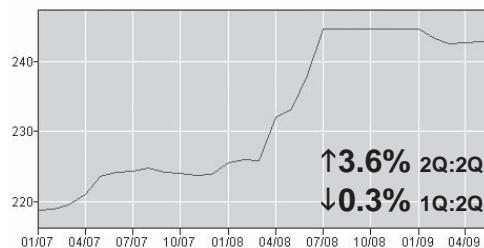
Pumps, Compressors & Eqpt.



Industrial Gases



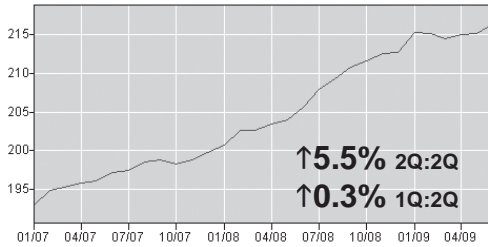
Welding Machinery/Equipment



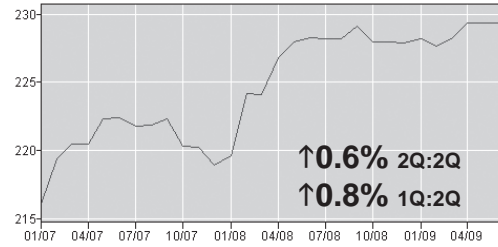
continued on page 6

Inflation by Commodity Group from p. 5

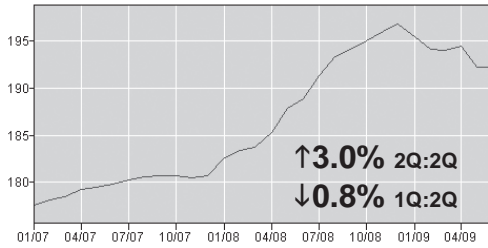
Fluid Power Equipment



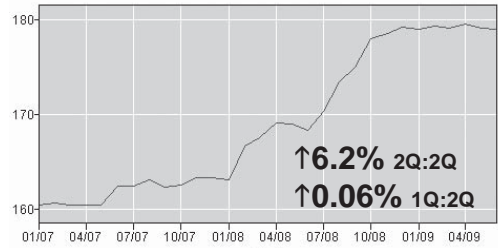
Plumbing Fixtures & Fittings



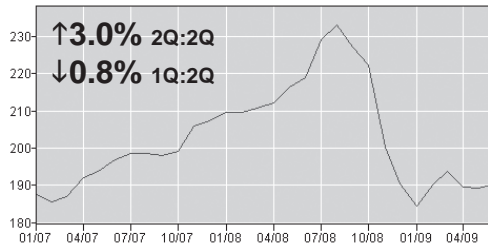
Hardware



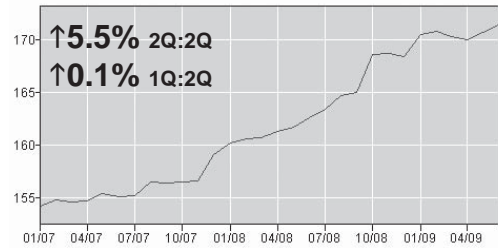
Sanitary Paper Products



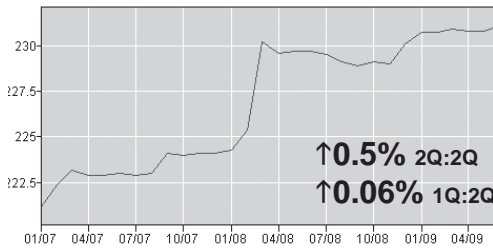
Plastic Resins & Materials



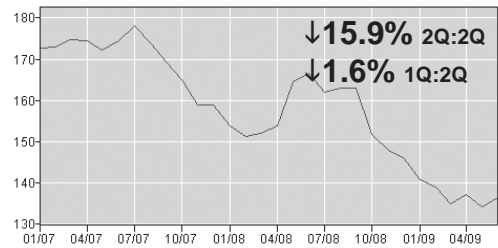
Spec. Cleaning, Polish, San. Products



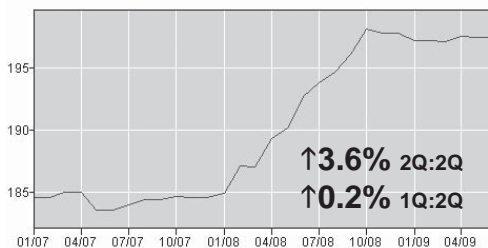
Industrial Safety Equipment



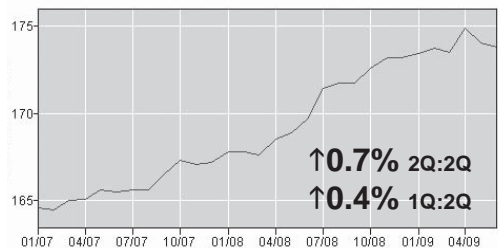
Softwood Lumber



Metal-Forming Machine Tools



Metal-Cutting Machine Tools

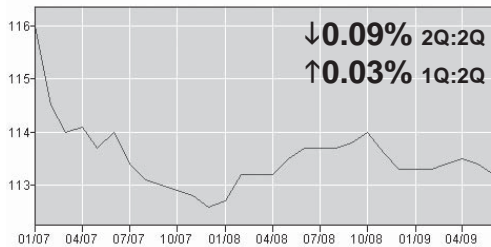


Source: U.S. Bureau of Labor Statistics, MDM Analysis Copyright © 2009 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.

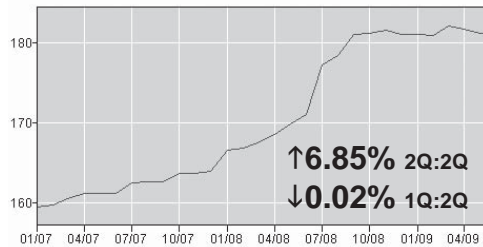
MDM Inflation by Commodity Group cont.

Pricing trends for the second quarter 2009

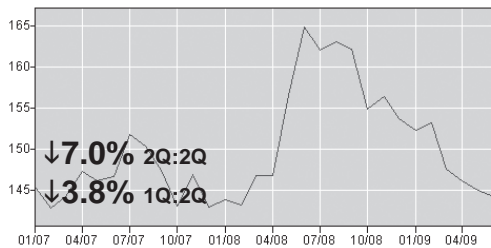
Electrical Machinery/Equipment



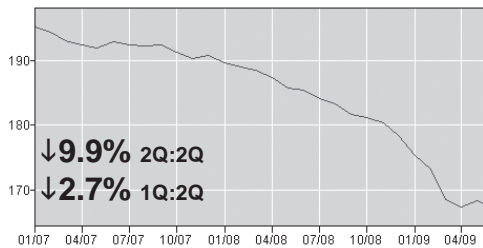
Material Handling Eqpt. (Ind)



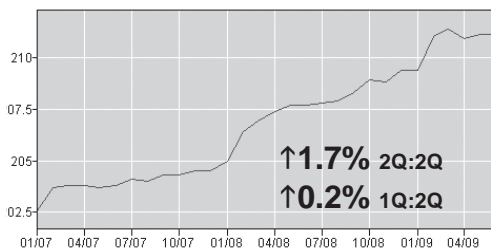
Hardbd, Particlebd, Fiberbd Products



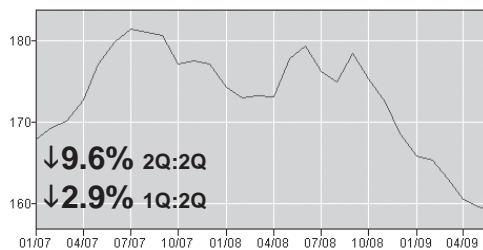
Hardwood Lumber



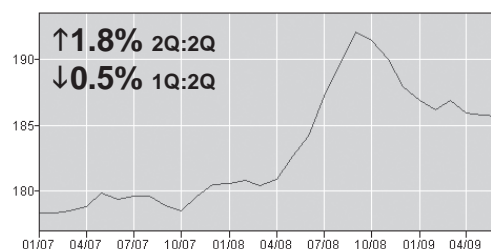
General Millwork



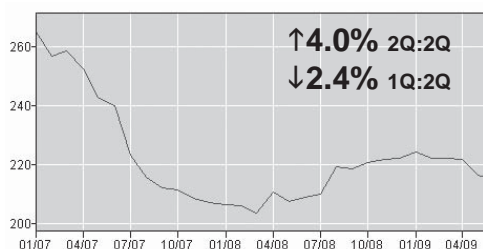
Plywood



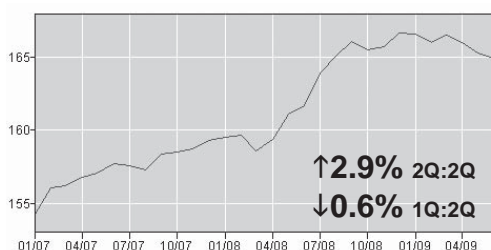
Construction Products from Plastics



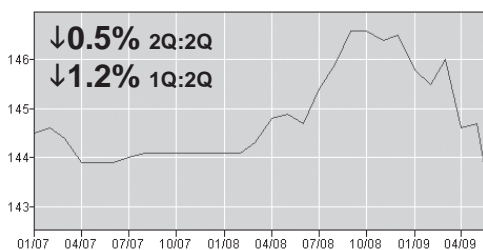
Gypsum Products



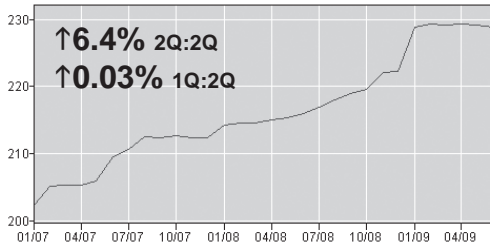
Air Conditioning & Refrigeration Eqmt.



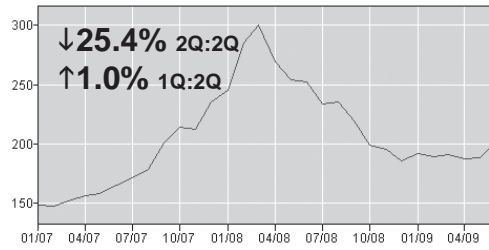
Tools, Dies, Jigs, Fixtures, Ind. Molds



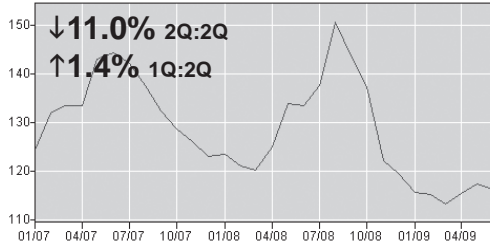
Fluid Power Valves



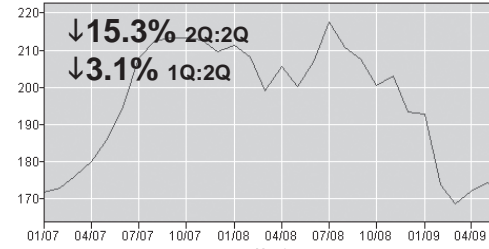
Flour



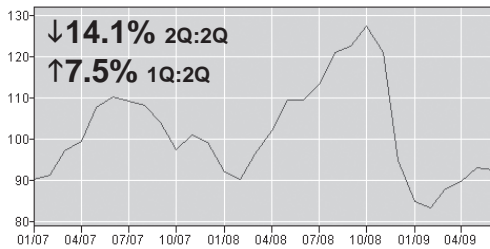
Pork Products



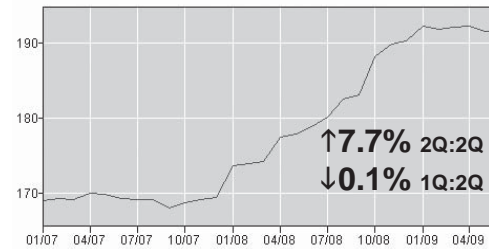
Fluid Milk Products



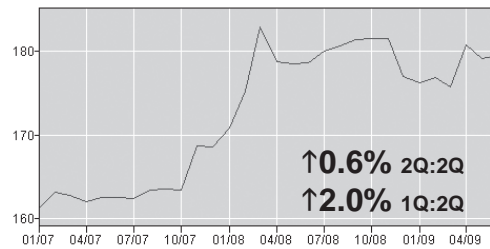
Butter



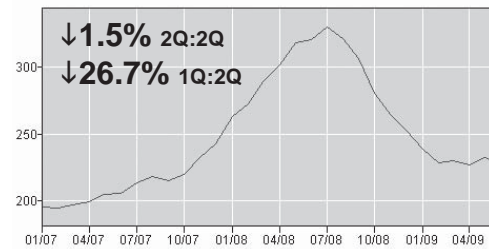
Sugar & Confectionary



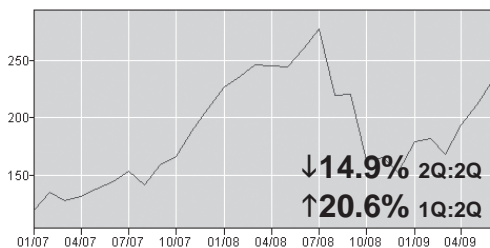
Coffee



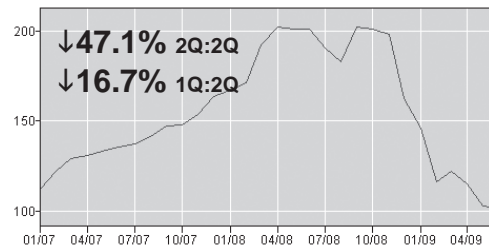
Shortening & Cooking Oil



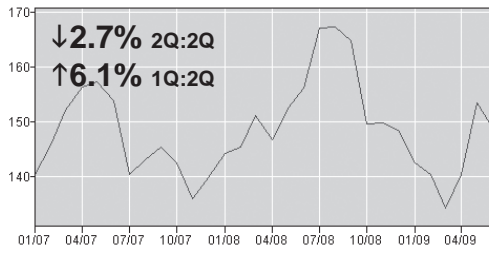
Oilseeds



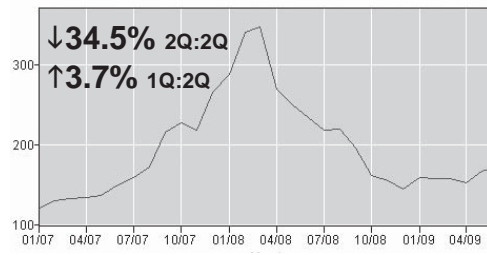
Processed Eggs



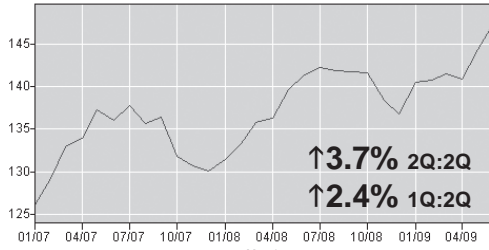
Beef/Veal Products



Wheat



Processed Poultry



Source: U.S. Bureau of Labor Statistics, MDM Analysis
Copyright © 2009 by Gale Media, Inc. All rights reserved.
Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.

■ *Economic Update*

Is Recovery On the Way?

Latest economic indicators: Some improvement appears, declines slow

This is the first of a new monthly feature compiling the latest economic indicators to provide a more holistic view of the state of the economy.

The long climb to economic recovery may be beginning as a variety of economic indicators posted more positive results in May and June.

While not all of the indicators posted positive results, many of those remaining negative declined at a slower rate.

Though the outlook for recovery is still uncertain, many economists view these shifts as signs that the U.S. economy is heading into recovery phase with growth possible in 2010.

With the current recession in its nineteenth month, it is already longer and more widespread than the recessions in 1990-1991 and 2000-2001, according to Nouriel Roubini of the RGE Monitor, an economic analysis firm.

Here is a rundown of some key numbers from the past month:

Housing starts were up 3.6 percent in June when compared with the May rate, while remaining 46 percent below the June 2008 rate, according to the latest figures from the U.S. Census Bureau and the Department for Housing and Urban Development. Single-family housing starts increased by 14.4 percent, following a bump in May of 7.5 percent. New construction authorized by permits also improved to an annual rate of 563,000, up 8.7 percent from May.

Construction spending posted a slight decline of 0.9 percent in May, which offset the gains in April of 0.7 percent, according to figures released by the U.S. Department of Commerce. Overall, construction spending has remained relatively stable since the beginning of 2009. Construction spending in May 2009 was estimated at an annual rate of \$964.0 billion.

Wholesale revenues inched upward in May to \$311.3 billion, improving 0.2 percent from the revised April level, the Commerce Department reported. Additionally, the April level was revised upward by 0.4 percent, flat with the March level.

Inventories were down 0.8 percent from April level at \$402.2 billion. Year-over-year,

wholesale trade sales were down 19.9 percent.

Industrial production declined 0.4 percent in June after falling 1.2 percent in May. Second quarter production fell at an annual rate of 11.6 percent, a more moderate contraction than the 19.1 percent experienced in the first quarter. **Capacity utilization** fell to its lowest level since 1967, hitting 68 percent in June.

New orders for manufactured goods increased 1.2 percent in May to \$347.9 billion, according to figures reported by the U.S. Census Bureau. New orders for durable goods totaled \$163.4 billion, up 1.8 percent. New orders for manufactured nondurable goods increased \$1.2 billion or 0.7 percent to \$184.5 billion.

The Institute for Supply Management's New Order Index declined 1.9 percentage points in June to 49.2 percent. A New Orders Index above 48.8 percent, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders (in constant 2000 dollars). While June's decline offset some of the gains made in May – the first increase in 17 months, the figure remains higher than April 2009.

The June **PMI**, as reported by the Institute for Supply Management, was 44.8 percent, a gain of two percentage points over May's result. While the below-50 number still indicates contraction, the rate of contraction is slowing. Seven of the 18 industries included in the index reported growth in June.

The trend of inventory destocking appears to be nearing its end, as the **Customers' Inventories Index** was 43.5 percent in June, according to the **Manufacturing ISM Report On Business**. This is the third consecutive month the inventories index has remained below 50 percent. A number below 50 percent indicates ISM respondents believe their customers' inventories to be "too low."

The Conference Board's Leading Economic Index for the U.S. increased 0.7 percent in June, the third consecutive month of improvement. The composite indexes provided by The Conference Board suggest that the recession will continue to ease and that the economy may begin to recover in the near term.

Visit mdm.com for current and past issues of Modern Distribution Management, plus breaking news, the MDM Blog, and economic & market data.

Monthly Wholesale Trade: Sales and Inventories for May 2009

May 2009 wholesale revenues were \$311.3 billion, up 0.2 percent from the revised April level, but down 19.9 percent from the May 2008 level. The April preliminary estimate was revised upward \$1.4 billion or 0.4 percent. May sales of durable goods were down 0.2 percent from last month and were down 23 percent from a year ago. Sales of metals and minerals, except petroleum were down 8.1 percent for last month, while motor vehicle and motor vehicle parts and supplies were up 4.4 percent. Sales of nondurable goods were up 0.5 percent from last month, but were down 17.2 percent from last year. Sales of petroleum and petroleum products were up

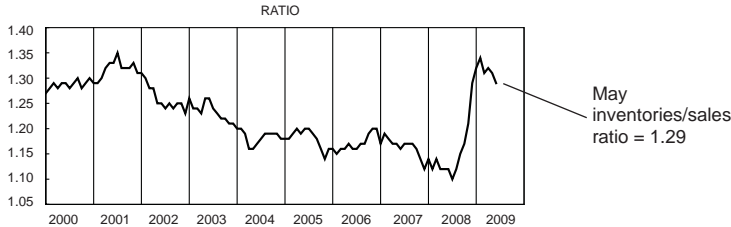
4.6 percent from last month and sales of drugs and druggists' sundries were up 1.4 percent.

Inventories. Total inventories were \$402.2 billion at the end of May, down 0.8 percent from the revised April level and were down 7.6 percent from a year ago. End-of-month inventories of durable goods were down 1.5 percent from last month and were down 8.2 percent from last May. Inventories of metals and minerals, except petroleum were down 5.2 percent from last month and inventories of lumber and other construction materials were down 3.2 percent. End-of-month inventories of nondurable goods were up 0.3 from April, but were down 6.6 percent compared to last May. Inventories of farm product raw materials were up 6.1 percent from last month, while inventories of paper and paper products were down 2.2 percent.

Inventory-Sales Ratio. The May inventories/sales ratio was 1.29. The May 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 May 2009

NAICS Code	Business Type	Sales \$ millions	Inventories \$ millions	Stock and Sales ratio	% Change in Sales 4/09-5/09	% Change in Sales 5/08-5/09	% Change Inventory 4/09-5/09	% Change Inventory 5/08-5/09
42	U.S. Total	311,296	402,240	1.29	0.2	-19.9	-0.8	-7.6
423	Durable	136,528	246,203	1.80	-0.2	-23.0	-1.5	-8.2
4231	Automotive	17,946	35,244	1.96	4.4	-32.3	-1.1	-15.3
4232	Furniture & Home Furnishings	4,323	6,874	1.59	0.4	-16.0	-1.5	-14.4
4233	Lumber & Other Construction Materials	7,540	12,483	1.66	-0.7	-26.5	-3.2	-15.0
4234	Prof. & Commercial Equip. & Supplies	28,168	29,472	1.05	-1.1	-6.5	-1.6	-11.0
42343	Computer Equipment & Software	14,015	9,460	0.67	-1.0	-7.8	-2.1	-17.4
4235	Metals & Minerals	8,056	21,704	2.69	-8.1	-46.6	-5.2	-19.9
4236	Electrical Goods	24,485	30,779	1.26	-0.9	-12.1	-2.3	-10.3
4237	Hardware, Plumbing, & Heating Equipment	6,051	13,422	2.22	1.2	-17.3	-1.6	-6.9
4238	Machinery, Equipment & Supplies	24,768	71,543	2.89	-2.6	-18.3	-0.4	5.2
4239	Miscellaneous Durable	15,191	24,682	1.62	5.6	-38.8	0.2	-8.6
424	Nondurable Goods	174,768	156,037	0.89	0.5	-17.2	0.3	-6.6
4241	Paper & Paper Products	7,279	6,670	0.92	-0.8	-10.7	-2.2	-4.4
4242	Drugs	33,702	32,029	0.95	1.4	6.0	-0.5	-1.7
4243	Apparel, Piece Goods & Notions	10,133	15,970	1.58	-1.1	-8.6	-1.5	-3.8
4244	Groceries & Related Products	41,753	26,613	0.64	-0.1	-5.5	-0.6	-2.0
4245	Farm-product Raw Materials	16,485	19,960	1.21	-5.6	-19.9	6.1	-21.5
4246	Chemicals & Allied Products	6,936	7,874	1.14	1.9	-19.9	-2.1	-16.8
4247	Petroleum & Petroleum Products	30,497	14,432	0.47	4.6	-47.2	4.5	-2.0
4248	Beer, Wine & Distilled Beverages	9,078	10,998	1.21	-1.2	3.4	-0.6	2.3
4249	Miscellaneous Nondurable Goods	18,908	21,491	1.14	1.5	-5.3	-2.0	-7.8

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.

Grainger Second-Quarter Sales Down 13%; Profit Falls 18%

W.W. Grainger, Chicago, IL, reported second quarter sales of \$1.5 billion, down 13 percent from the second quarter 2008. Profit for the quarter fell 18 percent to \$92 million.

“Although the economy remains a challenge, we are pleased with our results for the second quarter of 2009. We continue to focus on the things we can control, and we’re selectively investing for growth. Businesses and institutions still need to repair and maintain their facilities in this difficult economy.

“Our multi-channel business model and our exceptionally high service levels allow us to serve our customers well even in these tough times,” said Jim Ryan, Grainger’s CEO.

Ryan added Grainger has not seen “an indication of an economic turnaround at this point.”

Daily sales decreased 15 percent in April, 10 percent in May and 13 percent in June. Sales were negatively affected by foreign exchange, which contributed approximately 2 percentage points to the decline.

Price contributed a positive 6 percent while volume was down 19 percent. Sales of products related to the H1N1 virus contributed less than 1 percent of sales. There was no material contribution from the sales of seasonal products. Acquisitions contributed about 1 percent to sales.

In February, the company announced it plans to eliminate 300-400 jobs this year; 298 jobs have been eliminated to date with severance expense of \$8 million or five cents per share through the second quarter. The company remains on track to meet projected headcount reductions of up to 400 positions.

Sales for the U.S. decreased 12 percent in the second quarter. Progress integrating the Lab Safety Supply and U.S. branch-based business is on track.

continued on p.4 of this section

Atlanta, GA-based **Genuine Parts Company** reported sales for the second quarter ended June 30, 2009, were \$2.5 billion, down 12 percent from the second quarter 2008. Profit for the quarter was \$103.6 million, a decrease of 22 percent. For the six months ended June 30, 2009, sales were \$5 billion, down 11 percent from the same period in 2008. Profit was \$192.8 million, a decrease of 25 percent.

Hagemeyer North America, Charleston, SC, has launched a new e-commerce Web site at www.hagemeyerna.com. The redesigned site offers enhanced features and intuitive navigation to make the customers’ shopping experience fast and easy.

A jury in Indiana has found **Breakers Unlimited**, Noblesville, Ind., guilty of purchasing and selling counterfeit **Square D** circuit breakers. **Schneider Electric** – the parent company of Square D – filed the lawsuit in June 2007. The amount of damages to be awarded and the scope of an injunction restricting Breakers Unlimited’s continued involvement in the market where counterfeit circuit breakers are bought and sold have yet to be decided by the court.

HD Supply Facilities Maintenance, San Diego, CA, released its new Commercial Product Line Catalog, featuring more than 3,000 products for use in mid and high-rise buildings. The product expansion and new catalog was created to better serve the unique needs of customers with mid and high-rise buildings as well as customers with a need for commercial grade products.

Wynnchurch Capital, a Chicago-based private equity firm, has purchased fastening tool and fastener manufacturer **SENCORP**’s assets. Wynnchurch has formed a new portfolio company, Senco Brands Inc. The acquisition includes the brands Senco and TyRex, as well as the SenSource global sourcing operation, and SENCORP’s domestic and foreign businesses.

Tool and equipment manufacturer **Snap-On Inc.**, Kenosha, WI, has terminated its joint venture **Snap-On Credit LLC**, which provides financial services to Snap-On’s U.S. franchisees and customers. Snap-on will acquire CIT’s interest in the joint venture for \$8.2 million, Snap-on Credit will become a wholly owned subsidiary of Snap-on Inc., and Snap-on Credit will continue to service the existing portfolio of contracts owned by CIT.

May **U.S. manufacturing technology consumption** totaled \$109.90 million, according to AMTDA, the American Machine Tool Distributors’ Association, and AMT - The Association For Manufacturing Technology. This total, as reported by companies participating in the USMTC program, was up 5.8 percent from April but down 72.3 percent from the total of \$397.16 million reported for May 2008. With a year-to-date total of \$618.30 million, 2009 is down 70.5 percent compared with 2008.

Canadian manufacturers of **power transmission/motion control products** experienced another drop in sales while U.S. manufacturers experienced a slight increase in May 2009 according to sales data released by the Power

continued on p.2 of this section

MDM News Digest

Continued from p. 1 of this section

Transmission Distributors Association (PTDA). U.S. manufacturers' sales rose slightly by 0.3 percent in May 2009 when compared to April 2009. Sales in May 2009 fell 26.5 percent compared to the same period last year. Orders in May 2009 decreased by 2.8 percent over April 2009 orders. Canadian manufacturers' sales were down 6.9 percent compared to April 2009. Sales were down 29.4 percent when compared to the same period last year.

The June 2009 composite index rose to 24 from an historic low of 21 reported in the March 2009 report, according to the quarterly **Manufacturers Alliance/MAPI Survey on the Business Outlook**—June 2009. At 24 percent, the index indicates that overall manufacturing activity is expected to contract over the next three to six months. While the index is at its second lowest level since the survey originated in March 1972, it marks the first time it has shown improvement since June 2007.

Canadian manufacturing sales fell 6 percent to \$38.4 billion in May, the lowest level since November 1998. Manufacturing sales leveled off between February and April, after falling by 18.7 percent between October 2008 and January 2009. Constant dollar manufacturing sales fell 5.8 percent in May, indicating that lower volumes rather than price changes were behind the decrease in sales. Sales in 17 of 21 manufacturing industries decreased in May.

Panjiva, a firm that tracks **overseas suppliers to the U.S.**, saw a 1 percent decline in the number of global manufacturers shipping to the U.S. in June, similar to May's trade data. According to the firm, the slight decline from May to June is slightly less than last year's May-to-June decrease. To Panjiva, it looks like global trade is tracking its "typical seasonal path." Panjiva Watch List numbers were unchanged:

The **European manufacturing sector** saw an accelerated downward trend in the first part of 2009 and will face challenges throughout the year, before seeing the potential for marginal improvement in 2010, according to the semiannual **Manufacturers Alliance/MAPI European Industrial Outlook: 2009-2010 (ER-682e)**, a report that analyzes 14 major industries. In the Eurozone, 13 of the 14 industries will likely decline in 2009, including seven by double-digits,

with motor vehicle production falling the most, by 17.9 percent. In Central Europe, a more modest 10 of 14 industries will decline in 2009 and, like the Eurozone, just one industry is forecast to decline in 2010.

Diversified industrial manufacturer **Eaton Corp.**, Cleveland, OH, reported sales in the second quarter were \$2.90 billion, 32 percent below the second quarter of 2008. Core sales were down 26 percent. Profit was \$29 million compared to \$333 million in 2008. For the first six months, sales were \$5.7 billion, down 26.5 percent from the first half of 2008. The company recorded a loss of \$21 million for the period.

Atlas Copco AB reported sales decreased 14 percent in its latest interim report, with an organic sales decline of 27 percent. Organic order intake was down 37 percent; the company reported low demand for equipment, but said that order cancellations have stopped.

Swedish manufacturer **SKF** reported second quarter 2009 sales of SEK 14.2 billion (US\$1.8 billion), a decrease of 11.9 percent from second quarter 2008. Profit declined 76.4 percent to SEK 323 million (US\$41.6 million). Year-to-date sales were SEK 29.0 billion (US\$3.7 billion), down 8.4 percent from the first half of 2008. Profit declined 73.1 percent.

The Fastenal Company, Winona, MN, reported second quarter sales of \$474.9 million, down 21.4 percent from sales in second quarter 2008. Profit decreased 42.8 percent to \$43.5 million from second quarter 2008. For the six months ended June 30, 2009, sales were \$964.2 million, down 17.6 percent from the same period a year ago. Profit declined 36.1 percent to \$92.2 million.

Swedish manufacturer **Seco Tools** reported revenue for the six months ended June 30, 2009, was down 34 percent at fixed exchange rates. In the latest quarter, sales fell 40 percent.

Sweden-based **Alfa Laval**, a manufacturer in heat transfer, centrifugal separation and fluid handling, reported second quarter sales were SEK 6.7 billion (US\$857.6 million), a decrease of 15.1 percent from the prior year. Profit was SEK 637 million (US\$81.5 million). For the first six months, sales declined 10.3 percent to SEK 13.7 billion (US\$1.75 billion).

Distribution Financial Metrics and Trading Multiples

(Data as of June 30, 2009)

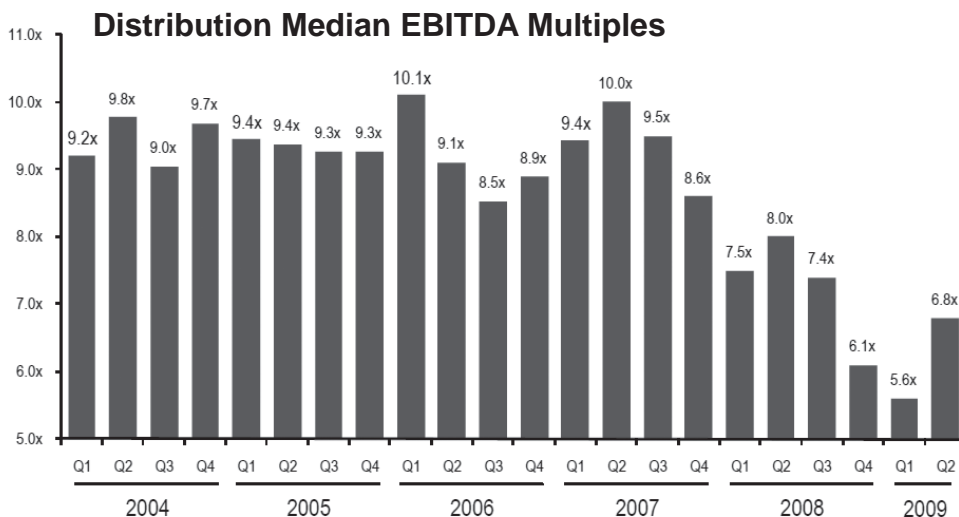
(\$ in millions)

Company	Ticker	Enterprise Value	LTM				EBITDA Margin	EV to LTM Sales	EV to LTM EBITDA	ROIC	Working Capital/Sales
			Sales	Sales Growth	Gross Margin	EBITDA					
Airgas Inc. *	ARG	\$5,067	\$4,349	8.3%	53.0%	\$746	17.1%	1.2 x	6.8 x	9.6%	6.7%
AM Castle & Co.	CAS	377	1,360	(5.5%)	14.6%	65	4.8%	0.3	5.8	6.0%	18.5%
Anixter International Inc. *	AXE	2,282	5,936	(1.0%)	23.4%	382	6.4%	0.4	6.0	10.2%	25.0%
Applied Industrial Technologies Inc.	AIT	909	2,028	(2.9%)	27.0%	147	7.2%	0.4	6.2	13.5%	16.8%
Barnes Group Inc. *	B	1,091	1,240	(14.0%)	37.3%	187	15.1%	0.9	5.8	9.9%	25.0%
Beacon Roofing Supply Inc. *	BECN	922	1,864	10.9%	24.1%	157	8.4%	0.5	5.9	11.3%	11.4%
BlueLinX Holdings Inc.	BXC	439	2,470	(31.3%)	11.5%	14	0.6%	0.2	N/M	N/M	9.8%
Builders FirstSource, Inc. *	BLDR	367	938	(32.0%)	21.2%	(51)	N/M	0.4	N/M	N/M	11.8%
Building Materials Holding Corp ^l .	BLGM	312	1,149	(41.4%)	17.1%	(85)	N/M	0.3	N/M	N/M	10.8%
Bunzl plc	BNZL	4,219	6,086	(14.5%)	25.8%	437	7.2%	0.7	9.6	11.0%	7.5%
DXP Enterprises Inc.	DXPE	290	726	37.1%	28.5%	56	7.7%	0.4	5.2	9.9%	16.8%
Fastenal Co. *	FAST	4,816	2,264	5.8%	52.9%	459	20.3%	2.1	10.5	25.3%	31.2%
Genuine Parts Co.	GPC	5,787	10,720	(2.0%)	29.7%	842	7.9%	0.5	6.9	17.0%	22.7%
Houston Wire & Cable Company *	HWCC	234	337	(8.0%)	22.8%	33	9.8%	0.7	7.1	19.7%	27.5%
Huttig Building Products Inc.	HBPI	49	604	(26.2%)	17.8%	(28)	N/M	0.1	N/M	N/M	7.1%
Interline Brands Inc. *	IBI	725	1,163	(5.6%)	37.5%	99	8.5%	0.6	7.3	7.2%	20.5%
Kaman Corp.	KAMN	523	1,262	14.2%	26.4%	82	6.5%	0.4	6.3	10.8%	27.8%
Lawson Products Inc.	LAWS	126	459	(9.8%)	56.5%	17	3.6%	0.3	7.6	5.1%	18.6%
MSC Industrial Direct Co. Inc. *	MSM	2,289	1,673	(6.1%)	46.2%	307	18.3%	1.4	7.5	22.4%	21.8%
Park-Ohio Holdings Corp.	PKOH	404	983	(8.2%)	14.3%	59	6.0%	0.4	6.9	7.2%	25.0%
Pool Corp *	POOL	1,169	1,722	(9.0%)	29.1%	123	7.1%	0.7	9.5	11.0%	20.4%
Reliance Steel & Aluminum Co.	RS	4,244	8,369	14.3%	24.2%	818	9.8%	0.5	5.2	11.7%	17.1%
Rexel SA	RXL	6,254	17,485	3.8%	23.8%	823	4.7%	0.4	7.6	6.0%	11.6%
Smith International Inc.	SII	9,537	10,811	19.8%	30.9%	1,840	17.0%	0.9	5.2	14.4%	31.6%
Watsco Inc. *	WSO	1,379	1,611	(8.9%)	26.0%	91	5.7%	0.9	15.1	9.8%	18.5%
WESCO International Inc. *	WCC	1,978	5,825	(3.2%)	19.7%	334	5.7%	0.3	5.9	12.9%	12.3%
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	6,267	6,654	1.9%	43.3%	874	13.1%	0.9	7.2	20.5%	16.9%
Median		\$1,130	\$1,793	(5.6%)	26.2%	\$152	7.2%	0.5 x	6.8 x	10.9%	17.8%

*=Companies covered by Baird Research (1) Filed for Chapter 11 Bankruptcy protection on June 16, 2009

The table above highlights key financial metrics and trading multiples for 28 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.



These materials are for informational purposes only. Financial data was prepared by **Robert W. Baird & Co.** based on publicly available information as of June 30, 2009. Baird makes every effort to use reliable, comprehensive information. Baird makes no representation that the information is accurate or complete and has no obligation to update this information. A complete listing of all companies covered by Baird U.S. Equity Research and applicable research disclosures can be accessed at www.rwbaird.com/research-insights/research.aspx.

Copyright 2009 Robert W. Baird & Co. Incorporated

Baird is a leading middle-market focused investment bank serving the M&A and equity financing needs of our clients throughout the U.S. and Europe. Since 1998, Baird has advised on 444 M&A transactions representing more than \$61 billion in transaction value and has served as lead or co-manager on 295 equity offerings raising over \$68 billion. For more information please contact Tom Lange, Managing Director at 813-273-8248 or tlange@rwbaird.com.

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.

Grainger

Continued from p. 1 of this section

Sales declined in all customer end markets except government, which was up slightly. Heavy manufacturing declined almost 30 percent; commercial declined high single digits with most other segments declining in the low to mid teens.

The company continues to expand its product line with 233,000 products included in this year's catalog.

Grainger has been adding more products throughout the year and anticipates having almost 300,000 products in the 2010 catalog. Product line expansion contributed \$231 million in sales for the second quarter versus \$169 million in the second quarter 2008.

Sales for the Acklands-Grainger business in the quarter were down 19 percent versus the 2008 second quarter. In local currency, sales were down 6 percent. The Canadian economy

remained weak, particularly in the forestry, manufacturing, transportation and mining industries. Sales to government remained strong, with growth in the utilities and infrastructure related sectors.

Sales for other businesses, which include Mexico, India, Puerto Rico, China, and Panama, were down 9 percent versus prior year. Mexico is the largest business within this group, with more than 50 percent of sales.

Daily sales in Mexico were down 27 percent in the quarter versus the same period in 2008. In local currency, daily sales in Mexico decreased 7 percent for the quarter and were down 9 percent in April, down 8 percent in May and down 2 percent in June.

Effective with the month of June, Grainger began including the results of the operations in India.

Report: Weak Growth Possible For Advanced Economies in 2010

The worldwide plunge in manufacturing output seems to have reached a temporary bottom, even in countries such as Japan where the industrial downturn was especially severe. The immediate outlook for a resumption of world economic growth remains tentative and in flux, according to the MAPI Quarterly Forecast of U.S. Exports, Global Growth, and the Dollar: Third Quarter 2009 Through Fourth Quarter 2010.

Weak growth, at best, is in store for the advanced economies during 2010, according to MAPI economist Cliff Waldman. The short-term prospects are mixed for key emerging market economies, depending upon the degree of openness, export diversification, and ties to the United States. The report says that U.S. export demand will contract at an historic pace before

experiencing very sluggish growth in 2010, and the U.S. dollar will resume its downward slide in 2010.

The steep climb in the U.S. dollar and the virtual crash in global demand underlies MAPI's forecast that exports of U.S. goods and services will contract by 13.6 percent in 2009, essentially matching the 1958 decline as the deepest export contraction of the post-World War II era. A modest rebound of 1.7 percent, however, is anticipated during 2010 as the world economy begins to regain its footing.

Most advanced economies are expected to experience weak recoveries in gross domestic product (GDP) and in manufacturing output during 2010. GDP in non-U.S. industrialized countries, which include Canada, the Eurozone (plus Denmark, the United Kingdom, and Sweden), and Japan, is expected to grow by 1.5 percent during the fourth quarter of 2009.

MAPI expects GDP growth to slowly accelerate to 1.7 percent during the first quarter of 2010, to 1.9 percent during the second quarter, and then by 2 percent during the second half of 2010.

Developing countries will be the beneficiaries of firming demand in the industrialized countries. Aggregate developing country GDP is expected to grow by 1 percent during the third quarter of 2009 and by 2 percent during the fourth quarter, followed by gradual acceleration to 4% by the fourth quarter of 2010.

**MODERN
DISTRIBUTION
MANAGEMENT**

Founded in 1967
by J. Van Ness Philip

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

ISSN 0544-6538

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

Copyright © 2009 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.