Modern
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Intelligence for Wholesale Distribution Professionals

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# Grainger's E-Commerce Evolution

*Lessons learned from journey on the leading edge of technology*

*Grainger has long been known as ahead of the curve in its e-commerce initiatives. Here's an in-depth look at the $6.2 billion MRO distributor's journey and the lessons it learned along the way. This is part of an MDM series on trends in doing business electronically.*

**By Jenel Stelton-Holtmeier**

Today, Grainger is widely recognized as a leader among distributors in B2B e-commerce. But that wasn't always the case.

The launch of Grainger's first electronic catalog in 1995 marked a shift for the now $6.2 billion distributor of maintenance, repair and operations supplies. After all, the payback of such a move was still unknown, and that uncertainty could have prevented the heretofore "conservative" company from delving into that arena.

"The fact that [Grainger commissioned a team] to do this was unheard of at the time," says Ian Heller, senior partner at Real Results Marketing, a consulting firm specializing in strategic planning, market intelligence and research.

At the time, pursuing an initiative like e-commerce could have been seen as counterculture to Grainger's history. Any expansion proposals came with a well-thought-out business case that included how the investment would pay off. In the case of the electronic catalog, that was difficult. There was no way to know, for certain, what the payoff would be.

"Back then, there was no such thing as an accessible dot-com," says Grainger's vice president of U.S. E-Commerce Sam Kim. "But along the way, some of our customers started asking for something more than just our print catalog."

### Ahead of Customer Technology

As access to technology expanded in the early 1990s, customer interest in using the available technology also grew. Printing catalogs onto CD-ROMs was fairly inexpensive, which made the idea attractive.

In 1995, 50,000 copies of the Grainger Electronic Catalog were distributed; by 2000, distribution was 1.4 million. But in 2004, demand had lessened, with only 690,000 copies distributed, according to the company's annual reports for those years.

"I think part of the attraction to a catalog on CD-ROM was built on a myth," says Heller, who was with Grainger when it launched the CD-ROM catalog. Heller left Grainger in 1999. "Grainger thought it could lower costs by replacing the print catalog with an electronic alternative."

But that replacement never occurred. In fact, expansion of the print catalog continues to grow at a rapid pace. The latest additions to the company's paper catalog, released in February, bring the total number of products offered to more than 300,000. Grainger's electronic catalog, launched online in 1996, now offers access to more than 500,000 products – about double the listings at Grainger.com in 2001.

Simple lack of technology was one barrier to customer adoption at the beginning; customers didn't always have ready access to CD-ROM drives.

In fact there was a time that Grainger actually bought and sold CD-ROM drives solely for the purpose of giving customers access to its electronic catalog.

The same challenges were true for the Web site, Grainger.com. Search and ordering capabilities were added in 1996, but many customers weren't able to take advantage of those because they didn't have access to the Internet, Kim says.

Even after CD-ROM drives became more prevalent and Internet accessibility increased, customer ties to Grainger's print

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## INSIDE



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**PERSPECTIVE** ■ *Commentary by Thomas P. Gale*

# The Ripple Effect of Grainger's E-Commerce Investments

Grainger's investments into e-commerce 10 to 15 years ago don't look like large gambles today, but as our lead article by associate editor Jenel Stelton-Holtmeier illustrates, it was in fact a large dollar amount for what the adoption rate was at the time and also the company's culture. I was publicly skeptical at the time, questioning whether it was bleeding edge rather than leading edge. How smart was I?

As the timeline on page 4 illustrates, Grainger's online sales took off with the dot-com era by 1999. It has continued to scale up along with the Internet.

Grainger's initial CD and online projects were not simply based on an approach of "if we build it, they will come."

That more accurately describes how the industry reacted to Grainger's green-fielding these new e-commerce frontiers.

Remember Automated Catalogue Services? It partnered with more than a dozen different distribution associations in the mid-1990s to create CD-ROM catalogs. But a lot of those CDs ended up as coffee coasters.

That first-generation catalog as produced by ACS was not exactly user-friendly, to put it kindly. There was pushback as many customers did not have PCs with CD-ROM readers. And many customers didn't want employees wasting time with computers! What's more, many distributors didn't know how to market the use of these electronic catalogs.

Then Industry.net created the first Web-based electronic mall for industrial products. But the company over-promised and under-delivered, ultimately going Chapter 11 in May 1997, effectively shutting the service down and costing many distributors thousands and in some cases tens of thousands of dollars. That soured many distributors on e-commerce attempts until the bright promises of the dot-com era a few years later.

The foundation of Grainger's investment in e-commerce was the integration of its catalog into large customer ERP systems as well as the end-user Computerized Maintenance Management Systems (CMMS). Grainger actually hedged its bets by investing in a range of e-commerce platforms. It was successful at locking in customer relationships by connecting platforms in the ways customers were asking for.

A 100,000-foot analysis indicates that Grainger's efforts paid off. Its early actions triggered some industry responses that were not particularly effective, thus widening that technological gap. And as Internet adoption has skyrocketed the past few years, Grainger has benefited from its strong platform. ■

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## Grainger's E-Commerce Evolution

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catalogs would prove nearly impossible to sever. There's a psychological difference between flipping through actual pages and searching a Web site, Heller says.

"So instead of focusing on how the e-catalog would replace the print catalog, the company turned its attention to how the two products could complement one another," Kim says.

"The synergy between the two catalogs is where the opportunity is," Kim adds. "Additions to the Web site often serve as 'tests' to determine if the products will make it into the paper catalog."

The success of Grainger's expansion into e-commerce in part can be credited to timing. There was a converging of two existing technologies: EDI allowed for electronic transmission of orders pre-Internet, but it didn't really include a searchable catalog; the CD-ROM had the searchable content, but didn't have a mechanism within it for placing orders.

"But Grainger also recognized that orders placed online won't necessarily originate online," Heller says. Instead, many people selected the items they wanted by comparing products in a paper catalog and then entered those orders online. By not eliminating the paper catalog, Grainger was able to capitalize upon the way customers do business.

### FindMRO.com to Found MRO

In the mid-1990s, Grainger began having conversations with large national customers about how to gain more of their business.

"They would say to me: 'If you really want to be more relevant to what I'm doing, you're going to have to think about getting stuff that isn't in your catalog,'" says Ron Paulson, director of U.S. Business Development at Grainger and former head of FindMRO.com – a Grainger e-commerce business formed in the late 1990s to help customers purchase hard to find products. But the problem was, even with the extensive catalog and ability to grow it, Grainger's systems weren't configured in a way to allow for broad sourcing capabilities.

FindMRO.com, as a business entity, is no longer in operation. However, the capabilities developed as part of this business venture have become a core part of Grainger's offering.

"[Our business model was] built on putting product information in on the items we already had, being able to generate lots of transactions based on that information, and being able to print the catalog," Paulson says.

Figuring out how to efficiently procure non-catalog items for customers was going to be a challenge.

While e-commerce platforms were being developed by companies such as CommerceOne and Ariba, nothing that existed at that time could accommodate the customer requests Grainger was trying to fulfill: access to an extensive catalog, the ability to request items that weren't in the catalog, and avoiding an increase in process costs by expanding paperwork through multiple invoices.

"We had to build it," Paulson says.

But even that prospect wasn't as simple as many people may think. Enterprise software was in its infancy, so platforms were as diverse as the companies Grainger served. As such, Grainger had to customize the database for each individual customer on their individual mainframe platforms.

That is exactly what Grainger did before launching FindMRO.com – which was focused on items not in the print catalog – in November 1999. "We did it time and time again, each time adding to our knowledge of what was out there," Paulson says. "We had to in order to develop a single format that would interact and integrate with several different mainframe systems."

Another challenge before FindMRO.com was that searches for sourced items had to be conducted each time a non-catalog item was ordered. If the item wasn't part of the catalog already, there was no place for that information to remain a part of Grainger's offering.

"FindMRO.com eased that process as well by creating a database of items the first time they were ordered," Paulson says. Once an item was ordered, it became a part of the searchable and findable database. "It became a 'Found MRO' that could easily be found again," he says.

### Return on Investment

In 2000 alone, Grainger invested more than $120 million into FindMRO.com and other e-commerce platforms without historical evidence suggesting the return it would achieve on its investment in e-commerce.

"We had real signals that this was going to succeed, just based on the rapidly increasing demand we had already experienced," Paulson says.

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*Find updated news and analysis on Grainger at mdm.com/grainger*

But good estimates weren't available yet on how that success would translate to the bottom line.

"It was really a matter of determining where to place your bet, and how large that bet should be," Heller says.

In the end, Grainger seems to have placed the correct bet. Sales attributed to e-commerce in 2009 were $1.5 billion, about 25 percent of sales.

That's compared with 2.2 percent of sales in 1999 and 15 percent of sales in 2005. (See sidebar: Grainger's E-Commerce Timeline.)

### Lessons Learned

Much of the success that Grainger experienced in the e-commerce arena could be attributed to a shift in philosophy at the company. "People were being allowed to fail," Heller says. "If something didn't work perfectly during the process of developing the e-commerce platform, 'heads didn't roll.'"

Instead, developers learned from what didn't work how to turn it into something that would. "The first incarnation of some things wasn't always the most elegant," Kim says. "But there was always something we could build on."

And there were some missteps along the way. During the development of the e-commerce platform, the company was divided into two segments to try to build out the best platform. One platform eventually became Grainger.com; the other was known as OrderZone.com.

OrderZone.com was meant to be an "online mall," where Grainger would join forces with other companies with other specialties to provide a "one-stop shop" for customers, according to Heller.

For example, through one portal, customers would be able to order from Grainger – a broad-line MRO distributor, or from a specialized power transmission supply or safety supply distributor.

But the concept never caught on, and in 2000, OrderZone.com was moved to Works.com, an Internet business purchasing service. Grainger maintained an interest in the project, but eventually it was abandoned to focus on Grainger.com and FindMRO.

### Data Hurdles

Even successful projects such as FindMRO.com ran into speed bumps along the way. "There's an old saying that you don't know what you don't know," Paulson says. "And that saying really applied in this situation."

A consistent taxonomy for product descriptions within the distribution world didn't – and

## Grainger's E-Commerce Timeline

Shown below are key events in Grainger's e-commerce evolution plus sales through Grainger's catalog at www.grainger.com.

*Source: Grainger 10Ks 1996-2009; timeline compiled by MDM*

| | |
|---|---|
| **1995** | • Grainger Industrial Supply Electronic Catalog introduced on CD-ROM |
| **1996** | • Grainger introduces online ordering and catalog at grainger.com |
| **1998** | • $13.5 million in sales through grainger.com's Industrial Supply catalog |
| **1999** | • $101 million (2.2% of sales)<br>• findmro.com launched in November |
| **2000** | • $267 million<br>• 220,000 products online<br>• 1.4M CD-ROM catalogs produced |
| **2001** | • $333 million (7% of sales)<br>• TotalMRO.com, FindMRO.com and MROverstocks.com now part of Material Logic, shut down in April 2001<br>• FindMRO continued as integrated sourcing service |
| **2002** | • $420 million |
| **2003** | • $478.6 million |
| **2004** | • $611.3 million<br>• 690,000 CD-ROM catalogs produced* |
| **2005** | • $733.6 million (15% of sales)<br>• 300,000 products online |
| **2006** | • $851 million |
| **2007** | • $1.2 billion |
| **2008** | • $1.5 billion |
| **2009** | • $1.5 billion (25% of sales)<br>• More than 500,000 products online |

** No reference to a CD-ROM catalog in Grainger's annual reports after 2004. Grainger no longer distributes a CD-ROM-based catalog.*

still doesn't on a broad spectrum – exist. As such, creating a consistent searchable database was nearly impossible at the time.

Suppliers believed they were providing good information on their products because they didn't understand what was really needed to make a sourcing system like the one Grainger was trying to create work.

"They'd give us maybe 15 fields of information when we were looking for 150," Paulson says. To combat this, Grainger hosted training sessions on how to provide good data. "We started telling our suppliers: 'We're no longer just buying your product, we're buying your product information,'" Paulson says.

At that time, many manufacturers didn't understand that product information was an asset. But the better the information, the more likely their product would be the one customers chose to buy. Grainger was willing to provide support for manufacturers who didn't know how to gather that data.

Grainger even built a database, Geneva, to provide "neutral ground" for storing the vast amounts of data needed to make products searchable and findable.

Geneva served as a central repository where suppliers could just plug in the existing information. Once the data was available, anyone in Grainger could leverage that information to provide higher levels of service to customers.

"That higher level of customer service is the ultimate goal of any initiative implemented by Grainger," Kim says. "If we keep that in mind, even the less-than-elegant results can be built into something successful."

"Even with improvements made with data exchange today, data will continue to be a challenge for companies implementing e-commerce platforms," Paulson says.

"Manufacturers use distributors because they want to focus on what they're good at – making the product. They want to leave the selling to the sellers, and that sometimes means they don't understand what information is really needed to do that."

### E-Commerce Today

With current uncertainty in the economy, e-commerce is finding itself in a Catch 22. The ability to conduct business more efficiently with less process cost is attractive, but many distributors are hesitant to make the significant initial investment necessary to build out a successful platform.

Heller can envision a day when publications like print catalogs are unnecessary. Still, "even with all the advancements in online catalogs, there's still nothing that can replicate and improve upon that experience of flipping through the pages to compare products," he says. "Until they can do that, paper catalogs will be here to stay."

In growing its catalog from print to CD-ROM to online, Grainger has found that doing business electronically has helped them do "more with less" and more efficiently meet customer needs. Companies want to simplify and streamline how they do business, Kim says. "This is why e-commerce makes sense today."

# United Stationers Buys Software Co.

*Here's why the master distributor invested in Denver, CO-based MBS Dev*

*MDM recently spoke with United Stationers President and CEO Dick Gochnauer about why the master distributor bought MBS Dev, a small Denver-based software provider for distributors. The move was part of a long-term strategy to help both its resellers and the technology providers that serve them to stay on top of capabilities necessary to stay competitive in today's online environment.*

**By Lindsay Konzak**

In February 2008, United Stationers President and CEO Dick Gochnauer told MDM the master distributor was well on its way to better integrating its customers – which it calls "resellers" – electronically through e-commerce, online marketing, and data tools and services.

The Deerfield, IL-based distributor of office, jan-san, and industrial supplies took another step toward that goal with the purchase last week of MBS Dev, whose systems for small and mid-sized distributors are built on a Microsoft platform.

The purchase price was $15 million plus an additional $3 million earn-out based on meeting financial goals; MBS Dev is expected to add $10 million to United Stationers' sales in 2010.

In a press release announcing the deal, S. David Bent, United Stationers' senior vice president of eBusiness services, explained: "Acquir-

continued on the next page

ing MBS Dev is consistent with our long-term goal of assisting resellers with their technology needs.

"Most recently this effort has focused on developing rich product content for resellers' Web sites, offering United Smart Search as a search engine tool, and creating email campaigns to drive traffic to reseller Web sites.

"While these efforts will continue, United Stationers is committed to playing an even stronger role in supporting independent reseller technology, which we plan to accomplish through investments designed to accelerate the creation of additional eMarketing and eMerchandising solutions."

He says that United Stationers' acquisition of MBS Dev is an "important step toward achieving that."

### Pushing the Envelope

Gochnauer's explanation for the deal focused on the need to keep United Stationers resellers of office and jan-san/breakroom products up-to-date, as well as the need to help software providers keep up with capabilities smaller distributors in the office supplies space need to compete in today's online environment.

In the past, United Stationers has worked with SAP and Microsoft to develop or adapt solutions so that third-party providers can build on those foundations to cater more specifically to office products dealers. It recommends a dozen technology providers on the reseller page of its Web site; it says those providers "have the ability to meet independent dealer needs for technology, and to support United's programs and systems capabilities within their platforms." That list includes MBS Dev.

"The way we look at it is that if resellers and distributors fall behind, they lose volume and market share, and we lose volume and market share. If they stay current they can hold onto or grow market share," Gochnauer says.

"And we have an increased ability to work with them in electronic catalogs and offerings – and be able to work more closely with manufacturer, reseller and, with permission, the end-consumer to identify what parts go where and what promotions work most effectively."

### Why MBS Dev?

Gochnauer says that buying MBS Dev will allow United Stationers to play a more direct role in pushing the envelope to meet the needs of United's customers.

"Somebody needed to come with deeper pockets to invest in a more significant way in a solution that would stay up-to-date with technology best practices.

"… The objective is to raise the bar."

He said that the company could only invest in one of the companies. MBS Dev will remain independent in its operations. "But there are improvements we want them to make so we will invest in those improvements," he says. "We will continue to do that to add capabilities they might not have but we think they should."

### Potential Challenges

Data confidentiality is one concern customers might have with United's acquisition of a software company. In addition to keeping MBS Dev as a separate entity, United Stationers must create an agreement to make customers that use MBS Dev feel confident they will not access their data in the system without permission.

Customers may also feel like they should be wary of adopting MBS Dev if they want flexibility in the wholesalers they work with. "But it's not designed to be exclusive to one wholesaler," Gochnauer says.

What's more, Gochnauer says United Stationers will continue to work with the other software providers it has developed relationships with over the years.

In a press release, Bent said: "As we have in the past, we expect to continue to work with other technology providers to solve common challenges. No one technology solution will satisfy all resellers. We believe that choice is good for independent resellers."

To that end, United Stationers will not be pushing MBS Dev as an exclusive option. "Our salespeople are not software salespeople," Gochnauer says.

While the MBS Dev package will be listed as an option, and United Stationers certainly will benefit from sales of its services, software sales will be left in MBS Dev's hands.

United Stationers views MBS Dev as another service offering for its customers. "We are a business process outsourcer – our customers and suppliers outsource processes to us. They do that because we can do it in a more efficient manner.

"Or we can add capabilities they couldn't on their own. This falls into that concept." Customers have a choice just as with other services United offers.

"Not all of our customers use us exclusively for aggregation, for warehousing, for last-mile delivery, for catalogs, for marketing – for all the other services they outsource to us. That will be true here, as well."

■ *MDM Interview*

# NBMDA: Market Visibility Improves

*Building materials group's president addresses association's role in tough times*

Bill Delaney, president of family-owned specialty building products distributor Distributor Service Inc., Pittsburgh, PA, and current president of the North American Building Material Distribution Association (NBMDA) recently spoke with MDM Associate Editor Jenel Stelton-Holtmeier about the association, and trends, challenges and shifts in the building materials industry.

Delaney's father founded Distributor Service Inc. in 1968; Delaney grew up in the business, which was a traditional two-step distributor serving independent lumberyards. During the 1980s, the company transitioned to industrial products and customers.

**MDM**: What is the role of president in NBMDA?

**Delaney**: The role of the president for NBMDA is really more of a chairman of the board, to ensure that the governing body stays focused on the proper issues, and make sure we are approaching opportunities and challenges in ways consistent with our goals and our strategic plan.

Additionally, the NBMDA president works closely with our professional staff to provide direction and advice on how best to meet the changing needs of members-at-large and how to recruit new members into the association.

Finally, the president serves as a peer point of contact for members to express opinions on association offerings and facilitate feedback on how well the association is serving their needs. The president is the volunteer face of the association and reaches out to various members during his term for feedback, opinions and ideas.

**MDM**: What challenges has the association and members of the association had to face in the past year?

**Delaney**: The number one challenge members faced in 2009 was right-sizing their companies. The transition from 2008 to 2009 was especially challenging because of the abrupt change in business conditions and climate in the fourth quarter of 2008. Businesses had to move quickly to make appropriate adjustments to accommodate the new level of business. As we continue we are all challenged with the uncertainty of what is ahead and how we will react.

One of the other big challenges everyone's had to deal with is consolidation through the downturn: consolidation of distributors, of manufacturers, and most notably customers.

From the association's perspective, consolidation within the industry can reduce the number of current members. So when one member buys another, we need to recruit more new members to replace those that we lose through consolidation. Fortunately, there is a large pool of potential members for NBMDA to attract.

Certainly, NBMDA like most associations has seen member firms tighten spending in the past year due to uncertainty in the marketplace. Fortunately, members continued to attend NBMDA events last year even while cutting travel budgets. The need to connect with peers and suppliers only increased in value when the market weakened as members were looking for new ideas and perspectives on how to replace lost business. The relationship-building value of NBMDA was highlighted this past year when relationships were key to overcoming the many challenges that 2009 presented.

**MDM**: Where do you think the industry is at with consolidation?

**Delaney**: Inevitably there will continue to be consolidation. There could be some distributors out there having a tough time in this economy and could be reevaluating their models and may consider some of their alternatives, which would naturally create opportunities for further consolidation.

**MDM**: What do you think the outlook is for the economy over the next year?

**Delaney**: In general the outlook is a bit more positive than it was in 2009. I think most people are projecting a relatively flat 2010, but there seems to be a little light at the end of the tunnel.

In early 2009 there was a lot of uncertainty, no one was really sure how far business was going to fall. I think the landscape is a little clearer and we have settled in on a new base line. Comparing numbers in 2010 to 2009 will be much more meaningful than trying to compare 2009 to 2008.

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**MDM**: Has the economy had an impact on the relationship between manufacturers and distributors in your sector?

**Delaney**: NBMDA is divided into two segments: the Cabinet Industry Distribution Alliance and Specialty Building Products Distribution.

My firm, DSI, falls within the CIDA segment of NBMDA. In CIDA, I think the relationship is strengthening because they form partnerships, and those partnerships are important to them to continue to strengthen their brand. While the manufacturers are going through their pains, as well, I think they recognize that having strong partnerships with their distributors will be a way they can achieve their goals and have success in the future.

**MDM**: What is the role that NBMDA plays for its members with regards to challenges in the market?

**Delaney**: There are several areas in which we've launched initiatives. One of the biggest tools we've put into place is providing a financial benchmarking platform for our members. We've partnered with an organization that allows our members to compare their performance with their peers.

We're also looking at creating a portal to provide operational training online for member company employees. We want to offer a wide range of training from inside sales to operations employees who run warehouses or fleets, so it isn't really specific to one particular area in the organization. The idea is to provide training opportunities for our members at every level of business.

Our NBMDA Annual Convention brings members significant value during these challenging times. The opportunity for distributors to connect with similar distributors from across North America to gain ideas, advice and opinions plus to benchmark your business against others is invaluable.

Likewise, the opportunity to spend quality time with the key supplier executives to address issues and opportunities is very powerful. Beyond the relationship-building value, the NBMDA Annual Convention helps distributors stay abreast of industry trends and gain new insights through our roundtable discussion sessions and guest presenters.

This fall, the members of the North American Association of Floor Covering Distributors (NAFCD) and the Hardwood Plywood & Veneer Association (HPVA) will be joining NBMDA Annual Convention in an effort to drive even greater value for all attendees.

Another area we started last year is advocacy. NBMDA attended its first legislative conference in Washington DC. The goal was to give our members a chance to see firsthand the challenges facing our industry and allow our members to speak out on issues facing our businesses.

**MDM**: What prompted the creation of this legislative conference?

**Delaney**: Primarily, feedback from the membership. The National Lumber and Building Material Dealers Association was already involved in this process. With our common affiliation with Smith Bucklin, we were able to partner and create a joint conference. This allowed us to get started with very minimal cost. It's something we thought was important to help mitigate some of the challenges being faced by the industry.

**MDM**: Are there specific initiatives outside the legislative conference that NBMDA is hoping to implement in the next couple of years?

**Delaney**: We're actually going to be meeting at our spring conference to update our strategic plan and initiatives for the future. Given the economy, this has created an opportunity for us to take a closer look at our organization and make sure we are properly strategically aligned in these changing times.

As mentioned earlier, NBMDA is evaluating a robust online training resource targeting supply chain professionals. This initiative will bring state-of the-art training to NBMDA members on a 24-7 basis.

Additionally, we are looking to enhance our offerings in the area of industry data and research. NBMDA currently provides valuable benchmarking reports in the areas of financial and compensation metrics plus quarterly economic trend reports customized for our industry.

These have proven to be of high value for our members, and we are looking to supplement these offerings with additional data-oriented products and services in the future.

And we're always open to new ideas from our membership. We have two steering committees – one from each side of the organization – that bring our board ideas to the broader membership and gauge the interest and need on some of these things before we make a firm decision on the direction we should take.

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# Industrial & Construction Markets Update

VOL. 40, NO. 05 | MARCH 10, 2010

## January Machine Tool Consumption Up from Jan. 2009

January U.S. manufacturing technology consumption was $130.96 million, according to the American Machine Tool Distributors' Association the Association for Manufacturing Technology.

This total, as reported by companies participating in the USMTC program, was down 40.3 percent from December but up 26.2 percent from the total of $103.77 million reported for January 2009.

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

"Many customers placed orders in December to take advantage of tax relief measures, pulling orders out of January 2010," said Peter Borden, AMTDA President.

"The good news is that January 2010 orders are still 26 percent ahead of January 2009. Fortunately, there are measures moving through Congress that will expand these benefits, incentivizing manufacturers to invest in capital equipment in 2010."

The United States 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.

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

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Houston, TX-based **Schlumberger** Ltd has announced it will purchase **Smith International**, Inc. in a stock-for-stock transaction. Smith International, Inc. is a worldwide supplier of products and services to the oil and gas exploration and production industry, the petrochemical industry and other industrial markets operating through four business units, **M-I SWACO**, **Smith Technologies**, **Smith Services** and **Wilson**, its distribution arm. Smith had sales of $8.2 billion in fiscal year ended Dec. 31, 2009. Profit for the year was $148.2 million.

**The Home Depot**, Atlanta, GA, reported sales for the fourth quarter ended Jan. 31, 2010, were $14.6 billion, a 0.3 percent decrease from the fourth quarter of fiscal 2008. Total company comparable store sales for the fourth quarter grew 1.2 percent. Comparable store sales for U.S. stores were negative 1.1 percent. Profit for the home improvement retailer was $342 million, compared with a year-ago net loss of $54 million.

**US LBM Holdings** LLC, a portfolio company of BlackEagle Partners LLC, has agreed to acquire Edward Hines Lumber Co., an eight-location building materials and lumber distributor based in Chicago, IL.

**Thomas & Betts** Corp., Memphis, TN, has agreed to acquire PMA AG, a privately held, manufacturer of technologically advanced cable protection systems based in Zurich, Switzerland, for €85 million (approximately $120 million).

Bloomfield, CT-based **Kaman** Corp. reported sales for the year ended Dec. 31, 2009, were $1.14 billion, down 8.8 percent from $1.25 billion in the previous year. In the fourth quarter, sales were $269 million, down from $316 million in the same period a year ago.

**Kaman** has agreed to acquire **Allied Bearings Supply Company** of Tulsa, OK. Allied will become part of KIT, Kaman's Industrial Distribution Segment. The transaction is expected to close at the start of April.

**Kaman** has also agreed to acquire **Fawick de Mexico**, S.A. de C. V. (Fawick) of Mexico City, Mexico. Fawick will become part of Delamac de Mexico, Kaman's Industrial Distribution Mexican subsidiary. Fawick is a distributor of fluid power and lubrication products, equipment and systems to a wide variety of industries throughout Mexico. The company has annual sales of $50 million pesos (US$3.9 million).

**Rexel** has sold **HCL Asia**, one of the three businesses of its Agencies Consumers Electronics (ACE) division, to the **DKSH Group**, a Swiss company. HCL Asia, based in Hong Kong, distributes luxury products.

Raleigh, NC-based **Stock Building Supply** Holdings, LLC, building materials distributor jointly owned by private equity firm **The Gores Group** and **Wolseley** plc, announced that former CEO of **Building Materials Holding Corp**. Robert E. Mellor has joined its board of directors. Mellor left Building Materials Holding Corp. after the distributor exited Ch. 11 bankruptcy protection in late 2009.

continued on p.4 of this section

**MARKETS UPDATE SUPPLEMENT P. 2**

**Online Resources**

*View economic and market data updated monthly at www.mdm.com/databank*

## Machine Tool Consumption

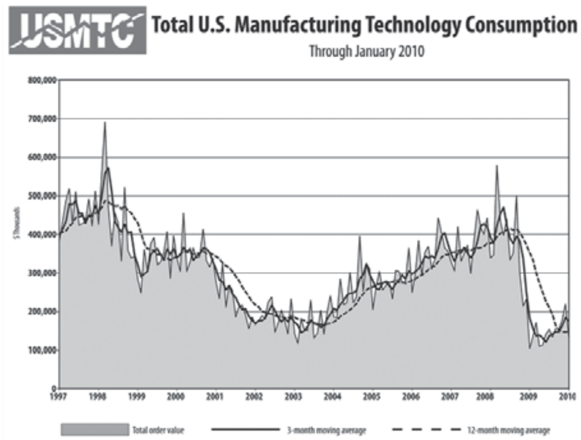
Continued from p.1 of this section

### Northeast Region

January manufacturing technology consumption in the Northeast Region totaled $25.88 million, down 40.5 percent when compared with the $43.49 million total for December but up 31.4 percent when compared with January a year ago.

### Southern Region

Totaling $28.51 million, Southern Region manufacturing technology consumption in January fell 3.6 percent below December's $29.57 million but was 95.8 percent higher than the total for January 2009.




### Midwest Region

With a total of $37.41 million, Midwest Region manufacturing technology consumption in January was 39.9 percent less than December's $62.22 million but up 31.2 percent when compared with January a year ago.

### Central Region

At $27.10 million, January manufacturing technology consumption in the Central Region was down 50.6 percent from December's $54.81 million but up 6.0 percent when compared with January a year ago.

### Western Region

Western Region manufacturing technology consumption in January fell 58.7 percent to $12.06 million when compared with December's $29.22 million and was down 21.8 percent when compared with January 2009.

## Calculation of MDM Industrial Inflation Index for January 2010

| | | BLS Price Indices Jan. '10 | BLS Price Indices Dec. '09 | BLS Price Indices Jan. '09 | % Sales Weight | Weighted Indices Jan. '10 (1)X(4) | % Change Jan. '10 Dec. '09 | % Change Jan. '10 Jan. '09 |
|---|---|---|---|---|---|---|---|---|
| 1136 | Abr. Prod. | 510.9 | 515.0 | 514.2 | 19.1 | 97.58 | -0.81 | -0.64 |
| 1135 | Cutting Tools | 456.1 | 450.9 | 452.0 | 18.9 | 86.20 | 1.14 | 0.90 |
| 1145 | Power Trans. | 719.5 | 717.9 | 725.4 | 15.4 | 110.80 | 0.22 | -0.82 |
| 1081 | Fasteners | 470.4 | 472.3 | 491.5 | 9.0 | 42.34 | -0.40 | -4.29 |
| 1149.01 | Valves, etc. | 861.3 | 859.4 | 856.1 | 7.6 | 65.46 | 0.23 | 0.60 |
| 1132 | Power Tools | 337.4 | 337.4 | 338.5 | 6.5 | 21.93 | 0.00 | -0.33 |
| 1144 | Mat. Handling | 522.6 | 522.6 | 522.4 | 6.2 | 32.40 | 0.00 | 0.05 |
| 0713.03 | Belting | 622.2 | 622.2 | 608.4 | 6.1 | 37.95 | 0.00 | 2.28 |
| 1042 | Hand Tools | 739.3 | 735.6 | 741.0 | 8.1 | 59.88 | 0.51 | -0.23 |
| 108 | Misc. Metal | 452.3 | 459.9 | 455.7 | 3.1 | 14.02 | -1.66 | -0.74 |

| | | | | |
|---|---|---|---|---|
| "New" January Index | 297.1 | January Inflation Index | 568.57 | 0.08 | -0.30 |
| "New" December Index | 296.8 | December Inflation Index | 568.11 | | |
| | | January 2009 Inflation Index | 570.30 | | |

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

## MAPI Forecast: Moderate Recovery Underway, Caution Remains

A number of positive trends are emerging as the U.S. digs itself out of the "Great Recession," but cautionary signals remain that growth will be muted and the rebound restrained, The Manufacturers Alliance/MAPI Quarterly Economic Forecast.

The forecast predicts inflation-adjusted gross domestic product will experience 2.8 percent growth in 2010, followed by 3 percent growth in 2011. 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.

A number of factors are in play during the recovery: the consumer, though still burdened by feeble income and job growth, will receive some relief via transfer payments and tax cuts that in turn will boost spending; parts of investment – most notably in transportation equipment, information technology, and residential housing – will increasingly provide the demand surge needed to sustain production growth; the swing in business inventories will provide growth momentum as firms reduce destocking and eventually rebuild inventories; and federally funded stimulus outlays will contribute to the government spending stream through 2011.

"The overall economy grew in the third and fourth quarters of 2009 and high frequency data point to moderate economic performance in the first quarter of 2010," said Daniel J. Meckstroth, Manufacturers Alliance/MAPI Chief Economist.

"Similarly, manufacturing production hits its trough in June 2009 and has increased over 5 percent through January 2010. A moderate recovery is undoubtedly under way, but it is the pace of future near-term growth that is questionable.

"We believe that consumers will continue to deleverage and that the previous growth model based on credit availability to marginally creditworthy borrowers is not repeatable.

"Government tax cuts have replaced lost income for the moment, but eventually spending has to be grounded on wage increases and employment growth. A jobless recovery is not an option in this cycle."

Manufacturing production growth declined 11.2 percent in 2009 and is expected to rebound to 5.4 percent growth in 2010, and to an additional 5.3 percent growth in 2011.

Production in non-high-tech industries is expected to increase by 3.3 percent in 2010 and by 4.8 percent in 2011.

High-tech manufacturing production is anticipated to improve significantly, with solid 14.6 percent growth in 2010 followed by robust 17.8 percent growth in 2011.

The forecast for inflation-adjusted investment in equipment and software is for 9.4 percent growth in 2010 and for 12.1 percent growth in 2011.

Capital equipment spending in high-tech sectors will continue the improving trend. Inflation-adjusted expenditures for information processing equipment are anticipated to rise by 8.1 percent in 2010 and to increase by 6.7 percent in 2011.

MAPI expects industrial equipment expenditures to improve by 6 percent in 2010 and by 17 percent in 2011. The outlook for spending on transportation equipment is for a healthy 50.1 percent increase in 2010 and a 33.6 percent advance in 2011. These figures should help compensate for a 48.7 decline in 2009.

Spending on non-residential structures is the lone GDP expenditure category expected to retrench in each of the next two years, declining by 14.6 percent in 2010 before decreasing further, by 6.2 percent, in 2011.

Exports and imports will both be trending upwards. Inflation-adjusted exports are anticipated to improve by 9.2 percent in 2010 and by 7.6 percent in 2011. Imports are expected to grow by 9.6 percent in 2010 and by 6.8 percent in 2011.

The employment outlook, unfortunately, will continue to pose a challenge. MAPI forecasts unemployment to average 10 percent in 2010, and 9.4 percent in 2011.

The price per barrel of imported crude oil is expected to average $72.60 in 2010 before heading even higher, to $77.50 per barrel, in 2011. While expensive by historical standards, this still compares favorably to the average $92.30 price per barrel in 2008.

**MARKETS UPDATE SUPPLEMENT P. 4**

**Online Resources**

*View company or sector news at mdm.com/company-news or www.mdm.com/sector-news.*

## MDM News Digest

Continued from p.1 of this section

**Graybar**, St. Louis, MO, distributor of electrical and communications products and provider of related supply chain management and logistics service, announced the appointments of Richard D. Offenbacher to Senior Vice President - U.S. Business and Kathleen M. Mazzarella to Senior Vice President - Sales and Marketing.

**Lawson Products** Inc., Des Plaines, IL, reported sales for 2009 were $378.9 million, a year-over-year decrease of 21.9 percent. The distributor of products and services to the MRO and OEM marketplaces recorded a net loss of $2.7 million, compared to a loss of $27.6 million in 2008.

Building materials distributor **Huttig Building Products** reported sales for fiscal 2009 were down 32 percent to $455.2 million. Huttig recorded a net loss of $20.5 million, an improvement from a net loss of $35.4 million in 2008.

Swedish industrial group **Indutrade** has agreed to acquire **Norwegian Lekang Group**, consisting of the companies **Lekang Maskin AS** in Norway, **Filterteknik Sverige AB** in Sweden, and **Filterteknik A/S** in Denmark.

**Atlas Copco** has completed the acquisition of **Quincy Compressor** from **EnPro Industries**, with the exception of Quincy's Chinese operations, where regulatory approvals from relevant local authorities are still pending.

**Saint-Gobain** sales were €37.7 billion (US$51.5 billion) in fiscal 2009, down 13.7 percent from the previous year. Profit was €202 million (US$276.1 million), down 85.3 percent.

**Fluor Corp**., Irving, TX, reported sales for 2009 sales were $22 billion, effectively flat compared to 2008. Profit decreased 4 percent to $685 million. Sales for the fourth quarter were $5.5 billion, down 10 percent from the prior year period. Profit declined 21.6 percent to $149 million.

**Allied Motion Technologies** Inc., reported sales for 2009 were $61.2 million, down 29 percent from 2008. The manufacturer of motion control components recorded a full year loss of $12.4 million, compared to a year ago profit of $2.9 million.

**Boise Cascade Holdings**, LLC, Boise, ID, reported 2009 sales of $1.97 billion, down 34 percent from the prior year. The wholesale distributor of building products and producers of engineered wood products and plywood recorded a full-year loss of $19.1 million.

**General Cable Corp**., Highland Heights, KY, manufacturer of copper, aluminum and fiber optic wire and cable products, has acquired **Beru SAS**, a wholly-owned subsidiary of **BorgWarner France SAS**, La Ferte Mace, France.

**Manufacturing expanded** in February for the seventh consecutive month, according to the latest Manufacturing ISM Report on Business. The PMI was at 56.5 percent, a decrease of 1.9 percentage points from January.

**Construction spending** in January 2010 was estimated at a seasonally adjusted annual rate of $884.1 billion, 0.6 percent below the revised December estimate of $889.6 billion. The January figure is 9.3 percent below January 2009, according to the U.S. Census Bureau of the Department of Commerce.

**New orders for manufactured durable goods** in January increased $5.2 billion or 3 percent to $175.7 billion, according to the U.S. Census Bureau. This was the second consecutive monthly increase and followed a 1.9 percent December increase. Excluding transportation, new orders decreased 0.6 percent. Excluding defense, new orders increased 1.6 percent.

Statistics Canada reports that municipalities issued **building permits** worth $5.7 billion in January, a 4.9 percent decline from December. However, this value was still 32.7 percent higher than the level in January 2009.

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