Modern
DISTRIBUTION MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 39, NO. 22
NOVEMBER 25, 2009

Vendor Managed Inventory Grows

Providers: More customers are showing interest in the service

Vendor Managed Inventory services are gaining ground. This article considers the challenges to implementing managed inventory programs, whether a manufacturer or a distributor is providing VMI to customer. MDM spoke to Fastenal and Updike Supply, as well as inventory expert Jon Schreibfeder and two vendors to gain perspective on current trends in VMI.

By Jenel Stelton-Holtmeier

With uncertainty dominating the economic landscape, companies are continuing to look for ways to cut costs. Many have already cut staff and production to levels not experienced in decades. They have outsourced tasks that could be done for less outside of the firm. But what about inventory management?

More customers are showing interest in using inventory management services from their suppliers, according to those who supply those services. Many larger public distributors noted this increased interest in their quarterly earnings calls this past month.

Ron Jordahl, implementation projects manager for national accounts at industrial distributor Fastenal, Winona, MN, told MDM that he is seeing "a lot more interest in vendor managed inventory, especially in the last year."

In the area Jordahl serves – which includes states surrounding Minnesota – demand from customers for vendor managed inventory services has more than doubled in the past year.

Savings from allowing a supplier to manage replenishment at your warehouse can be significant, says inventory management expert Jon Schreibfeder of Effective Inventory Management Inc.

"The savings aren't just in having more accurate levels of inventory in your warehouse, but in the manpower needed to keep your stock at the desired levels," he says. In addition, entering into a VMI agreement can strengthen already existing relationships.

Vendor managed inventory is not new; the idea has been around for decades. In the 1960s, vendors would send representatives to client warehouses to evaluate stocking levels and suggest purchasing levels, Schreibfeder says. At that time, Schreibfeder was working for a family-owned distributorship.

"But that vendor representative and I had very different goals," Schreibfeder says. "His goal was to get inventory into my warehouse; my goal was to get inventory out of my warehouse. So the vendor always overstocked me."

Vendor managed inventory today is a very different concept than it was 30 years ago, in part because of technology changes – "That method was well before the days of computers," Schreibfeder says – but also because the goals of each party have changed.

The idea behind modern vendor managed inventory practices is to improve visibility along the supply chain and make better decisions at every level.

Defining the Concept

At its most basic, Vendor Managed Inventory is a process where the supplier takes on responsibility for the replenishment of a certain group of items for its client. But the specifics of the agreement can vary widely from company to company.

"VMI is about the supplier taking on the lead responsibility on replenishment for the customer, but they're going to jointly figure out what they want to accomplish with the program," says Bob Jennings, vice president of sales and mar-

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INSIDE

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Two Questions to Ask As You Plan for 2010

In MDM's 2010 Economic Forecast for Wholesale Distribution Webcast, Adam Fein painted a not-so-rosy picture of what this recovery is likely to look like. For a number of reasons, not many distributors will feel much of a bounce. It will be more like a grind to find growth in new areas as we emerge from the worst recession since World War II.

While he agrees with many other economists that technically the third quarter will probably be the official end of the recession, 2010 is still going to be a slow-growth year for many distributors. And there have been some fundamental shifts in certain industries that distributors have to address. (MDM will have an article recapping his views in the Dec. 10 issue of MDM.)

In his presentation, Fein offered some great questions for management to ask. Two questions in particular stuck out to me in terms of making the most of a weak recovery:

Question 1: How do we expect customers to change their sourcing strategies as the market recovers? This has been a two-edged sword for many distributors. Some customers have outsourced more to their best suppliers; others have used the downturn to shop for price and/or new suppliers. This quarter is a critical budget and planning period. It's an opportunity to learn as much as possible about your customers' planning for 2010 and how you can position your company to be a bigger part of the solution.

Question 2: How can we keep employees motivated during a slower-than-normal recovery period? This year it has been tough to keep people positive. But energy, enthusiasm and initiative taken by employees will likely dictate what 2010 performance looks like. People like to do business with companies that are focused on their needs, with a clear plan for how to be mutually successful. It's critical that your employees understand that the company is future-focused, and at least has a plan and goals.

Sit down with your managers and key employees to discuss the two questions listed above and others presented in the Webcast as you prepare for the start of a critical new year. ■

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

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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 no available. For group subscription rates and site licenses, please contact Hadley Fable at 303-443-5060.

ISSN 0544-6538

Vendor Managed Inventory
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keting at Datalliance, a company that specializes in implementing VMI programs. "And different companies have different goals." For example, one company may be focused on decreasing levels of stock-outs while another may be focused on manpower hours, Jennings says.

But problems with creating a successful VMI program can arise due to misconceptions about what it is and is not. Too many end-users, whether a distributor or a distributor's customer, have an oversimplified view of the process, says Steve Short, president of industrial distributor Updike Supply, Huber Heights, OH.

"I've come across several people who believe that the end-user relinquishes all responsibility for inventory management with VMI," Short says. "While VMI is a useful tool, it is still the end-user's inventory and they have to understand what's happening with it."

Updike Supply began offering automated inventory management services after losing its largest customer to a competitor over VMI. "We vowed never to let that happen again," Short says. Now, VMI makes up about 60 percent of Updike's business.

Vendor managed inventory is also often confused with consigned inventory agreements, Jennings says. "It may or may not be consigned inventory, but VMI is really about who is in the better position to effectively manage the inventory levels regardless of ownership," he says.

But the confusion isn't only on the side of the end-user, Schreibfeder says. Several vendors claiming to offer VMI are actually offering services that fall short of true inventory management. In one example, the vendor monitored the stock levels at a distributor but had no role in determining what the best levels were.

"Under a true VMI program, the vendor will set the minimums and maximums for inventory levels based on the service levels the distributor wants to maintain and the actual sales that are being experienced," Schreibfeder says. "In this case, the vendor said he didn't want to get involved in setting those minimums and maximums."

But, even though misconceptions may exist, the important thing for a company offering VMI is servicing its customers rather than dwelling on the different perceptions, Short says. "It's about providing a solution to a need, not what they want to call it."

Quantifying Cost and Value

Customers – whether that customer is a distributor, manufacturer or a retailer – often fail to consider all the costs and savings associated with a VMI program, Schreibfeder says. Accurate information is necessary to set up an effective VMI agreement.

Cost savings begin with reduced inventory waste. For one program implemented for a customer by Fastenal, the consumption rate of items such as gloves was reduced by 76 percent. "Before the program, they had been issuing gloves to new employees 12 at a time," Jordahl says. "Once the program was in place, gloves were going out one pair at a time. One of the reasons these programs work is they create more awareness of usage."

Time savings is also a big factor that should be considered. Currently for companies without VMI agreements, purchasing agents may dedicate a lot of time to determining needed inventory levels for "nuisance items" such as gloves and safety goggles, Schreibfeder says.

"Under a VMI program, the company is freeing up its buyers' time to concentrate on the more important things – the purchasing of the materials that actually go into the products they manufacture."

But quantifying the total cost and savings can be a challenge, says Kent Savage, CEO of Apex Industrial Technologies, which sells industrial vending machines. "Often distributors don't have a good sense of what the true cost of managing inventory is," Savage says. "And if they don't analyze all the costs well at the start, the program can fail."

While the costs associated with wasted inventory may go down, the time needed to monitor the data and actual inventory levels may be higher. These costs need to be considered when entering into the contract for VMI.

"It's not a panacea. You can't think 'all my problems will now go away,'" Savage says. "Instead, you have to understand that some of those costs will be shifted to other areas. A well-managed program will have overall cost savings, but you need to be prepared for where new costs will arise."

Because different companies have different goals, the way value is measured also has to be different, Jennings says. "For a typical distribu-

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tor, VMI can reduce time spent on replenishment by up to 50 percent, but their customer service levels may not change."

With well-implemented programs, regardless of how they are measured, the benefits will be visible quickly, Jennings says. "For these types of programs, if they are done correctly, the payoff can be measured in months."

Making VMI Work

Making vendor managed inventory programs work is not as simple as just installing a vending machine and saying "There you go; you're being managed," Short says. There are several steps that go into making sure it is an effective and successful program.

The first phase is educating customers about what VMI is and what it can do for both companies involved. "There's sometimes a fear that we're going to consistently overstock the customer just to keep our bottom line up," Fastenal's Jordahl says. "We have to show them that we're holding ourselves accountable by basing our service on real reporting, not just what we want to sell."

Presenting a clear idea of what services can be provided by VMI and what benefits go with those services at the start of a negotiation can eliminate pain further along in the relationship. "The dark side of VMI is if it's not done well from the beginning, you can destroy your existing relationships," Savage says.

Once education has been completed, both parties need to work out an agreement that includes costs. "The customer may not completely understand the level of extra costs the vendor is taking on to supply the management and analysis part of VMI," Short says. "So the vendor has to be clear in what those costs are so that the mutual agreement can be reached."

Most VMI programs cover maintenance, repair and operations (MRO) items: those items that are necessary to running a business, Schreibfeder says. The agreement needs to include a clearly defined list of which items will be covered and what the expectations are with relation to those items.

While MRO products make up the majority of the products covered by VMI agreements, agreements can be made for any type of product line, Savage says.

"OEM items are actually a really good area for VMI," Jordahl says. "These are items that you know exactly how many go into each manufactured item every time an item is manufactured. Allowing someone else to manage the replenishment of those items can allow your operation to run much more smoothly."

The key is allowing good information to flow between the two parties, which requires a level of trust that the information won't be used for anything other than managing inventory, Schreibfeder says. "Build in a solid confidentiality agreement into the overall contract right at the start to help alleviate those concerns."

And while the vendor will be responsible for the actual replenishment, the customer will still be responsible for evaluating any abnormal usages, Schreibfeder says. "They will be the ones who can determine if the run on an item was a one-time occurrence or the start of a new trend."

Technology's Role

Much has changed in the world of vendor managed inventory. Both the technology available to implement VMI and the technology needed to properly administer the data generated by such a program have advanced considerably.

"The whole concept behind VMI is to replace inventory with information to lower both the vendors' and distributors' cost, and to improve customer service all around," Schreibfeder says.

For a VMI relationship to be effective, the provider must have timely access to sales and usage patterns from the customer. EDI and the Internet have helped to improve this exchange of information, but there can still be a delay in communication. "If a customer is providing those numbers every other day, a stock-out may not be addressed for two days," Schreibfeder says. "That can cause a real problem."

The more quickly information is transmitted to the supplier, the more quickly a response can be developed. "The closer you can get to real-time data flow, the better the process works," Apex's Savage says.

Vending machines, such as those provided by Apex, can actually help improve data flow and reduce man hours required to monitor inventory levels for anomalies, Jordahl says. The machines monitor usage at the point-of-use, rather than requiring someone to physically count stock on a shelf or in a locker. The data then can be electronically transmitted to the supplier.

But change is the biggest hurdle in VMI, not just for management but for employees at companies where VMI is being implemented. "Make sure they're communicating the changes to employees during the process or installing a vending machine will be a waste of time when they keep coming to the supervisor to access the supply locker," Jordahl says.

Grainger Looks Forward

Distributor's take on customer mindset shifts, forecasts & new opportunities

Facilities maintenance distributor W.W. Grainger, with more than $6.5 billion in annual sales. recently held its annual analyst meeting. This article provides an overview of its key talking points in the meeting, including Grainger's market forecasts, acquisition plans, MRO customer mindset and global plans.

Details in this article were taken from Grainger's annual analyst meeting Webcast at grainger.com.

By Lindsay Konzak

Grainger CEO Jim Ryan said it right this month at the distributor's annual analyst meeting: "I'm getting tired of looking at negative numbers, and I know you are, too." The company presented some much more optimistic numbers for 2010, and said its approach to the past year of down has helped prop it up for good growth going forward.

Ryan said the downturn "has had a profound impact on not only our business but on our industry."

Grainger has outperformed the industry as a whole, he said, and has benefited from the diverse customer base it has been building for the past 10 years. In the past decade, Grainger has broadened its end-market scope from its historically manufacturing end-user base.

Here are highlights from the meeting, organized by topic.

Market & Growth Estimates

Grainger presented its estimates for market growth through the rest of 2009 and into 2010:

The company expects the MRO market to be down 13 percent to 14 percent in 2009; it is more optimistic about 2010, expecting the MRO market to be down 1 percent to up 2 percent. Grainger says it is erring on the conservative side with its estimates.

The distributor expects its core business to be down 10 percent to 11 percent this year, but in 2010 for it to be up 1 percent to 6 percent. Grainger expects core sales of $6.2 billion to $6.5 billion in 2010; total sales, including its international operations, is expected to be $6.5 billion to $6.8 billion.

Cash

Grainger's cash balance benefited from selling off inventory held over from 2008 and collecting on its high A/R balance from the end of last year.

For 2008 and 2009 together, the company had $600 million in cash from operations, and expects to hold that or do better for 2010.

What will Grainger do with its cash? A little less than a third of cash will go to capital expenditures, namely investment in its distribution centers. Roughly half will go to share repurchases or acquisitions.

Acquisition Plans

Grainger plans on pursuing more acquisitions over the next couple of years. The distributor has taken advantage of this down market to make some key acquisitions in new spaces.

It just acquired its first service-focused business, Alliance Energy Solutions, Oxford, CT, which provides turnkey energy-efficient lighting retrofits. It has been working with Grainger already for a couple of years as a third-party provider for Grainger's customers.

Grainger is planning to roll out Alliance services nationwide. Currently Alliance's market base is in the East.

In mid-October, Grainger acquired Imperial Supplies LLC, Green Bay, WI, a national distributor of maintenance products and aftermarket components for the vehicle and fleet industry with 2008 sales of $67 million.

It solidified its presence in Japan this year as it took majority ownership of its Japanese joint venture.

Shift in Customer Mindset

Grainger reported that more of its customers are taking a harder look at how they allocate MRO spend. "This is good news for us. This down economy has changed the relationship between companies and institutions and their MRO suppliers," Ryan said.

Ryan related an experience he had with a rail company customer in North America. It recently went to one supplier (Grainger) for its MRO needs.

The customer also down-sized its purchasing staff from 400 to 30. "Over the course of this year, we've heard a lot of customers tell those stories," Ryan said.

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Select Investments

Grainger has been selective in its cost reductions in the past year, according to Ryan.

"We've resisted the temptation to pull back on customer-facing employees." The company has added more than 160 salespeople in the U.S., and in Canada and Mexico another 130. "We've hired some terrific salespeople in the past couple quarters.

"… We also invested in growth – it is really tempting to stop investing in these economic environments. We made the decision to pick a few winners and continue to invest. Product line expansion is an example of that."

In 2010, the company estimates it will have 300,000 total products, thanks to its online capacity. In Mexico and Canada, the company continues to add products as well; 35,000 have been added to those businesses.

Grainger 2009 Acquisitions

June 2009: **Asia Pacific Brands India**
Grainger took majority control over its joint venture in India, which brings in $30 million in annual sales.

September 2009: **Monota RO**
Grainger took majority control over its joint venture in Japan, growing its stake in the Japanese MRO market. Monota has annual sales of $136 million.

October 2009: **Imperial Supplies**
With annual sales of $67 million, distributor strengthens Grainger's position in fleet maintenance industry.

November 2009: **Alliance Energy Solutions**
With annual sales of $20 million, Alliance is a turn-key energy solutions provider Grainger has used as a third-party provider for the past two years.

Experimenting in the Downturn

Ryan spoke to a couple of ideas the company tried during the recession to test for broader rollout post-downturn. The idea: "When the economy turns around, we'll have gotten the answer to a couple of questions about where else we want to go and what we want to do."

As reported on the MDM Blog (at www.mdm.com), Grainger tested a "free freight" program that ultimately did not work. Ryan said the idea behind the test was to gauge price elasticity in the industry. "(The program's failure) was evidence for us that in this economy what is most important is service."

Grainger has also improved its search capabilities on its site and conducted tests to determine the best way to do that. One thing the company is trying: searching the site on a Blackberry. Grainger is still working out the kinks on this plan, so the feature has not yet been rolled out, according to Ryan.

Grainger's Global Focus

Grainger plans to continue expanding overseas, growing its businesses in India, China, Japan and other countries. "This is clearly a global economy in which we're participating," Ryan said.

The distributor sees continued opportunity with multinational customers. "They're asking us to go other places with them," Ryan said. "This is a definite trend in our industry."

Going global diversifies Grainger's risk outside of the U.S. and provides opportunity to grow in markets that are expanding more quickly than its core U.S. operations. Global growth also increases scale and purchasing power.

The company also plans to continue ramping up its global sourcing imitative. Almost all of the big players now have global sourcing operations, Ryan said.

Small- and Medium-Size Customers

Moving forward, Grainger plans to increase focus on its smaller customers, which it says has slower growth relative to its other customers. "It will require us to show up in a different way," Ryan said.

To do this, Ryan said Grainger will need to configure its products and services to be more attractive to its smaller customers. "We're starting to have some success here," said Grainger's U.S. President Michael Pulick. "Medium and small customers have similar issues as larger customers; our challenge is how to tailor the offering to meet their needs."

Building Brand Awareness

One of the key things that struck Grainger's leadership is how often they have heard from customers: "I didn't know you sold that, and I didn't know you provided that service."

"Therein lies an opportunity," Ryan said. "We have to get more aggressive at letting customers know what we have. We have an opportunity to increase our share of their spend by better-educating them."

The Grainger analyst meeting presentation is available for playback in the investor relations section of www.grainger.com.

■ *Economic Update*

A Mixed Bag

Housing starts take unexpected tumble, but other indicators keep looking up

Mixed messages abound on the economy in the last month. While many analysts are cautiously optimistic that recovery has begun – Ken Goldstein of The Conference Board said "economic recovery is finally settling in" – other reports continue to paint a more dismal picture of where the U.S. economy stands today.

Privately-owned housing starts in October were at a seasonally adjusted annual rate of 529,000, 10.6 percent below September and 30.7 percent below October 2008, according to the U.S. Census Bureau and the Department of Housing and Urban Development. The decline follows two months of increases in housing starts.

"Builders were clearly in a holding pattern in October as the future of the home buyer tax credit hung in the balance," NAHB Chief Economist David Crowe said. "This is not surprising, given the fact that the tax credit had been the primary driver of construction and sales in the summer and early fall. "

The real message from the numbers is that uncertainty is still the dominant word in discussions on the economy.

Other key numbers from the past month:

The Conference Board Leading Economic Index increased 0.3 percent in October, the seventh consecutive month of improvement. The **Coincident Economic Index** remained unchanged, while the **Lagging Economic Index** declined slightly in October.

Manufacturers Alliance/MAPI is forecasting inflation-adjusted gross domestic product to grow 2.4 percent in 2010, followed by 3.5 percent growth in 2011.

"We are pleased there is growth in the overall economy, and surprisingly strong growth in manufacturing," said Daniel J. Meckstroth, Manufacturers Alliance/MAPI chief economist. (See full numbers on page 2 of the Industrial and Construction Markets Update.)

"Yet by historical standards it is still modest compared to recoveries from past recessions." Manufacturing is expected to rebound at a higher rate than the general economy.

Housing Starts, January 2005-October 2009*

*Seasonally Adjusted Annual Rate

Source: U.S. Census Bureau, Department of Housing and Urban Development and MDM Analysis.

U.S. **power transmission manufacturers' sales** rose for the second consecutive month, posting a 5.3 percent increase in September 2009 when compared to August 2009. Sales in September 2009 are down 29.6 percent compared to the same period last year. Canadian manufacturers' sales rose by 14 percent compared to August 2009. Sales were down 29.1 percent when compared to the same period last year.

The National Federation of Independent Business Index of Small Business Optimism gained 0.3 points in October, rising to 89.1 (1986=100), 8.1 points higher than the survey's second lowest reading reached in March (the lowest reading was 80.1 in the second quarter of 1980). In the 1980-82 recession period, the Index was below 90 in only one quarter. In this recession, the Index has been below 90 for six quarters, indicative of the severity of this downturn.

"The October gain was minor, so the good news is still less bad news," said William C. Dunkelberg, NFIB chief economist. Four of the ten Index components posted gains, two were unchanged, and four declined.

Monthly Wholesale Trade: Sales and Inventories for September 2009

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.

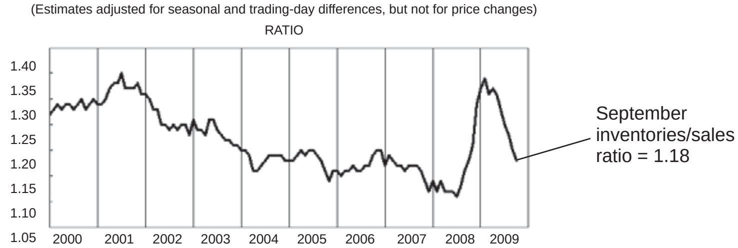
September sales of durable goods were up 0.7 percent from last month, but were down 16.2 percent from a year ago. Sales of nondurable goods were up 0.6 percent from last month, but were down 14.3 percent from last year.

Inventories. Inventories of wholesalers were $377.7 billion at the end of September, down 0.9 percent from August and down 15 percent from a year ago. End-of-month inventories of durable goods were down 0.9 percent from last month and were down 16.6 percent from last September. Inventories of metals and minerals, except petroleum, were down 2.5 percent from last month and inventories of machinery, equipment, and supplies were down 1.4 percent. End-of-month inventories of nondurable goods were down 0.9 percent from August and were down 12.4 percent compared to last September. Inventories of farm product raw materials were down 5.6 percent from last month and inventories of beer, wine, and distilled alcoholic beverages were down 4.8 percent.

Inventories-Sales Ratio. September inventories/sales ratio was 1.18. The September 2008 ratio was 1.18.

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 September 2009

NAICS Code	Business Type	Sales $ millions	Inventories $ millions	Stock and Sales ratio	% Change in Sales 8/09-9/09	% Change in Sales 9/08-9/09	% Change Inventory 8/09-9/09	% Change Inventory 9/08-9/09
42	U.S. Total	320,189	377,722	1.18	0.7	-15.2	-0.9	-15.0
423	Durable	142,612	231,497	1.62	0.7	-16.2	-0.9	-16.6
4231	Automotive	19,945	32,803	1.64	-3.6	-15.8	0.3	-23.8
4232	Furniture & Home Furnishings	4,396	6,441	1.47	1.3	-14.7	-0.1	-18.5
4233	Lumber & Other Construction Materials	7,456	11,702	1.57	-1.8	-23.2	-1.1	-21.4
4234	Prof. & Commercial Equip. & Supplies	27,807	28,363	1.02	-0.7	-7.9	0.6	-14.2
42343	Computer Equipment & Software	14,429	9,371	0.65	0.5	-6.1	2.3	-15.8
4235	Metals & Minerals	8,121	18,177	2.24	0.6	-45.7	-2.5	-38.7
4236	Electrical Goods	24,415	29,676	1.22	-1.0	-9.0	-0.2	-16.3
4237	Hardware, Plumbing, & Heating Equipment	5,932	12,802	2.16	-0.6	-12.4	-1.2	-11.7
4238	Machinery, Equipment & Supplies	25,123	67,142	2.67	1.9	-16.7	-1.4	-6.0
4239	Miscellaneous Durable	19,417	24,391	1.26	9.7	-14.2	-2.4	-12.0
424	Nondurable Goods	177,577	146,225	0.82	0.6	-14.3	-0.9	-12.4
4241	Paper & Paper Products	7,371	6,366	0.86	0.9	-8.0	-2.0	-13.6
4242	Drugs	33,996	31,273	0.92	2.3	4.0	2.0	-2.0
4243	Apparel, Piece Goods & Notions	9,847	14,896	1.51	-1.1	-7.4	-1.2	-12.3
4244	Groceries &Related Products	41,222	25,212	0.61	0.9	-5.5	0.3	-10.4
4245	Farm-product Raw Materials	15,343	15,049	0.98	-1.2	-20.2	-5.6	-32.3
4246	Chemicals &Allied Products	7,244	7,717	1.07	0.8	-17.6	0.6	-23.0
4247	Petroleum &Petroleum Products	35,567	15,266	0.43	1.0	-35.5	0.3	-4.0
4248	Beer, Wine & Distilled Beverages	9,098	10,362	1.14	0.2	-0.4	-4.8	-5.3
4249	Miscellaneous Nondurable Goods	17,889	20,084	1.12	-1.0	-10.6	-1.9	-14.3

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

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Industrial & Construction Markets Update

VOL. 39, NO. 22 | NOVEMBER 25, 2009

MAPI Forecast: U.S. Economy Poised for Growth

Long-awaited growth is finally poised to return to the U.S. economy, albeit at a far more modest rate than the typical recovery from previous recessions, according to the *Manufacturers Alliance/MAPI Quarterly Economic Forecast*.

Inflation-adjusted gross domestic product (GDP) is expected to decline 2.5 percent in 2009, before rebounding to 2.4 percent growth in 2010, and 3.5 percent growth in 2011.

The GDP forecast for all three years in the current MAPI report is marginally better than was previously projected in August 2009.

By supplying major assumptions for the economy and running simulations through the IHS Global Insight Macroeconomic Model, the Alliance generates unique macroeconomic and industry forecasts.

"We are pleased there is growth in the overall economy, and surprisingly strong growth in manufacturing," said Daniel J. Meckstroth, Manufacturers Alliance/MAPI chief economist. "Yet by historical standards it is still modest compared to recoveries from past recessions.

"Manufacturing production growth, at 4.6 percent, will grow faster than the general economy, at 2.4 percent, in 2010," he said.

"An inventory swing in the goods producing sector is a major reason for the acceleration in manufacturing production. We expect manufacturing growth to be led by high technology products, semiconductors, and computers."

Manufacturing production growth is expected to decline 11.3 percent this year before rebounding to 4.6 percent growth in 2010 and to 6.0 percent growth in 2011.

Production in non-high-tech industries is expected to decline by 11.3

continued on p.3 of this section

Grainger, Chicago, IL, a broad line distributor of facilities maintenance products, has acquired **Alliance Energy Solutions**, Oxford, CT. Alliance Energy provides turn-key energy-efficient lighting retrofits.

Grainger reported daily sales in October declined 3 percent from October 2008. Results for the month included a 3 percentage point contribution from acquisitions and a 2 percentage point benefit from foreign exchange. Excluding acquisitions and foreign exchange, daily sales for the company declined 8 percent.

Airgas Inc., Radnor, PA, has acquired **Tri-Tech**, a Tampa-FL-based distributor of industrial, medical, and specialty gases and related supplies. The business, with 16 locations throughout Florida, Georgia, and South Carolina, has annual revenues of $31 million.

Kaman Corp., Bloomfield, CT, reported sales for the third quarter ended Oct. 2, 2009, were down 13.5 percent from the prior-year period. Profit was $9.6 million, down from $13.5 million. Sales for the first nine months were $877.2 million, down from $937.2 million in the prior-year period. Profit for the first nine months was $24.3 million.

Building Materials Holding Corp., Boise, ID, distributor of building materials and construction services, announced a new leadership team following its exit from Ch. 11 bankruptcy protection. Robert E. Mellor, current CEO, will be replaced by Paul S. Street, who is currently senior vice president, chief administrative officer, general counsel and corporate secretary.

Paris-based electrical distributor **Rexel** Inc. reported sales of €2.8 billion (US$4.2 billion) in the third quarter, down 19.4 percent from the prior-year period. Declines were due in part to copper prices; at constant copper prices, the decline would have been 16.6 percent. Profit for the third quarter 2009 was down 17.3 percent.

Canadian retailer and distributor of home renovation, hardware and gardening products **RONA** Inc., Boucherville, Quebec, reported sales of $1.32 billion for the third quarter, down 4.4 percent from third quarter 2008. Same-store sales fell 5.3 percent. Profit declined 6.5 percent to $49.1 million. Sales in the distribution sector were down 1.6 percent.

Home improvement retailer **The Home Depot**, Atlanta, GA, reported sales for the third quarter were $16.4 billion, an decrease of 8 percent from a year ago. Profit declined 8.9 percent to $689 million. Comparable store sales for the third quarter decreased 6.9 percent, and comparable sales for U.S. stores declined 7.1 percent.

Fluor Corp., Irving, TX, third quarter sales were $5.4 billion, down 4 percent from third quarter 2008. Profit decreased 11 percent to $162 million. For the first nine months of 2009, sales were $16.5 billion, up 1.2 percent from the prior year period. Profit improved 1.7 percent to $536 million.

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MAPI Forecast

Continued from p.1 of this section

percent in 2009 before increasing by 2.3 percent in 2010 and by 5.8 percent in 2011. The computers and electronics products sector will also see a drop-off this year, declining by 9.4 percent.

High-tech manufacturing production, however, is expected to improve markedly, to 15.9 percent growth in 2010 and by a healthy 17.5 percent growth in 2011.

The expenditure category for inflation-adjusted investment in equipment and software is likely to decrease by 17.2 percent in 2009, before experiencing 9.1 percent growth in 2010 and 15.2 percent growth in 2011.

Capital equipment spending in high-tech sectors will continue the trend. Inflation-adjusted expenditures for information processing equipment are expected to fall 6.5 percent in 2009 before rising by 6.9 percent in 2010 and by 7.8 percent in 2011.

The forecast expects industrial equipment expenditures to decline by a severe 22.7 percent this year. The spending will recover, however. MAPI predicts 3.5 percent growth in 2010 and a significantly improved 22.6 percent growth in 2011.

The outlook for spending on transportation equipment is for excessively wide swings in either direction. The analysis projects a 49.6 percent decline in 2009, followed by a 55.2 percent increase in 2010 and a 46.7 percent advance in 2011.

Spending on non-residential structures is expected to retrench over the next two years, declining by 18.3 percent in 2009, and by an additional 16 percent in 2010 before seeing growth of 1.1 percent in 2011.

Exports and imports will both experience a substantial downturn in 2009 before recovering. Inflation-adjusted exports are anticipated to decrease by 10.8 percent in 2009 before rebounding to 7.6 percent growth in 2010 and to 9.5 percent growth in 2011.

Imports are expected to decline by 14.5 percent this year, to increase by 8.3 percent in 2010, and to further increase by 6.3 percent in 2011. The employment outlook, unfortunately, will continue to pose a challenge. MAPI forecasts unemployment to average 9.2 percent in 2009, 10 percent in 2010, and 9.1 percent in 2011.

The price per barrel of imported crude oil is expected to average $59.10 in 2009 before heading upward to $69.80 per barrel in 2010 and to $73.50 per barrel in 2011. While high by historical standards, this still compares favorably to the average $92.30 price per barrel in 2008.

Included in MAPI's November 2009 economic outlook is the annual long-term forecast. Average annual GDP growth from 2010-2014 is expected to be 3.1 percent, including a peak growth annual high of 4 percent in 2012.

2009-2011 Inflation-Adjusted Percent Change

Estimated Percent Change	2009	2010	2011
Gross Domestic Product	-2.5	2.4	3.5
Total Consumption	-0.6	1.5	2.4
Durables	-4.0	3.2	6.9
Nondurables	-1.0	1.3	1.3
Services	0.1	1.3	2.1
Nonresidential Fixed Investmt	-17.6	0.5	11.2
Equipment & Software	-17.2	9.1	15.2
Information Processing Eqmt	-6.5	6.9	7.8
Industrial Equipment	-22.7	3.5	22.6
Transportation Eqmt	-49.6	55.2	46.7
Structures	-18.3	-16.0	1.1
Residential Fixed Investmt	-19.6	11.8	20.4
Exports	-10.8	7.6	9.5
Imports	-14.5	8.3	6.3
Federal Government	5.3	3.2	-3.7
State & Local Government	-0.1	0.2	0.0

Source: Manufacturers Alliance/MAPI Quarterly Economic Forecast, **more details and analysis at www.mapi.net.**

Third-Quarter Machine Tool Consumption Down 67.8 percent Year-to-Date

MARKETS UPDATE SUPPLEMENT P. 3

September U.S. manufacturing technology consumption totaled $153.55 million, according to the American Machine Tool Distributors' Association, and the Association For Manufacturing Technology.

This total was up 17.8 percent from August but down 69.3 percent from the total of $500.57 million reported for September 2008. With a year-to-date total of $1,199.93 million, 2009 is down 67.8 percent compared with 2008.

These numbers and all data in this report are based on the totals of actual data reported by companies participating in the USMTC program.

"The slight improvement in September orders indicates that we are in synch with the increases seen in the other monthly indicators such as durable goods sales, the PMI, and steel production," said Peter Borden, AMTDA President. The factory capacity utilization number still remains in the 65-70 percent range, however, and until this number returns to 75-80 percent, our rate of growth will be slow and sporadic."

The U.S. Manufacturing Technology Consumption (USMTC) report, jointly compiled by the two trade associations representing the production and distribution of manufacturing technology, provides regional and national U.S. consumption data of domestic and imported machine tools and related equipment.

Analysis of manufacturing technology consumption provides a reliable leading economic indicator as manufacturing industries invest in capital metalworking equipment to increase capacity and improve productivity.

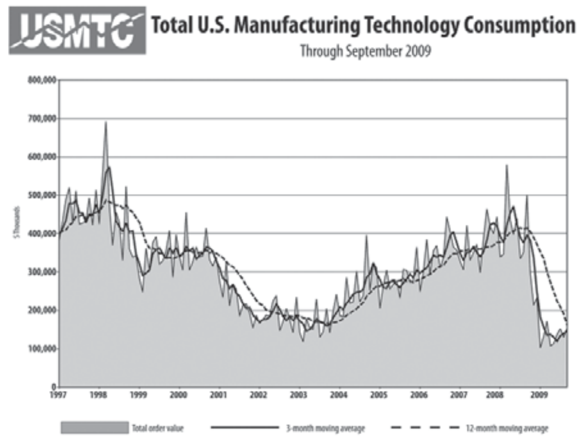
U.S. manufacturing technology consumption is also reported on a regional basis for five geographic breakdowns of the U.S.

Northeast Region

With a total of $36.57 million, Northeast Region manufacturing technology consumption in September was 50.8 percent higher than August's $24.25 million but down 54.1 percent when compared with September a year ago. The year-to-date total of $237.20 million was 56.0 percent less than the comparable figure in 2008.

Southern Region

At $13.50 million, September manufacturing technology consumption in the Southern Region



was down 42.8 percent compared with August's $23.61 million and down 83.7 percent when compared with September a year ago. The $165.84 million year-to-date total was 71.0 percent less than the 2008 total at the same time.

Midwest Region

Midwest Region manufacturing technology consumption in September rose to $45.51 million, 33.8 percent higher than August's $34.01 million but down 69.3 percent when compared with September 2008. With a year-to-date total of $334.88 million, 2009 was down 73.0 percent when compared with 2008 at the same time.

Central Region

September manufacturing technology consumption in the Central Region totaled $33.98 million, 8.5 percent more than the $31.33 million tally for August but off 75.7 percent when compared with September a year ago. The $293.57 million year-to-date total was down 68.7 percent when compared with the same period in 2008.

Western Region

Totaling $23.99 million, Western Region manufacturing technology consumption in September was up 39.7 percent from August's $17.17 million but 51.8 percent below the September 2008 total. At $168.43 million, 2009 year-to-date was off 61.4 percent when compared with last year at the same time.

Wolseley Sales Fall 13% in First Quarter

UK-based Wolseley plc reported sales from continuing operations were £3.49 billion (US$5.69 billion) for the three months ended Oct. 31, 2009, down 13 percent from the same period a year ago. Profit from continuing operations fell 41 percent to £104 million (US$174.4 million). On a constant currency basis revenue declined by 20 percent and profit was 46 percent lower than the corresponding period in the prior year.

"The overall trading environment continues to be extremely tough and we remain firmly focused on driving operational performance," Group Chief Executive Ian Meakins said. "At the same time, we are making good progress in evaluating our businesses to prioritize future investment."

Wolseley reported that market conditions are expected to remain challenging, particularly in the Industrial and Commercial segment while New Residential and RMI markets are expected to continue to move towards stabilization.

North America

In North America, first quarter sales were down 17 percent compared to the corresponding period in the prior year. Profit was down by 44 percent, reflecting lower profitability in Ferguson. On a constant currency basis, revenue and profit were 24 percent and 49 percent lower than a year ago.

Ferguson experienced a further decline in the Commercial and Industrial markets. However, most of the residential markets are showing increasing signs of stabilization for the company. Revenue in local currency for the three months decreased 26 percent and underlying profit excluding property profits for the quarter was down around 47 percent.

Local currency revenue for Wolseley Canada decreased by around 16 percent with trading profit down around 33 percent due to the lower level of sales and a lower gross margin.

Europe

Revenue for Europe was down by around 10 percent in the three months ended Oct. 31, with profit down by around 23 percent.

While revenue for the UK and Ireland decreased by about 13 percent, profit excluding restructuring costs was up by around 17 percent, due to the benefits of cost reduction actions in the prior year. Signs of stabilization increased in the Residential and RMI markets in the UK, and the rate of decline in the Commercial and Industrial market has slowed.

MDM News Digest

Continued from p.1 of this section

Rockwell Automation, Inc., Milwaukee, WI, reported sales in the fourth quarter fiscal 2009 were down 28 percent from the prior-year period. Fourth quarter sales were $1.07 billion. Fiscal 2009 fourth quarter revenue was up 6 percent from the third quarter 2009.

Illinois Tool Works Inc., Glenview, IL, today reported operating revenue for the three months ended Oct. 31, 2009, decreased 18 percent. Base revenues were down 17 percent, while currency translation caused a decline of 4 percent in the operating revenue. Acquisitions contributed 3 percent to revenues in the three-month period.

International Wire Group Inc., Camden, NY, reported sales for the third quarter were $115.2 million, down 43.4 percent from third quarter 2008. Profit improved 16.7 percent to $2.8 million, primarily the result of a lower effective tax rate. Lower prices on copper, decreased volume and the impact of a stronger dollar versus the Euro all negatively impacted third quarter sales.

Milwaukee, WI-based **Brady Corp**. reported sales for the 2010 first quarter ended Oct. 31, 2009, were $318.5 million. Organic sales were down 15.9 percent. Profit for the quarter was $21.7 million.

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ISSN 0544-6538

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