Modern
DISTRIBUTION
MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 42, NO. 6
MARCH 25, 2012

■ *Part 1*

Sharing POS Data: An Exercise in Trust

Tension around channel data-sharing is an obstacle to collaboration

This article, part 1 in a series, examines the hurdles to a broader acceptance of customer data-sharing in independent distribution channels and how those hurdles may be holding channel partners back from higher profitability due to greater transparency.

By Lindsay Konzak

Based on MDM surveys and interviews, just a small percentage of distributors and manufacturers across sectors are experiencing significant competitive advantage and market insight as a result of sharing point-of-sale data.

Two-thirds of distributors in a recent MDM survey said they share POS data with at least some of their suppliers. Of those that do share data, 60 percent do so with less than 10 percent of their suppliers, likely the largest manufacturers in their markets.

Most of these distributors said sharing the data was required and supported by financial incentives. Very few distributors said they perceive direct strategic benefit.

In those sectors such as electronics where sharing POS data – ranging from providing broad Cost of Goods Sold (COGS) by industry or ZIP to customer-specific data – is standard, the prevalence of customer data-sharing is typically driven by which part of the channel holds the most leverage.

The degree of consolidation and distribution market makeup – exclusive vs. non-exclusive lines, whether manufacturers sell direct, whether distributors have territories or compete globally – play a key role.

Broadly speaking, MDM found that in most sectors, regardless of whether sharing data from distributor to supplier is standard, the topic of POS data-sharing sparks tension in the channel.

"Requiring this data is a symptom of distrust in the channel, and it adds to the friction between partners," one respondent to the MDM survey said, echoing many other distributors in the survey. At the core for many is the feeling that the customer is their own, and the customer list is one of their most valuable assets.

While the emotions surrounding the sharing of data in the channel can run high, the underlying potential for informed growth is not in dispute. Many distributor respondents to the MDM survey said they would see value in sharing POS if market information were returned by the manufacturer to help them plan and make better decisions. And many manufacturers noted the potential for using the data more strategically.

POS data can be used to align resources against opportunities for growth, benefiting both the distributor and manufacturer, says Mike Marks of Indian River Consulting Group, co-author of *Working at Cross-Purposes: How Distributors and Manufacturers Can Manage Conflict Successfully*. "Point of sale is going to be a giant game-changer for a lot of people."

But there are many hurdles to jump to get to a place where the rule – not the exception –is a channel relationship that goes beyond just sharing POS data and instead views data as the foundation of a collaborative approach to the market.

Hurdles to broader acceptance of POS data-sharing and more strategic use of this data include a high level of distrust in the channel, a resource gap for both distributors and manufacturers, and distributor-manufacturer market misalignment.

The Trust Factor

With few exceptions, trust is the major rea-

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INSIDE

PERSPECTIVE ■ Commentary by Thomas P. Gale

Are You Ready for Big Data?

One of the newest buzzwords in business management is "big data." With Internet and mobile technologies, businesses have ever-expanding datasets that offer the potential for deep insight into customer behavior, operational trends, and ways to change to more efficient business models.

The concept is about the ability of a company to use the massive amounts of data generated to become more agile and responsive.

The concept is great, but there's a major reality gap. Many distributors are already in data gridlock. IT budgets are being used to maintain and push forward existing systems to keep the wheels on the bus, not add significant functionality or gain significant competitive advantage over competitors. There are lots of data silos and dark alleys.

Before companies can start to think about big data analytics and what it promises, they need to take a hard look at how well they are managing the data sitting out here now – pricing, profitability, market, customer and other operational data. That's my definition of big data!

How many different prices for the same product are in the system? What shape is your customer file in? How many different records do you have for the same customer, between ship-to, bill-to, sell-to? What effort is required to manage product information for catalog or other usage? The real issue for every company is how well it can make a transition from transactional to strategic when it comes to its data management. Distributors have much to gain from getting smarter and more analytical about the large quantities of transactional and operational data generated daily.

On April 12, MDM is hosting a free webcast that addresses this topic of managing data and information more strategically. I'm looking forward to hearing the story of how BlueLinx, one of the largest distributors of building products in the U.S. with $1.8 billion in 2011 revenues, made the transition to manage its information more stategically.

Prior to the 2008 housing market collapse, BlueLinx was proactive in cleaning up its product data to manage its information more strategically.

It not only paid off from a defensive standpoint – cutting costs, increasing efficiencies, optimizing inventory – but has positioned the company for success as it has pursued its current growth strategies, including e-commerce platform development.

I hope you'll join us. Register here for the one-hour program at 1 p.m. EDT, April 12: www.mdm.com/data-webcast.

MODERN DISTRIBUTION MANAGEMENT

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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.

ISSN 0544-6538

Channel Data-Sharing
Continued from page 1

son distributors are reluctant to share customer data with their suppliers. And the level of data being requested can have a significant impact on the level of trust. When customer-specific POS data is requested by manufacturers, distributors are much more sensitive and trust becomes even more critical.

Distributors are concerned that manufacturers will use that information to bypass the distributor and go direct. Or that manufacturers will hand off the data or leads from the data to competing distributors – something that has happened to some of the distributors who responded to the MDM survey.

There is also concern that the manufacturers will not have tight controls surrounding who at the companies have access to the data. Because of this, some manufacturers have made it a point to limit access to customer-specific data before it is aggregated.

Even if distributors share POS data broadly, distrust caused by these concerns still muddies the waters.

"Every manufacturer and every distributor has dealt with salespeople who are less than the best representatives of the brand," says Kevin Boyle of Industrial Distribution Consulting LLC and former vice president of channel management and distribution for adhesives manufacturer Loctite Industrial Group.

"That is what can make or break the trust factor very quickly. It's a matter of the management of the manufacturer establishing the tone, and developing and maintaining a code of ethics and professionalism for their company that helps them develop trust. It isn't something that happens overnight."

In the MDM survey, one distributor outlined three requirements he needs to share data: a confidentiality agreement, an incentive commensurate with the value of the information, and proof that the supplier is using the information to build business with his company.

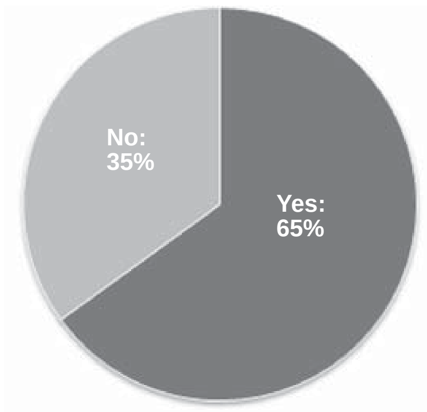
Some association guidelines for the sharing of end-user data include a "bill of rights." Marks says that such a document is based on the premise that the distributor's data is owned by that distributor. As part of the confidentiality agreement, the manufacturer must protect the information and agree not to use it against the distributor. If they violate that agreement, they agree to arbitration to determine the level of damage done to the distributor.

From the distributor's point of view, Marks

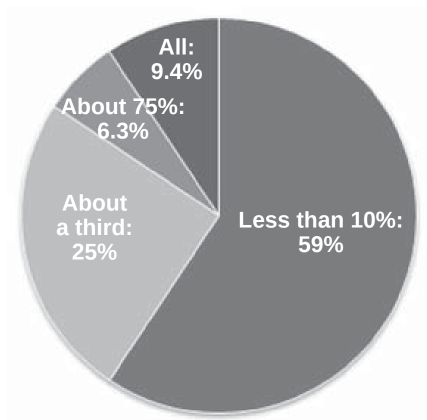
Survey: Sharing Data with Suppliers

MDM surveyed its readers about the sharing of point-of-sale data in the channel. The following results were from distributors who responded to the survey.

Do you share POS data with your suppliers?



If yes, with what percentage of your suppliers do you share data?



says, the manufacturer should have no problem signing such a document if they are planning to use the data to help them. But while this seems straightforward, disputes over the use of this data by manufacturers has led to lawsuits in the past, underscoring how seriously these issues are taken.

Incentives to Share

End-user data provides value to manufacturers. Aside from more tactical uses – compensation or special pricing audits, for example – distributor POS data can provide the best view of the landscape for manufacturers, especially if distribution is their main channel to market.

As markets diversify, technology improves and manufacturers seek more visibility to improve efficiencies across the board, expect to see

Part 2 of this article will appear in the April 10, 2012, issue of MDM Premium. That article will analyze how manufacturers use the data, how third-party vendors are making it easier for them to collect the data in a meaningful form and what the next frontier in supply chain transparency may bring.

growing demand for more data from distributors.

"That POS data is critical to that vendor really being able to run and manage their business more effectively," says Mark Geene, a founder of ChannelInsight, a third-party service that facilitates the collection of data from distributors for manufacturers.

Because of the value manufacturers get from the data, Adam Fein of Pembroke Consulting, author of the 2007 edition of the National Association of Wholesaler-Distributors' *Facing the Forces of Change*, wrote that distributors should expect to be appropriately rewarded for sharing point-of-sale data.

In the MDM survey, many distributors said that information about their markets would be or is more valuable than financial incentives, which are usually centered on discounts, rebates or special pricing agreements. In fact, some say it may cost distributors more to provide the data than they get back in the form of financial incentives.

Distributors say they want to be able to compare market share and growth, as well as opportunities with the aggregated data manufacturers receive from distributors.

"We see a benefit when manufacturers aggregate the data they collect from around the country and come back to us with some kind of game plan," says Evan Gilbert, sales manager for Quality Mill Supply Co., a four-branch industrial distributor in Indiana. For example, customer categories Quality Mill Supply is not reaching but could or information on cross-selling opportunities to existing customers.

Geene says that distributors need to embrace transparency in the supply chain. "The smart ones are embracing it as a business opportunity versus trying to protect it," he says.

Unfortunately, the data does not always return in a meaningful form to the distributors. "The monumental waste of point-of-sale data is that there's no feedback loop. It's feeding insight into a black hole," Marks says.

If manufacturers don't put processes and objectives in place on what they want to accomplish when they collect the data from distributors, in the end the data is valueless, says Mike Strickland, principal of G. Michael Strickland and Associates LLC, a consulting firm focused on growth planning for manufacturers. Strickland previously was the vice president of professional sales at Danaher Tool Group and has worked for manufacturers including Black & Decker, Moen and Pentair.

"If you're not willing to share that data you have collected with your [distributors] then you're only doing half the job," he says. "You're getting the benefit but they're not."

Quality Mill Supply's Gilbert says that once manufacturers show distributors how data can make both parties more profitable, distributors may approach the task of sharing data less like a chore and more like collaboration. "I'm hopeful because I've seen firsthand how powerful the data can be," he says.

The Resource Gap

Why the data is often not processed at an aggregate level by many manufacturers and returned to the distributor in a useful form is for the most part a question of resources. It requires time, dedicated resources and money to be able to produce that kind of analysis and actionable intelligence.

What's more, once analytics are returned to distributors, there is no guarantee they have the resources to do anything with it, both distributors and manufacturers say.

"It's a challenge for manufacturers to get distributors to do the heavy lifting on new accounts," says Larry White of Interlynx Systems, which serves as a third-party service that processes and standardizes POS and other data from distributors for manufacturers. "Just because I identify it, doesn't mean it turns into new business."

However it does start the conversation, he says. And for those distributors who have been the beneficiary of feedback from manufacturers based on the POS data provided, the barrier to trust has fallen and the willingness to share data increased. Why? Because it gives distributors a better idea of what the information is ultimately used for.

"At the end of the day, the more information they share, the more we'll grow our business because we'll learn," says Eric Max, vice president of sales and marketing at The Genie Group, an electronics distribution marketing group with 96 members. The Genie Group also serves as a master distributor in the industry. "When they do share, we both benefit from that."

Just providing some feedback can go a long way.

"You have to take the first steps," says Robert Blair, former president of CARQUEST Auto Parts, who has also held leadership positions in other major automotive aftermarket distribution companies. "But too many don't bother. They think it is Mt. Everest."

■ *MDM Interview, Part 2*

The Common Sense Test in Analytics

Tony Pericle: Using data for better decisions requires ongoing course correction

MDM recently spoke with Tony Pericle, author of Transforming Data into Action: Using Analytics for Better Distributor Sales Decisions from the National Association of Wholesaler-Distributors. This is part 2 of that interview. Part 1 was published in the March 10, 2012, issue of MDM. In part 2, Pericle says analytics alone won't solve all problems. It takes ongoing course correction and the "common sense test" to get the best results from any effort to use data to make better decisions for your organization.

MDM: When defining analytics, you include walking around the company and getting more qualitative information. That is just the first level of nine you outline in your book. Do companies sometimes think too narrowly when they think about how to use data to improve their organizations?

Tony Pericle: If you think you're going to be able to use data to answer all of your questions, you are absolutely wrong. I'll use this example. I have five children and I've taught three of them to drive so far. Now I am teaching a fourth one. I take him to an empty parking lot, and I have a crunched Aquafina bottle that I throw out in the parking lot. I tell him: "I want you to drive over it with your left wheel. And then I want you to drive over it with the right wheel."

What's interesting is when a teenager gets behind that wheel, they want to keep that wheel as locked as possible because they think that by keeping that wheel so it's not moving, they're going to go straight. However, roads are not always straight so one must constantly course-correct based upon the landscape. That's what driving is all about. Companies strategically set a course in one direction, let's say due North. Over time, storms arise and threaten to throw a company off course.

Analytics can both provide advanced warning of an impending storm and identify alternative paths around a storm. Companies need to constantly monitor the landscape ahead and course-correct when necessary or risk ending up in the wrong place.

The story is told that, going to the moon, if they're off by 1/100 of a percent, they are going to be thousands of miles away from the moon. When you make a decision using analytics, you can bet that if you did it right, you did not go in the right direction. The wind is going to pick up stronger than you anticipated; you're going to be pushed off-course somehow. You need to be able to measure your performance and then make a course correction.

That's what analytics is all about. It's not about, "Here's the perfect price," or, "Here's the perfect way of doing something." Analytics is about giving people guidance.

MDM: How can personal interaction and data work together?

Pericle: There are two anecdotes here. I liked the phrase a co-worker of mine used. He said,

Defining Analytics

In his book, *Transforming Data into Action*, Tony Pericle defined nine ascending levels of analytics and examples of the questions each answers. The lower levels (starting at 1) are descriptive, and the higher levels are what Pericle calls prescriptive. The first three are commonly executed by distributors, he says, some do Nos. 4-5 and very few have the necessary tools to do the rest.

1: Personal Interaction – "What's going on? Are there any problems?"

2: Reports – "How did we do? How many problems did we have?"

3: Ad Hoc Analysis – "What were the details?"

4: Drill-Through Analysis – "Who, what, where, and when?"

5: Guided Drill-Through Analysis – "Where do I go next to see what is most important?"

6: Driver Analysis – "Where are the key variances in my business? What are the microsegments of my business I should focus on?"

7: Science (Advanced Mathematical Modeling) – "Are the differences significant or are variations due to randomness? What's the optimal choice?"

8: Alerts – "Is there something I need to focus my attention on now?"

9: Proactive Alerts (Forecasting) – "What do I need to do now? Where will opportunities exist?"

Tony Pericle's book, Transforming Data into Action: Using Analytics for Better Sales Decisions, can be ordered at www.naw.org/transformingdata or by calling (202) 872-0885. Pericle, the founder and principal analyst for ProfitOptics, can be reached at tony@profitoptics.com.

"Tony, after you're done with your analysis, we need to determine if it passes the 'Does it make sense?' test." I've used that ever since.

I realize that I'm going to miss some things. Reviewing an analysis with peers, business owners, field sales, etc., allows the group to challenge the results of the "Analysis" within the context of the real world.

There are often some things that I included in the analysis that I should have excluded or considered in a different way. You have to allow interaction between people to look at the analysis from a practical perspective.

The other point I wanted to make is if you hire an analyst, don't expect ground-breaking ideas. Most often, good ideas will come from somebody that is involved in the day-to-day, and the job of the analyst is to listen, to ask questions, listen again, and then listen some more. And then to be able to say, "Okay, how can I support this idea with hard data? What could be done to enhance or improve on the idea? What can I do to help the business move this idea forward?"

There are hundreds of great ideas within any given company. There are probably five of those hundreds of great ideas that if somebody just listened, would have a monumental impact for that company in terms of revenue, margin, or both. Opportunities are all around us. It's just a matter of uncovering those opportunities.

MDM: At what size company does it make sense to invest in these tools?

Pericle: If you're talking about a $3 million company, you probably have no more than two sales reps. You probably have a president of the company who has met with the customers that represent 70 percent of the overall volume. The need for a full-time "analyst" is not that great.

A better option would be to ensure you can display and analyze information in a meaningful manner. If you don't have timely, relevant, and easy access to data, think about outsourcing this task to a third party, much like you may do with some operational tasks today.

Groundbreaking events will arise from what the "core" team in a small company can learn from the data. Analytics fits in where you come to a point where your brain just can't handle more than 500 unique customer item combinations. If someone says, "I have a $3 million territory and each customer buys 100 unique items from me, and I have 200 customers," it is highly unlikely that any one person can truly optimize every decision. For example, shortcuts may be taken around pricing because it's too much work to actually measure what the market will bear for any given item.

It's easier and safer to leave things where they are, but the downside is money left on the table.

Analytics could identify pockets of low-risk, high-margin pricing opportunities leading to increased margin and a more optimized price.

Behind the Deal: HD Supply & Shale-Inland

Divestments behind, HD Supply plans to focus on core 'leadership platforms'

HD Supply recently announced it would sell its Industrial PVF division to Shale-Inland Holdings. This article looks at the impact of the deal on both companies and what's next for HD Supply.

By Jenel Stelton-Holtmeier

The decision to sell off the industrial PVF division of HD Supply was an easy one, according to CEO Joe DeAngelo. "It was a lot more speculative a business than we wanted to be in," he said in an interview with MDM. Because of its "tremendous" working capital requirements and volatile ties to commodity markets, the division also had very different operating characteristics than the remaining divisions of HD Supply.

On the other side of the deal, where HD Supply saw a disconnect with its other businesses, Shale-Inland Holdings, a metals service center, saw a great complement. The division provides an inroad to the energy markets, a segment identified by Shale-Inland's CEO Craig T. Bouchard as critical. "This has really been a vision of Shale-Inland to go in this direction," Bouchard says. "We want to be the best metals provider into the energy segment."

In addition, Shale-Inland will be able to add plate metals to its existing portfolio through the Metals Inc. division of HD Supply's IPVF business.

The Deal

Bouchard declined to publicly disclose the value of the transaction. But business and financial publication Bloomberg estimated the value at around $500 million, citing "people with knowledge of the matter." Sales for the combined company will be around $1 billion annually.

In order to facilitate the deal, Shale-Inland, backed by private equity firm The Stephens Group, LLC, sought an additional firm, TowerBrook Capital Partners LP, which will be the majority stakeholder in Shale-Inland Holdings LLC once the deal closes. And because of the investing companies, the deal will be made without adding any long-term debt, Bouchard notes.

Bouchard will continue as CEO of the new combined company, which will continue to operate as subsidiaries of Shale-Inland Holdings under existing brand names such as Main Steel and Metals Inc. Shale-Inland's existing business has a national presence, but only eight locations, Bouchard says. HD Supply IPVF adds 39 locations in 17 states.

Included in the acquisition – and another key driver of Shale-Inland's acquisition of the division – was the management team. "These are people who have stayed with their companies even after joining the HD Supply team," Bouchard says. "And I thought someone had made a mistake or just made up a number when I saw this, but they've – the companies that make up this division – reported 448 straight months of profitability."

Impact on HD Supply

For some companies, selling off a continuously profitable division could be a difficult decision. But the impact to sales is relatively small, DeAngelo says. The division accounted for about 9 percent – $700,000 – of the diversified distributor's total annual sales in fiscal year 2011. "It's not inconsequential but we'll be able to make that up very fast through our other core leadership businesses," he says.

The capital investment required for the IPVF division will be deployed across the remaining core leadership lines of business: HD Supply Facilities Maintenance, HD Supply Waterworks, HD Supply Utilities and HD Supply White Cap.

"Those platforms are rock solid, and this will allow us to really focus on continuing to strengthen them," DeAngelo says.

In the past year, HD Supply also sold off its heating, ventilation and air-conditioning business to Hajoca. The company has no plans to sell additional divisions. "Right now, we have the leadership platforms we like and we want," DeAngelo says. "We have a value proposition that fits a low-risk profile and a high-return profile, which is what we look for."

The company's focus will be on building those remaining businesses through organic growth initiatives, but it will also "intensify our business development efforts on acquiring strong companies that will integrate very naturally intro these leadership platforms," he says. "We are not looking for new leadership platforms." Targets for expansion include adjacent vertical markets, adjacent or vertical product lines, and geographic expansion – particularly in the Northeast and Pacific Northwest.

While DeAngelo declined to provide information on specific targets for acquisition, he noted: "We have a very focused list of folks we'd like to bring into our family."

Online Resources

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

Monthly Wholesale Trade Data

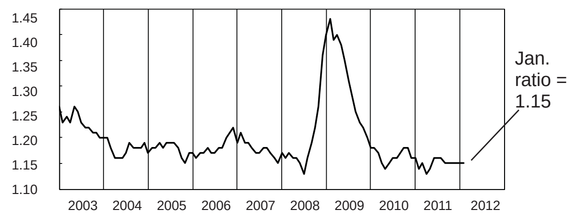
January 2012 wholesale revenues were $413.1 billion, down 0.1 percent from December but up 7.9 percent from January 2011, according to the U.S. Census Bureau. January sales of durable goods were down 0.2 percent from last month but up 10.2 percent from a year ago. Sales of metals and minerals, except petroleum, were down 3 percent from last month. Sales of nondurable goods were down 0.1 percent from December but up 6.1 percent from last January.

Inventories. Inventories of wholesalers were $475.5 billion at the end of January, up 0.4 percent from December and up 9.4 percent from January 2011. January inventories of durable goods were up 0.8 percent from last month and up 10.7 percent from a year ago. Inventories of nondurable goods were down 0.2 percent from last month and up 7.6 percent from last January.

Inventories/Sales Ratio. The January inventories/sales ratio for wholesalers was 1.15. The January 2011 ratio was 1.14.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2003-2012

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



Source: U.S. Census Bureau

Sales and Inventories Trends: January 2012

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 12/11-1/12	Percent Change Sales 1/11-1/12	Percent Change Inventory 12/11-1/12	Percent Change Inventory 1/11-1/12
42	**U.S. Total**	**413,135**	**475,458**	**1.15**	**-0.1**	**7.9**	**0.4**	**9.4**
423	**Durable**	**188,780**	**278,888**	**1.48**	**-0.2**	**10.2**	**0.8**	**10.7**
4231	Automotive	32,919	44,866	1.36	2.4	21.4	0.5	17.9
4232	Furniture & Home Furnishings	4,708	6,986	1.48	2.3	3.1	-0.2	-0.7
4233	Lumber & Other Construction Materials	9,308	11,768	1.26	-2.9	19.4	-0.7	-0.7
4234	Prof. & Commercial Equip. & Supplies	31,481	31,629	1.00	0.2	0.5	-0.2	1.7
42343	Computer Equipment & Software	16,528	11,892	0.72	1.7	-1.1	1.1	-4.0
4235	Metals & Minerals	13,518	26,782	1.98	-3.0	12.3	0.9	17.3
4236	Electrical Goods	34,541	41,084	1.19	0.9	6.1	0.4	7.8
4237	Hardware, Plumbing, & Heating Equipment	8,973	17,879	1.99	-0.5	5.3	0.4	8.0
4238	Machinery, Equipment & Supplies	32,945	71,558	2.17	-1.8	18.8	1.2	14.3
4239	Miscellaneous Durable	20,387	26,336	1.29	-1.1	3.6	3.0	11.1
424	**Nondurable Goods**	**224,355**	**196,570**	**0.88**	**-0.1**	**6.1**	**-0.2**	**7.6**
4241	Paper & Paper Products	6,820	7,613	1.12	-3.1	-3.0	1.0	1.7
4242	Drugs	35,195	32,780	0.93	0.1	3.1	-0.3	7.0
4243	Apparel, Piece Goods & Notions	11,322	22,500	1.99	-1.4	4.4	-0.9	13.0
4244	Groceries &Related Products	51,993	33,700	0.65	-0.1	16.4	0.4	11.3
4245	Farm-product Raw Materials	21,004	21,444	1.02	0.7	-4.6	-1.6	-17.1
4246	Chemicals & Allied Products	9,640	11,479	1.19	0.3	5.4	-2.8	11.3
4247	Petroleum & Petroleum Products	59,675	25,959	0.44	0.1	5.3	2.3	16.2
4248	Beer, Wine & Distilled Beverages	9,815	12,962	1.32	-0.6	4.9	1.8	9.1
4249	Miscellaneous Nondurable Goods	18,891	28,133	1.49	0.4	7.8	-1.4	17.2

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.

mdm.com®

Industrial & Construction Markets Update

VOL. 42, NO. 6 | MARCH 25, 2012

China Manufacturing Remains Low on Global Value Chain

Despite impressive growth over the past three decades, China is still on the low end of the global value chain for most industries, with processing exports accounting for about half of total exports, according to *The Strategic Emerging Industries: A New Stage in Manufacturing in China*, an analysis from the Manufacturers Alliance for Productivity and Innovation.

The share of domestic value-added in exports is far below that of developed countries.

Report author Yingying Xu, an economist for MAPI, notes that China's latest five-year plan focuses on several industries that are fairly new even in global terms.

The government plans to spend more than $300 billion over the next five years on developing and manufacturing biotech drugs, establishing biotech industrial centers, and strengthening intellectual property rights.

China's new materials industry has a fairly low self-sufficiency rate, with the majority of domestic demand for high-tech new materials still relying on imports.

Other goals include establishing numerous well-equipped industry bases and industrial clusters, focuses on high-strength lightweight alloys, high-performance steel, functional film materials, new battery materials, carbon fiber composites, and rare earth functional materials.

Equipment manufacturing is the largest industrial sector in China, accounting for approximately one-quarter of total manufacturing output and dominating global markets in low-end products.

By 2015, sales revenue for high-end manufacturing equipment is expected to reach more than $970 million and account for more than 30 percent of total sales revenue in the equipment industry.

Distributor News

BlackHawk Industrial Distribution Inc., Tulsa, OK, has acquired **Kendeco Tool Crib**, an industrial distributor focused on MRO. Kendeco, based in St. Cloud, MN, is the sixth acquisition of BlackHawk Industrial.

Watsco, Inc., Miami, FL, has agreed to acquire **Carrier**'s HVAC distribution network in Canada. Carrier is a unit of **UTC Climate, Controls & Security**. The business will operate as a joint venture under the name **Carrier Enterprise Canada** with Watsco owning 60 percent and UTC Climate, Controls & Security 40 percent.

Columbus, OH-based **FCX Performance**, Inc. has acquired **Instrumentation Services** Inc., Charlotte, NC. The company's name will not be changed under this acquisition. FCX plans to expand instrument services across its other markets.

HD Supply White Cap Construction Supply, Atlanta, GA, opened a new location in Conroe, TX, 40 miles north of Houston.

United Stationers Supply, Deerfield, IL, has launched outbound teleservices to drive its independent resellers' business growth.

Chicago-based **Grainger** announced that Sean O'Brien, President, **Acklands-Grainger** Inc., Grainger's Canadian subsidiary, resigned from the company effective March 23, 2012. Mike Pulick, President, Grainger International, will serve as interim president of Acklands-Grainger.

Grainger reported daily sales for February 2012 were up 18 percent versus February 2011. Excluding acquisitions, organic sales increased 13 percent. By segment, sales were up 12 percent in the U.S. and 13 percent in Canada (14 percent in local currency). Other Businesses – which includes all other international business – were up 100 percent (up 28 percent excluding acquisitions).

Graybar, St. Louis, MO, reported sales for 2011 were $5.37 billion, up 16.4 percent over sales in 2010. Profit increased 93.9 percent to $81.4 million. Sales in the fourth quarter increased 10 percent.

The Association for Manufacturing Technology (AMT) and the **American Machine Tool Distributors' Association** (AMTDA) announced the merger of the two associations. The merged organizations will be headquartered in McLean, VA, and will go under the name of **The Association for Manufacturing Technology**.

Economic News

Privately-owned housing starts in February were at a seasonally adjusted annual rate of 698,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development. This is 1.1 percent below the revised January estimate of 706,000, but is 34.7 percent above the February 2011 rate of 518,000.

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MARKETS UPDATE SUPPLEMENT P. 2

The **Chicago Fed Midwest Manufacturing Index** (CFMMI) increased 1.3 percent in January, to a seasonally adjusted level of 90.1 (2007 = 100). Revised data show the index was up 2.2 percent in December. The Federal Reserve Board's **industrial production index for manufacturing** (IPMFG) increased 0.8 percent in January. Regional output in January rose 9.0 percent from a year earlier, and national output increased 4.7 percent.

Industrial production was unchanged in February after having risen 0.4 percent in January. Previously, industrial production was reported to have been unchanged in January. At 96.2 percent of its 2007 average, total industrial production for February was 4 percent above its year-earlier level. **Capacity utilization** for total industry edged down to 78.7 percent, a rate 1.2 percentage points above its level from a year earlier but 1.6 percentage points below its long-run (1972-2011) average.

Activity among members of the Industrial Supply Association continued to demonstrate strength in early 2012, according to the latest **ISA Economic Indicators Report** (EIR). The report, calculated similarly to the ISM's Purchasing Managers Index (PMI), showed manufacturer activity in February at 63.99 percent, up from the January index of 62.64 percent. The distributor index was 64.83 percent, up from the January index of 64.11 percent.

Canadian manufacturing sales declined 0.9 percent to C$49.6 billion (US$50 billion) in January, the second decrease in seven months, according to Statistics Canada. The decrease partly reflected a drop in production in the aerospace product and parts industry. Lower sales in the primary metals, machinery and other transportation equipment industries also contributed to the overall decline. Excluding the aerospace industry, sales were virtually unchanged from December.

January **U.S. manufacturing technology orders** totaled $401.69 million according to the Association for Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was down 26.5 percent from December but up 8.4 percent when compared with the total of $370.46 million reported for January 2011.

Heating, Airconditioning and Refrigeration Distributors International (HARDI) reported that **North American HVACR average distributor sales** for January 2012 were up 6.2 percent. U.S. sales were up 6.3 percent for the month.

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Calculation of MDM Inflation Index for February 2012

		BLS Price Indices Feb. '12	BLS Price Indices Jan. '12	BLS Price Indices Feb. '11	% Sales Weight	Weighted Indices Feb. '12 (1)X(4)	% Change Feb. '12 Jan. '12	% Change Feb. '12 Feb. '11
1136	Abr. Prod.	549.8	543.0	529.0	19.1	105.01	1.26	3.93
1135	Cutting Tools	486.7	487.0	471.8	18.9	91.99	-0.06	3.16
1145	Power Trans.	768.8	767.3	743.2	15.4	118.40	0.20	3.45
1081	Fasteners	500.2	501.8	481.5	9.0	45.01	-0.32	3.87
1149.01	Valves, etc.	920.2	907.7	859.9	7.6	69.93	1.37	7.02
1132	Power Tools	344.3	344.3	340.3	6.5	22.38	0.00	1.17
1144	Mat. Handling	550.5	549.9	529.8	6.2	34.13	0.10	3.90
0713.03	Belting	781.2	781.9	675.3	6.1	47.65	-0.08	15.68
1042	Hand Tools	747.5	749.9	732.8	8.1	60.55	-0.32	2.00
108	Misc. Metal	477.2	473.5	459.7	3.1	14.79	0.78	3.81
"New" February Index		318.6	February Inflation Index			609.84	0.36	4.58
"New" January Index		317.5	January Inflation Index			607.63		
			February 2011 Inflation Index			583.12		

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

Survey: Manufacturing, Distribution Executives More Optimistic on Economy

MARKETS UPDATE SUPPLEMENT P. 3

The number of executives optimistic about the U.S. economy is 146 percent greater now than it was a few short months ago in the fall of 2011, according to the results from the winter 2012 McGladrey Manufacturing and Distribution Monitor – a survey of middle-market manufacturing and distribution executives.

"While the resurgence of American manufacturing has recently become a hot topic across the country, the story has largely focused on large, household-name companies who have generally expressed optimism about the direction of the economy in recent weeks," said Karen Kurek, national manufacturing leader for McGladrey & Pullen, LLP, which operates under the McGladrey brand.

"But the manufacturing sector's overall health can't be assessed without a close look at its heart – the middle-market companies that account for the vast majority of the country's manufacturing jobs.

The unique aspect of the data from the McGladrey Monitor lies in the fact that approximately 87 percent of the participants are privately owned or are private equity-owned organizations, making the results rather exceptional for the industry."

"The increase in optimism in the U.S. economy among middle-market manufacturers in the winter Monitor (59 percent this winter, compared to 24 percent in the fall) is striking," Kurek said. "Optimism about the world economy increased significantly, as well, with 27 percent indicating optimism this winter, compared to 17 percent in the fall. These increases in optimism are good signs for 2012."

The winter Monitor also shows that automotive and transportation executives are more likely than others to be optimistic about their companies, and automotive and industrial machinery executives are more likely than others to be optimistic about their industries.

The winter Monitor results, which took a look back over the course of a year, showed that the number of participants who said their companies are thriving and growing averaged 45 percent throughout 2011 – nearly twice the level of those who responded positively in 2010 (24 percent), and comparable to 2007 levels (48 percent). Notably, the number of companies in decline is much lower than in 2007 (3 percent vs. 9 percent).

While the winter Monitor shows increased levels of optimism, this is somewhat tempered by several factors that many executives are concerned with, including federal government gridlock, access to free trade agreements, the lack of a meaningful energy policy in the U.S. and the uncertainty of regulations due to the impending election this fall. These issues need to be addressed if the U.S. manufacturing industry is to remain competitive.

Another area of concern is the challenge of finding skilled workers.

"Winter Monitor results show that nearly 60 percent of survey participants expect to increase their workforce (compared to 50 percent in the fall), but finding qualified workers to fill open positions continues to be a concern for the industry – an unusual dichotomy, given that national unemployment rate remains high," Kurek said.

"The need for a skilled workforce could be one of the greatest impediments to growth for U.S. manufacturers and distributors, and makes it difficult to compete in the global market."

An addition for the winter Monitor was the identification of best practices culled from previous Monitor results over the past year, which show that thriving and growing companies are those that focus on process improvement, invest in efficient equipment, evaluate their risk management programs, identify and manage their top talent, price their products based on value, understand the impact of capital strategy issues, and establish global compliance policies.

"Embracing these best practices will help position organizations to join the ranks of thriving and growing companies that are seeing increased productivity and profitability," Kurek said.

Survey: CEOs Crafting New Approaches to Risk Management

MARKETS UPDATE SUPPLEMENT P. 4

As businesses have faced volatile global conditions since 2008, CEOs have crafted new approaches to risk management and new strategies in response, according to the 15th annual Global CEO Survey conducted by PricewaterhouseCoopers. But they're not going back on the defensive, as they did in 2008.

Risk is not being ignored, but other issues are higher on the agenda. This year, CEOs are focusing on better execution in those markets which are important to the future of their business while also seeking stability and more certainty in their domestic markets.

"We adopted a strategy called 'protect' in most cases in the mature markets. We pay more attention to profit making and how to transfer the core business into cash cows," said Yang Yuanqing, CEO of Lenovo. "In emerging markets, we have primarily adopted an 'attack' strategy. That means we have to pay more attention to market share at the beginning instead of profit. We would say that it is difficult to make money if market share is less than 10 percent."

Similarly Keith McLoughlin, president and CEO of AB Electrolux pointed out: "Our goal is to maintain market share in the mature markets. Those markets generate a lot of earnings so we have no plans to shrink our presence there. On the other hand, we are planning to invest substantially in the emerging markets."

CEO respondents to the survey identified three areas to prioritize in 2012:

Reconfiguring operations to meet local market needs: CEOs are simultaneously building local capabilities in important markets, extending operational footprints, building strategic alliances and creating new networks for new markets that include R&D, manufacturing and services.

Addressing risks that greater integration amplifies: In 2011, global businesses had to confront a portfolio of unrelated high-impact global risks – from political upheaval and a nuclear disaster to massive floods and a sovereign debt crisis. CEOs have learned that risk management should focus less on the probabilities of particular events, and more on understanding the potential consequences they have to prepare for.

Making talent strategic: Not having the right talent in the right place is a leading threat to growth for many CEOs. One in four CEOs said they were unable to pursue a market opportunity or have had to cancel or delay a strategic initiative because of talent constraints. There are short-term issues, such as an acute shortage of trained managers and technically skilled workers. And there are long-term concerns with the capacity of educational systems everywhere to keep up with business needs.

MDM News Digest

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Manufacturer News

Praxair, Inc., Danbury, CT, has agreed to acquire **Volzhsky Azot**, the industrial and packaged gases business of SIBUR – Russian Tyres in the Volgograd Region of the Russian Federation. The business includes two air separation units and a bulk and packaged gas business.

Air Products, Lehigh Valley, PA, has acquired U.K.-based **CryoService Limited**. CryoService will now be known as **Air Products CryoEase Services**.

Actuant Corp., Milwaukee, WI, second-quarter sales were $378 million, up 14 percent over the same period a year ago. Profit from continuing operations grew 45.7 percent to $32.2 million. Sales for the six months ended Feb. 29, 2012 were $771 million, 19 percent higher in a year-over-year comparison. Profit from continuing operations increased 42 percent to $69.3 million.

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ISSN 0544-6538

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