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Go Beyond Numbers in a Price War

How distributors can relieve increased pressure on the pricing front

Many distributors have been drawn into price wars, in part due to a dramatic drop in sales volume for many. To learn how distributors can more effectively react when challenged on price, MDM spoke with pricing expert Mark Bergen of the University of Minnesota, who has been studying the effects of price wars and how to fight them for more than two decades.

Bergen says that companies often miss the mark in their responses to a price war. This article looks at why the customers' perspective becomes the most important factor when determining how to react.

By Lindsay Konzak

Amazon, Wal-Mart and Target have been making headlines in the past month over their hard-cover book price-cutting battles. According to reports, Wal-Mart sparked the price wars when it cut its online price of several bestsellers to $10 in a bid to become a leader in e-commerce book sales.

Amazon responded in kind; the two went back and forth to bring the book prices down another dollar. Then Target entered the fray.

How can independent booksellers compete with these giants? Many are starting to worry that books targeted with these price cuts will become commodities and that they will be forced to compete on price or bow out of the market.

Sound familiar? Many distributors in diverse segments are facing a similar challenge. While smaller distributors are blaming national distributors for starting price wars on several fronts, some of the larger distributors are throwing the blame back the other direction.

Many are concerned that bringing back prices after demand returns will be more difficult than ever.

Regardless of who is to blame, it's not unusual for price wars to flare up during a recession. "Oftentimes pricing is a lever management believes will give them a quick turnaround in volume," says Mark Bergen, the James D. Watkins Chair in Marketing at the University of Minnesota's Carlson School of Management. Bergen's research focuses on pricing and channels of distribution. "It's a natural place to go when times get tough."

But when price is used as a trigger, it can have a domino effect, he says. "As a set of competitors or an industry, we start to overreact on price. It can get out of control pretty quickly."

What's more, managers many times unintentionally start a price war. "Most of our lives as managers is spent trying to fight them, to minimize them, or to reign them in."

It's not always possible to avoid a price war. But a distributor can take steps to mitigate the impacts.

How can companies effectively respond to pricing pressures in their markets? Understanding why a price war has begun is an important first step.

Why Did the Price Drop?

When you start to notice sales are falling or bids that are lower than anticipated, it's time to get out of the office, Bergen says.

Start with the **customers**.

Consider: Has their business changed? Have their needs changed? Are they struggling with down economic conditions? Did the customer consolidate, and gain more buying power? Or have they become more sophisticated with their buying practices?

What's driving the downward pressure? Lower prices may actually just be a symptom of a deeper cause. "The quicker you can get to the cause, the richer the set

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INSIDE

PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Better Partner Segmentation Needed for the New Normal

The new normal is anything but. In spite of recent positive news, the economy is still brittle. Distributors have little flexibility to manage growth over the next six to 12 months – tighter credit, weaker asset positions, sluggish cashflow, fewer people/less talent.

To get back on the offensive, companies have to re-evaluate and redefine how they operate across nearly every aspect of the operation. In many cases they have to change longstanding processes to adapt to these new market conditions. Segmentation is one example. Many distributors and manufacturers have segmented customers by volume and SIC/NAICS alone. But shotguns aren't good enough anymore.

Distributors have to avoid chasing every dollar right now. That requires a discipline that runs counter to the sales-focused nature of most distribution companies. But large-dollar, resource-draining, profit-killing sales can do more to cripple your growth efforts than perhaps any other action in your company. If you damage service levels to core customers while chasing volume alone, you may be playing directly to the aggressive pricing tactics your competitors are using now to gain market share. In the eyes of your best customers, if you stumble, low price becomes a more important factor in the sourcing decision.

Manufacturers, in turn, have to get out of a one-size-fits-all mentality when it comes to managing their distribution. They have to understand each distributor's value, and create programs to incentivize and reward for that value. Most manufacturers will admit to being over-distributed, but reluctant to fix it for fear of disruption. If they don't manage the conflict in these market conditions, they risk losing to more focused, strategic suppliers with like-minded distributors. Ironically, to save money, some manufacturers are cutting the key people who manage important distributor relationships.

Conversely, most distributors are spread too thin with too many manufacturers. How many hammer lines do you really need to carry? How effective can you be and what does it cost to support the level of redundancy you know exists in your company? Most distributors need to segment product lines more strategically than on what customers have historically requested.

Think about the value of relationship equity with your best customers, distributors or suppliers right now. How many of your company's daily activities or processes are putting that equity at risk? That's my argument for segmenting your partners more carefully for the rebound. Then reconsider how a tighter focus in each area can have a positive impact in the year ahead. ■

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Go Beyond Numbers in a Price War

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of solutions you can bring to it," Bergen says.

Next, look at your **competitors**.

Who is making the lower bids? Are they under financial pressure? Have they just been bought or merged? Are they introducing new products, and so are using a lower price as a temporary introductory promotional measure? Do they have excess inventory they are trying to shed?

"Get a sense of what is driving their aggressiveness," Bergen says. "That can help you figure out how to reply. If they have a temporary issue, you can respond in the short-term or lie low. If it's fundamental, you may have to intervene aggressively and in a way that sets the stage to get you the best chance of dealing with the new reality of your competitors."

And finally, consider **contributors** in the market.

This includes suppliers, the government, media and other supply chain partners.

"Over my 20 years of watching firms fight price wars, we often think of it as a battle between a company and its competitor. But price wars are fought in marketplaces," Bergen says.

"… If this is happening, who else wants it to happen, and who doesn't want it to happen? Your suppliers or other people up and down the supply chain are facing similar issues and don't want you to struggle either.

"They may be open to changing their pricing terms to help you get through the tough times. Or they might be willing to partner with you and create offerings specific to this new market setting."

The companies that do worse when faced with a price cut are more insular, Bergen says.

Get Creative

Think about the customers' point of view, Bergen says. "Look at their risks and their problems. What do they need to handle the same pressures you are facing in a down economy?"

Try to understand more deeply what your customers need, he says. One necessity in a time like this is understanding how sensitive certain customer segments are to price. That will help guide your reaction.

"When we hit crisis, we tend to fall back on simpler rules, but actually in crisis, you need to look beyond your company to understand the marketplace and the customers. And find more creative options."

Find ways apart from slashing the list price that might accomplish customer needs and protect your bottom line. "If you have to cut price, take a deep breath, and think about where you need to cut price, and how those customers want that price cut," Bergen says.

Some ways: Changing pricing terms, adding service, changing the way you distribute the product, changing packaging, bundling, quantity discounts and prices tied to an index. Or offer a temporary discount that buys you 3-6 months, and your customers will know that you want to revisit pricing at the end. Rather than slashing list prices, which are difficult to bring back up, use rebates or coupons to help you through the crisis.

"I was at a company a month ago, and at one customer, instead of cutting prices, they changed the payment terms," Bergen says. "They spread payments over one or two years instead of two months. They got a much bigger reaction to the change in payment terms than to a change in prices at other customers.

"I think what dawned on them was that these guys were worried about a financial crisis today. If you were willing to partner, there were other things the customer wanted more than just the lowest price at that particular moment."

Don't Overreact

Companies sometimes go overboard and lower prices on more products or markets than they are actually being challenged on.

Minimize the damage. "Limit the markets, limit the products, limit the time, and limit the size of the price change to only that that's required," he says. Avoid expanding the price war by cutting prices on all products to all customers, for example. "A competitor could see you as cutting prices in places where they haven't cut prices; they think you're attacking them. It's a vicious cycle."

Limit the cuts to a set of customers where it's most important. "For the rest of your customers, instead of lowering the price, offer an additional service, a reaction that helps them realize you know something's a risk."

When you do respond to a price challenge, don't react on the terms your competitors set. "They'll set it at places that are to their advantage," Bergen says, "in the places where they gain the most. Your first goal should be to change the rules to your advantage."

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For example, ask your customers for a long-term contract. "The competitor may look and say – I don't know if I want to extend my price to that length of time."

"Not that any single action works at any given time," Bergen says. "There's no magic bullet for price wars."

Companies that step back and analyze how they will react to the price challenge – by product lines, markets and segments – are often more successful.

"They are proactive rather than reactive," Bergen says. "Far too often we as managers tend to be reactive."

Build Pricing Capabilities

The fundamental problem: Pricing is an area that is generally under-resourced at many companies. One way to gain a strategic edge is to invest in building up that capability for the next time around.

This requires an investment mentality, Bergen says. A lot of smaller firms have limited resources and time to invest in their pricing processes.

"In a stable world, that's probably OK," he says. "but in crisis, their problem is that their pricing factory is not very efficient or robust."

Larger companies are often more efficient about pricing. To compete better, smaller companies have to make strides in this direction.

"That is part of what is going on in these price war situations," Bergen says. When a market is stressed, companies without strong pricing systems or strategies struggle more.

"If the world changed, and you didn't feel you could react effectively, it doesn't mean you're bad at pricing, but it does mean you need improvement."

There are lessons to be taken from a price war. "Look at what you are missing," Bergen says.

"If you don't understand your segments and their price sensitivity, invest in improving those capabilities so that the next time a pricing contest comes around, you can better respond."

Mark Bergen can be reached at mbergen@umn.edu.

Stanley, Black & Decker Merger Impact

What does deal between two major tool manufacturers mean for distributors?

The Stanley Works and Black & Decker have recently announced they are merging to form an $8.4 billion manufacturer. The deal, which the companies insist is not due to economic conditions, seems to be getting a positive response from channels the suppliers serve. Still, distributors are watching the manufacturers closely as they move toward closing the deal in the first half of 2010.

By Jenel Stelton-Holtmeier

While the initial announcement came as a surprise to many, the merger of The Stanley Works (NYSE: SWK), New Britain, CT, and The Black & Decker Corp. (NYSE: BDK), Towson, MD, also made sense to many with interests in industrial and construction supply channels.

The tool manufacturers will join to form Stanley Black & Decker, pending regulatory approval. The new company will be headquartered in New Britain, while the power tool division (Black & Decker) will continue to maintain its presence in Towson, MD.

"Looking at it, I wouldn't have put this together myself," says Mike Marks of Indian River Consulting Group. "But, having said that, it makes a lot of sense."

The two companies have little overlap in their product lines. However, how they market and where they market overlap extensively, Stanley CEO John F. Lundgren told investors

Deal Details

The Stanley Works, $3.7B in estimated 2009 sales
Black & Decker, $4.7B in estimated 2009 sales

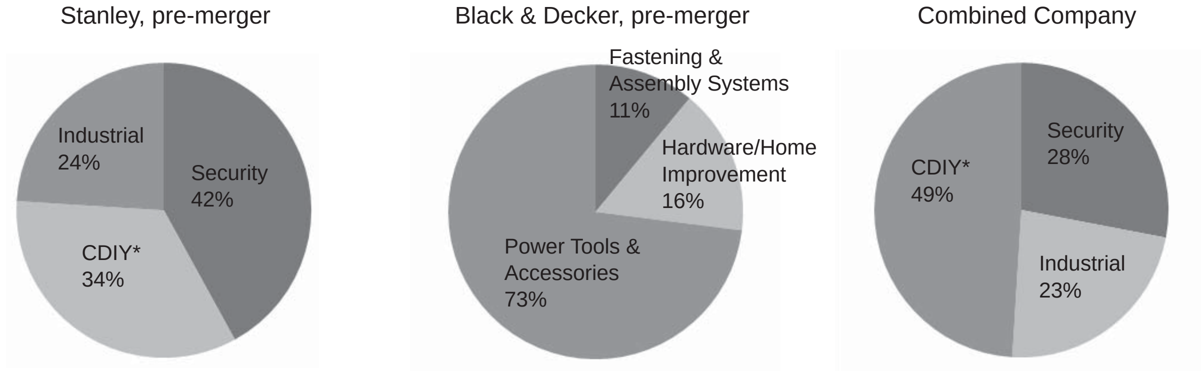
Together, the companies expect $8.4B in sales.

Stanley Works will pay $4.5 billion to Black & Decker shareholders. Stanley Works will own 50.5 percent of Stanley Black & Decker. John F. Lundgren, CEO of Stanley, will be president and CEO of the combined company.

Stanley brands: Stanley, FatMax, Bostitch, Facom, Proto, Mac Tools, Sonitrol, Stanley Security Solutions, Best, and Vidmar.

Black & Decker brands: Black & Decker, DeWalt, Porter-Cable, Emhart Teknologies, Kwikset, Baldwin and Price Pfister.

Revenue by Segment After the Deal



*Construction and Do-It-Yourself

Source: Stanley Works, Black & Decker analyst presentation

and analysts at a luncheon on Nov. 3. The joint company expects to realize cost savings of $350 million in three years by eliminating any overlap and other redundancies.

"Right now we're providing different products to the same customers in the same region," Lundgren says. "So if we have two 100,000-square-foot distribution centers in, say, North Carolina, well, you only need one to really service that area."

Impact on Distributors

Because of their already established capabilities, this merger will likely enhance the relationships Stanley and Black & Decker already have with their distribution networks, says Dan Perry of consulting firm D. R. Perry and Associates. Perry is the former president and CEO of Milwaukee Electric Tool Corp.

But any changes that may occur do concern some distributors.

"It will be interesting to see how this all comes together, but that's my concern: How are they going to market it and who's going to support us going forward?" says Todd Washburn, vice president of Industrial Supplies at Precision Industries (owned by DXP Enterprises). "That could create a problem if rep support gets spread thinner through this merger."

For now, however, it's "business as usual" at Precision, Washburn says. "At this point, they haven't said anything to us directly; it's all been through conversations with the reps and they're telling us it's 'business as usual.' So we can't really react in any other way."

But the concerns are legitimate, says Dan Judge, president of buying group NetPlus Alliance: "They will really need to have their act together to keep the service levels up throughout the process."

In addition to the service level concern, issues may arise for distributors who currently carry one line but not the other, Judge says. For example, if a distributor carries Stanley hand tools but carries a competitor of Black & Decker for power tools, there may be pressure from the joint manufacturer to carry both lines. "And the existing relationships are hard relationships to break, especially if they are long-standing."

But the biggest impact to distributors will likely be to the nature of the channels themselves, Marks says. "Black & Decker and Stanley both have so many distribution channels going into this, the question really will be how do they continue to make sure they're always doing what the end-user wants?"

Neither manufacturer is new to integrating acquisitions, Lundgren said. And this acquisition will be handled in much the same way as smaller acquisitions have been managed. Both companies are already speaking with senior management to build out integration teams to move forward quickly once regulatory approval has been received.

However, both companies will also need to set egos aside and have confidence in the expertise of the people they put on those teams and within the organizations, Perry says. That may be one of the biggest challenges when two large companies merge.

Complementary Opportunities

A unique element of the Stanley Works and Black & Decker merger is that the two companies have such little overlap in their product lines, Perry says. The Stanley Works primarily produces hand tools, while Black & Decker is best known for its power tool lines.

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"Why these two lines have not come together before know, I'm not really sure," Perry says.

In fact, Lundgren says the companies had discussed a merger three times since the 1980s, and as recently as seven years ago.

"Power tool companies like Black & Decker sell other things that complement power tools. You see saw blades, drill bits, and many other accessories," Perry says. "And the perception that people have is that they sell even more. When I was at Milwaukee Electric Tool, we did a survey and we found out that when people thought of socket sets, they thought of Milwaukee Electric Tool. The fact is that we never had socket sets, but in the perception of the end-user, we did."

The ability to offer new, innovative packages that combine the lines from both companies could help turn those perceptions into reality and provide more value for the end-user, Perry says.

Now that the two manufacturers have become among the first companies to capitalize on the complementary nature of these lines, there will likely be similar mergers throughout the tool manufacturing world, Marks says. "But they may not be as well thought out as this one was," he says.

"Just looking at everything they've provided, you can tell that Stanley and Black & Decker really thought this out. Any similar mergers by competitors will likely be more reactive, and not always smart."

Judge agrees. Other manufacturers will have to make similar moves to effectively compete in the new landscape created by Stanley and Black & Decker.

The actual impact remains to be seen, Lundgren stressed in the investor call. "We have yet to receive approval to develop these joint strategies."

But expectations are that the merger of the manufacturing giants will be positive for the channel.

"It's always good to see companies succeed," Judge says.

■ *MDM Interview*

PTDA Builds Focus in Motion Control

Association leaders: Next generation, meeting member needs also important

This interview is part of a monthly series of association president interviews. Find past MDM interviews at www.mdm.com/interviews.

The Power Transmission Distributors Association's outgoing and incoming presidents recently spoke with MDM Editor Lindsay Konzak about challenges in the industry, association successes building leadership in the younger generation, and PTDA's push on the motion control front.

Drew Tucci, director of sales & marketing of Eastern Bearings, Inc., Waltham, MA, finishes his tenure as president at the end of 2009. Keith Nowak, president of MPT Drives Inc., Madison Heights, MI, was elected president at PTDA's Industry Summit in San Diego, CA, last month and will take the helm in 2010.

MDM: It seems like you've been pretty successful creating a forum for your younger members.

Drew Tucci: We have a pretty strong focus on that, making sure there's something for everyone. We've also been doing a good job with the Executive Development Conference, where we bring the next level – future business leaders of our industry – together, educate them, capture their ideas and create the ultimate goal of networking throughout the association. We've also been doing a good job of getting our content online through PT Interactive Online. A lot of our training tools and aids are now online and accessible to our membership.

MDM: What else has been a priority for you in the past year?

Tucci: We've been very active and successful in promoting our image in the motion control market segment. It's been a very strong push of our association and certainly mine for the past seven years.

MDM: Could you elaborate on why you decided to make that push?

Tucci: A large portion of our members are already in the motion control arena and are expanding further into the motion control market segment. It's a market segment that is expected to grow significantly in the coming years and its crucial to identify what our customers' motion control needs are and will be and how to be successful in servicing our customers in that arena. In doing that, we've instituted the Motion Control Showcase, where our manufacturers display their products, which helps make those products and those vendors more visible throughout the association.

PTDA also hired a consultant with significant experience in motion control to strategize and work to create an image for PTDA. This will let people know that we really are in this business. It's not something we're just getting into. Our members do $800 million in sales annually in motion control products.

MDM: It's not just an ancillary thing.

Tucci: We're in the business. Now we want everybody to know we're really in the business. We also want to provide for both our existing and future members, who probably don't have a home, a forum to come together and network about where the business is going.

Keith Nowak: I'm going to continue on Drew's efforts of the motion control focus as well. That has really taken off. We need to keep enforcing that and stay on that track. Because a lot of the technology in our industry is antiquated, motion control's a whole new element and more high-tech. It's also an avenue for most of us to make a lot more money.

Tucci: It's a very fragmented market today, because first you need to know what role you play. In motion control, there are integrators, panel builders, hardware sellers, value-added resellers, and so on. … This is an extension of what we do today. It's motion control. It starts a belt drive. It starts a chain drive. We hope we can bring more efficiency to that sector, give those hardware distributors opportunities to succeed at selling mechanical or electromechanical products.

MDM: What have been the challenges, up to this point, though, in making what you're talking about regarding the motion control industry a reality?

Nowak: I think we're making progress. But, like as Drew mentioned earlier, I think one of the biggest challenges we have is making people aware that we're already motion control manufacturers and distributors. The association as a whole has taken it very seriously, incorporating motion control objectives into our strategic plan a lot more often than we ever did. We have very specific meetings, workshops and training geared towards motion control. We're working to make sure that the industry knows that we are in it for the long haul.

MDM: You are focused on changing people's perceptions of what you do.

Nowak: Right. We're not just old sprockets and chain guys anymore.

MDM: What are some of the challenges facing your industry?

Nowak: I think one of the biggest challenges we're going to have moving forward in 2010 is, as we come out of this recession, we going to begin hiring people and getting qualified people into jobs again. A lot of us laid off a lot of people, and going forward, we definitely want to focus on hiring qualified people. Working with Industrial Careers Pathway® and their programs with industrial distribution programs across North America is important. We're also looking to hold a product application workshop where we train entry-level employees with hands-on classes of how to actually do the work and get involved in the products more specifically, and, as a result, become a better asset to employers.

Tucci: I think also, through this downturn, we've all reevaluated and reinvented our businesses. As an association, we need to make sure we are capturing what's taking place, the new business model, the new trends that will take hold and make sure we are bringing our members the content, data and resources that meet their needs.

Nowak: And we've figured out how to get by with less at our companies. We're going to need tools to help us continue along that trend, such as tools to help cross-train more employees.

Tucci: We've been constantly developing tools that help on the training side, which is important. Now we're looking at, operationally, how do we help our members become more efficient, and how do we help them strategize and meet new market demands and changes?

MDM: Focusing on helping members build operational efficiencies seems like it's become

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especially important in the past year due to the economic situation.

Tucci: Your partners are your manufacturers. And your association is your ultimate place to network with those partners. You learn how to become more efficient and proficient together. To do that, you need to work on those areas where your companies are doing things that are redundant that really should be synergized, such as our effort to standardize formats for transmitting price updates—the PPIF. There are so many different ways processes are handled. Why not create standardized tools in order to become more effective and efficient? It saves everyone time. Our industry needs that.

Nowak: We've created guidelines around processes such as returned goods and debit and credit procedures. We're constantly trying to streamline and standardize those.

MDM: Do you feel like you've made a lot of progress on this front?

Tucci: We have made a lot of progress, certainly in standardizing the transmission of pricing files, throughout the years. We continue to modify and expand and massage that so it becomes more effective. But, yes, we are getting into areas that a lot of people didn't want to talk about in the past. We're becoming far more open as an association with our members.

MDM: What else is PTDA working on?

Tucci: We're working hard to make sure we're meeting our members' needs with trend and financial data.

Nowak: That is a challenge. It's an expensive endeavor but something we need to look at because it's something our members need.

Tucci: Something else that is worth talking about is what we tried this year at the Industry Summit for the first time ever. We put a group of privately-held distributors in a room to share best business practices. It's never been done, and it went over fantastically. You don't have to reinvent every single idea. Why not just share some of these successes? Why can't one company just talk about how well they've done in freight recovery or reducing medical costs?

MDM: So, what's coming in the next year for PTDA?

Nowak: This coming year is PTDA's 50th anniversary. We're going to focus on that and use it as a marketing tool to get our name out and maybe re-engage some members who haven't been active lately.

MDM: What is PTDA's key selling point – what message do you want to send to potential members?

Tucci: I'd love to see us marketed and perceived as, "the organization that is an essential networking asset for distributors and manufacturers alike." I really can't imagine doing business in this industry and not being a member.

Nowak: For a smaller distributor, it's very difficult to stay connected without benefit of an association. You don't get the bigwigs flying into your town when you're a smaller distributor. And by the same token, you can't afford to fly to all the major manufacturers. So to have them all in one city, at one time, over a three-day span during our annual Industry Summit, more than pays for the trip.

Tucci: It's the only place, in our industry, where a distributor can influence real change and enhancements to their product lines. They get the opportunity to display their management, their leadership and how they drive their business. It's the only time those executives may actually get a chance to see that. I can't think of anything more valuable.

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Industrial & Construction Markets Update

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Industrial Manufacturers Grow More Optimistic On Economy

Optimism in the U.S. and global economies among U.S.-based industrial manufacturers is on the rise, and a turnaround is expected over the next 12 months, according to the third quarter 2009 PricewaterhouseCoopers LLP Manufacturing Barometer. While a majority of survey respondents continue to view the U.S. and global economies as unchanged or declining in the third quarter of 2009, their overall outlook on how things will be by the second half of 2010 indicates their overall optimism on recession recovery.

For the past four quarters, an overwhelming majority of respondents viewed the economy as declining. In a turnaround this quarter, fewer industrial manufacturers are taking this view, with only 23 percent of industrial manufacturers interviewed believing the U.S. economy declined this quarter (down 40 points from last quarter's 63 percent). Also showing a hint of optimism, 13 percent believed the U.S. economy grew.

On the world economy, only 25 percent continued to view it as declining, down 41 points from last quarter. Additionally, 29 percent view the world economy as growing, up 18 points over last quarter's findings.

Looking ahead, 48 percent are optimistic about the U.S. economy's prospects and only 13 percent are pessimistic. This marks a decrease in pessimism over this time last year when 66 percent of respondents were pessimistic. Similarly, among those respondents doing business abroad, 45 percent are optimistic about prospects for the world economy and only 13 percent are pessimistic.

"The upswing of optimism regarding the economy reflects an important shift in perspective and growing confidence by manufacturing executives at both a U.S. and global level," said Barry Misthal, industrial manufacturing sector leader at PricewaterhouseCoopers.

Sonepar USA, Philadelphia, PA, and **Hagemeyer North America**, Charleston, SC, both subsidiary companies of Sonepar, have begun merging locations in the mid-Atlantic region. The new organization, encompassing operations under the **Capital Lighting and Supply**, **Hagemeyer NA and Tristate** names, will have 46 locations in four states.

US LBM Holdings, LLC, will acquire three regional operations of **Stock Building Supply** in Wisconsin, Central New York and Connecticut. The operations being acquired by US LBM will be re-established as local autonomous businesses: **Wisconsin Building Supply, Bellevue Builders Supply and East Haven Builders Supply**.

Illinois Tool Works Inc., Glenview, IL, acquired Greenville, SC-based **Hartness International**. The company's core business includes line integration, conveyor systems, and line automation for the beverage and food industries.

3M, St. Paul, MN, reported sales for the third quarter were $6.2 billion, down 5.6 percent from third quarter 2008. Profit declined 3.4 percent to $957 million. Year to date, sales were $17 billion, down 14 percent. Profit declined 22.8 percent to $2.26 billion.

Finland-based **Konecranes**, a lifting equipment manufacturer, has acquired **Machine Tool Solutions Unlimited**, Cincinnati, OH. Machine Tool Solutions Unlimited is Konecranes' first MTS acquisition in the U.S.

The **Conference Board Leading Economic Index** for the U.S. increased for the sixth straight month in September, improving 1.0 percent. The **Coincident Economic Index** remained unchanged; the **Lagging Economic Index** declined 0.3 percent.

Manufacturing expanded in October for the third consecutive month, according to the latest Manufacturing ISM Report on Business. The rate of growth is the highest since April 2006 when the PMI registered 56 percent.

Construction spending in September 2009 was estimated at a seasonally adjusted annual rate of $940.3 billion, 0.8 percent above August, and 13 percent below September 2008. During the first nine months of this year, construction spending was $715.2 billion, 12.1 percent below the $813.3 billion for the same period in 2008.

Wholesale revenues in September 2009 were up 0.7 percent to $320.2 billion from August, but down 15.2 percent from September 2008, according to the U.S. Census Bureau. September sales of durable goods were up 0.7 percent from last month. Sales of nondurable goods were up 0.6 percent from last month.

The **Chicago Fed National Activity Index** was -0.81 in September, down from -0.65 in August. The three-month moving average, CFNAI-MA3, was -0.63, up from -0.96 the previous month.

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MDM News Digest

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The **Chicago Fed Midwest Manufacturing Index** (CFMMI) increased 1.0 percent in September, to a seasonally adjusted level of 82.3 (2002 = 100). The Federal Reserve Board's **industrial production index for manufacturing** (IPMFG) was also up 1.0 percent in September. Regional output in September declined 15.7 percent from a year earlier, and national output decreased 7.2 percent.

New orders for manufactured durable goods in September increased $1.6 billion or 1 percent to $165.7 billion, the U.S. Census Bureau announced. This was the second increase in the last three months. Machinery, up five of the last six months, had the largest increase.

In the **MAPI Quarterly Forecast of U.S. Exports, Global Growth, and the Dollar: Fourth Quarter 2009 Through Fourth Quarter 2011**, MAPI anticipates the growth rate of total U.S. exports of goods and services will contract by 11.8 percent in 2009, followed by 5.7 percent growth in 2010.

Real gross domestic product – the output of goods and services produced by labor and property in the U.S. – increased at an annual rate of 3.5 percent in the third quarter of 2009.

Canada's **Industrial Product Price Index** (-0.5 percent) and the **Raw Materials Price Index** (-1.1 percent) were both down in September compared with August, mainly as a result of declining petroleum prices: Statistics Canada.

WESCO International, Inc., Pittsburgh, PA, third quarter sales were $1.15 billion, down 31.5 percent from the prior year. Profit decreased 47.3 percent to $33.6 million. For the first nine months, sales were $3.49 billion, down 25.4 percent from the first nine months of 2008. Profit declined 49.3 percent to $83.3 million.

Watsco, Inc., Coconut Grove, FL, third quarter sales were $742 million, an increase of 56 percent over third quarter 2008. Profit fell 9.4 percent.

Glenview, IL-based **Anixter International** Inc., reported sales for the third quarter ended Oct. 2, 2009, were $1.27 billion, down 20 percent from the year-ago period. Profit was $22.1 million.

Airgas, Inc., Radnor, PA, reported sales for the second quarter were $962 million, down 17 percent from the prior year. Net earnings were $54.5 million.

Praxair, Inc., Danbury, CT, reported sales for the third quarter were $2.29 billion, 20 percent lower than third quarter 2008. Profit fell 8.5 percent to $325 million. Year to date, sales were $6.55 billion, down 22 percent from the prior year period. Profit declined 9.6 percent to $914 million.

Lawson Products, Inc., Des Plaines, IL, reported sales for the third quarter were $95.1 million, down 24.1 percent from third quarter 2008. Profit fell 51.2 percent to $1.5 million.

United Stationers Inc., Deerfield, IL, third quarter sales fell 6.8 percent to $1.25 billion. Profit was $33.5 million, versus $33.1 million in the prior-year quarter.

Avnet, Inc., Phoenix, AZ, reported sales for the first quarter were $4.36 billion, a decrease of 3.1 percent over the first quarter fiscal 2009. Profit was down 43.6 percent to $50.9 million.

Arrow Electronics, Inc., Melville, NY, third-quarter 2009 sales were $3.67 billion, a decrease of 14.7 percent from third quarter 2008. Profit was $12.6 million, compared to profit of $76.1 million a year ago.

Barnes Group Inc., Bristol, CT, reported sales for the third quarter 2009 were $260.3 million, down 22 percent from the third quarter 2008. Income from continuing operations was $10.9 million compared to $29.2 million.

BlueLinx Holdings Inc., Atlanta, GA, sales for the third quarter were $449 million, down 38.2 percent from the same period a year ago. The company incurred a net loss of $13.5 million for the quarter.

DXP Enterprises, Houston, TX, reported third quarter sales of $143.4 million, a decrease of 23.3 percent from third quarter 2008. Profit declined 61.8 percent to $2.68 million.

Kaman Corp., Bloomfield, CT, reported sales for the third quarter were down 13.5 percent from the prior-year period. Profit was $9.6 million, down from $13.5 million.

continued on p.4 of this section

U.S. MARKET ANALYSIS: Power Tools

The product group listed here - Power Tools - represented a market in 2008 of $2.06 billion, according to estimates by Industrial Market Information, Minneapolis.

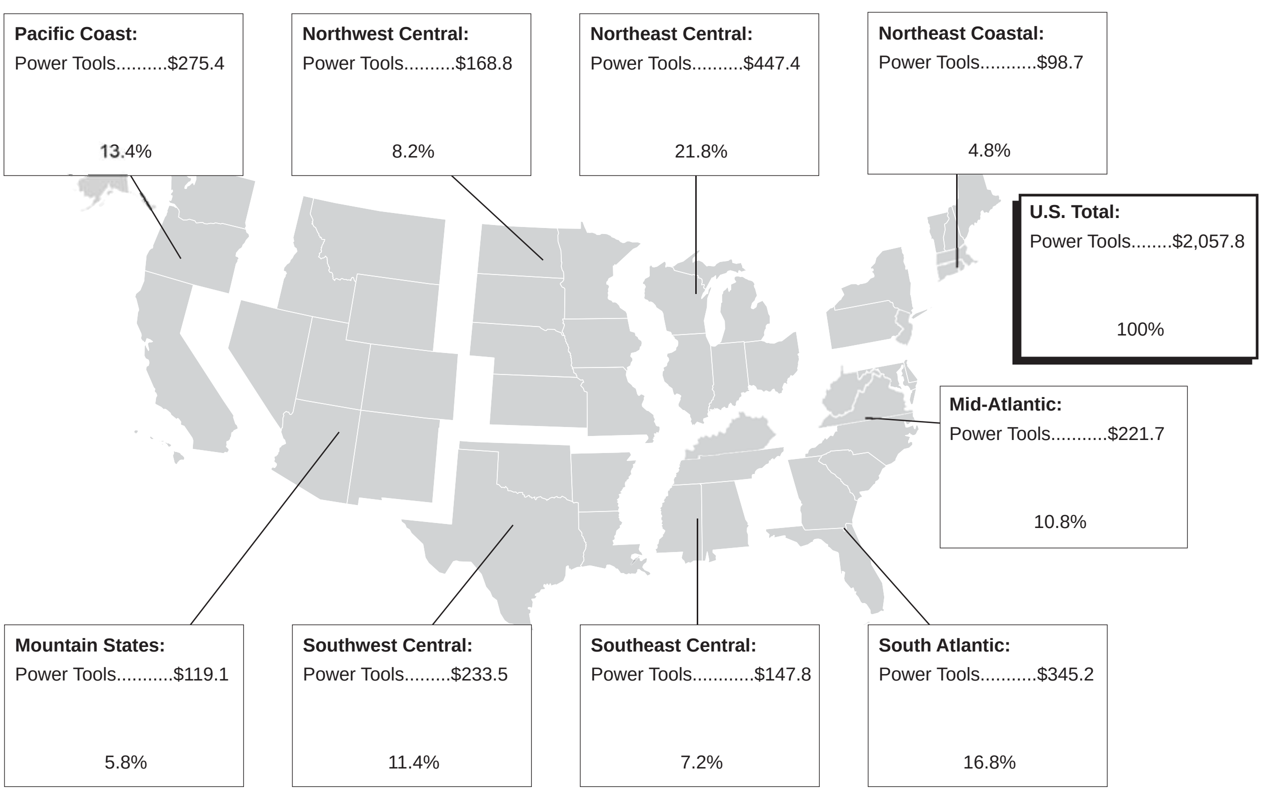
These charts show the top ten industries, by SIC code, consuming these products; and the 2008 end-user consumption of these groups sorted by the nine government market regions.

Top ten industries in $ volume, by SIC code consuming Power Tools

(2008 estimates)

SIC CODE	Air Power Tools	Electric Power Tools	Companies	Total (Column A + B)
1711 Plumbing Heating Air Conditioning	43,485,656	76,575,889	168,664	120,061,545
3714 Motor Vehicle Parts & Accessories	41,066,305	54,707,852	5,239	95,774,157
1731 Electrical Work	34,328,038	57,827,095	112,113	92,155,133
3711 Motor Vehicles & Car Bodies	38,604,649	33,822,607	2,243	72,427,256
1542 General Contractors - Nonresidential	18,437,292	29,618,308	48,852	48,055,599
3721 Aircraft	21,758,157	20,856,341	1,496	42,614,498
1771 Concrete Work	14,596,313	19,830,967	41,368	34,427,280
1521 General Contractors - Single-Family	9,777,267	16,518,051	356,246	26,295,318
3441 Fabricated Structural Metal	15,539,987	10,029,672	6,627	25,569,659
3531 Construction Machinery & Eqmt	13,453,166	9,856,745	3,294	23,309,911

End-user consumption of Power Tools by region, millions of $ (2008 est.)



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

MARKETS UPDATE SUPPLEMENT P. 4

U.S. Construction Statistics: Third Quarter 2009

Year-to-Date Housing Starts (in thousands, not seasonally adjusted)

	U.S. Total	Northeast	Midwest	South	West
YTD September 2008	752.1	104.9	110.4	373.4	163.3
YTD September 2009	431.3	48.3	74.6	215.7	92.7
Change YTD September 2009	-42.7%	-54%	-32.5%	-42.2%	-43.2%

Year-to-Date U.S. Construction Spending (in thousands)

	Year-to-Date September 2009	Year-to-Date September 2008	% Change
Total Construction	715,163	813,306	-12.1
Total Private Construction	474,744	583,770	-18.7
Residential	188,403	273,825	-31.2
Nonresidential	**286,341**	**309,946**	**-7.6**
Lodging	20,531	26,704	-23.1
Office	32,455	43,318	-25.1
Commercial	42,951	62,799	-31.6
Health care	28,443	28,777	-1.2
Educational	12,982	14,052	-7.6
Religious	4,848	5,206	-6.9
Amusement and recreation	6,258	7,902	-20.8
Transportation	6,736	7,308	-7.8
Communication	14,800	19,529	-24.2
Power	57,012	50,253	13.4
Manufacturing	58,334	42,407	37.6
Total Public Construction	240,419	229,535	4.7
Residential	6,009	5,531	8.6
Nonresidential	**234,410**	**224,004**	**4.6**
Office	11,370	9,773	16.3
Commercial	2,929	2,653	10.4
Health care	7,433	6,390	16.3
Educational	67,944	65,237	4.1
Public safety	10,416	8,772	18.7
Amusement and recreation	8,276	8,392	-1.4
Transportation	19,125	17,850	7.1
Power	9,878	8,950	10.4
Highway and street	62,567	61,052	2.5
Sewage and waste disposal	18,027	18,037	-0.1
Water supply	11,668	12,004	-2.8
Conservation and development	4,244	3,983	6.6

For monthly updated numbers:

www.mdm.com/databank

Source: U.S. Census Bureau

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Founded in 1967 by J. Van Ness Philip

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MDM News Digest

Continued from p. 2 of this section

Interline Brands, Inc., Jacksonville, FL, reported sales for the third quarter 2009 were $277.9 million, a decline of 12.5 percent from the prior-year period. Sales for the nine months ended Sept. 25, 2009 were $804.7 million, a 12.4 percent decrease from the comparable 2008 period. Profit was $19.7 million, down from $33.5 million the prior year.

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Public Distributor Report
Third Quarter 2009

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■ *Reports Digest*

Distributor View of End-Market Health in the Third Quarter

Public distributors reviewed end-market trends in their quarterly conference calls this month and last. No end-market was particularly strong, as could be expected, but distributors saw improvement in some areas. Here are comments made by distributors in various sectors regarding end-market health:

Grainger

Grainger sales in the U.S. were hit hardest by heavy manufacturing, which was down in the mid-twenties. Contractor and reseller end-markets were down as well by at least 20 percent, and retail was down low double digits.

Commercial and light manufacturing end-markets were down high single digits for the distributor. Government sales seemed to be a relative bright spot, with sales only down mid-single digits versus last year, and sales to state agencies up mid-single digits.

Moving to Canadian markets, Grainger saw weakness in forestry, manufacturing and gas sectors of the economy, but trends improved in utilities, infrastructure construction and oil end markets.

Anixter

Growth for Anixter was driven by increased data network spending and positive security growth. North American enterprise sales were flat sequentially; EMEA enterprise sales declined year-over-year as well as sequentially reflecting the continued difficult project environment in Europe.

The electrical and electronic wire and cable end market experienced the continued impact of lower price copper versus last year, as well as lower project and OEM demand. Year-over-year sales were again down, but North America organic sales increased sequentially compared to the second quarter.

■ *Sales Trends*

A Selection of Reports from Various Wholesale Sectors

	Prev. Qtr.	Current Qtr.
United Stationers	↓ 7.4%	↓ 6.8%
Owens & Minor	↑ 13.7%	↑ 13.9%
Motion Industries	↓ 22%	↓ 22%
Reliance Steel & Aluminum	↓ 41%	↓ 51.8%
Watsco Inc.**	↓ 21%	↓ 15%
W.W. Grainger	↓ 13%	↓ 14%
Fastenal Co.	↓ 21.4%	↓ 21.7%
MSC Industrial Direct (4Q)	↓ 23.3%	↓ 21.1%
Anixter	↓ 25%	↓ 20%
Interline Brands	↓ 13.3%	↓ 12.5%
Praxair	↓ 26%	↓ 20%
Avnet (1Q)	↓ 19.5%	↓ 3.1%

Numbers include acquisitions. All current-quarter numbers third-quarter 2009 unless otherwise specified. More earnings at www.mdm.com.

***With Watsco's Carrier acquisition, sales grew 56%.*

According to Anixter, bidding activity for modest-sized projects has picked up. Drivers are oil and gas, power generation including alternative energy, and some modest mining activity.

The OEM supply market for Anixter continues to see sales declines from the prior year. The distributor reported a "very challenging manufacturing environment." Plant shutdowns have had a negative impact. In the OEM supply end-market, Anixter is working to improve inventory turns, but said that it is a "significant challenge," given that lead times from suppliers remain long. The distributor has been told by OEM supply customers that there will be

continued on next page

About This Report

This is the MDM Public Distributor Report, provided on a quarterly basis to subscribers of Modern Distribution Management.

On the first three pages, you will find recent sales figures from various sectors, as well as a Reports Digest, with information you can use from public distributor and manufacturer reports and earnings calls, distilled by MDM.

On page three of this Public Distributor Report, we feature MSC Industrial, which released its annual results. It features snippets from its 10K annual report and investor call.

The latest numbers for dozens of public distributors across various wholesale sectors are on the back page and provided by Robert W. Baird & Co.

We hope you will view this quarterly feature as another way to gather ideas, stay on top of the moves of your largest competitors, and hone your business plan.

extended plant shutdowns in December.

But Anixter has seen some improvement in North America at some industrial customers as they restock finished goods inventories as demand improves. But the aerospace market is seeing continued weakness.

Wesco

Wesco is one of many large distributors that saw improvement in government sales over the past several quarters due to an increased focus on winning stimulus spend. Government sales were up 15 percent for the quarter.

Sales to construction, industrial and OEM and utility customers were down 29 percent in the third quarter versus last year.

Construction expenditures are forecast to be down in the mid-teens over the next year, Wesco reported. Wesco is focusing its efforts on large regional and national contractors focused on health care, educational facilities, data centers, energy and government. It expects to see most construction activity in infrastructure-related projects in the next four to six quarters.

Wesco reported a series of major initiatives in its utility, industrial and contractor customer market in what it called the $2.5 billion outdoor and area lighting market. It noted that LED technology and stimulus funding were two drivers of spending in this area.

Data communication projects are healthy.

Reduced MRO demand, low capacity utilization and tight purchasing control resulted in lower sales to national accounts customers in the third quarter.

Transmission-related and alternative energy projects remain a priority for customers in the mid- to long-term.

And an increasing number of investor-owned utilities and public power customers are applying for federal grant money under the economic stimulus program, targeting energy-efficient lighting, system upgrades and smart grid-related programs. Wesco expects to benefit from that increased spending.

Fastenal

Manufacturing customers make up the largest part of Fastenal's customer base, representing half of all sales. Its next largest is nonresidential construction, which makes up about a quarter of sales.

Selling to other wholesalers represents 10 percent, government 3 percent, transportation warehouse customers about 2 percent.

Fastenal's manufacturing business contracted from January through April. But since April the company reports stabilization and now improvement. Manufacturing sales were down 20 percent year-over-year in the third quarter, slightly better than overall company results for the month of September.

But its construction business has been sliding since February. As of September, Fastenal's construction business is down 27 percent from September a year ago.

Government business is up 10 percent on a year-over-year basis.

continued on next page

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■ *Distributor Focus*

MSC Industrial's Annual Report: Sales Drop 16.3% in Fiscal 2009

Data in this article comes from MSC's earnings conference call as well as its newly released 10K.

MSC Industrial Direct Co. Inc. (NYSE: MSM), Melville, NY, distributor of Metalworking and Maintenance, Repair and Operations supplies to industrial customers reported sales for its fiscal 2009 ended Aug. 29, 2009, were $1.49 billion, down from $1.78 billion the previous year - a 16.3 percent drop. Profit was $125.1 million.

President and CEO David Sandler said that while MSC did see extended shutdowns by customers in its fourth quarter, they were not as severe as the distributor had anticipated: "While our visibility remains limited, we are seeing some encouraging signs in the marketplace. We look at the eventual economic recovery as a significant opportunity for MSC, and will continue to focus our investment on the opportunities that will produce the greatest returns."

Workforce

MSC continued to grow its sales force during fiscal year 2009, increasing the number of direct sales associates to 939 as of Aug. 29, 2009, from 912 a year ago and 814 at Sept. 1, 2007. At fiscal year end, MSC had 4,193 employees, down slightly from 2008.

To limit layoffs during times of reduced demand, MSC implemented hours reductions for employees at call centers and in other demand-driven positions. "We have a desire to restore all of our compensation and benefits for our associates just as quickly as possible," Sandler said.

Growth Strategy Outlined

In its annual report, MSC presennted details of its growth strategy. Here are key points:

Improve product lines through the addition of new products and private label alternatives – MSC added about 20,000 SKUs to its catalog during fiscal year 2009, while at the same time removing about 15,000 SKUs it deemed were "non-value-added." The streamlining continued in the 2010 catalog, in which 21,000 SKUs were added and 22,000 removed. MSC currently offers around 600,000 SKUs.

Build e-commerce, and vendor and customer managed inventory programs – During fiscal year 2009, sales derived from the MSC Web site represented about 28.9 percent of sales. The programs are designed to offer real-time availability of MSC's product line and reduce handling costs by putting more control in customers' hands. MSC plans to continue marketing to increase awareness of available programs.

Increase sales from existing customers and generate new customers – As of Aug. 29, MSC had 343,000 customers, which Sandler said was slightly lower than the previous year. He attributed the decrease to a renewed focus on larger customers. "We've proactively dialed down where we focus our investments," Sandler said. By focusing on Large Account Customers, MSC wants to offset cyclical downturns inherent for small- and mid-sized business in the industry.

Distributor View of End-Market Health

Continued from page 2

Genuine Parts Company

GPC is a diversified wholesale distribution company, serving different segments.

Aftermarket automotive revenues were down 1 percent in the quarter, an improvement from past quarters. The company's biggest challenge on its commercial side has been its fleet category; the distributor is seeing low double-digit decreases in that portion of its business. But its installer business was up mid-single-digits in the third quarter.

GPC's industrial segment, served by Motion Industries, Birmingham, AL, saw sales decline by 22 percent in the third quarter due to struggles in the manufacturing sector. The company saw declines in 11 of its 12 major product categories.

Steepest declines by customer type were in automotive, iron and steel, equipment and machinery, and housing and construction segments.

On the positive side, the company saw improvement in food processing, beverage and some energy-related segments.

EIS, its electrical group, saw similar declines in the quarter due to its ties to manufacturing. Declines were spread across product categories and customer segments.

GPC reported that though it has not seen signs of improvement in its industrial and electrical operations, it has not seen conditions worsen, which indicates that its end-markets may be stabilizing.

The company's best-performing category was cleaning and break room supplies.

Distribution Financial Metrics and Trading Multiples

(Data as of Sept. 30, 2009)

($ in millions)

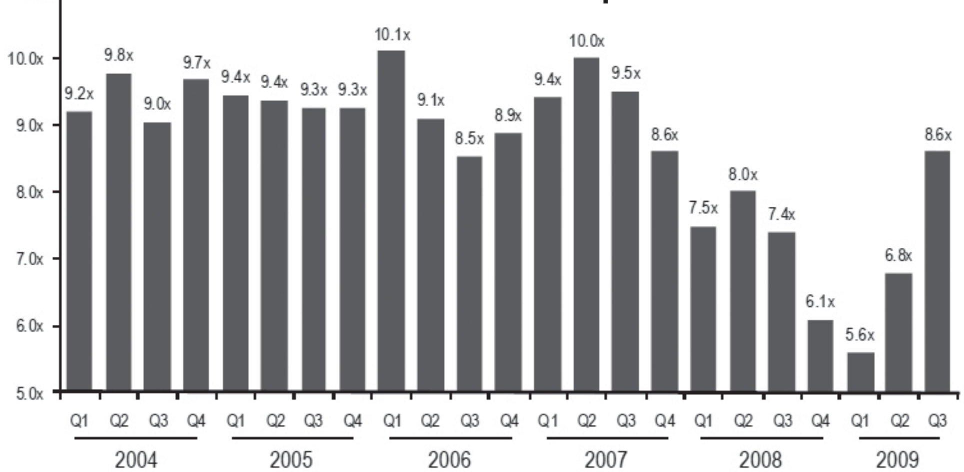
Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Gross Margin	LTM EBITDA	LTM EBITDA Margin	EV to LTM Sales	EV to LTM EBITDA	ROIC	Working Capital/Sales
Airgas Inc. *	ARG	$5,630	$4,212	(0.2%)	53.8%	$722	17.1%	1.3 x	7.8 x	9.2%	6.3%
AM Castle & Co.	CAS	321	1,158	(20.9%)	14.0%	38	3.3%	0.3	8.4	2.3%	21.0%
Anixter International Inc. *	AXE	2,224	5,540	(9.2%)	23.1%	310	5.6%	0.4	7.2	1.7%	24.8%
Applied Industrial Technologies Inc.	AIT	958	1,923	(8.0%)	27.0%	131	6.8%	0.5	7.3	12.3%	18.0%
Barnes Group Inc. *	B	1,343	1,117	(23.6%)	36.4%	150	13.5%	1.2	8.9	7.3%	25.5%
Beacon Roofing Supply Inc. *	BECN	998	1,813	6.0%	24.1%	153	8.4%	0.6	6.5	10.7%	13.3%
BlueLinx Holdings Inc.	BXC	457	2,059	(38.5%)	11.0%	(12)	N/M	0.2	N/M	N/M	11.5%
Builders FirstSource, Inc. *	BLDR	344	836	(29.6%)	21.3%	(49)	N/M	0.4	N/M	N/M	7.8%
Bunzl plc	BNZL	4,578	7,415	(2.4%)	21.2%	437	5.9%	0.6	10.5	12.6%	5.5%
DXP Enterprises Inc.	DXPE	286	683	8.0%	28.8%	50	7.4%	0.4	5.7	8.3%	18.8%
Fastenal Co. *	FAST	5,574	2,134	(4.0%)	52.6%	406	19.0%	2.6	13.7	22.5%	32.2%
Genuine Parts Co.	GPC	6,341	10,382	(5.9%)	29.6%	792	7.6%	0.6	8.0	15.5%	21.8%
Houston Wire & Cable Company *	HWCC	214	302	(19.5%)	21.7%	23	7.6%	0.7	9.3	14.1%	29.7%
Huttig Building Products Inc.	HBPI	46	529	(31.8%)	17.3%	(31)	N/M	0.1	N/M	N/M	7.5%
Interline Brands Inc. *	IBI	819	1,122	(8.9%)	37.3%	93	8.3%	0.7	8.8	6.5%	21.3%
Kaman Corp.	KAMN	642	1,239	7.8%	26.3%	77	6.2%	0.5	8.3	10.8%	26.9%
Lawson Products Inc.	LAWS	137	427	(15.8%)	56.6%	12	2.8%	0.3	11.5	3.5%	17.9%
MSC Industrial Direct Co. Inc. *	MSM	2,726	1,584	(11.1%)	48.8%	268	16.9%	1.7	10.2	19.2%	23.0%
Park-Ohio Holdings Corp.	PKOH	460	860	(19.6%)	14.6%	49	5.8%	0.5	9.3	5.5%	28.8%
Pool Corp *	POOL	1,375	1,631	(12.3%)	29.2%	114	7.0%	0.8	12.1	10.5%	19.8%
Reliance Steel & Aluminum Co.	RS	4,217	7,517	(0.1%)	22.9%	564	7.5%	0.6	7.5	8.2%	14.6%
Rexel SA	RXL	7,664	17,493	(2.4%)	23.8%	722	4.1%	0.4	10.6	5.0%	11.3%
Smith International Inc.	SII	9,904	10,261	9.1%	29.8%	1,638	16.0%	1.0	6.0	12.6%	30.3%
Watsco Inc. *	WSO	1,690	1,506	(16.6%)	25.8%	76	5.1%	1.1	22.1	8.0%	20.1%
WESCO International Inc. *	WCC	2,068	5,397	(11.4%)	19.7%	285	5.3%	0.4	7.3	11.2%	13.0%
Wolseley plc	WOS	6,732	24,082	(26.3%)	27.5%	375	1.6%	0.3	17.9	N/M	7.8%
WW Grainger Inc. *	GWW	6,698	6,431	(3.9%)	43.5%	846	13.2%	1.0	7.9	20.0%	17.0%
Median		$1,375	$1,813	(9.2%)	26.3%	$150	7.2%	0.6 x	8.6 x	10.5%	18.8%

* Companies covered by Baird Research.

The table above highlights key financial metrics and trading multiples for 27 publicly traded distributors in the industrial and building products industries.

The chart 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.

Distribution Median EBITDA Multiples



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Definitions

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