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The Social Media Challenge: ROI

Experts: Evaluate tools like LinkedIn, Facebook & Twitter differently

In a recent MDM survey, just half of respondents said they were using LinkedIn. Even fewer used online tools such as Twitter and Facebook. This article will examine why B2B companies have resisted using social media to further business goals and presents expert analysis and examples on how distributors can benefit from these tools. The author also analyzes results from a recent survey on how MDM readers use social media.

By Jenel Stelton-Holtmeier

Even as business-to-consumer companies are finding ways to capitalize upon the growing social media trend, many business-to-business companies are struggling with how they can use social media sites such as LinkedIn, Twitter and Facebook.

In a recent MDM survey, about 42 percent of respondents – distributors and manufacturers – said their companies were not using social media. The reasons ranged from "not up-to-date on its uses and benefits" to "no interest" or even: "It's the biggest time-waster I know of."

Even respondents who are using social media acknowledged it was difficult to measure the return on their investment. Comments such as "inability to track specific outcomes" or "don't know how effective it will be" were common.

Despite the challenges, more and more distributors and manufacturers have started to use social media tools to advance their marketing goals.

Return on Investment

"How can we measure return on investment? It's a great question and one that is very important," says online marketing strategist Bob DeStefano, president of SVM E-Business Solutions, Somerset, NJ. "You have to look at social media differently than how you look at other programs."

The return on investment can't necessarily be measured by tracking click-throughs. Rather the return comes over time as traffic builds to your website or as people start looking to you as the expert on a given topic.

"Don't get too hung up on the numbers," says John Sonnhalter, founder of marketing communications firm Sonnhalter, Berea, OH.

That doesn't mean there won't be measurable results. Jim Sobeck, president and CEO of New South Construction Supply, West Columbia, SC, took on a new supplier that connected with him via his business' Twitter account. Last month, that product line brought in $30,000 worth of sales. "That's $30,000 we wouldn't have had otherwise," Sobeck says.

Measuring a return on investment requires understanding the investment. Twitter, LinkedIn, YouTube, Facebook and other websites are free; the only investment required is time. "Simply put, you get out of it what you put into it," Sonnhalter says. "The key is you have to have a plan."

To maximize your ROI, it's important to update the content regularly, regardless of the platform. Sonnhalter advises his clients they need to commit 30 minutes to one hour each day to their social media plans. Existing online tools, such as the Google reader, can streamline the process.

For specialty building materials distributor C.H. Briggs, Reading, PA, that means updating its Facebook page at least twice a week. "The process is centered in our marketing group," says Luis Arias, chief marketing officer at C.H. Briggs. "We've built an editorial calendar around it and maintaining it is an integrated part of our marketing plan."

C.H. Briggs also is launching a Twitter account to announce updates, and a You-

continued on page 4

INSIDE

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

A Tribute to Robert Clifton

A terrific guy, consummate gentleman, a professional and mentor. These are a few of the ways those in the industrial distribution industry recall how Bob Clifton touched people in his 33 years as an association executive with Fernley & Fernley, Philadelphia, PA. Bob died in early August at the age of 87. A common thread for Bob throughout his life was the way in which he found ways to help people. This type of person often is described as someone who would give you the shirt off his back. Bob actually did.

"He was always so well-organized and prepared for meetings," says Dan Judge, president of NetPlus Alliance, who was president of the Northern Industrial Distribution Association in 1987-88, when his organization merged with Southern (SIDA) and Central States (CSIDA) organizations to form the Industrial Distribution Association. "I remember showing up for a meeting one time in St. Louis, and the airline lost my luggage. It was a Sunday morning, and Bob lent me some money and a few dress shirts. He was a mentor and good friend to me as I became involved with committee work in the association."

"He had so much poise and confidence in what he did," recalls Alan Chartier, president of Midwest Industrial Tools, Omaha, NE and president of CSIDA during that time of transition. "When you asked his advice, you had the utmost confidence that Bob would give you an honest answer, and one that was well thought out."

"He was a progressive man," says G.A. Taylor Fernley, president of Fernley & Fernley. "He had a persuasive personality and could boil down complex issues. So he was very effective at getting people to think a step ahead."

Bob graduated from the University of Pennsylvania's Wharton School in 1944, following a tour in the Pacific theater with the Navy in World War II. He was Business Association Manager with Fernley & Fernley of Philadelphia from 1955 to 1988. He was vice president of the Industrial Distribution Association (now the Industrial Supply Association), American Brush Manufacturers Association, National Coil Coating Association, and The Hat Institute.

Following his retirement in 1989, Bob remained active in the industry and civic affairs. He spearheaded efforts in the 1990s through the EDI Coalition to get distribution associations and their members to improve efficiency by adopting common numbering systems and the first generation of electronic commerce tools. It was a challenge, but Bob was largely successful

continued on next page

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through a combination of skills he developed throughout his life. He combined a great sense of humor, people and organizational skills, and an ability to get people to think about the future.

"He was very bright, had a tremendous memory, and was such a raconteur," says Chuck Stockinger, president of Thomas Associates, Cleveland, OH, and a 40-year business associate of Bob's as the executive for the American Supply & Machinery Manufacturers Association. "We had many good times together and a good working relationship. He had such integrity – he always did the right thing for the group he represented."

Stockinger recalled the time his daughter was getting married at Villanova University just outside Philadelphia in 1993, when a storm dumped more than four feet of snow. "Bob showed up at the hotel, shuttling people, helping them, giving directions for how to cope with the weather. He was a can-do guy."

Margaret Gernert (formerly Broadwell and a co-worker with Bob at Fernley in the 1980s) shared this story: Bob was visiting one of the top hotel properties in southern Florida to assess whether it would be suitable for a convention. He was with other association representatives and the hotel's vice president of group sales. When the group was reviewing the President's Suite on the penthouse floor, Bob noticed a tiny mouse scurrying along the floor and brought it to the attention of the group. As Bob told it, the hotel exec quipped: "Why sir, that's impossible! Mice rarely go past the 12th floor!"

Bob was devoted to his wife of 58 years, JoRose. They would host an outdoor Easter egg hunt each year for their grandchildren. Ever the businessman with a twinkle in his eye, Bob described the event like this (courtesy of Gernert): "We have lots of kids come over of all ages and sizes. The older ones find the eggs quickly and there's a prize, so competition is fierce. To even it out, I keep some eggs in my pocket and when the little ones are close, I drop one right in front of them. Sometimes I even put eggs in their baskets. It's not true capitalism, but it makes for a more peaceful afternoon."

Bob Clifton was a gifted man in his ability to help groups of all types work better. He left a lasting mark not only on the industry he served, but the individuals he shared his quick wit and insight with so generously. ■

HD Supply Sales Up Slightly in Fiscal Second Quarter

HD Supply, Atlanta, GA, No. 2 on MDM's list of top 40 industrial distributors, reported sales for its second quarter ended Aug. 1, 2010, were $2 billion, an increase of $1 million from the second quarter of 2009. The distributor reported a loss in the second quarter of $115 million, compared with $89 million in the same period a year ago.

Excluding 2010 and 2009 charges for valuation allowances, the net loss of $82 million in the second quarter of fiscal 2010 compares with a net loss of $85 million in the second quarter of fiscal 2009.

Sales in the first six months of fiscal 2010 were $3.8 billion, a decline of 2.8 percent.

The distributor reported a loss for the first six months of fiscal 2010 of $317 million, compared to a net loss of $79 million for the same period in fiscal 2009.

Excluding the 2010 and 2009 charges for valuation allowances and the 2009 gain from the debt extinguishment, net loss of $200 million in the first six months of fiscal 2010 compares with a net loss of $197 million in the first six months of fiscal 2009.

"As we enter the second half of this year, we are beginning to see signs of economic and industry stabilization and are cautiously optimistic. We continue to invest in the critical growth areas for our business that will uniquely position HD Supply to grow faster than the markets as they recover," CEO Joe DeAngelo said.

"Over the past six months, we have enhanced our product mix, continued to improve our operational efficiencies and have made critical investments in our technology systems. ... Our growing liquidity and the extension of the majority of our debt maturities to 2014 enhances our solid financial position."

In March 2010, HD Supply entered into amendments to its $1.3 billion Cash Flow Credit Agreement and its $2.1 billion ABL Credit Agreement, which extended $874 million of the Term Loan principal and $1.75 billion under the ABL Credit Agreement to April 1, 2014.

HD Supply is a distribution company providing products and services to professional customers in the infrastructure & energy, maintenance, repair & improvement and specialty construction markets. HD Supply has 770 locations in North America.

More news and analysis of industrial and construction markets appear in the yellow section of this issue.

Social Media

Continued from page 1

Tube channel that will feature product demonstrations.

Sobeck says he spends about 15 minutes each day updating his Twitter feed. "I simply post things I find interesting as I come across it, and even if I have to cut and paste the information in [as opposed to using share tools], it only takes a few seconds," he says.

Sobeck also maintains a "Business 101" blog that he aims to update three times a week. "I have voice dictation software that I use to write the blogs," he says. "All I have to do is say what I want my blog to say and then spend 10 minutes or so checking the accuracy. Even updating my blog only takes me about a half hour a day."

Resistance to Social Media

Social media was created to connect people and to facilitate the exchange of ideas. But users have to accept they do not have complete control over content, even about their company.

"The biggest hang up that B2B companies have is they're so used to being in control," Sonnhalter says. "They want to control the message, they want to control when it goes out; they just want that control."

But to take advantage of the strength of social media – the networks that are created – you have to be willing to give up some of that control. "Negative feedback and comments are actually a great opportunity for discussion," DeStefano says. "The most interesting conversations are the ones that have a point-counterpoint. You aren't differentiating yourself if you're taking the exact same position as everyone else."

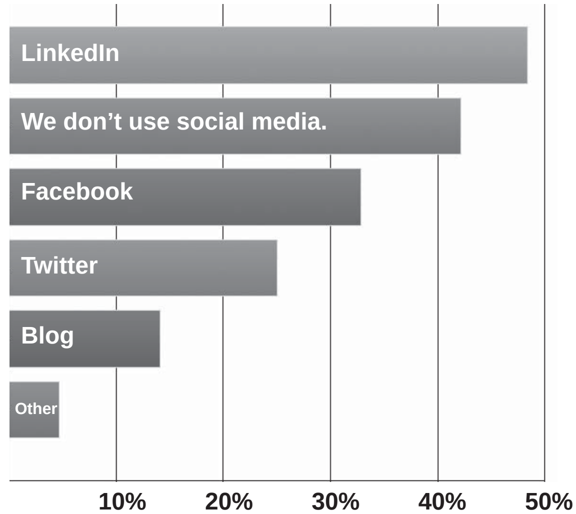
Instead of fighting, engage dissenters in valuable conversations where you can build on expertise in that area. Respond to negative comments in a way that shows your company takes customer satisfaction seriously. After all, negative comments about your company can exist on social networks even if you don't.

"You can't control what other people say," Sonnhalter says. "You can only take advantage of the opportunity to be a part of the conversation rather than on the sideline."

Another hesitation identified by respondents to the MDM survey: Not enough customers and peers are participating in social media right now to make it worthwhile.

"While it's true that your entire customer base may not be on social media, the next generation of your customer base is already there," DeStefano says. On top of that, social media can help you easily expand your presence and increase your brand awareness to people and companies that may not already be on your radar.

Which social media platforms does your company use? (Respondents could choose more than one.)



New South's Sobeck joined Twitter because his son, New South's controller and IT manager, was there and convinced him to check it out. Sobeck learned quickly how much information was available online. And companies he'd never thought of as potential customers began following him on Twitter.

"I recently went to speak at a young executives conference, and I asked how many of them followed me on Twitter," Sobeck says. "I'm guessing 80 percent of my audience raised their hands. People are using it to connect."

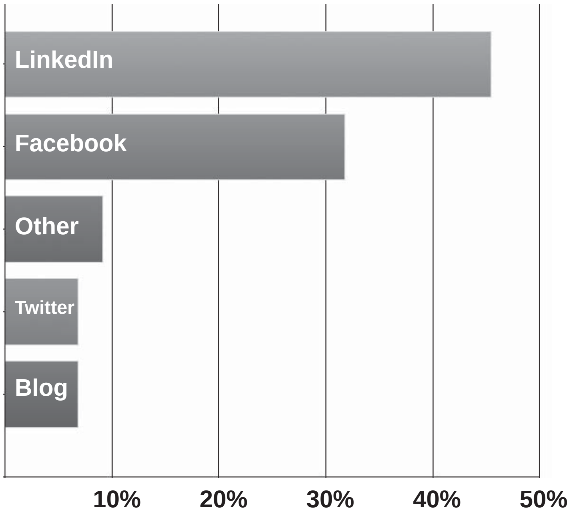
When Sonnhalter's marketing business began using social media a little over a year ago, he did not expect to do much more than build awareness of his company. "I didn't think I'd get any new clients directly," he says. "But I've already got a new client out of Australia, and I'm working on another one in Japan. I have several more leads in the pipeline."

Even if existing clients aren't already on social media, chances are your competitors aren't effectively leveraging the opportunity either. Nearly half of MDM survey respondents have a presence on LinkedIn, the highest participation rate in the MDM survey for any of the social media platforms. Only 25 percent use Twitter.

"It's a great opportunity to get in there and establish yourself as the leader," Sonnhalter says. "If you've already shown on LinkedIn that you are the expert on a given topic, it's a lot harder for your competitor to jump on board in a year and push you out of that position."

What's more, in social media, size doesn't matter. The $1 million company has the same opportunities online as the $100 million com-

Which social media platform does your company use the most?



pany. In some ways, smaller companies actually have an advantage over the bigger public companies because they often can be more responsive, DeStefano says.

New Medium, Same Approach

But companies first need to acknowledge that social media – when used strategically – can be a legitimate marketing medium, Sonnhalter says.

Instead of looking at it as a new medium that requires a new approach, approach social media as a new outlet for your existing messages. When creating marketing materials, design them to be distributed via all available marketing channels, from traditional direct mail to email and LinkedIn.

Social media platforms can also help you better optimize your existing database of contacts. Sonnhalter offers this example:

"Say you go to a business networking luncheon where you are seated with seven other people you don't know. You all exchange business cards and maybe three of them are potential targets. You take these cards back to your office and plug them into your Outlook database. Then those contacts sit there unless something specific reminds you that Joe Schmo is in that database; otherwise, you may never talk to him again.

"However, if you had taken that card to LinkedIn and connected with Joe Schmo right away, everything you post on LinkedIn automatically goes into his feed. Even if you're only posting one thing a week, that translates to touching Joe 52 times a year, compared with never in the old method. And if you're posting quality information, Joe's going to share that with his network, and the exposure grows exponentially."

Getting Started with Social Media: How to Be a Thought Leader Online

Bob DeStefano, president of SVM E-Business Solutions, outlined the steps companies can take to integrate social media into their business strategies.

The first step is creating an online presence. Sign up for accounts on social media sites. Begin building your network on LinkedIn by connecting with people you know and joining trade groups related to your line of business.

Allow employees to set up accounts, and not simply maintain the company account. Individual accounts let your employees become known experts in the online community. Having known experts establishes your brand as a source for high-quality information.

When those accounts have been created, "begin by listening," DeStefano says. Observe what's happening and what's being talked about within your online network. Follow how your company appears in discussions.

It may seem overwhelming at first, but there are tools available for each website that can simplify creating a feed for monitoring topics. For example, Twitter allows content searches for specific phrases – a tool that could be used to search for mentions of your company.

"Really you just need to get your feet wet to learn," says Luis Arias, chief marketing officer for specialty building materials distributor C.H. Briggs. "It's still evolving, but once you're used to the process it's easy to adapt."

After spending some time watching, start participating. "But the key word is valuable – you have to add value to the discussion," DeStefano warns. "You can't just post information that's of no use to anyone if you want to build awareness of your company."

Focus on conversations where you can demonstrate differentiation, because that's where you will make a name for your company.

When you are comfortable with participating in conversations, the next step is creating the conversation. "Start putting out your ideas and insights as an opener for discussion," DeStefano says. "Become the thought leader for your industry.

"When other individuals are intrigued by your ideas and adding valuable content of their own to it, you will know you have succeeded." *- Jenel Stelton-Holtmeier*

Online Resources

Find breaking news and analysis on Grainger at www.mdm.com/grainger.

Grainger's Product & Service Plans

Grainger U.S. President Michael Pulick outlines distributor's expansion plans

At the Morgan Keegan Industrial/Transportation Conference last week, Chicago-based distributor Grainger outlined its plans to continue building on both its product portfolio and its service offerings.

Product Expansion

Grainger U.S. President Michael Pulick says the company is aiming for up to 500,000 products in its portfolio. That would be up from 85,000 in 2005.

In recent years, the distributor has added products in plumbing, fleet maintenance and metalworking, among others. It has also added to current categories with products that boast different features or functions.

Grainger also plans to continue growing its private label offering, Pulick says. Right now, private label accounts for 23 percent of Grainger's overall revenue. One key to success with its private label is to "buy better," Pulick says. Currently, globally sourced product accounts for less than half the revenue that private label brings in.

"We have demonstrated discipline when it comes to gross margin, and we will continue to do that," he says. One way to do this is to increase the percentage of its private label sourced from outside of the U.S.

Service Expansion

However, while Grainger will continue to grow the number of products it sells, it also plans to accelerate growth in services.

Products and services are no longer considered independent of each other, Pulick says. He says the distributor has been researching how customers view services.

But the key to consolidating products and services, and therefore increasing spend with existing customers, is to make sure those services have a "natural adjacency to our product line," Pulick says.

"Services push Grainger further into the supply chain," he says. "It makes us sticky with our customers. They also make us a credible solutions provider."

Grainger sees the consolidation of products and services as a growth opportunity. One example provided by Pulick was the distributor's recent acquisition of Alliance Energy Solutions, Oxford, CT, a lighting retrofit company.

Grainger's priorities for service expansion include:

Safety. Pulick says: "We know that when we go against small safety specialists, they beat us. They can provide a total solution of products and services. We have a strong desire to build out our services to complement our product offering (in this area)."

Sustainability. Pulick called this a "big issue for customers" and that Grainger has a strong foundation for services in managing resource use in Alliance Energy.

Business continuity and emergency preparedness. Grainger wants to help customers be prepared before a disaster hits, Pulick says.

Inventory management. The distributor has completed 10,000 vendor managed inventory installations in the U.S. "We're just getting started," Pulick says.

Other Growth Areas

E-commerce is an area of growth for Grainger, Pulick says. "It's our fastest-growing channel – twice as fast as any of our other channels." It's also Grainger's lowest cost-to-serve channel, making e-commerce an attractive focus for the distributor.

Pulick says that 25 percent of Grainger's revenue is now online, and customers who use the channel buy 14 to 17 percent more than other customers. He says that a generational shift will mean more customers will feel more comfortable buying online.

"The adoption will continue to accelerate because of this," he says.

Another area of growth for Grainger is with small- and mid-sized customers. Historically, Grainger's traditional sales representatives have called on larger customers and focused on growing Grainger sales with those customers, he says.

During the recession, Grainger experimented with a new sales coverage model, which targets higher-margin small- and mid-sized customers. It has expanded its sales force to accommodate this goal. "We'll continue to experiment with this sales coverage model until we get the right return on investment," Pulick says.

"We know that customer intimacy drives growth. We have a unique value proposition and it applies to customers of all shapes and sizes."

- Lindsay Konzak

5 Lessons for Better Change Management

Webcast summary: Lessons learned from sales force program implementations

This is an exclusive summary of Part 3 of the MDM Webcast series, Build an Effective Sales Organization for the Recovery, available on DVD. In this session, Mike Marks and Steve Deist of Indian River Consulting Group spoke on Tools for Effective Sales Management. This article looks at the foundation for implementing changes to the sales process.

Distributors can take different approaches to implementing change to its sales organizations. But most successful change shares five characteristics, says Steve Deist of Indian River Consulting Group.

"These are lessons we've learned though actual implementations over 10-plus years," he says.

Lessons

1. Align with strategy

Part of the challenge of implementing new processes is allowing priorities to be priorities, Deist says. "It's often very eye-opening because once a client tries to list all the things they want somebody to do, they realize they've given them a mission impossible by setting 20 priorities for them," he says.

"If anybody has 20 top priorities, they have no top priorities."

Instead, develop the strategy you want your sales team to focus on and allow them to focus on it, Marks says. Not doing so "is like taking a Navy SEAL team and putting them in charge of mall security," he says. This requires evaluating that list of priorities and determining what the sales team should not be doing.

Tailor your solutions to your unique situation and objectives.

2. Performance accountability

Making people accountable for performance is not solely about making the reps accountable, Deist says. "It's making sure we're giving sales reps clear marching orders and that we're providing them the tools so they can succeed."

There needs to be commitment on all levels of an organization on expectations and performance measures.

3. Create conditions for learning and ownership

Once you've established clear expectations, they will start to notice deficiencies in their process and stress that can result from those deficiencies.

"That stress is what causes people to send you an e-mail saying 'I'd love you to send me to a negotiating class because I feel that's a weakness,'" Deist says.

Once they recognize where deficiencies lie, work together to determine necessary tools to achieve goals.

"If you want somebody to fundamentally do something different, you can't force them to do it," Deist says. Instead, you have to make them want the same changes you do.

4. Give more than we take

"The most fundamental problem is people throw more stuff on the sales force, but they don't give more than they take and it ends up being a disaster," Deist says.

In particular, about 70 percent of customer relationship management programs fail because they don't mesh with the goals of the organization, he says. The programs are data entry intensive, they threaten sales rep autonomy, and they don't account for the unique situation of the organization.

There has to be a reward for implementing changes, whether it is more time to focus on the job the sales force was hired to do or making it easier to communicate updates to customers and prospects.

5. Proactive management

"It's simply not possible to manage results," Deist says. Instead, focus on managing activities and measuring results.

For example, sales reps will likely see value in continuing to provide bids to a potential customer who has rejected his last 10 bids. Management may need to step in and say no and encourage the rep to spend more time on more productive activities, Deist says.

Applying the Lessons

These five principles are the foundation for any implementation, but they are also a guide for evaluating the implementation as it moves forward, Deist says.

"Do yourself a favor and use these as the starting point," he said.

"The results measurement is obviously a critical piece to make sure we know how well we're doing not just on hitting our financial objectives, but how well we're doing on hitting our strategic objectives."

- Jenel Stelton-Holtmeier

Online Resources

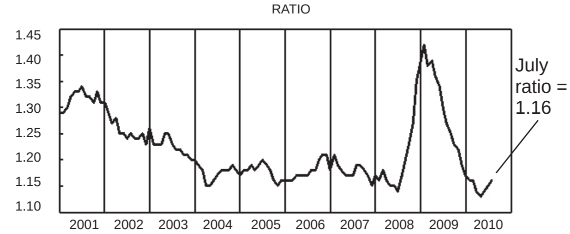
Find monthly economic data for the U.S., Canada and Europe at www.mdm.com/databank.

Monthly Wholesale Trade Data: July 2010

July 2010 wholesale revenues were $350.1 billion, up 0.6 percent from June and were up 12.7 percent from July 2009. July sales of durable goods were up 0.5 percent from last month and were up 14.8 percent from a year ago. Sales of machinery, equipment, and supplies were up 3.3 percent from last month. Sales of nondurable goods were up 0.6 percent from last month and were up 10.9 percent from last year.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2001-2010

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Inventories. Inventories were $405 billion at the end of July, up 1.3 percent from the revised June level and were up 2.5 percent from a year ago. The June preliminary estimate was revised upward $0.8 billion or 0.2 percent. End-of-month inventories of durable goods were up 1 percent from last month, but were virtually unchanged from last July. Inventories of electrical and electronic goods were up 2.1 percent. End-of-month inventories of nondurable goods were up 1.7 percent from June and were up 6.4 percent from last July.

Inventories/Sales Ratio. The July inventories/sales ratio was 1.16. The July 2009 ratio was 1.27.

Sales and Inventories Trends: July 2010

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/Sales Ratio	Percent Change Sales 6/10-7/10	Percent Change Sales 7/09-7/10	Percent Change Inventory 6/10-7/10	Percent Change Inventory 7/09-7/10
42	**U.S. Total**	**350,058**	**404,984**	**1.16**	**0.6**	**12.7**	**1.3**	**2.5**
423	**Durable**	**162,060**	**241,248**	**1.49**	**0.5**	**14.8**	**1.0**	**0.0**
4231	Automotive	24,361	35,138	1.44	0.6	15.8	1.3	0.2
4232	Furniture & Home Furnishings	4,924	6,943	1.41	-6.1	6.8	1.6	0.8
4233	Lumber & Other Construction Materials	7,522	12,103	1.61	-1.1	5.8	-0.7	5.5
4234	Prof. & Commercial Equip. & Supplies	30,351	29,551	0.97	0.4	8.2	0.5	6.7
42343	Computer Equipment & Software	16,314	11,341	0.70	-0.5	16.8	2.1	26.8
4235	Metals & Minerals	10,569	20,030	1.90	-1.4	35.2	2.7	7.5
4236	Electrical Goods	32,143	36,683	1.14	0.9	23.3	2.1	11.0
4237	Hardware, Plumbing, & Heating Equipment	8,236	15,227	1.85	1.1	10.0	0.2	-5.9
4238	Machinery, Equipment & Supplies	27,183	62,311	2.29	3.3	15.5	1.3	-7.0
4239	Miscellaneous Durable	16,771	23,262	1.39	-0.7	8.9	-1.8	-8.4
424	**Nondurable Goods**	**187,998**	**163,736**	**0.87**	**0.6**	**10.9**	**1.7**	**6.4**
4241	Paper & Paper Products	6,976	6,597	0.95	1.0	3.4	0.3	0.2
4242	Drugs	31,853	33,170	1.04	0.7	2.0	-0.6	4.6
4243	Apparel, Piece Goods & Notions	11,758	17,956	1.53	0.0	6.5	4.1	-1.5
4244	Groceries &Related Products	44,856	28,439	0.63	1.6	13.5	0.7	8.8
4245	Farm-product Raw Materials	14,511	16,041	1.11	1.7	7.5	11.6	14.6
4246	Chemicals & Allied Products	8,819	9,635	1.09	-0.5	14.9	3.2	12.2
4247	Petroleum & Petroleum Products	42,601	20,125	0.47	1.4	28.3	1.2	30.5
4248	Beer, Wine & Distilled Beverages	8,908	11,254	1.26	-3.6	-1.8	0.7	-1.3
4249	Miscellaneous Nondurable Goods	17,716	20,519	1.16	-1.6	0.7	-1.1	-6.1

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

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Industrial & Construction Markets Update

VOL. 40, NO. 18 | SEPT. 25, 2010

Report: Manufacturing Growth Outpaces General Recovery

The pace of recovery in the general economy has clearly slowed, but the deceleration is less visible in the manufacturing sector, according to the Manufacturers Alliance/MAPI U.S. Industrial Outlook: Deceleration in the Recovery, a quarterly report that analyzes 27 major industries.

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.

"Despite less consumer spending growth in the second quarter, there was nevertheless some employment growth and modest wage increases. Also, the prolonged downturn and sluggish recovery have created pent-up demand for some durable goods, including sales of motor vehicles and appliances," said Daniel J. Meckstroth, Ph.D., chief economist for the Manufacturers Alliance/MAPI and author of the analysis.

"In addition, the inventory swing is greatest in manufacturing; exports are predominantly manufactured and benefitted from the fast global trade bounce back; and business investment in equipment rebounded much faster than consumer spending, thus making the pace of the industrial recovery stronger than that in the general economy."

Manufacturing industrial production, measured on a quarter-to-quarter basis, grew at an 8 percent annual rate in the three months ending July 2010, after expanding at a 5 percent annual rate in the three months ending April 2010. MAPI predicts the superior growth trend for manufacturing will continue, but decelerate, increasing 6 percent overall in 2010 and advancing 5 percent in 2011.

At this pace it will be late 2012 before manufacturing production exceeds

continued on p.2 of this section

Acklands-Grainger Inc., the Canadian subsidiary of **Grainger**, Chicago, IL, has acquired **Solus Securite** Inc., Trois Rivieres, Quebec. Solus Securite, a distributor of fire protection and safety equipment, has locations in Trois Rivieres, Victoriaville, Montreal and Sorel.

A veteran **WinWholesale** Inc. local operation president has opened Fargo Winnelson Co. in Fargo, ND, to supply plumbing contractors in parts of that state, South Dakota and Minnesota with equipment, parts and accessories.

Private equity firm **Clayton, Dubilier & Rice**, LLC has agreed to acquire a 42.5 percent ownership interest in Dutch chemicals distributor **Univar**. **CVC Capital Partners** bought the business in 2007. The transaction values the company at $4.2 billion.

EIS Inc., Atlanta, GA, a wholly-owned subsidiary of **Genuine Parts Company**, has acquired **Seacoast Electric Company** Inc. Headquartered in Hawthorne, NY, Seacoast has distribution locations in Virginia, Texas and California, serving the marine and oil and gas markets with shipboard and offshore cables and electrical equipment. Seacoast will operate as a separate division of EIS.

Airgas shareholders elected three **Air Products** nominees to the Airgas board of directors, according to preliminary results released by Airgas. The nominations were part of Air Products' hostile takeover bid for the Radnor, PA-based industrial gases and hardgoods distributor.

The Timken Company, Canton, OH, has launched a new line of precision cylindrical roller bearings designed to maximize speed, precision and efficiency in high-demand machine tool applications.

Chicago-based distributor **Grainger**, No. 3 on MDM's list of top 40 industrial distributors, reported sales results for August 2010. Daily sales increased 20 percent versus August 2009.

Associated Materials, LLC, Cuyahoga Falls, OH, majority owned by affiliates of **Investcorp** and **Harvest Partners**, has agreed to be acquired by affiliates of **Hellman & Friedman** LLC in a transaction valued at $1.3 billion. The transaction is expected to close in the fourth quarter of 2010. Associated Materials is a manufacturer of exterior residential building products, which are distributed through company-owned distribution centers and independent distributors across North America.

The U.S. economy continued to grow in July and August, at a slower pace than previous months, according to the latest **Federal Reserve Board Beige Book**. Economic growth at a modest pace was the most common characterization of overall conditions, as provided by the five western Districts of St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

Wholesale prices increased 0.4 percent in August, seasonally adjusted, the U.S. Bureau of Labor Statistics reported. This rise followed a 0.2-percent

continued on p.2 of this section

MARKETS UPDATE SUPPLEMENT P. 2

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

advance in July and a 0.5-percent decline in June.

Industrial production rose 0.2 percent in August after an increase of 0.6 percent in July. Manufacturing output rose 0.2 percent after having advanced 0.7 percent in July. The capacity utilization rate for total industry rose to 74.7 percent, a rate 4.7 percentage points above the rate from a year earlier.

Canadian manufacturing sales decreased 0.9 percent in July to $44.3 billion, according to Statistics Canada. Despite the decrease, sales were 15.5 percent higher than their low reached in May 2009. Sales fell in 12 of 21 industries, representing about half of total manufacturing sales.

Canadian industries operated at 76 percent of their **production capacity** in the second quarter, up 1.6 percentage points from the previous quarter, according to Statistics Canada. This was the fourth consecutive quarterly increase.

Diversified manufacturer **3M**, St. Paul, MN, has agreed to acquire **Arizant** Inc., Eden Prairie, MN. 3M will buy the manufacturer of patient warming solutions designed to prevent hypothermia in surgical settings for $810 million in cash.

Unisource Worldwide, Inc., Norcross, GA, a distributor of paper, packaging and facility supplies in North America, has relaunched a newly designed, customer-focused Facility Supplies website, offering the latest green knowledge, resources and access to environmentally friendly products.

Brady Corp., Milwaukee, WI, reported sales for the fiscal year ended July 31, 2010, were $1.26 billion, an increase of 4.2 percent over fiscal year 2009. Organic sales increased 0.2 percent. Profit for the manufacturer of high-performance labels and signs, safety devices, printing systems and software, and precision die-cut materials increased 16.9 percent to $82 million.

Industrial Outlook
Continued from p. 1 of this section

the December 2007 pre-recession level.

Production in non-high-tech manufacturing expanded at an 8 percent annual rate during the May-July 2010 period. According to the MAPI report, non-high-tech manufacturing production is expected to increase approximately 5 percent in 2010 and 4 percent in 2011. High-tech industrial production rose at a 10 percent annual rate in the May-July 2010 time frame. MAPI anticipates that it will post strong 15 percent growth in 2010 and 13 percent growth in 2011.

There was an upward trend in the May-July 2010 figures for the various components of the manufacturing economy.

Twenty-two of the 27 industries tracked in the report had inflation-adjusted new orders or production above the level of one year ago, three more than reported in the previous three months ending in April 2010. Iron and steel production grew by 68 percent in the three months ending in July 2010 compared to the previous three months, while industrial machinery production improved by 58 percent in the same window.

The largest drop came in private nonresidential construction, which declined 21 percent, while public construction and aerospace products and parts each experienced a 4 percent decline.

Meckstroth reports that 17 industries are in the accelerating growth (recovery) phase of the business cycle; five industries are in the decelerating growth (expansion) phase; three industries appear to be in the accelerating decline (either early recession or mid-recession) phase; and two are in the decelerating decline (late recession or very mild recession) phase of the cycle.

The report also offers economic forecasts for 24 of the 27 industries. MAPI forecasts that 18 of the 24 industries will show gains in 2010, led by iron and steel production with expected 56 percent growth and industrial machinery with 36 percent growth.

The recovery should continue in 2011 with growth likely in 22 of 24 industries, including seven industries which are predicted to grow at double-digit rates, led by housing starts at 40 percent – albeit from excessively low levels – and engines, turbines and power transmission equipment at 25 percent.

U.S. MARKET ANALYSIS: Abrasives

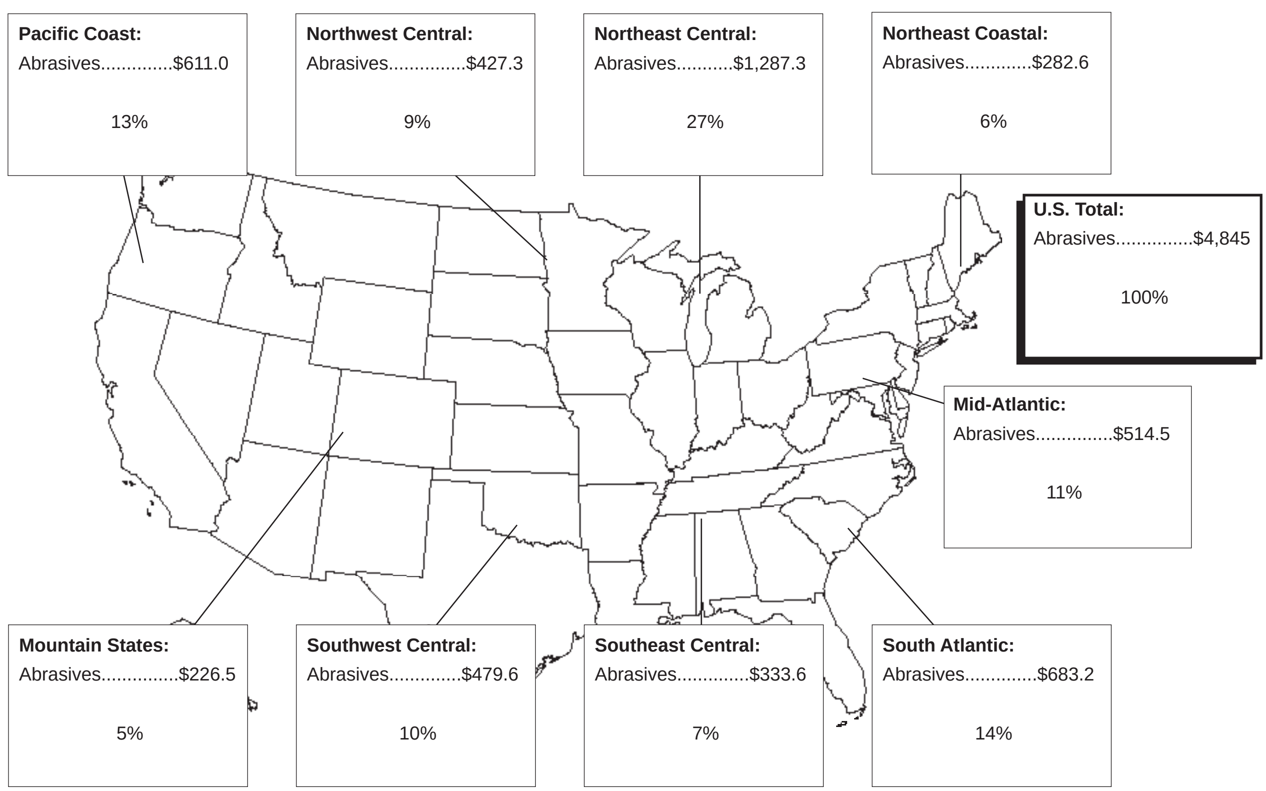
The industrial product group listed here - Abrasives - represented a market in 2009 of $4.8 billion, according to estimates by Industrial Market Information, Minneapolis.

These charts show the top ten industries, by SIC code, consuming these products; and the 2009 end-user consumption of these groups sorted by the nine government market regions.

Top ten industries in $ volume, by SIC code consuming Abrasives (2009 estimates)

SIC CODE	Companies	Abrasives
3714 Motor Vehicle Parts & Accessories	5,239	141,177,924
3599 Industrial & Commercial Machinery & Eqmt, NEC	28,610	131,886,984
3711 Motor Vehicles & Passenger Car Bodies	2,243	130,856,703
2431 Millwork	10,442	130,002,348
3724 Aircraft Engines & Engine Parts	725	117,219,588
3531 Construction Machinery & Eqmt	3,294	107,870,959
2434 Wood Kitchen Cabinets	8,934	102,897,303
3544 Special Dies & Tools, Die Sets, Jigs & Fixtures, & Industrial Molds	6,682	91,477,453
7532 Top, Body & Upholstery Repair Shops & Paint Shops	62,974	91,132,889
3519 Internal Combustion Engines, NEC	806	86,089,982

End-user consumption of Abrasives by region, millions of $ (2009 est.)



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

MARKETS UPDATE SUPPLEMENT P. 4

July Machine Tool Consumption Up 58.9% YTD

July U.S. manufacturing technology consumption was $266.08 million, according to the American Machine Tool Distributors' Association and the Association For Manufacturing Technology. This total, as reported by companies participating in the USMTC program, was up 10.1 percent from June and up 72.6 percent from the total of $154.13 million reported for July 2009. With a year-to-date total of $1,473.79 million, 2010 is up 58.9 percent compared with 2009.

"We are pleased that July sales have exceeded expectations and that we're not seeing the normal summer doldrums for machine tool purchases," said Peter Borden, AMTDA president.

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

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

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

Northeast Region

At $52.54 million, July manufacturing technology consumption in the Northeast Region was up 2.7 percent from June's $51.15 million and up 139.4 percent when compared with last July. The $262.84 million year-to-date total was 45.9 percent more than the 2009 total at the same time.

Southern Region

With a total of $26.37 million, July Southern Region manufacturing technology consumption was down 23.6 percent when compared with June's $34.50 million but up 20.7 percent when compared with July a year ago. At $215.35 million, 2010 year-to-date was 65.9 percent higher than the comparable figure a year ago.

Midwest Region

Midwest Region manufacturing technology consumption in July stood at $95.07 million, 30.3 percent higher than the $72.96 million total for June and 132.7 percent higher than the July 2009 total. With a year-to-date total of $430.34 million, 2010 was up 64.1 percent when compared with 2009 at the same time.

Central Region

At $62.72 million, Central Region manufacturing technology consumption in July rose 9.0 percent when compared with June's $57.54 million and was 22.9 percent higher than last July's total. The year-to-date total of $392.34 million was 71.5 percent more than the comparable figure for 2009.

Western Region

July manufacturing technology consumption in the Western Region totaled $29.37 million, up 14.8 percent when compared with the $25.58 million total for June and up 59.1 percent when compared with July a year ago. The $172.93 million 2010 year-to-date total was 36.6 percent higher than the total for the same period last year.

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