Modern
DISTRIBUTION
MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 42, NO. 4
FEB. 25, 2012

Trend Points to Less Offshoring

More suppliers say they want to move operations closer to key markets

For years, we've been talking about the trend of offshoring – companies sending operations to other countries to take advantage of lower labor costs. But there are signs that trend may be reversing. More manufacturers want to source product closer to home. This article looks at current conditions, challenges to offshoring and expectations for sourcing going forward.

By Jenel Stelton-Holtmeier

For years, a core element of cutting costs for many major manufacturers was moving operations to countries with cheaper labor. The belief was that labor savings would more than offset the transportation costs associated with reimporting the finished products. As a result, manufacturers set up shop in places such as China and India and prepared to increase their profits.

But a problem developed: "China's labor isn't so cheap anymore," says Barry Lawrence, director of the global supply chain laboratory at Texas A&M University. And transportation capacity has also become an issue.

As a result, a shift appears to be taking place in the market. While it is currently known by many terms – near-sourcing, in-sourcing, onshoring, etc. – it all means one thing: Manufacturers are looking for ways to bring production closer to the consumers of their products.

In its 2011 Global Manufacturing Outlook, global accounting and consulting firm KPMG reported that the U.S. was second as a destination for new sourcing in the next 12 to 24 months; only China registered higher.

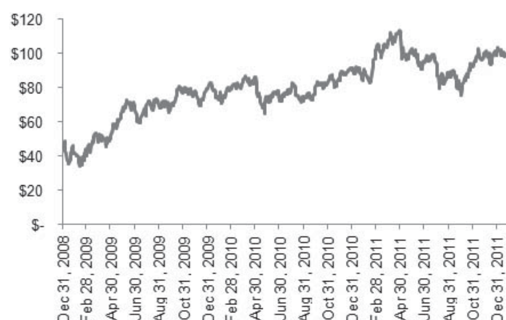
Increased volatility in the global market has led manufacturers to re-evaluate their business models, according to the KPMG survey. Among the top shifts indicated by respondents? "Manufacturing/sourcing closer to growth markets." In addition, 41 percent of respondents expect the U.S. to be the top market for new business growth in the next 12 to 24 months.

Increased Challenges to Offshoring

There are several reasons why manufacturing in places such as China is no longer a cost-effective option for delivery to domestic markets, Lawrence says. But perhaps the biggest challenge is the surge in the price of oil over the past three years.

The price of crude oil has steadily risen since December 2008, when West Texas Intermediate (WTI) crude oil futures were selling for $41.44 per barrel; in Europe, Brent crude oil registered $34 per barrel. On Feb. 14, 2012, the WTI price was $100.82 per barrel; the Brent price was $118.3 per barrel.

Below, the trend from the end of 2008 to present for WTI in a graph from the Energy Information Administration:



"In addition, manufacturers aren't capturing the additional costs that come with operating in a foreign country," Lawrence says. "They're calculating everything the same way they would for domestic operations. If they included those additional costs, the end result is that they may actually be selling their products at a loss."

That includes training and compliance costs or additional inventory carrying

continued on page 3

INSIDE

Commentary: The Importance of Service Differentiation
Get out of the one-size-fits-all service mentality with customers.
Page 2

Building Profitable Supply Chains
Form supply chains based on relationships with key customers.
Page 5

M&A Markets Heat Up in 2012
Deals in distribution and manufacturing likely to continue.
Page 6

NAW-ICP Survey: Distributors Plan to Hire, But Face Labor Gap
Distributors say many employees expected to retire over next 5 years.
Page 7

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

PERSPECTIVE ■ Commentary by Thomas P. Gale

The Importance of Service Differentiation

I read in the newspaper a few weeks ago about a Russian research team in Antarctica that after decades of drilling through 12,000 feet of ice reached the largest underwater lake on that continent, roughly the size of Lake Ontario. It has scientists around the world excited because they will gain access to a potential treasure trove of scientific data about life on this planet millions of years ago – a time capsule of immense value.

I couldn't help but think about the profit potential many good distribution companies have when I read that. MDM recently hosted a webcast with Jonathan Byrnes, an authority on profitability management and contributing author to MDM through his blogs. Jonathan's life work has been about helping companies, including many distribution companies, drill down and fully tap the reservoirs of profitability that exist today in good companies. The focus of our program, the second in a quarterly series on profitability, was on supply chain finance, and why successful suppliers will be those who radically differentiate their service offerings and relationships with customers.

How do you do this? As Dr. Byrnes outlined, this critical shift requires segmenting customers and getting out of the "one-size-fits-all" mindset. So many distributors don't allocate their resources based on account potential. Instead, they have developed such a strong service ethic over decades that the "fire hose" gets directed at every account, regardless of size, fit or potential.

The point is to not reduce service to certain customers, but to create very clear definitions of customer service for specific segments. The matrix Dr. Byrnes used includes stable, emerging, integrated and strategic account segments. One of the first steps to undertake this transition is to define the different service promises for each segment. The effort needs to elevate this process beyond sales, which traditionally has directed service definition as the frontline to the customer.

Account management and service differentiation becomes an integrated effort that includes sales, marketing and finance. Once the customer relationship definition is clear across departments, it opens the door to a much more strategic and efficient use of resources with existing customers, as well as positioning to exploit opportunities for growth.

This program is available through our on-demand webcast library or on DVD at www.mdm.com/operatingforprofit. The first program in this series, Leading for Profit: How to Conduct a Profitability Turnaround, is also available and provides insights on shifting a company's culture to one that is profitability-focused.

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

Publisher
Thomas P. Gale
tom@mdm.com

Editor
Lindsay Konzak
lindsay@mdm.com

Associate Publisher
Craig Riley
craig@mdm.com

Associate Editor
Jenel Stelton-Holtmeier
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 hadley@mdm.com or **http://www.mdm.com/subscribe.**

Subscriptions are available by online delivery and/or first-class mail. Nine 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 now available. For group subscription rates and site licenses, please contact Hadley Fable at 303-443-5060.

Copyright © 2012 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

John Allenbach
SVP, Professional Sales, Apex Tool Group

Kevin Boyle
President of Industrial Distribution Consulting LLC

Ted Cowie
Executive Vice President, Elvex

Larry Davis
President, ORS Nasco

Larry Goode
President of Goode Advisors Inc.

Julia Klein
President and CEO, C.H. Briggs Company

Stuart Mechlin
Industrial distribution industry

Doug Savage
President and CEO, Bearing Service Inc.

Burt Schraga
CEO, Bell Electrical Supply

Offshoring

Continued from page 1

costs. "If your manufacturing operations are overseas, you may have to carry higher inventory in order to have flexibility to meet shifting demand," Lawrence says.

Early research by Lawrence and his associates at Texas A&M pointed to manufacturing moving from China into Mexico and other Latin and South American countries, but Lawrence has since changed his position on that issue. "Many of the same supply chain costs that need to be considered in China also apply to Mexico," he says. "Mexico has been a huge beneficiary of the near-sourcing trend with companies that are already operating there," he says. But new companies considering making that move really need to look at all the costs first.

Concerns about security in Mexico have made headlines in recent years, but weak infrastructure is also a major challenge for manufacturing, Lawrence says. "Electricity in particular is very expensive in some areas," he says. Additionally, high interest rates may impact the effectiveness of your investment.

Measuring a Trend

While much of the anecdotal evidence indicates a shift to near-sourcing, with companies such as Master Lock and GE making public announcements that they would be bringing jobs back to the U.S., not every manufacturer is going to be keen on announcing such a move, Lawrence says. "Corporations have made some poor decisions in the past and announcing this is akin to saying they made a mistake," he says.

And not all of the data available supports the near-sourcing trend.

In a recent survey on U.S. competitiveness conducted by the Harvard Business School, respondents – including several people actively involved in location decisions at their companies – were more likely to be considering moving business activity out of the U.S. than non-U.S. respondents moving activity into the U.S. by a 3:1 margin.

Of the U.S.-based business being considered for relocation, the U.S. eventually retained 32 percent of those businesses.

"Hardly the win-loss record of a leader," the report says. The most common alternative host countries were China, India, Brazil, Mexico and Singapore.

"Manufacturers are bringing production back home," Lawrence says. "But they aren't going to abandon China altogether. It's a grow-

The President's Insourcing Initiative: An Overview

Here are the key elements of President Barack Obama's plan to expand operations in the U.S. Find the full plan, with details, at www.whitehouse.gov or linked at this article online at mdm.com.

1. Create incentives for businesses to invest in hiring and expanding.

Actions Taken to Date: 17 tax breaks including a provision for 100% depreciation last year for the cost of investments in the U.S.; incentives encouraging innovation of new technologies.

Proposals: extending the 100% expensing; new tax cuts to encourage hiring; expanding the research and experimentation tax credit; reforming the corporate tax code.

2. Secure access to markets for U.S. businesses seeking to expand globally, while creating a level playing field with our global competitors.

Actions Taken to Date: National Export Initiative, focused on doubling U.S. exports over five years; supporting trade agreements with Korea, Colombia and Panama; reforming the Patent System.

Proposals: fulfilling the Trans-Pacific Partnership Agreement; more vigorously enforcing trade laws.

3. Ensure that American workers are the most highly educated and best-trained in the world.

Actions Taken to Date: New education programs focused on K-12; improving community colleges; launching 'Skills for America's Future'; working to make higher education more affordable through increased Pell Grants, tax credit.

Proposals: modernizing schools; preventing layoffs of teachers; reforming unemployment insurance.

4. Provide the financial and technical support necessary for companies to grow and expand.

Actions Taken to Date: assistance to automakers; federal business investment; expanding access to capital; Advanced Manufacturing Partnership.

5. Invest in infrastructure to enhance the competitiveness of businesses and stimulate demand for domestic manufactured goods.

Actions Taken to Date: rebuild infrastructure through Recovery Act; expand high-speed Internet access; promote responsible development of natural gas resources.

Proposals: further invest to modernize infrastructure.

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

ing market for them, and they have to be able to accommodate that growing demand, as well."

Rather, they may replicate operations in multiple markets, with each facility focusing on local targets. An added benefit of this approach: less chance of significant supply chain disruptions from natural disasters such as the Japanese tsunami.

Any re-evaluation of strategy will require thorough evaluation of input costs and the costs of getting the product to market to determine the best location for their operations, Lawrence says.

It's complex math that no one's really done yet. But that's something he hopes to change through the establishment of a consortium to measure the real costs of doing business across borders. In addition to Texas A&M, several cities, colleges and government agencies have signed on already to support this research.

The consortium plans to begin releasing new data this fall.

The President's Plan

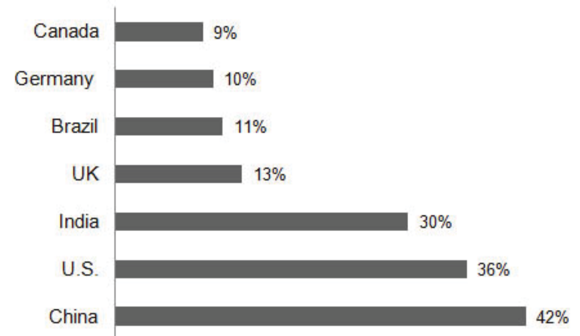
Recently, President Barack Obama announced a plan to encourage manufacturing to return operations to the U.S.

The plan included several initiatives for incentivizing the return, including development of education and training opportunities, increased investment in infrastructure, and providing technical and financial support for development.

"That's all well and good," Lawrence says, "but I don't think having more roads paved is going to be the real decision driver for many of these companies. It certainly helps, but it won't be what pushes them over the edge."

One element of the President's plan, however, may help do so, he says: revision of the corporate tax code. The plan calls on Congress to implement changes that would reduce the

Where companies plan to increase sourcing the most in the next 12 to 24 months:



Source: Economist Intelligence Unit survey, 2011; KPMG 2011 Global Manufacturing Outlook

overall corporate tax rate and eliminate "wasteful and unfair tax breaks" while reducing the overall budget deficit.

The effective corporate tax rate of the U.S. is somewhat unclear.

"Those that are playing by the rules pay around 35 percent," Lawrence says, placing the U.S. tax rate among the top three or four highest in the world. Those that know the loopholes and tax cuts may pay as little as 0 percent.

Another key element of the plan is the enforcement of trade regulations to "level the global playing field." While this could be an important piece, there are a lot of complicating factors for implementing this part of the plan, Lawrence says.

"The U.S. subsidizes a lot of products, especially in the agricultural industry," he says. "When trade disagreements arise, the U.S. doesn't have a leg to stand on because of those subsidies. Other countries have them as well, but if we don't stop, they won't stop.

"And no one's going to win if we end up in a trade war," he says.

Renew Your Subscription Online in Three Easy Steps:

1. **Log-in online** at the top left of www.mdm.com using your email address and password.
2. Click on **My Account**.
3. Under My Publications, click **Renew**.

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

Building a More Profitable Supply Chain

Jonathan Byrnes: How to view supply chain management as a profit engine

Online Resources

Access this MDM Webcast, Operating for Profit, at www.mdm.com/operatingforprofit.

In the recent MDM Webcast, Operating for Profit: The Coming Revolution in Supply Chain Finance, Jonathan Byrnes, senior lecturer at MIT and author of "Islands of Profit in a Sea of Red Ink," said companies need to take advantage of a new approach to their supply chains that can grow profitability and tighten relationships with customers. Here's a summary of the webcast, now available on-demand or on DVD at www.mdm.com/operatingforprofit.

By Nissa LaPoint

Imagine what your competitor could do in terms of customer service that would be your worst nightmare.

Jonathan Byrnes, senior lecturer at MIT, posed this scenario to attendees of the recent MDM Webcast, Operating for Profit: The Coming Revolution in Supply Chain Finance. When he's asked his students in the past, he said the answer from many has been a competitor finding a way to provide service that made a customer or vendor better off in ways their companies could not.

Companies can in fact accomplish this before a competitor beats them to it, he said. "Supply chain management today can have probably the most pervasive and important impact on every aspect of the company that contributes to profitability," Byrnes said.

Gone are the days of simple logistics, he said. Today, companies need to understand and take advantage of a new approach spreading among companies.

Byrnes says that supply chain management has made a shift from a functional area primarily concerned with cost minimization and customer service to one that can have a critical impact on all aspects of a company's performance – revenues, costs, profitability, cash flow, asset productivity and risk management.

"This is one of the driving forces changing businesses today," Byrnes said.

Supply chain finance gives businesses the means to "radically differentiate their service offering and relationships with customers," he explained. This means getting out of a one-size-fits-all mindset with your customers. Rather, structure and manage multiple supply chains, based on customer relationships, to maximize productivity. Standard customer relationships can be created by customer segment that range from simply dropping off at the customer's dock to highly integrated relationships that include services like Vendor Managed Inventory.

Case Study: Integrated Relationship

Byrnes discussed the process he went through with Baxter International Inc., a global medical products and services company, in identifying ways to cut costs with one of its customers.

After tracking the transfer of liters of IV solution from the loading dock of a hospital to a patient's arm, Byrnes said he and his colleagues discovered $3 of cost per liter that could be avoided. They created a new system through supply chain integration that addressed the hospital's lack of scale and automation with its IV solution.

With more control over the supply chain, they were able to reduce the hospital's costs, the supplier's costs and increase product sales because of the relationship that developed between the head nurses and product suppliers. The hospital came directly to Baxter for refills, he said.

"So we didn't have to do product conversion," Byrnes said. "It's a complete win, not just in the traditional logistical sense which is reduction of your direct expenses, but in terms of the overall profitability, viability, sustainability and strategic performance of the entire company."

Broad-Based Impact

Byrnes explained how effective supply chain management will have a dramatic impact on revenues, costs, profitability, cash flow, asset productivity and risk management. With revenues, supply chain management ushers in a 35 percent to 50 percent increase, even in highly penetrated accounts.

"You're selling to the top," Byrnes said. "You're giving them savings that completely offset the cost of your product in some cases and certainly offset any differential between you and the competitor."

This can also reduce costs by 25 percent to 40 percent.

"This is cost savings in sales and marketing, because the product conversions are happening automatically through the power and efficiency of the system," he said.

By increasing product substitutes, eliminating any one-size-fits-all company programs and

other changes, a company's profitability may jump 25 percent — a conservative increase for many — but more often up to 40 percent, he said.

"What you're doing is exactly the right improvements for the right customer in a very, very targeted way," Byrnes said.

Furthermore, better supply chain management increases cash flow. "You're lowering inventory and reducing costs. No investment is needed," he said.

In addition, non-earning assets are eliminated and other assets are made more productive, Byrnes added.

Lastly, when it comes to risk management, "you're creating an enormous switch in costs in all your best accounts and you're shedding unneeded assets and expenses," he said.

"Your business risk, which is risk of variance in your revenue stream, goes down enormously and your operating risk, which is your liquidity, goes down as you shed your unneeded assets."

Byrnes said distributors need to reevaluate how they approach their customer relationships, so that they can start to benefit from these broad-based improvements.

"That determines who wins big and who gets pushed out," Byrnes said.

M&A Heats Up in First Months of 2012

Deals big and small likely to continue in the first half of the year

The year 2012 is off to a strong start on the acquisition front. Since the start of February, at least eight deals in distribution have been announced. In January, we saw at least half a dozen.

The activity is being driven by both national and regional distributors across sectors, with acquisitions announced by RG Group, Martin Industrial Supply, DXP Enterprises, Applied Industrial Technologies, MSC Industrial Supply, Rexel, McKesson and Avnet, among others.

The manufacturing sector has also been busy, with several large deals affecting distributors announced since the start of the year. SKF just announced it will buy General Bearing Corp. in a deal worth $125 million. Regal Beloit is acquiring Milwaukee Gear Company for $80 million. A big one in the electrical sector came out at the end of January: ABB buying Thomas & Betts for $3.9 billion.

If the fourth-quarter 2011 MDM/Baird survey, the results of which were presented in the Jan. 25, 2012, issue of MDM, is any indication, the M&A activity we've seen so far in 2012 is likely to continue.

In that quarterly survey, respondents commented that there's interest from both buyers and sellers to make deals.

One likely reason? The improving economic climate. As conditions and demand improve, sellers are more willing to move forward with a deal thanks to the potential for better valuations.

So what are executives at the largest distribution companies saying about their M&A plans and what they are seeing in the market?

Airgas CEO Peter McCausland commented on pricing and acquisition volume in response to a question on the gases and hardgoods distributor's latest earnings call that many small companies are still holding off to sell at higher numbers as sales move back up post-recession.

"I think there's a lot of pent-up demand," he said. "I think we're going to have a surge in acquisitions sometime in the next 24-30 months, but I can't guarantee it. … I would say the general feeling is that pricing has moved up in the last year, probably by one turn of EBITDA."

MSC Industrial Supply, Melville, NY, also addressed its acquisition strategy in its first quarter 2012 earnings call at the start of the year. Erik Gershwind, president and COO, said M&A will continue to fit into the distributor's growth strategy going forward.

"We view M&A as an enabler, and as one of the tools that we use to execute it," he said. "… We've talked about two types of acquisitions that we look at that fuel the strategy in our vision.

"One would be what we referred to as a fold-in acquisition, which is primarily focused on the metalworking market as the means of continuing our metalworking penetration. … our funnel looking ahead remains very robust with respect to metalworking businesses."

He said MSC would also be looking at platform acquisitions, fueling a move into adjacent product lines or a potential move into an adjacent vertical end-market.

Electronics distributor Avnet Inc. continues to build out its presence in adjacent categories,

focused on the Americas.

"We are looking at some key services and market segments," Rick Hamada, CEO, said during the distributor's fiscal second quarter 2012 earnings call.

"… This is a conscious effort – but deliberate – pursuit of what we think is near adjacency for our business so that we can still leverage some of our existing companies in the areas of supplier relationships, customer relationships, materials handling and management, pure logistics handling, etc., of technology products taking a look at new customer segments, new services that could be part of our growth story going forward."

Distributors of all sizes are watching these market moves closely, expecting shifts in the channel as a result of ongoing consolidation.

Online Resources

Stay on top of distribution and manufacturing M&A at www.mdm.com/acquisitions.

Distributor Survey: Most Have Plans to Hire

NAW-ICP report highlights labor gap and the need to attract qualified workers

A recent survey by the National Association of Wholesaler-Distributors' Institute for Distribution Excellence on behalf of the Industrial Careers Pathway found that 91 percent of distribution firms surveyed plan to hire new employees within the next five years.

In the survey, more than half of survey respondents said that between 33 percent and 39 percent of their workforce would be eligible for retirement within five years, with 16 percent to 20 percent indicating 13 percent of their employees would retire within five years.

This means that the industry faces a labor gap and brain drain, according to ICP, in an industry where product application knowledge and relationships with customers drive profitability.

ICP is an initiative supported by an alliance of industry associations focused on building a skilled industrial distribution and manufacturing workforce. ICP links students and job seekers to careers in these industries through partnerships with local educators and employers.

The distribution industry has faced stiff competition for workers from sectors such as information technology, healthcare and consumer goods.

One survey respondent said: "We are having real problems getting connected to the right kind of people (to fill jobs)." Another added: "The distribution industry is, by and large, not considered to be an 'in' industry anymore. We have to generate a passion for our industry to attract recruits."

Survey respondents included companies from under $20 million in sales (30 percent of respondents) to those in the $20 million-$99 million range (28 percent) to companies over $1 billion in sales (15 percent). The majority of survey respondents were CEOs or high-level executives within the companies who responded to the survey.

The jobs to be filled include outside/field sales jobs, inside/counter sales and customer service jobs and technical or product specialist jobs.

Of those surveyed, only 10 percent require education above an associate's degree for inside sales positions and 25 percent require an associate's degree or higher for outside sales jobs.

The survey uncovered some concern over new employee knowledge of the industry. Nearly 60 percent of respondents said that new employees did not have a solid understanding of the industrial distribution industry, while 52.8 percent said new hires did not understand their role in the success of the organization.

Terry Knight is a top executive charged with the responsibility for strategic sales and business development with SKF USA Inc., a manufacturer of industrial products and services, supported by some 7,000 distribution firms and dealers worldwide.

Knight, who also serves as the volunteer chair of the ICP Steering Committee, a cross-industry alliance of industrial distribution associations, said: "The importance of a strong distribution network cannot be underestimated. Manufacturers are dependent upon this network to reach all aspects of the marketplace, provide feedback and be an important link in the supply chain.

"The NAW Institute survey reinforces that our industries need to reach new potential employees right now ... and this is one of the critical goals ICP is working on."

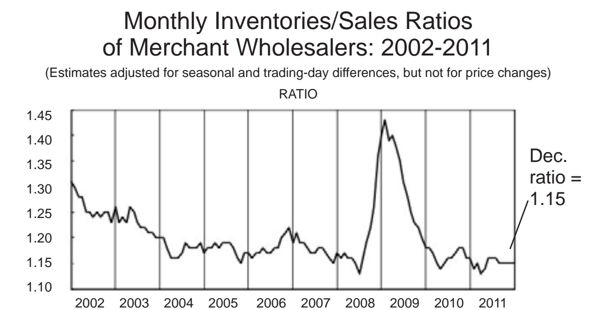
For more information: industrialcareerspathway.org.

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

Monthly Wholesale Trade Data

December 2011 wholesale revenues were $413.1 billion, up 1.3 percent from November and up 11.8 percent from December 2010, according to the U.S. Census Bureau. December sales of durable goods were up 2.4 percent from last month and were up 13.3 percent from a year ago. Sales of lumber and other construction materials were up 9.3 percent from last month. Sales of nondurable goods were up 0.4 percent from November and up 10.7 percent from last December.

Inventories. Inventories of wholesalers were $473.2 billion at the end of December, up 1 percent November and up 10 percent from December 2010. December inventories of durable goods were up 0.7 percent from last month and were up 10.6 percent from a year ago. Inventories of nondurable goods were up 1.3 percent from November and were up 9.3 percent from last December.



Inventories/Sales Ratio. The December inventories/sales ratio was 1.15. The December 2010 ratio was 1.16.

Sales and Inventories Trends: December 2011

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 11/11-12/11	Percent Change Sales 12/10-12/11	Percent Change Inventory 11/11-12/11	Percent Change Inventory 12/10-12/11
42	**U.S. Total**	**413,105**	**473,170**	**1.15**	**1.3**	**11.8**	**1.0**	**10.0**
423	**Durable**	**188,520**	**276,327**	**1.47**	**2.4**	**13.3**	**0.7**	**10.6**
4231	Automotive	31,774	44,537	1.40	3.9	25.0	2.8	17.1
4232	Furniture & Home Furnishings	4,582	6,999	1.53	0.1	-1.4	-0.4	0.7
4233	Lumber & Other Construction Materials	9,552	11,854	1.24	9.3	22.9	-1.1	1.6
4234	Prof. & Commercial Equip. & Supplies	31,421	31,658	1.01	-1.1	1.5	-0.5	4.2
42343	Computer Equipment & Software	16,287	11,720	0.72	-3.6	-0.5	-4.6	-0.1
4235	Metals & Minerals	14,001	26,455	1.89	6.5	21.7	0.3	17.6
4236	Electrical Goods	34,145	40,889	1.20	-0.1	7.6	-0.8	8.7
4237	Hardware, Plumbing, & Heating Equipment	9,066	17,784	1.96	1.6	7.6	0.1	10.3
4238	Machinery, Equipment & Supplies	33,456	70,792	2.12	5.2	22.3	0.8	12.9
4239	Miscellaneous Durable	20,523	25,359	1.24	0.3	10.3	3.3	5.9
424	**Nondurable Goods**	**224,585**	**196,843**	**0.88**	**0.4**	**10.7**	**1.3**	**9.3**
4241	Paper & Paper Products	7,042	7,503	1.07	1.0	1.6	1.1	0.5
4242	Drugs	35,160	32,930	0.94	-0.1	8.0	2.1	5.4
4243	Apparel, Piece Goods & Notions	11,549	22,834	1.98	5.3	9.3	1.7	17.5
4244	Groceries &Related Products	52,167	33,553	0.64	1.9	16.6	0.2	14.3
4245	Farm-product Raw Materials	20,779	21,774	1.05	-2.6	-3.2	-3.5	-13.7
4246	Chemicals & Allied Products	9,601	11,799	1.23	-2.6	8.4	2.2	16.4
4247	Petroleum & Petroleum Products	59,644	25,250	0.42	0.6	16.5	2.2	16.1
4248	Beer, Wine & Distilled Beverages	9,874	12,641	1.28	0.9	6.3	0.7	4.5
4249	Miscellaneous Nondurable Goods	18,769	28,559	1.52	-1.2	8.2	4.7	22.3

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

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

mdm.com®

Industrial & Construction Markets Update

VOL. 42, NO. 4 | FEB. 25, 2012

2011 Manufacturing Technology Orders Up 66.4% Over 2010

December U.S. manufacturing technology orders were $519.98 million according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association.

This total, as reported by companies participating in the USMTO program, was up 12.2 percent from November and up 12.7 percent when compared with the total of $461.48 million reported for December 2010.

With a year-to-date total of $5,508.81 million, 2011 was up 66.4 percent compared with 2010.

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

"USMTO finished its strongest year in more than a decade as manufacturing led the U.S. recovery into 2012," said AMT President Douglas K. Woods. "The 67 percent increase is nearly 20 points higher than forecasters predicted, which is great news in terms of reducing the foreign trade deficit. Manufactured goods represent more than 65 percent of trade, so the rise of U.S. manufactured products will help reduce our reliance on imports and support growth in exports."

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

Northeast Region

At $90.76 million, December manufacturing technology orders in the Northeast Region were up 9.1 percent when compared with the $83.18 million total for November and up 28 percent when compared with December a year ago. The year-to-date total of $852.96 million was 40.7 percent more than the comparable figure for 2010.

continued on p.4 of this section

Distributor News

Motion Industries, Birmingham, AL, reported sales for 2011 were $4.17 billion, up 19 percent over sales in 2010. Operating profit grew 32 percent to $337.6 million. For the fourth quarter, Motion Industries reported sales of $1.03 billion, up 13 percent year-over-year. Operating profit increased 21 percent to $89.1 million.

Motion's parent company **Genuine Parts Company**, Atlanta, GA, reported sales for the year were $12.5 billion, up 11 percent over 2010. Profit increased 19 percent to $565 million. Fourth-quarter sales for Genuine Parts grew 7 percent to $3 billion, with profit increasing 14 percent to $135 million.

WinWholesale, Dayton, OH, has acquired **Midwest Industrial Sales**, Kansas City, KS. The location reopened on Feb. 6 as Kansas City Winfastener Co.

MSCO Inc., Sheffield, AL, has agreed to acquire **Ziegler Tools** Inc., with headquarters in Atlanta, GA, and branch offices in Macon, GA, and Greenville-Spartanburg, SC.

Barnes Group Inc., Bristol, CT, fourth-quarter sales were $283.3 million, up 9.7 percent from the fourth quarter 2010. Profit from continuing operations was $23.8 million. For the full year 2011, Barnes Group had sales of $1.2 billion, up 13.7 percent from the prior year. Income from continuing operations was $91.6 million.

In the fourth quarter, Barnes Group completed the sale of its **Barnes Distribution Europe** businesses.

Beacon Roofing Supply, Inc., Peabody, MA, first-quarter sales were $489.9 million, up 21 percent over the same period a year ago. Organic sales increased 17 percent. Profit was $19.1 million, compared to $10.1 million a year ago.

Chicago-based **Grainger** reported sales for the month of January 2012 were up 17 percent from January 2011. Excluding acquisitions, organic sales were up 12 percent.

Builders FirstSource, Inc., Dallas, TX, fourth-quarter sales were $192.7 million, up 31 percent over the same period a year ago. The company recorded a net loss of $16.7 million for the period, compared with a loss of $24.6 million in fourth quarter 2010. For the full year 2011, sales were $779.1 million, up 11.3 percent. Full-year net loss was $65 million, compared with a year-ago net loss of $95.5 million.

Rexel, Paris, France, reported fourth-quarter of €3.3 billion (US$4.4 billion), up 5.4 percent over the same period a year ago. Profit declined 1.8 percent to €60.4 million (US$79.6 million). For the full year 2011, sales were €12.7 billion (US$16.7 billion), up 6.3 percent over sales in 2010. Profit

continued on p.2 of this section

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

MARKETS UPDATE SUPPLEMENT P. 2

MDM News Digest
Continued from p. 1 of this section

increased 39.2 percent to €319 million (US$420.6 million).

United Stationers Inc., Deerfield, IL, reported sales for 2011 were $5 billion, up 3.6 percent over sales in 2010. Profit declined 3.4 percent to $109 million. For the fourth quarter, sales increased 1.3 percent year-over-year to $1.2 billion. Profit decreased 3.2 percent to $27.9 million.

BlueLinx Holdings Inc., Atlanta, GA, fourth-quarter sales were $391.1 million, up 6.3 percent from the fourth quarter of 2010. The company incurred a net loss of $10.3 million. For 2011, sales were $1.76 billion, down 2.7 percent. Net loss for 2011 totaled $38.6 million.

Miami-based **Watsco**, Inc. fourth-quarter sales were down 12 percent to $646 million on a same-store basis from the previous year. Profit was $13 million, up from $10 million in the same quarter a year ago. Revenues for 2011 were up 5 percent to $2.98 billion, and down 1 percent on a same-store basis.

Border States Electric, Fargo, ND, has named Jay Esler as South Central Region business development manager. The company's South Central Region consists of 16 branch locations in New Mexico and Texas.

WESCO International, Inc., Pittsburgh, PA, has appointed Stephen A. Van Oss as interim CFO. Van Oss replaces Richard P. Heyse in the post while a search for a permanent replacement is undertaken.

Hisco, Houston, TX, has appointed Bob Dill CEO. Hisco also announced the creation of a new value-add division, to be headed by Chris Woody.

Reliance Steel & Aluminum Co., Los Angeles, CA, reported sales for the fourth quarter were $2 billion, up 28 percent in a year-over-year comparison. Profit increased 72 percent to $67.9 million. For the 2011 year, sales were $8.1 billion, up 29 percent compared with sales in 2010. Profit increased 77 percent to $194.4 million.

Economic News

Privately-owned housing starts in January were at a seasonally adjusted annual rate of 699,000, according to the latest release from the U.S. Census Bureau and the Department of Housing and Urban Development. This is 1.5 percent above the revised December estimate of 689,000 and is 9.9 percent above the January 2011 rate of 636,000.

Wholesale prices advanced 0.1 percent in Janu-

Calculation of MDM Inflation Index for January 2012

		BLS Price Indices Jan. '12	BLS Price Indices Dec. '11	BLS Price Indices Jan. '11	% Sales Weight	Weighted Indices Jan. '12 (1)X(4)	% Change Jan. '12 Dec. '11	% Change Jan. '12 Jan. '11
1136	Abr. Prod.	543.0	543.2	523.4	19.1	103.70	-0.05	3.74
1135	Cutting Tools	487.0	486.7	466.4	18.9	92.04	0.06	4.42
1145	Power Trans.	767.3	765.1	739.8	15.4	118.16	0.29	3.72
1081	Fasteners	501.8	498.3	482.1	9.0	45.16	0.70	4.09
1149.01	Valves, etc.	907.7	906.6	857.8	7.6	68.99	0.12	5.83
1132	Power Tools	344.3	343.0	339.6	6.5	22.38	0.39	1.37
1144	Mat. Handling	549.9	541.3	528.7	6.2	34.09	1.59	4.01
0713.03	Belting	781.9	778.0	672.4	6.1	47.69	0.50	16.28
1042	Hand Tools	749.9	742.4	736.6	8.1	60.74	1.01	1.80
108	Misc. Metal	473.5	472.1	458.5	3.1	14.68	0.30	3.26
"New" January Index		317.5	January Inflation Index			607.63	0.37	4.70
"New" December Index		316.3	December Inflation Index			605.39		
			January 2011 Inflation Index			580.36		

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

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

ary, seasonally adjusted, the U.S. Bureau of Labor Statistics reported. Prices for finished goods declined 0.1 percent in December.

Industrial production was unchanged in January, as a gain of 0.7 percent in manufacturing was offset by declines in mining and utilities. Total industrial production in January was 3.4 percent above its level of a year earlier. The **capacity utilization** rate for total industry decreased to 78.5 percent.

The **Chicago Fed National Activity Index** decreased to +0.22 in January from +0.54 in December, but remained positive for the second straight month for the first time in a year. The index's three-month moving average, **CFNAI-MA3**, increased from +0.06 in December to +0.14 in January, reaching its highest level since March 2011.

Construction employment remains below peak levels in 329 out of 337 metro areas, according to a new analysis released by the Associated General Contractors of America.

Canadian manufacturing sales advanced 0.6 percent to C$49.9 billion in December, according to Statistics Canada. This is the fifth increase in six months.

Manufacturer News

Swedish manufacturer **SKF** has agreed to acquire **General Bearing** Corp., West Nyack, NY, and its subsidiaries, including the interests in its four manufacturing sites in China, for $28 per share, representing an aggregate enterprise value of $125 million.

Actuant Corp., Milwaukee, WI, acquired **Jeyco Pty** Ltd, Perth, Australia. Jeyco generates annual revenues of approximately $20 million and will operate as part of the Cortland business within Actuant's Energy Segment.

Greenwich, CT-based **United Rentals** Inc. has acquired **Coble Trench Safety**, a specialty rentals company, with 11 locations in the Mid-Atlantic and Southeast region.

St. Paul, MN-based **3M** has named Inge G. Thulin as president and CEO, effective Feb. 24, 2012. Thulin succeeds George W. Buckley, president and CEO, who will retire on June 1.

Emerson, St. Louis, MO, first-quarter sales were $5.3 billion, down 4 percent in a year-over-year comparison. Profit fell 23 percent to $371 million.

Regal Beloit Corp., Beloit, WI, fourth-quarter sales were $727 million, up 30.8 percent over the same period a year ago. Profit attributable to Regal Beloit increased 33 percent to $33.5 million. For the full year 2011, sales were $2.8 billion, up 25.5 percent over sales in 2010. Profit attributable to Regal Beloit grew 1.9 percent to $152.3 million.

Louisiana-Pacific Corp., Nashville, TN, reported sales for the fourth quarter were $312 million, down 1.2 percent versus a year ago. Losses from continuing operations were $46 million, compared to a year-ago loss of $2 million. For 2011, sales were $1.4 billion, down 2 percent.

continued on the next page

U.S. Wholesale Revenues: 2011 vs. 2010

Source: U.S. Census Bureau

		2011	2010	% Change
42	U.S. Total	4,760,952	4,180,240	13.9%
423	Durable	2,133,669	1,903,897	12.1%
4231	..Automotive	339,665	299,652	13.4%
4232	..Furniture	54,744	54,852	-0.2%
4233	..Lumber	102,671	96,253	6.7%
4234	..Prof. equip.	376,225	360,843	4.3%
42343	...Comp. equip.	200,580	191,427	4.8%
4235	..Metals	150,240	127,179	18.1%
4236	..Electrical	399,888	364,643	9.7%
4237	..Hardware	104,108	96,519	7.9%
4238	..Machinery	359,797	301,427	19.4%
4239	..Misc. Durable	246,331	202,529	21.6%
424	Nondurable	2,627,283	2,276,343	15.4%
4241	..Paper	83,601	82,530	1.3%
4242	..Drugs	412,586	381,412	8.2%
4243	..Apparel	130,894	128,373	2.0%
4244	..Groceries	582,478	524,072	11.1%
4245	..Farm products	259,161	201,209	28.8%
4246	..Chemicals	114,491	102,287	11.9%
4247	..Petroleum	711,429	538,576	32.1%
4248	..Alcohol	115,115	109,444	5.2%
4249	..Misc. Nondur.	217,528	208,440	4.4%

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

Manufacturing Technology Orders

Continued from p. 1 of this section

Southern Region

December manufacturing technology orders in the Southern Region totaled $91.29 million, 68.7 percent more than November's $54.11 million and 82.9 percent more than the December 2010 total. With a year-to-date total of $712.88 million, 2011 was up 59 percent when compared with 2010 at the same time.

Midwest Region

Midwest Region manufacturing technology orders in December stood at $178.83 million, 19.8 percent more than the November total of $149.30 million and up 11.1 percent when compared with December 2010. At $1,849.55 million, the 2011 year-to-date total was 81.6 percent more than the comparable figure for 2010.

Central Region

Manufacturing technology orders in the Central Region in December totaled $115.01 million, down 10.1 percent from November's $127.96 million and down 6.7 percent when compared with the December 2010 figure. The $1,472.77 million year-to-date total was 69.6 percent higher than the total for the same period in 2010.

Western Region

Western Region manufacturing technology orders totaled $44.10 million in December, 10 percent less than the $49.00 million total for November and 21.7 percent less than the tally for December 2010. At $620.66 million, 2011 year-to-date was up 68 percent when compared with 2010 at the same time.

MDM News Digest

Continued from p. 3 of this section

Alfa Laval, Lund, Sweden, reported 2011 sales were SEK 28.7 billion (US$4.3 billion), a year-over-year increase of 24 percent at fixed exchange rates. Profit improved 4.3 percent to SEK 3.3 billion (US$498.4 million).

RBC Bearings Inc., Oxford, CT, reported sales for the third quarter ended Dec. 31, 2011, were $95.1 million, up 17 percent over the same period a year ago. Profit increased 65 percent to $12.2 million.

Ingersoll-Rand plc, Swords, Ireland, reported fourth-quarter sales of $3.5 billion, down 5 percent from the fourth quarter of 2010. Profit was $242.2 million. For the full year 2011, sales were $14.8 billion, up 6 percent year over year. Full-year profit fell 47 percent to $343.2 million.

Sealed Air Corp., Elmwood Park, NJ, 2011 sales were $5.6 billion, up 26 percent year over year. Excluding the impact of Diversey, sales were up 8 percent. Profit fell 42 percent to $149.1 million.

Weyerhaeuser Company, Federal Way, WA, full year 2011 profit was $331 million on sales from continuing operations of $6.2 billion, up from $6 billion in sales in 2010.

Myers Industries, Inc., Akron, OH, fourth-quarter sales were $195.4 million, up 3.8 percent over the same period a year ago. Profit was $5.9 million versus a year-ago loss of $50.5 million. Sales increased 2.4 percent for the full year of 2011 to $755.7 million. Profit for the full year was $24.5 million compared to a net loss in 2010 of $42.8 million.

Brady Corp., Milwaukee, WI, reported sales for the second quarter ended Jan. 31, 2012, were $320.6 million, down 2.6 percent in a year-over-year comparison. Net loss for the period was $90 million. Sales for the six-month period were up 1.7 percent to $670.1 million.

Allied Motion Technologies Inc., Denver CO, reported sales for 2011 were $110.9 million, up 38 percent. Profit was $7 million.

European building materials supplier **Saint-Gobain** reported sales were up 5 percent on an organic basis in 2011 to 42.1 billion euros (US$55.4 billion) on profit of 1.28 billion euros (US$1.68 billion).

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 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 © 2012 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.