

■ 2010 Distribution Landscape Report, Part 2

## Shifting Definitions of Value

*More than ever distributors have to prove their value to customers*

*This is part 2 of the 2010 Distribution Landscape Report, looking at how distributors have to rethink their models to meet changing customer demands.*

**By Lindsay Konzak and  
Jenel Stelton-Holtmeier**

Distributors need to consider new approaches to doing business and differentiating themselves in what's been referred to as the "new normal." As Publisher Tom Gale wrote in a recent issue of MDM, market-leading distributors are rethinking their models for 2010 and beyond. They are focused on building a leaner, productive operation, built on the strengths and the values that made them successful in the first place.

"If you want to get back to 2007 revenues, you have to identify where that business will be because the drivers of 2007 will not be the drivers of 2011," says David Gordon of Channel Marketing Group.

Every distributor will approach this strategic task differently, but most recognize they cannot be everything to everyone without stretching their limited resources. So they are recalibrating their organization's mindset and building a strategy to capitalize on shifts in the market and meet changing definitions of value at the customer level.

### Price Competition

The backdrop to this talk of changing customer values is price. Can distributors meet the growing and shifting demands of customers and still maintain margin?

Joe Gallagher, president of Gallagher Fluid Seals Inc., King of Prussia, PA, says in current conditions if he can provide the service and meet the timeframe the customer needs, "you don't have to have the

low price." Customers who are ramping back up quickly on limited resources just want a quick response.

But rewind 12 months, when distributors were in the midst of a rough and aggressive pricing market. Many distributors were taking whatever business they could get, and that sometimes meant lowering prices below their previous standard.

And customer price sensitivity continues. Tom East, president of distributor Refrigeration Sales, Valley View, OH, says potential customers continue to shop around, and ask for more quotes than they have in the past.

"The definition of 'relationship' in the business has changed over the past couple of years from people doing business strictly based on who they like. ... That's been a big change," Gordon says.

"Customers want the best price," says Charles Beasley, vice president of industrial distributor Perry Supply. Perry Supply supplies mainly mining and foundry customers. "That's our main challenge. Customers are evaluating and looking more closely at the prices they are seeing." In fact, some of his customers are considering options beyond the traditional independent distribution channel, including getting direct quotes from manufacturers. "We have to offer a value-add service that will compensate for the difference in the cost," Beasley says. "We have been able to do that."

In construction end-markets, commodity prices have challenged distributors. "Commodity price volatility has really made every major construction job a major negotiation where before contractor customers would purchase wire or commodities from whomever they had had a

continued on page 3

## INSIDE

### Commentary: The Two Definitions of Market Leaders

Report takes a look at the largest distributors, but many smaller distributors are leading their markets in other ways.

**Page 2**

### MDM Market Leaders Named

Top distributors in five sectors are listed.

**Page 4-5**

### Market Leaders' Growth Strategies

Jack Keough writes about changes in the industrial list over the years.

**Page 5**

### Market Analysis: U.S. MRO Products

The estimated size of the MRO market in 2009 was \$502 billion.

**Details on Pages 6-8**

### Economic Update: Labor Outlook

Employment trends seem to be turning positive.

**Page 2 of the Industrial  
and Construction Markets  
Update**



**PERSPECTIVE** ■ *Commentary by Thomas P. Gale***Different Definitions of Market Leaders**

The release of our first annual MDM Market Leaders and Distribution Landscape Report last week was the result of several months of research. Throughout, we noticed some recurring themes. Last year changed every distribution company's paradigms, which historically have been about size and sales revenue growth.

Our 2010 Market Leaders research indicates that the average declines in sector revenues for distributors on our lists (for 2009) were:

Industrial	-15%	Avg. decline
PT/Bearing	-16%	
Bldg. Matls./Const.	-26%	
HVAC/Plumbing	-16%	
Electrical	-18%	

Anecdotally, very few distributors grew revenues last year. (For a more comprehensive analysis of actual and real revenue performance across 18 individual U.S. wholesale distribution sectors, be sure to see the 2010 Wholesale Distribution Economic Reports, compiled by Dr. Adam J. Fein, at [www.mdm.com/wder](http://www.mdm.com/wder).)

I will never suggest that the downturn was positive, but it did act as an important catalyst for many distributors to find ways make their companies healthier. Companies are much more focused today on profitability and making

smarter decisions about the real cost of revenue in terms of resource consumption.

One of the lessons we came away with from our research is just how many distributors we know who did not make the revenue ranking in any of the five sectors we analyzed, but who came through the downturn in a strong position relative to competitors because they were strategic and innovative in addressing the severe market shifts.

I think we'll see an increasing focus on efficiency and strategic potential, not just revenue size, for both large and small distributors. I expect some dramatic shifts to our list of the top 40 distributors by revenue size next year as some on the list don't adapt as well, and some off the list reap the rewards for finding and exploiting some of the emerging opportunities right now.

**Market Leading Industry Analysis**

I'd like to acknowledge our Associate Editor Jenel Stelton-Holtmeier as she was recognized nationally this week by our trade association for an article she wrote in 2009 about demographic shifts in distribution ([www.mdm.com/demographics](http://www.mdm.com/demographics).) She was up against some top analytical reporting nationally, and has been a great contributor as we continue to strengthen our coverage of wholesale distribution trends. ■

**MODERN DISTRIBUTION MANAGEMENT**

*Founded in 1967  
by J. Van Ness Philip*

**Publisher**  
Thomas P. Gale  
[tom@mdm.com](mailto:tom@mdm.com)

**Editor**  
Lindsay Konzak  
[lindsay@mdm.com](mailto:lindsay@mdm.com)

**Associate Publisher**  
Craig Riley  
[craig@mdm.com](mailto:craig@mdm.com)

**Associate Editor**  
Jenel Stelton-Holtmeier  
[jenel@mdm.com](mailto:jenel@mdm.com)

**Contact Information**

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

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

**Subscription Rates**

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

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 not available. For group subscription rates and site licenses, please contact Hadley Fable at 303-443-5060.

Copyright © 2010 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.

ISSN 0544-6538

**MDM Editorial Advisory Board**

**Kevin Boyle**  
President of Industrial Distribution Consulting LLC

**Larry Goode**  
President of Goode Advisors Inc.

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

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

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

**Doug Savage**  
President and CEO of Bearing Service Inc.

## Shifting Definitions of Value

Continued from page 1

relationship with. Now they're opening it up to everyone in the region to bid jobs they previously never would have looked at. That will probably continue," says Kevin Powell, president of Werner Electric of Minnesota. The "trust factor" has suffered.

On the other hand, customers have been more willing to listen to new ideas from new vendors, says Bob Dill, CEO of industrial distributor Hisco Inc. "It's an opportunity or a threat, depending on how well you respond to it," he says. Dill says if distributors are "just moving boxes around" or offering something that is easy to replicate, "you're very vulnerable" right now. The large distributors are growing larger, buying better and continuing to grow more aggressive, Dill says. "You have to have a legitimate way to drive value. Relationships are always important, but it has to be relationships-plus. It has to be more than being a good guy. It's aggressive out there right now," he says.

### Responsibility Shift

Despite the challenges, plenty of opportunities exist to offer the services that customers value now, say many of the distributors we spoke to for this report.

Powell says because customers have cut back on workers, they want distributors to perform functions they used to perform for themselves. He offered examples: storeroom management and technical advice that before would have come from in-house engineering. "We are all being relied on more for services. There's a definite responsibility shift. Where a customer used to look leery at someone strange coming into a storeroom, now they look at it with excitement, as a cost shift." Powell says as a result Werner has expanded the professional capabilities of its services delivery group.

Gallagher agrees, saying that his customers don't have the same resources they used to. "They are looking for outside resources to help them," he says. "They can't manage what they have."

"People are turning over every rock in the world to figure out how to make their supply chain more efficient," says Mike Marks of Indian River Consulting Group. And that equals opportunity for distributors ready to capitalize on those needs.

### Supplier Rationalization

Another strategy employed by distributors and

their customers big and small has been decreasing the number of suppliers they employ, to ensure not only lower transaction costs but also consistency in quality.

"We need to make sure we're putting our volume through our key vendors," says John Masek, vice president of Bearing Service Inc. in Livonia, MI. For just one type of product, Bearing Service Inc. could buy from 10 different companies if it wanted to. "It's incumbent on us to pick the one or two we want to support and push the majority of our volume through to get the rebate volumes we need, and make the distributor and manufacturer successful."

Other distributors have said they are taking the same approach. This trend may have a negative impact on smaller manufacturers, Masek says, "unless they have a real niche in the market."

The same trend is appearing on the customer side as well. Grainger has discussed in analyst presentations over the past year how its customers have decreased the number of suppliers they work with, in some cases dramatically. And distributors like Grainger continue to add to the number of products they can offer those customers.

HD Supply leaders recently spoke with MDM, saying the same. The distributor added 4,000 new products to its newest facilities maintenance catalog. "Every year we will add new products, and those products will fit existing customers' needs," CEO Joe DeAngelo says.

Of course there are challenges with this approach. Farrokh Khalili, CEO of Canadian Bearings Ltd., Mississauga, Ontario, says that his company, a bearings distributor, keeps this in mind when considering new product offerings.

"For each product group, you need an expertise distinct from bearings," he says. "You also need a new network for relationships. On top of that you need market knowledge of those products. For example, for bearings you never have promotional sales, but in safety you do. Customer expectations and contacts are different. "There are significant differences that make it difficult to just go and service your customers with these products. To expand your product offering is not a trivial matter."

### Lasting Impact on Channel

It's really too soon to say whether the shifts we have seen at the customer and distributor levels

continued on the next page



For information on MDM's methodology in choosing the 2010 MDM Market Leaders, go to [www.mdm.com/methodology](http://www.mdm.com/methodology). Some distributors did not provide revenues, and so their places on the lists were estimated.

Those distributors were denoted with an "NA" next to their company names.

in the first half of 2010 will be sustained. But distributors continue to change how they do business in response to the recession, and some of these changes are likely to stick.

In a recent MDM survey, distributors and manufacturers that sell through distribution said they are focused on not just cost containment but also training, online marketing, smart inventory management and implementing technologies that will help them keep on top of and meet changing customer needs more efficiently.

The severity and broad-based impact of this recession has changed how distributors, their customers and their suppliers look at the market, and will likely have a lasting impact on the role of independent distributors.

Those that capitalize on these shifts and adapt their model to the new demands in the market will come out ahead.

### Top 10 Power Transmission/Bearing Distributors

Based on 2009 revenues

1. Motion Industries, \$2.9 billion
2. Applied Industrial Technologies, \$1.9 billion
3. Kaman Industrial Technologies, \$645 million
4. DXP Enterprises, \$583.2 million
5. BDI, \$396 million
6. Kinecor LP, \$290 million
7. Canadian Bearings Ltd., \$155 million
8. IBT Inc., \$116.2 million
9. OTP Industrial Solutions, \$90-\$100 million
10. Purvis Industries, NA

### Top 12 HVAC/Plumbing/PVF Distributors

Based on 2009 sector revenues

1. Ferguson/Wolseley Canada, \$10.2 billion
2. McJunkin Red Man Corp., \$3.7 billion
3. Hajoca (including EMCO), NA
4. Watsco, \$2 billion
5. Wilson Industries, \$1.8 billion
6. HD Supply, \$1.1 billion
7. WinWholesale, \$1 billion
8. Johnstone Supply, NA
9. FW Webb, \$600 million
10. R.E. Michel, \$525.1 million
11. Deschenes Group Inc., \$500 million
12. Morrison Supply Co., NA

### Top 40 Industrial Distributors

Based on 2009 revenues

1. Wolseley, \$22.9 billion
2. HD Supply, \$7.4 billion
3. Grainger, \$6.2 billion
4. Airgas, \$4.3 billion
5. McJunkin-Red Man Corp., \$3.7 billion
6. Motion Industries, \$2.9 billion
7. McMaster Carr, NA
8. Applied Industrial Technologies, \$1.9 billion
9. Fastenal, \$1.81 billion
10. Wilson Industries, \$1.81 billion
11. Sonepar Industrial (w/Hagemeyer), \$1.8 billion
12. WinWholesale Inc., \$1.6 billion
13. MSC Industrial Supply Co., \$1.5 billion
14. Interline Brands, \$1.1 billion
15. Wurth-Americas, \$866.7 million
16. Kaman Industrial Technologies, \$645 million
17. FW Webb, \$601 million
18. DXP Enterprises, \$583.2 million
19. Barnes Logistics & Manuf. Services, \$539.1 million
20. BDI, \$396 million
21. Lawson Products, \$378.8 million
22. Bossard, \$369.5 million
23. Turtle & Hughes, \$360 million
24. Industrial Distribution Group, est. \$350M+
25. Kinecor LP, \$290 million
26. Lewis-Goetz & Co. Inc., \$250 million
27. DGI Supply, \$192 million
28. RS Hughes Co., \$191 million
29. Gas and Supply Co., \$180.4 million
30. Perry Supply Inc., \$169.4 million
31. Hisco, \$160 million
32. Canadian Bearings Ltd., \$155 million
33. Strategic Distribution (SDI), NA
34. Tencarva Machinery Co., \$129.4 million
35. FCX Performance Inc., \$124.6 million
36. Womack Machine Supply, \$124.2 million
37. Kimball Midwest, \$117 million
38. IBT Inc., \$116.2 million
39. Carlson Holdings, NA
40. SupplyCore, NA

### Other Top Industrial Distributors:

41. OTP Industrial Solutions, \$90-\$100 million
42. Machinery Systems, \$80 million

Read the full Distribution Landscape Report at [www.mdm.com/2010\\_Market\\_Leaders](http://www.mdm.com/2010_Market_Leaders)

# Strategies for Growth by Market Leaders

*Jack Keough looks at consolidation trends among the top industrial distributors*

*This is an excerpt of a column written by former Industrial Distribution magazine editor Jack Keough providing his take on this year's Market Leaders list.*

To no one's surprise, last year turned out to be a terrible one for distributors. One distributor we talked to called 2009 a "survival" year, noting he was just happy that sales at his distributorship were off only 10 percent due to the deep recession. Other distributors have not been as fortunate with many companies reporting sales down more than 20 percent.

Many distributors survived 2009 through a series of steps they hope will position them for growth this year. These are the market leaders detailed in a special report compiled by editors at Modern Distribution Management.

In looking through this list, it is interesting to examine how many of these companies grew over the years through a variety of strategies, many of them expanding through acquisition.

Wolseley, for example, the largest distributor

on our list, has been a major acquirer of companies over the years. It is known for its major purchase of Ferguson Enterprises and for its expansion of Stock Building Supply, which sells building materials and supplies.

The deepening plunge in the housing market caused Wolseley to sell a majority interest in Stock Building Supply to The Gores Group, a private equity firm. Stock itself has since been in an acquisition mode by expanding in targeted geographical markets.

Another company that grew through acquisition is Airgas under the direction of its chairman and CEO Peter McCausland who founded the company in 1982. Since its founding, Airgas has made more than 400 acquisitions and more are planned. That is if Airgas, which has more than 1,100 locations, itself is not purchased.

(Air Products and Chemicals Company has made an unsolicited bid to take over Airgas.)

As we look ahead to the remainder of 2010, hopes are that the economy will continue to grow. A number of distributors have reported a sharp increase in business for the first four months of this year and one used the word "scary" as to how fast business has increased. With this in mind, it will be interesting to see next what will happen if M&A continues at a fast pace.

This could change the make up of MDM's list and pose a threat to many small and mid-sized distributors in the marketplace, particularly for those that haven't carved out a niche for themselves or are hampered by cash flow problems.

Only time will tell.



**Online Resources**

Read the entire column online at [mdm.com/2010\\_market\\_leaders](http://mdm.com/2010_market_leaders)

## Top 25 Electrical Distributors

Based on 2009 sector revenues

1. Sonepar, €11.9 billion
2. Rexel Group, \$16.2 billion
3. Consolidated Electrical Distributors, NA
4. Anixter International, \$5 billion
5. WESCO Distribution, \$4.6 billion
6. Graybar Electric, \$4.4 billion
7. HD Supply, \$1.4 billion
8. Grainger, \$871.1 million
9. Border States Industries, NA
10. Crescent Electric Supply, \$790 million
11. Mayer Electric Supply, \$534 million
12. Platt Electrical Supply, NA
13. McNaughton-McKay Electric, NA
14. Reynolds Co., NA
15. Wholesale Elec. Supply of Houston, NA
16. City Electric Supply, NA
17. Kendall Electric Supply, NA
18. Summit Electric Supply, \$308 million
19. North Coast Electric, \$307 million
20. Dealers Electrical Supply, NA
21. Elliott Electric, NA
22. Independent Electric Supply, NA
23. State Electric Supply, NA
24. Turtle & Hughes, \$261 million
25. Kirby Risk Electric Supply, NA

## Top 10 Building Material/Construction Distributors

Based on 2009 sector revenues

1. ProBuild Holdings, \$3 billion (est.)
2. Stock Building Supply, NA
3. ABC Supply Co., \$2.6 billion
4. Beacon Roofing Supply, \$1.7 billion
5. HD Supply, \$1.51 billion
6. Bradco Supply Corp., \$1.5 billion
7. 84 Lumber, \$1.35 billion
8. L&W Supply, \$1.3 billion
9. BMC Select, \$685 million
10. Builders FirstSource, \$678 million

## U.S. MARKET ANALYSIS: MRO Product Consumption in 2009

According to the MDM/Industrial Market Information MRO Market Analysis, the U.S. market size in 2009 for the 126 MRO industrial product groups is \$502 billion. (Some prior-year data available at [www.mdm.com/databank](http://www.mdm.com/databank) are not directly comparable due to slight variations in product groups included, as well as recent updates to the U.S. government database.)

Estimates are based on data compiled by Industrial Market Information, Minneapolis, MN, and analyzed by MDM. Definitions for the 126 individual product categories used to estimate the market size are on p. 7 of this section. Two aggregate subgroups were measured, as well (see charts on next page).

**Manufacturing & Utilities** sectors consumed \$259.18 billion in MRO products across these 126 product groups.

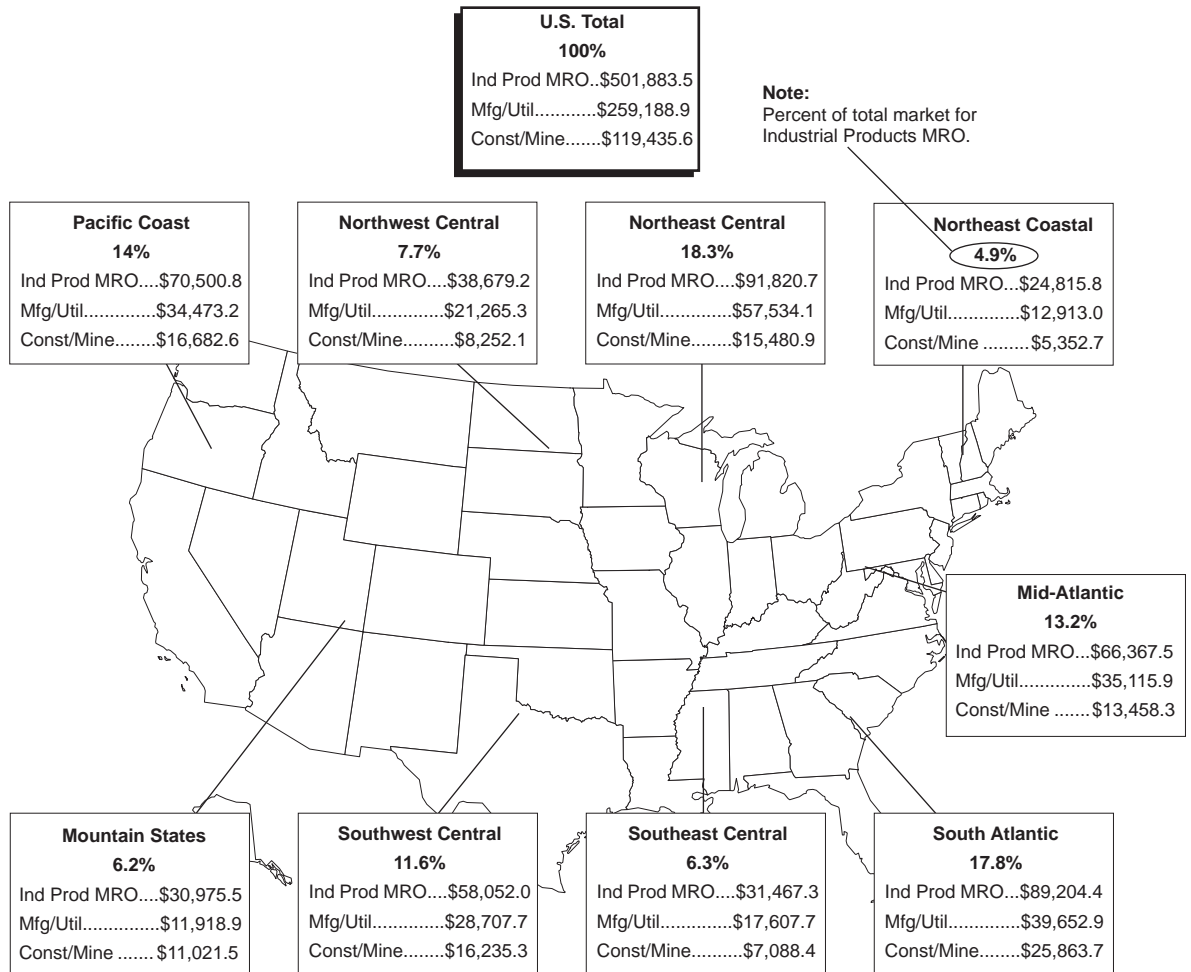
**Construction & Mining** sectors consumed \$119.43 billion in these MRO products. The graphic below shows consumption by region. The charts on the next page show consumption by industry.

**Note:** The two subgroups above don't total the total **Industrial Products MRO** estimate, as this \$502-billion total market estimate includes additional industries and service sectors beyond the Manufacturing/Utilities and Construction/Mining groupings.

### Regional Market Analysis: MRO Products 2009

#### End-user consumption of MRO Products by region, in millions of \$ (2009 estimates).

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



Source: INDUSTRIAL MARKET INFORMATION, INC. (763) 535-7432. © 2010 Industrial Market Information, Inc., Minneapolis, MN. All rights reserved. Industrial Market Information has more than 200 industrial product profiles available at the county level. [www.imidata.com](http://www.imidata.com)

## Industry Market Analysis: MRO Products 2009

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

#### **Top ten industries in \$ volume, by SIC code, consuming MRO Products (2009 estimates)**

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

SIC Code	All MRO	Company Count
1731 Electrical Work	34,979,805,300	123,475
1711 Plumbing Heating & Air Conditioning	21,403,456,815	182,620
8062 General Medical & Surgical Hospitals	12,015,090,344	9,831
1542 General Contractors - Nonresidential	10,904,350,726	54,024
2621 Paper Mills	10,092,960,510	2,398
2086 Bottled & Canned Soft Drinks	8,460,266,611	1,999
2834 Pharmaceutical Preparations	7,751,108,238	4,018
1521 General Contractors - Single-Family Housing	7,185,349,031	422,436
2033 Canned Fruits, Veg., Preserves, Jams, & Jellies	6,018,527,274	1,161
4911 Electric Services	5,730,609,953	8,297

### **Manufacturing & Utilities: Top 10 industries for MRO use**

#### **Top ten Manufacturing/Utility industries in \$ volume, by SIC, consuming MRO Products (2009 est.)**

SIC Code	Manufacturing & Utilities MRO	Company Count
2621 Paper Mills	10,092,960,510	2,398
2086 Bottled & Canned Soft Drinks	8,460,266,611	1,999
2834 Pharmaceutical Preparations	7,751,108,238	4,018
2033 Canned Fruits, Veg., Preserves, Jams, & Jellies	6,018,527,274	1,161
4911 Electric Services	5,730,609,953	8,297
2631 Paperboard Mills	5,030,373,366	730
3089 Plastics Products, NEC	4,774,484,997	10,331
3714 Motor Vehicle Parts & Accessories	4,290,733,855	5,477
2869 Industrial Organic Chemicals, NEC	4,229,188,928	2,046
2026 Fluid Milk	4,107,388,390	578

### **Construction & Mining: Top 10 industries for MRO use**

#### **Top ten Construction/Mining industries in \$ volume, by SIC, consuming MRO Products (2009 est.)**

SIC Code	Construction & Mining MRO	Company Count
1731 Electrical Work	34,979,805,300	123,475
1711 Plumbing Heating & Air Conditioning	21,403,456,815	182,620
1542 General Contractors - Nonresidential	10,904,350,726	54,024
1521 General Contractors - Single-Family Housing	7,185,349,031	422,436
1623 Water Sewer & Utilities	5,411,434,214	13,138
1611 Highway & Street Construction	5,308,384,336	28,278
1541 General Contractors - Industrial Buildings	5,124,268,770	13,480
1629 Heavy Construction, NEC	4,743,757,406	18,099
1771 Concrete Work	4,401,365,775	44,789
1522 General Contractors - Residential	2,630,346,426	60,364



Find market data previously published in MDM, including past MRO market data reports at [www.mdm.com/databank](http://www.mdm.com/databank).

## Defining the MRO Product Markets

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

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

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



## Survey: Small Business Optimism Remains Weak

The May Index of Small Business Optimism as published by the National Federation of Independent Business of gained 1.6 points, increasing to 92.2. According to NFIB, it was not a strong signal of recovery, but was headed in the right direction. It is the best reading since September 2008 (92.9), just before the 5.4 point decline in October. Seven of the 10 Index components increased but job creation and capital expenditure plans barely moved, remaining at “recession levels,” according to the report.

### Labor Markets

Nine percent of those surveyed (seasonally adjusted) reported unfilled job openings, down two points and historically very weak.

Over the next three months, seven percent plan to reduce employment (unchanged) and 14 percent plan to create new jobs (unchanged), yielding a seasonally adjusted net one percent of owners planning to create new jobs, two points better than the April reading.

Since the third quarter of 2009, job creation plans have seriously underperformed the recoveries from the other two deep recessions covered by the NFIB survey. Coming out of the milder 1991 recession, construction added more than 100,000 jobs and 20,000 new firms in a year’s time.

### Capital Spending

The frequency of reported capital outlays over the past six months was unchanged at 46 percent of all firms, two points above the 35-year record low reached most recently in December 2009. The percent of owners planning to make capital expenditures over the next few months rose one point to 20 percent, four points above the 35 year record low.

Five percent characterized the current period as a good time to expand

continued on p.4 of this section

**McJunkin Red Man Corp.**, Houston, TX, has acquired **The South Texas Supply Company Inc.**, as part of its strategic focus to increase its presence in the active shale plays across North America. To support oil and gas exploration & production as well as the pipeline and transmission infrastructure, MRC will be expanding operations and inventory in these active shales both organically and through acquisition, such as South Texas Supply within the Eagle Ford Shale, according to a press release. South Texas Supply operates two branch locations in the region, Carrizo Springs, TX, and Dilley, TX, and has supplied oilfield products to the region since 1996.

The president of **Kaman Industrial Technologies Corp.**, a subsidiary of Bloomfield, CT-based Kaman Corp., has announced his retirement. T. Jack Cahill will retire on Aug. 31, 2010, after 17 years in that post. Steven J. Smidler, senior vice president and COO, will assume the role of president following Cahill’s departure.

St. Louis, MO-based **Graybar** has appointed Steve Stone to the position of vice president, comm/data. Stone has been with Graybar for more than 12 years, serving in several sales and management roles, most recently as director of comm/data sales for the company’s Pittsburgh region.

**Airgas Inc.**, Radnor, PA, released a statement responding to the second extension by **Air Products & Chemicals Inc.** of its unsolicited tender offer and Air Products’ statement that only 15,981 shares of Airgas common stock, representing less than 0.02 percent of the issued and outstanding shares, had been tendered into the offer.

**Bearing Headquarters**, Broadview, IL, has made two new vice president appointments. Jim Scardina, most recently a senior vice president for the bearing and power transmission distributor, has been promoted to vice president of supplier relations. Scardina replaces John Timble who is retiring. In addition, J. R. Hogan has been promoted to vice president. Hogan has been with BHQ since 1998 in sales and national accounts.

Master distributor **United Stationers**, Deerfield, IL, has created an e-commerce group to serve resellers’ e-commerce needs. The new group is responsible for supporting resellers’ technology platforms and integrating United Stationers technology and services into those platforms.

**Rexnord LLC**, Milwaukee, WI, reported sales for the fiscal year ended March 31 were \$1.51 billion, down 20 percent from fiscal 2009. Consolidated core sales also declined 20 percent. The manufacturer recorded a year-end loss of \$5.6 million, compared to a year ago loss of \$394.3 million. Fourth quarter sales were \$407 million, a decline of 6 percent compared with the prior year fourth quarter. Core sales contracted 8 percent. Profit was \$11.1 million, compared with a loss of \$7.8 million the prior year.

High-profit distribution firms had a pre-tax profit margin nearly 5 percentage points higher in 2009 than the typical firm’s pre-tax profit margin, according to the **2010 PT Distributor Performance Report**. When asked in October 2008 to forecast sales for 2009, nearly one-third of distribution

continued on p.3 of this section



View company or sector news at [mdm.com/company-news](http://mdm.com/company-news) or [www.mdm.com/sector-news](http://www.mdm.com/sector-news).

## ■ Economic Update

# Labor Market Outlook Turns Up

*Finally, some positive news on the employment front*

While the **unemployment rate** continues to hover at just under 10 percent, the fear that this recovery may be jobless appears to be subsiding a little. With the exception of April when it edged up slightly, the U.S. unemployment rate has held steady at 9.7 percent according to the U.S. Department of Labor Statistics.

While much of the positive news is related to temporary workers hired for the U.S. Census, private sector employment edged upward, adding 41,000 jobs in May, and manufacturing employment continues to grow, adding 29,000 in the past month.

Perhaps more important to evaluating the labor market is the outlook for the labor market. The latest Manpower Employment Outlook Survey revealed that employers are more optimistic about hiring plans in third quarter 2010 than they were a year ago. And some of the most positive responses came out of the Wholesale & Retail Trade and Nondurable Goods Manufacturing sectors, with net outlook of +15 percent and +12 percent, respectively.

Respondents to the Institute for Supply Management's survey for its monthly Report on Business were "bullish" about job growth as well in May, according to Daniel J. Meckstroth, chief economist for the Manufacturers Alliance/MAPI. "The supply chain pipeline is filling with orders and manufacturing firms are reluctantly, but out of necessity, adding staff," he says.

But, even with these gains, recovery in the labor market will be slow, according to Adam J. Fein, PhD., of Pembroke Consulting. Since 2007, about 8 million jobs have been lost, and the U.S. may not reach pre-recession employment levels until 2013 or 2014. Fein presented his outlook for 2010 during an MDM Webcast on April 27.

**Here are some other key indicators from the last month:**

**Manufacturing expanded in May** for the 10th consecutive month, and the overall economy grew for the 13th consecutive month, according to the latest Manufacturing ISM Report On Business. The Purchasing Managers Index was at 59.7 percent, indicating expansion.

Recovery continues to broaden with 16 of the 18 manufacturing industries reporting growth in May. Only one industry – Petroleum &

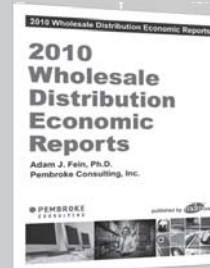
Coal Products – reported contraction.

**Construction spending** in April 2010 was estimated at a seasonally adjusted annual rate of \$869.1 billion, 2.7 percent above the revised March estimate of \$845.9 billion, according to the U.S. Census Bureau of the Department of Commerce. The April figure is 10.5 percent below the April 2009 estimate of \$971.4 billion. During the first four months of this year, construction spending amounted to \$249.6 billion, 13.2 percent below the \$287.5 billion for the same period in 2009.

**Privately owned housing starts** in April were at a seasonally adjusted annual rate of 672,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development. This is 5.8 percent above the revised March estimate of 635,000 and 40.9 percent above the revised April 2009 rate of 477,000.

The **Chicago Fed Midwest Manufacturing Index** increased 1.2 percent in April, to a seasonally adjusted level of 85.2 (2002 = 100). Revised data show the index rose 1.5 percent in March to 84.2. The Federal Reserve Board's industrial production index for manufacturing (IPMFG) increased 1.1 percent in April. Regional output

**Now Available at [mdm.com](http://mdm.com):**



**Adam Fein's  
2010 Wholesale  
Distribution  
Economic Reports**

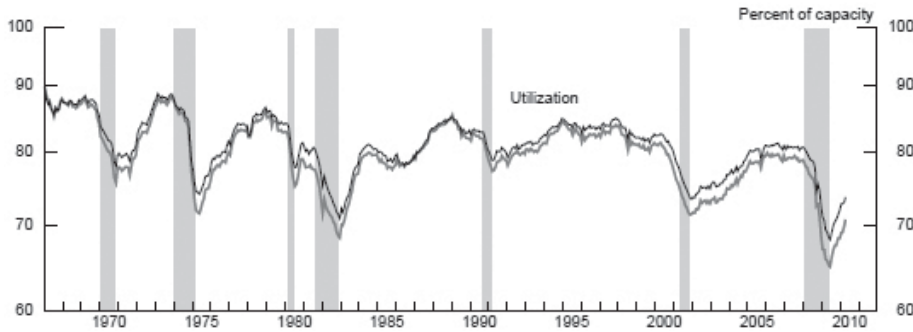
**Order at  
[www.mdm.com/  
wder](http://www.mdm.com/wder)**

Or call 1-888-742-5060.  
18 Sector Reports available!

Subscribers receive a 10% discount.  
Enter the promo code  
**SUBSCRIBE** at checkout.

*Benchmark and plan for 2010-2011.*

## Capacity Utilization Through Recessions



The lower gray line indicates manufacturing capacity utilization. The shaded years indicate years of recession.

Source: Federal Reserve

MARKETS  
UPDATE  
SUPPLEMENT  
P. 3

in April edged up 7.5 percent from a year earlier, and national output increased 6.5 percent. April marks the first time since February 2008 that the CFMMI's year-over-year change has exceeded the IPMFG's.

Led by continued improvements in production- and employment-related indicators, the **Chicago Fed National Activity Index** increased to 0.29 in April, up from 0.13 in March. April marked the highest level of the index since December 2006 and the third time in the past four months that the index indicated above-average economic activity. Three of the four broad categories of indicators that make up the index made positive contributions in April, while the consumption and housing category made the lone negative contribution. The index's three-month mov-

ing average, CFNAI-MA3, increased to -0.03 in April from -0.09 in March, reaching its highest level since February 2007. April's CFNAI-MA3 suggests that growth in national economic activity was very near its historical trend. With the index still slightly below trend, there remains some economic slack, suggesting subdued inflationary pressure from economic activity over the coming year.

**New orders for manufactured durable goods** in April increased \$5.6 billion or 2.9 percent to \$193.9 billion, according to the U.S. Census Bureau. This was the fourth increase in the last five months and followed a slight March decrease. Excluding transportation, new orders decreased 1.0 percent. Excluding defense, new orders increased 3.4 percent.

### News Digest

Continued from p.1 of this section

firms predicted sales declines. According to the report, typical sales volume of power transmission/motion control distributors in 2009 was down 19.2 percent.

**Columbus McKinnon Corp.**, Amherst, NY, reported sales for the year ended March 31 were \$476.2 million, a decline of 21.5 percent from the prior year. The manufacturer of material handling products recorded a full-year loss of \$7.0 million, compared to a year-ago loss of \$78.4 million. For the fourth quarter, sales were \$123.0 million, down 9.4 percent from the same period a year ago. Profit was \$0.46 million, compared to a year-ago loss of \$102.5 million.

Bearings manufacturer **RBC Bearings Inc.**, Oxford, CT, reported sales for the fiscal year ended

April 3, 2010, were \$247.7 million, down 22.8 percent from fiscal year 2009. Profit declined 29.2 percent to \$24.4 million. For the fourth quarter, sales were \$79.8 million, a decrease of 4.8 percent from the same period a year ago. Profit improved 49.1 percent to \$9.7 million.

Economic activity continued to improve in all 12 Federal Reserve Districts, although many Districts described the pace of growth as "modest," according to the latest **Federal Reserve Beige Book**. Consumer spending and tourism activity generally increased. Employment and capital spending edged up, but inventory investment slowed.

**MARKETS  
UPDATE  
SUPPLEMENT  
P. 4**



*This report was based on the executive summary of the NFIB's most recent trends survey. To see the full report go to the NFIB website, and click on Research at [www.nfib.com](http://www.nfib.com).*

## Small Business Trends Survey

Continued from p.1 of this section

facilities, up one point. However, compared to past recoveries, small business owners' expectations are far less optimistic of a solid recovery.

### Inventories and Sales

The net percent of all owners (seasonally adjusted) reporting higher nominal sales in the past three months improved four points to a net negative 11 percent, and up 14 points in the past two months. It is the best reading since April 2008. The net percent of owners expecting real sales gains lost a point, falling to a net five percent of all owners (seasonally adjusted) after a nine point gain in April.

Small business owners continued to liquidate inventories and weak sales trends gave little reason to order new stock. A net negative 20 percent of all owners reported gains in inventories, eight points better than December's record liquidation reading but two points worse than in April.

Plans to add to inventories improved four points to two percent of all firms (seasonally adjusted) adding to a five point improvement in April.

### Inflation

The weak economy continued to put downward pressure on prices. Fourteen percent of the owners (down one point) reported raising average selling prices, and 28 percent reported average price reductions (up four points). Such widespread price cutting contributes to the high percentage reporting declining sales revenues.

Plans to raise prices rose one point to a net seasonally adjusted 14 percent of owners. On the cost side, four percent of owners cited inflation as their number one problem (e.g. costs coming in the "back door" of the business) and only four

percent cited the cost of labor, so neither labor costs nor materials costs are pressuring owners.

### Profits and Wages

Reports of positive profit trends improved by three points in May, registering a net negative 28 percentage points, 15 points better than May 2009. For those reporting lower earnings compared to the previous three months, 53 percent cited weaker sales, four percent blamed rising labor costs, six percent higher materials costs, four percent higher insurance costs, and six percent blamed lower selling prices.

Six percent blamed taxes and regulatory costs. Owners continued hold the line on compensation, with 10 percent reporting reduced worker compensation and 13 percent reporting gains. Seasonally adjusted, a net two percent reported raising worker compensation, only four points better than February's record low reading of negative two percent. However, labor costs still appear to be under control, one of the major factors affecting inflation pressures. In past recovery periods, compensation improved at a much faster pace than we have experienced in this recovery period.

### Credit Markets

Regular NFIB borrowers, 32 percent accessing capital markets at least once a quarter, one point above the survey record low, continued to report difficulties in arranging credit.

A net 13 percent reported loans harder to get than in their last attempt, down one point from April. Overall, 92 percent of the owners reported all their credit needs met, or they did not want to borrow.

Very weak plans to make capital expenditures, to add to inventory and to expand operations make it clear that many good borrowers are simply on the sidelines, waiting for a good reason to make capital outlays and order inventory and take out the usual loans used to support these activities, according to NFIB analysis in the report.

Only three percent of the owners reported "finance" as their top business problem, down one point.

Thirty percent cited weak sales as their top business problem, up one point from April.

**MODERN  
DISTRIBUTION  
MANAGEMENT**

*Founded in 1967  
by J. Van Ness Philip*

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

ISSN 0544-6538

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

Copyright © 2010 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.