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The State of Call Centers & Inside Sales

Survey: Proactive selling often takes backseat to administrative tasks

Inside sales can be a powerful source of growth, especially when integrated with field sales, e-commerce and direct response marketing. This article provides a snapshot of how distributors who responded to a recent MDM survey use inside salespeople and call centers. A notable finding: Nearly half of respondents said that their inside sales reps proactively sell less than 10 percent of the time. The authors argue that this needs to change.

**By Jonathan Bein, Ph.D.
and Debbie Paul**

While social media and e-commerce are gathering increasing attention among distributors, some of the most successful have utilized call centers to support effective inside sales as part of an integrated multichannel offering. However, in a recent MDM survey, the vast majority of distributors have limited inside sales functions or outbound-only telephone sales (see Figure 1 on page 3) in large part because they may not understand the power of inside sales by itself or in conjunction with field sales, e-commerce and direct response marketing.

For many, inside sales involves ordering, technical support, returns handling and credit management. Rarely does it involve proactive, outbound sales. Simply put, those with the title "Inside Sales" spend little or no time actually doing inside "sales" because they lack the time, training or aptitude or skills to be successful.

Here are some common signs that suggest inside sales should be improved:

Steady, repeat customers buy the same set of products in the same quantity over and over. Cross-selling opportunities are routinely missed. Average order value is low because salespeople are not upselling and cross-selling into other product lines.

Most of the distributor's revenue comes from a small number of large accounts that are managed entirely by field sales. Meanwhile, small- to medium-sized customers are underserved or unserved by field sales.

There are too many "one-and-done" customers who buy once and never return because there was no outreach after the first sale.

Margins suffer because discounts are given frequently and often unnecessarily by customer service representatives who are trying to please the customer.

In partnership with Modern Distribution Management, we conducted a survey of distributors in an effort to understand their proactive selling practices. We found that there is a lot of room for improvement in building the inside sales function into a sales growth center.

Limited Proactive Selling

Proactive selling is defined as making outbound calls into accounts to generate additional business as well as leveraging inbound calls by upselling, cross-selling and better understanding customer needs. Making proactive outbound sales calls is markedly different from selling on the inbound call and requires a different skill set.

As the data in Figure 2 (page 3) indicates, nearly half of the respondents stated that their inside sales reps are proactively selling less than 10 percent of the time. One sales executive at a mid-market distributor said: "We are overloaded with large customers who need customer service. We don't have time to be more proactive." Others have said that their inside sales reps are not sufficiently trained, nor do they have the skill sets required to be proactive.

Paradoxically, the strong service

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PERSPECTIVE ■ Commentary by Thomas P. Gale

Make Disruptive Technology Work for You

I'm a history buff. The Sears Roebuck and Co. catalog from 1900 looks a little like a cartoon today, but it holds an important lesson for distribution in 2012. On the cover is a picture of a globe, a cornucopia horn with products spilling out, a banner proclaiming to be the "cheapest supply house on earth," and two sentences with a very important message that goes like this:

THIS BOOK… tells just what your storekeeper at home pays for everything he buys and will prevent him from overcharging you on anything you buy from him.

I thought about that Sears catalog as I mulled over the impact of Amazon's launch of AmazonSupply.com at the end of April. Read my analysis at www.mdm.com/whatstheimpact. We are in an unprecedented time of change in our economy, business models and consumer behavior. We're emerging from the most disruptive change in our economy since the 1930s.

That Sears catalog was disruptive technology 112 years ago for the then-dominant decentralized merchandising model.

An alternate source of supply emerged that provided broad selection and price visibility. It was a highly effective combination of marketing and logistics in a catalog business model that captured market share and changed our national economy one town at a time. At one level, it is amazing how little, other than upgrades in communication platforms, that basic model has changed.

The Internet simply provided yet another level of visibility that's evolved over the past 15 years or so to the current frontier of deeper engagement with customers, vendors and prospects. Think about mobile devices, CRM, business intelligence, analytics, social media and the current explosion of customized apps for business.

What's this mean for your company? The question for any business is how to make this digital migration in a way that makes sense for the specific business needs. It's about the emerging apps that can solve problems, improve service capabilities and allow you to adjust quickly to quickly changing market conditions. You'll need skill sets that can navigate disruptive technology, evaluate the right apps to say yes to (and perhaps more importantly the ones to say no to).

This economy is opening opportunities to tap into these changes to get leaner, increase productivity, be more flexible and provide higher levels of customer service. ■

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Call Centers & Inside Sales

Continued from page 1

culture in distributors of all sizes is an impediment to having a good inside sales channel. The service culture often breeds a mentality of "do whatever it takes to satisfy the customer." In turn, many people end up being generalists with skills in several areas. By contrast, the best inside salespeople are sharp-shooters. They are singularly focused on getting additional revenue and less focused on day-to-day customer service.

Figure 3 outlines the other activities inside salespeople are performing. The amount of time spent performing these activities supports the premise that inside salespeople are spending most of their time on functions that are not directly sales-related. Much time is spent on ordering and quoting, which are prime opportunities for upselling and cross-selling.

However, when we asked if survey respondents felt their inside salespeople had the time to be more proactive during their day, 63 percent said that they did. But the perception among many managers is that inside salespeople have more time than they actually do to do outbound calling. The reality is other non-sales tasks quickly fill their time.

This underscores that many distributors significantly underestimate what is involved in successful inside sales.

Another thing to consider is the change in the way customers are communicating with distributors. Our research has shown that as much as 50 to 75 percent of customers prefer to communicate using email or fax when placing an order or requesting a quote. Many more prefer to use websites for order placement. This does not mean that proactive selling stops because we are not communicating with our customers via telephone.

There are still ways to "sell" using these tools; an example is including a new product link on the email that is being returned to the customer with the pricing information.

Training was a recurring theme throughout the survey. More than two-thirds of the respondents said that their training programs for inside sales representatives were four weeks or less. The majority of this time is spent in technical training, i.e. product, order/quote entry and customer service. Minimal time is spent on actual sales training.

Obviously, the other part is that unless the salesperson has the right personality and aptitude to do outbound calling, they will do every other task before getting to outbound.

Figure 1 - Number of employees in various sales and customer service roles

According to a survey of MDM readers in April 2012, the majority of distributors have limited inside sales or outbound-only telephone sales.

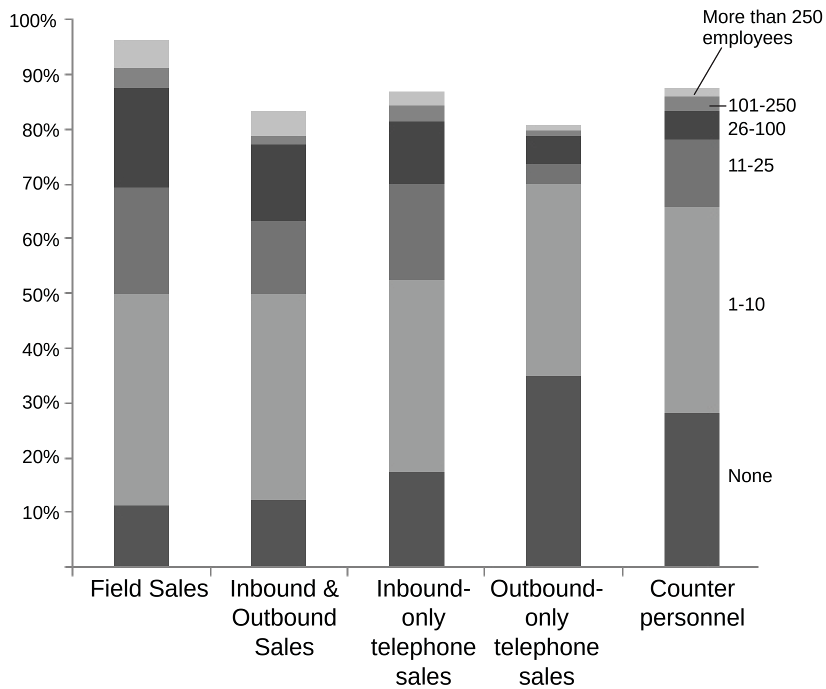


Figure 2 - Percentage of time inside salespeople spend proactively selling

Nearly two-thirds of survey respondents said that the percentage of time their inside salespeople spend proactively selling falls below 25 percent.

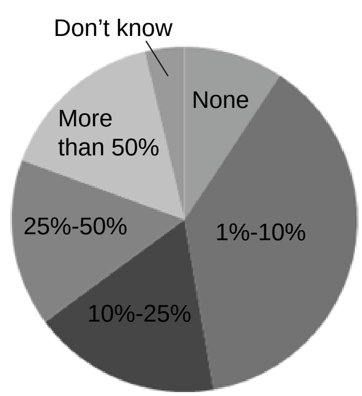


Figure 3 - Other functions inside salespeople perform

The amount of time spent doing these activities supports the premise that inside salespeople are spending most of their time on functions that are not directly sales-related.

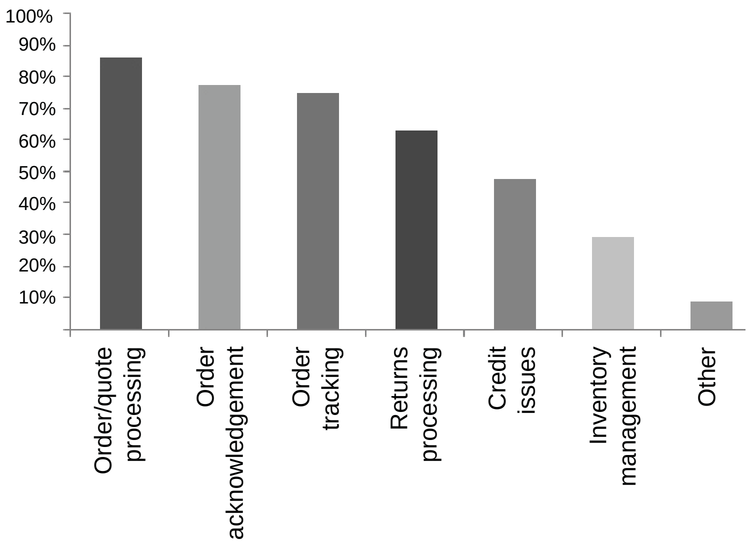
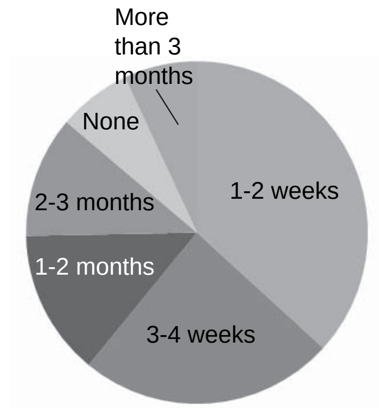


Figure 4 - Amount of time spent training a new inside salesperson

More than half of distributor respondents said they spend four weeks or less on training a new inside salesperson.



The most common campaign programs in place were for new product introduction, with less emphasis on customer lifecycle programs. This is indicative of a lack of quality proactive selling. Customer lifecycle management is key to growing and retaining customers and effective proactive selling is centered on understanding this process. Integrating selling and marketing programs into a cohesive lifecycle program is the basis for double-digit sales growth.

A good rule of thumb is to ensure that on at least 50 percent of the inbound phone calls some type of upsell or cross-sell is being offered. Obviously this will depend on the specifics of the business and how often customers are calling in, but each customer contact presents an opportunity to uncover customer needs. Even a well-resolved customer service call can be an opportunity to strengthen customer relationships and to probe for customer needs.

The Benefits of a Centralized Call Center

How the inside sales function is structured within the organization plays a key role in the success of the program. Many distributors are branch/geographically focused and have inside sales spread throughout the branch network. Fifty percent of respondents said that they had a functioning call center within their organizations. Not surprisingly, the activities most performed within the call centers were customer service-related.

Centralization of the inside sales function is the optimum structure for effectiveness. A centralized call center allows for consistent hiring, training and activity overview. It is also an excellent way to create a team atmosphere that can be used for idea exchange and support. Effective salespeople thrive in an environment of healthy competition.

The measurements of call center performance in the survey were also indicative of the customer service-related tasks performed in the call center, with average speed of answer; number of calls answered and call service quality being the most measured activities. Measurements of effective salespeople are markedly different than those for customer service activities. We'll discuss these measurements in our next article.

Double-Digit Benefits

When done properly, proactive inside sales can provide significant revenue growth with small and mid-market customers. We often have seen 15 to 20 percent annual growth over a multi-year period after inside sales programs have been properly initiated.

Inside sales can also play a key role in both margin and sales growth with larger customers. One significant way is to identify additional key contacts within these large and oftentimes geographically disparate organizations. Field sales simply cannot uncover as many contacts as an inside salesperson can with a well-targeted

Figure 5 - Campaigns or programs inside salespeople participate in

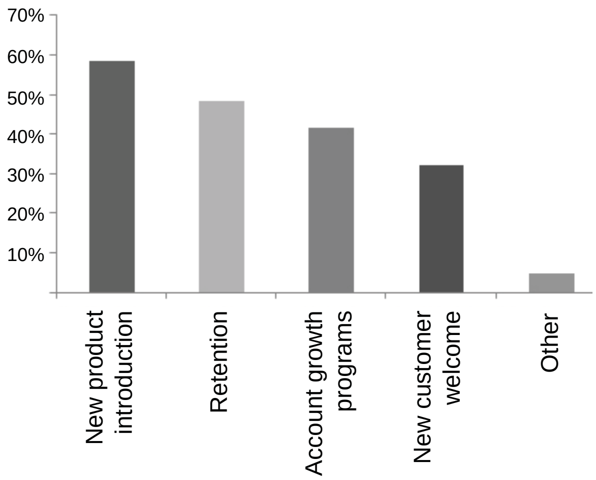
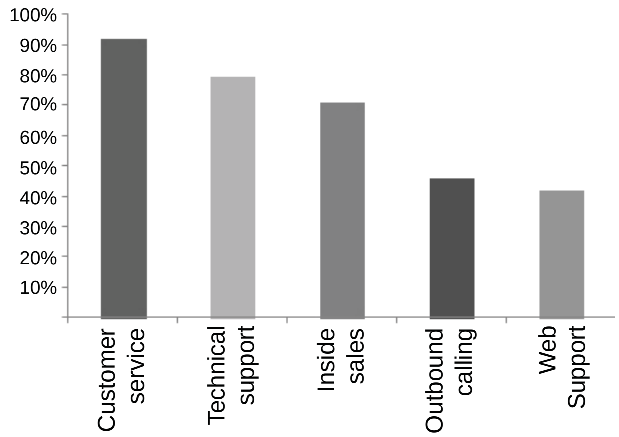


Figure 6 - Functions provided by call centers



calling plan. An effective upselling and cross-selling plan is also necessary to increase margins in these large accounts, since they may have pricing contracts in place.

In the next article, we will cover best practices for inside sales and for the integration of inside sales with other channels.

Jonathan Bein, Ph.D. is a Senior Partner at Real Results Marketing. Debbie Paul, a Partner at Real Results Marketing, was vice president of call centers at Newark, an electronics distributor, and has held positions at Sears and All-State. Contact them at jonathan@realresultsmarketing.com or visit www.realresultsmarketing.com.

About This Survey

This research was conducted by Real Results Marketing with Modern Distribution Management. The research included an online survey taken by 175 participants across distribution sectors. There was heavier participation from industrial, electrical and safety. Other participating sectors include chemicals and plastics, building materials, pulp and paper, janitorial, hardware, oil and gas, grocery and pharmaceutical. Forty-six percent are small distributors with less than $50 million revenue, 45 percent are mid-market with $50 million to $500 million revenue, and 9 percent large with more than $500 million revenue. Almost half are focused on MRO, 14 percent are focused on OEM customers, 24 percent are an even blend of MRO and OEM, and 12 percent are in other categories.

Byrnes: Don't Be Everything to Everyone

To sell for profit, provide the right value to the right customers at the right time

In the recent MDM Webcast, Selling for Profit: Turbocharge Your Profit Growth through Market Development and Sales Management, Jonathan Byrnes, senior lecturer at MIT and author of "Islands of Profit in a Sea of Red Ink," said companies must find a unique value proposition that provides the right value to the right customers at the right time instead of trying to be everything to everyone. Here's a summary of the webcast, now available on-demand or on DVD at www.mdm.com/sellingforprofit.

Is your value proposition so strong that after trying your service three times, new customers will be hooked for life? Is it something that will have them viewing you as a partner rather than just another vendor?

Jonathan Byrnes, senior lecturer at MIT, posed these questions to attendees of the recent MDM Webcast, Selling for Profit: Turbocharge Your Profit Growth through Market Development and Sales Management. If you answered no, you might want to rethink your value proposition.

Turbocharging your profit growth begins with a change in mindset:

From addressing customer wants to meeting customer needs: If you're simply responding to customer requests, you're a vendor, Byrnes says. If you're meeting needs they didn't even know they had, you're a partner for life.

From product focus to customer value focus: "A portfolio of great products does not equal a great value proposition."

From broad market targeting to precision customer targeting: "You can't be everything to everyone," Byrnes says, "so make sure you're providing the right thing at the right time for the right people."

From short-term gains to lifecycle value management: Turbocharging profit growth involves long-term, sustainable growth, not a short-term spike in revenues, Byrnes says. Invest in your relationships and monitor ways you can help them improve their businesses. Be a partner.

From enhancing revenues to maximizing profitable growth and competitive differentiation: "Not all revenues are profitable," Byrnes says. "Focus your resources where they will count."

Having a "compelling value footprint" is a key element to creating sustainable high-profit growth. And you have to be able to show that to your customers, or they're not going to buy it.

"Many distributors are very good at selling products," Byrnes says. "They're not so good at selling the process and the innovation." But those elements should be a key part of your selling process, he says.

Define your value proposition and make it specific. For example, Amazon.com developed intricate tracking software to redefine its customers' experience. It took the tracked buyer behavior and applied it across a linked product system to improve automated cross-selling. No one else had that same level of functionality.

In addition, don't be afraid to dig deeper into your customers' needs, extending your value proposition across their companies.

"Target your customer's core business, not just a component of it," Byrnes says. Nalco, a company that focuses on providing chemicals for water processing, created a system for monitoring usage so that it could better schedule deliveries based on needs. But it didn't stop there. Nalco expanded the product's application to improve customer efficiency through better monitoring.

Tap into the hidden reservoirs of expertise that every company has. The people with the best knowledge about the everyday workings of your customer may not be the salespeople or the account managers, Byrnes says.

For one distributor, "the best knowledge came from the truck drivers," he said. They were the ones chatting with the customer's employees on the loading docks and having real conversations with the customer. Those candid conversations can help you identify new opportunities.

Once you have defined your unique proposition, showcase it, Byrnes says. "You can't move people without the evidence," he says. "They want you to 'show me.'" Demonstrate how your value proposition actually works – and specifically, how it is right for them. And if you've done that well, after that third experience, they won't go shopping elsewhere.

A DVD of Byrnes' Selling for Profit Webcast with MDM is available at mdm.com/sellingforprofit or call 888-742-5060.

Small Business Confidence Rises

Survey: Top concerns include government, commodity prices & health care

Small business owners have more confidence in their local economy than the national economy, according to the inaugural Bank of America Small Business Owner Report, a semi-annual study exploring the concerns, aspirations and perspectives of small business owners across the country. When asked about the next 12 months, 42 percent expects their own local economic conditions to improve compared to 35 percent who expects the national economy will improve.

The survey also found managing the ongoing success of their business creates more stress for small business owners than any other aspect of their lives.

Maintaining a small business causes small business owners twice as much stress as maintaining a healthy relationship with a spouse or partner, nearly three times as much stress as raising children and more than four times as much as managing their own personal finances.

In addition, small business owners regularly forego free time (57 percent), exercise (37 percent) and other important personal priorities to manage their businesses.

However, reservations about the state of the national economy did not dampen optimism among small business owners regarding their future business prospects. Nearly seven of 10 small business owners view their local economies as very important to their businesses' success.

The survey also included an oversampling of small business owners in select metropolitan areas. Half of Metro New York small business owners are confident their local economy will improve in the next 12 months, while only four in 10 are confident in the improvement of the national economy during the same period.

Close to four in 10 Chicago small business owners are confident that their local economy will improve over the next 12 months, slightly higher than the 32 percent that are confident the national economy will improve during the same period

Small business owners in Boston, Atlanta, San Francisco, Los Angeles, Dallas and Washington, D.C., all reported more confidence in local markets than the national economy. Miami respondents had slightly more confidence in the national economy (37 percent) than the local market (35 percent).

The majority of respondents (53 percent) stated that their own decisions, rather than the overall health of the economy, are more likely to influence business outcomes. This sentiment was particularly strong among young small business owners, those between the ages of 18 and 34 (66 percent).

Confidence was further evident in two key indicators of performance – hiring and revenue expectations. Nearly one-third of small business owners expect to expand their workforce in the next 12 months, while more than half plan to keep their staffing levels consistent year over year.

Among those small businesses planning to hire, owners expect to increase the number of employees by 25 percent on average. Furthermore, 61 percent of all respondents forecast a revenue increase, and 32 percent projects that revenues will remain the same.

When considering the potential impact of national economic issues, survey respondents listed the effectiveness of U.S. government leaders (75 percent) as their most pressing concern. Other concerns included commodity prices, such as oil and gas (73 percent), recovery of consumer spending (71 percent) and health care costs (70 percent). Credit availability (54 percent) ranked in the bottom three considerations along with the trade deficit and the global stock market unrest.

More than two-thirds of respondents (71 percent) believe they have enough capital to effectively run their businesses.

When asked to describe their points of view on lending criteria and requirements to obtain a line of credit, a quarter of respondents said that today's lending requirements are appropriate and should not change, while an additional 20 percent believes that further requirements should be put in place to obtain a loan in order to protect small business owners from defaulting.

While credit appears to be available – more than three-quarters of applicants who applied for a loan within the past two years were approved – small business owners may not be taking advantage of their lines of credit to further business objectives.

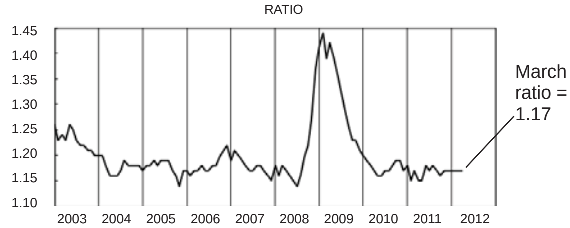
Of the 64 percent of small business respondents holding an open line of credit, 50 percent earmark the money for emergency purposes only, rather than using it as day-to-day capital.

Monthly Wholesale Trade Data

March 2012 wholesale revenues were $411.1 billion, up 0.5 percent from February and up 6.5 percent from March 2011, according to the U.S. Census Bureau. March sales of durable goods were down 0.6 percent from last month but up 7.8 percent from a year ago. Sales of nondurable goods were up 1.5 percent from February and were up 5.5 percent from last March. Sales of petroleum and petroleum products were up 2.7 percent from last month.

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

Inventories. Inventories were $480.4 billion at the end of March, up 0.3 percent from February and up 8.4 percent from March 2011. March inventories of durable goods were up 1 percent from last month and up 10.8 percent from a year ago. Inventories of machinery, equipment and supplies were up 1.6 percent from last month.

Inventories of nondurable goods were down 0.6 percent from February but were up 5.1 percent from last March.

Inventories/sales ratio. The March inventories/sales ratio for wholesalers was 1.17. The March 2011 ratio was 1.15.

Sales and Inventories Trends: March 2012

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 2/12-3/12	Percent Change Sales 3/11-3/12	Percent Change Inventory 2/12-3/12	Percent Change Inventory 3/11-3/12
42	**U.S. Total**	**411,092**	**480,435**	**1.17**	**0.5**	**6.5**	**0.3**	**8.4**
423	**Durable**	**184,503**	**280,962**	**1.52**	**-0.6**	**7.8**	**1.0**	**10.8**
4231	Automotive	31,874	44,381	1.39	-1.7	21.0	0.4	15.5
4232	Furniture & Home Furnishings	4,494	7,198	1.60	0.2	3.6	1.0	1.3
4233	Lumber & Other Construction Materials	9,161	12,344	1.35	3.3	13.5	2.1	1.5
4234	Prof. & Commercial Equip. & Supplies	32,044	31,827	0.99	0.3	2.1	1.1	3.6
42343	Computer Equipment & Software	16,414	11,825	0.72	-0.4	-0.1	0.9	2.4
4235	Metals & Minerals	13,196	26,903	2.04	-1.1	6.9	1.3	16.7
4236	Electrical Goods	31,150	41,083	1.32	-0.7	0.4	0.0	7.0
4237	Hardware, Plumbing, & Heating Equipment	9,000	17,973	2.00	-1.3	5.9	0.0	7.1
4238	Machinery, Equipment & Supplies	32,812	73,834	2.25	1.7	19.9	1.6	14.9
4239	Miscellaneous Durable	20,772	25,419	1.22	-4.8	-4.8	1.5	12.2
424	**Nondurable Goods**	**226,589**	**199,473**	**0.88**	**1.5**	**5.5**	**-0.6**	**5.1**
4241	Paper & Paper Products	7,100	7,235	1.02	1.6	0.0	-2.0	-1.3
4242	Drugs	36,243	34,823	0.96	0.2	4.2	1.7	6.9
4243	Apparel, Piece Goods & Notions	11,464	21,924	1.91	-0.1	2.7	0.6	8.3
4244	Groceries &Related Products	47,901	34,271	0.72	-0.8	7.5	-0.6	7.9
4245	Farm-product Raw Materials	17,658	21,625	1.22	4.3	-5.9	3.3	-12.3
4246	Chemicals & Allied Products	9,924	11,565	1.17	1.2	2.2	0.6	10.9
4247	Petroleum & Petroleum Products	65,766	27,697	0.42	2.7	8.2	-5.9	7.0
4248	Beer, Wine & Distilled Beverages	10,127	12,732	1.26	0.5	5.8	-1.1	4.5
4249	Miscellaneous Nondurable Goods	20,406	27,601	1.35	4.3	11.4	-1.5	11.5

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

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Industrial & Construction Markets Update

VOL. 42, NO. 10 | MAY 25, 2012

Behind the Deal: Rexel Agrees to Buy Platt Electric Supply

Global electrical distributor Rexel has agreed to acquire Platt Electric Supply, distributor of electrical products & services in the Western U.S.

Part of the attraction of this acquisition for Rexel was the lack of overlap between the two companies' footprints. "Through the acquisition of Platt Electric Supply, Rexel is significantly expanding its footprint in the U.S. and strengthening its market position in a key region," said Rudy Provoost, Rexel's CEO.

Platt has 111 branches in seven states and two logistics centers. Sales in 2011 were $394 million.

Following this acquisition, Rexel estimated its market share in the region will be more than 10 percent.

This acquisition supports one of Rexel's top external growth priorities: strengthening its market share in key mature markets where it is already present. This acquisition represents an investment of about €300 million (enterprise value) for Rexel and will be accretive by the end of 2013.

The integration of Platt into Rexel is still being determined, but unlike most of Rexel's acquisitions, Platt will continue to operate as Platt Electric Supply. "Platt has outstanding brand recognition and a real presence in the Northwest U.S.," says Brad Greene, vice president of human resources and communications for Rexel Holdings USA, Rexel's U.S. operations. "We're very much going to use that."

Rexel was also attracted to Platt's business model "and how they operate in their markets," Greene says. "Platt is a solid company, and we see opportunity to learn from them."

Another attraction for the global electrical distributor: Platt's training tools and technology innovations, including the online Platt University. "We're really going to look closely at

continued on p.4 of this section

Distributor News

Beacon Roofing Supply, Inc., Peabody, MA, has agreed to acquire **Cassady Pierce Company**, a distributor of residential and commercial roofing products and related accessories headquartered in Pittsburgh, PA.

Beacon Roofing Supply reported sales for the second quarter were $395.2 million, up 33.4 percent year-over-year. Profit was $3.1 million compared to a year-ago net loss of $6.2 million. For the first six months of the fiscal year, sales increased 26.2 percent to $885 million. Profit was $22.3 million.

Hydradyne LLC, New Orleans, LA, a fluid power and motion control products distributor, has acquired **Allen Orton** LLC.

Tanner Fasteners & Industrial Supplies, Brooklyn, NY, has acquired **City Sprint Safety & Supply**, Long Island City, NY.

Global HVAC distributor **Wolseley** completed the sale of **Bathstore**, its U.K. retail business, to a newly incorporated company backed by Endless LLP for £15 million (US$24.1 million).

Oilind Safety Inc. has changed its name to **Airgas On-Site Safety Services** Inc. **Airgas**, Radnor, PA, acquired Oilind Safety in 2008.

Edgen Group Inc., Baton Rouge, LA, reported pro forma sales for its first quarter were $505.8 million, up 55 percent over sales a year ago. Pro forma profit was $4 million, compared to a year-ago loss of $6 million.

Graybar, St. Louis, MO, reported first-quarter sales of $1.28 billion, a year-over-year increase of 7.8 percent. Profit increased 41.9 percent to $16.4 million.

Grainger, Chicago, IL, reported daily sales for April increased 12 percent versus April 2011. Results for the month included a 5 percentage point contribution from acquisitions.

Interline Brands, Inc., Jacksonville, FL, reported first-quarter sales were $313.6 million, up 5.4 percent from last year. Profit increased 8.7 percent to $7.5 million.

MRC Global Inc., Houston, TX, first-quarter sales of $1.38 billion were up 39 percent from 1Q2011. Profit was $37.5 million, compared to a year-ago net loss of $1.1 million.

Economic News

March U.S. manufacturing technology orders totaled $495.97 million, according to the Association for Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was up 11.3 percent from February, but down 1.4 percent when compared with the total of $502.89 million reported for March 2011. With a year-to-date total of $1.35 billion, 2012 is up 12.9 percent compared with 2011.

continued on p.4 of this section

ISM Semiannual Forecast: Manufacturing Revenues to Grow 4.5% in 2012

MARKETS UPDATE SUPPLEMENT P. 2

Economic growth is expected to continue in the U.S. throughout the remainder of 2012, say purchasing and supply executives in their spring 2012 Semiannual Economic Forecast. Expectations for the remainder of 2012 continue to be positive in both the manufacturing and non-manufacturing sectors. These projections are part of the forecast issued by the Institute for Supply Management.

Manufacturing Sector Summary

Sixty-six percent of respondents forecast revenues will be 9.5 percent greater in 2012, 15 percent expect a 12.1 percent decline, and 19 percent foresee no change. This yields an overall average expectation of 4.5 percent revenue growth among manufacturers in 2012, which is a modest reduction of 1 percentage point from December 2011.

Non-manufacturing Summary

Fifty-five percent of non-manufacturing purchasing and supply executives expect their 2012 revenues to be greater by 9.9 percent than in 2011. Overall, respondents currently expect a 4.8 percent net increase in overall revenues, which is greater than the 3.1 percent increase that was forecast in December 2011.

More details from the semiannual report:

Business Revenues: 2012 vs. 2011

The table below shows the percentage of manufacturing and non-manufacturing respondents to the ISM survey who predict higher, same or lower revenues for 2012 compared with 2011. The bottom row shows the average change expected.

	Manufacturing Forecast	Non-manufacturing Forecast
Higher	66%	55%
Same	19%	37%
Lower	15%	8%
Average Change	+4.5%	+4.8%

Operating Rate

Manufacturing purchasing and supply managers report that their companies are currently operating at 81.6 percent of normal capacity, representing an increase from the 79.2 percent reported in December 2011, and a decrease from the 83.2 percent reported in April 2011.

Non-manufacturing purchasing and supply executives report that their organizations are currently operating at 85.2 percent of normal capacity.

Production Capacity

Production capacity in manufacturing is expect-

Calculation of MDM Inflation Index for April 2012

		BLS Price Indices Apr. '12	BLS Price Indices Mar. '12	BLS Price Indices Apr. '11	% Sales Weight	Weighted Indices Apr. '12 (1)X(4)	% Change Apr. '12 Mar. '12	% Change Apr. '12 Apr. '11
1136	Abr. Prod.	549.2	548.6	540.0	19.1	104.89	0.11	1.70
1135	Cutting Tools	486.7	487.8	472.3	18.9	91.99	-0.22	3.04
1145	Power Trans.	772.6	768.5	748.5	15.4	118.98	0.53	3.21
1081	Fasteners	499.9	501.2	485.8	9.0	44.99	-0.27	2.89
1149.01	Valves, etc.	929.9	926.5	875.1	7.6	70.67	0.37	6.27
1132	Power Tools	346.5	347.0	338.8	6.5	22.52	-0.13	2.29
1144	Mat. Handling	553.9	550.2	536.4	6.2	34.34	0.68	3.26
0713.03	Belting	799.9	791.5	691.7	6.1	48.79	1.06	15.64
1042	Hand Tools	750.2	749.5	736.6	8.1	60.77	0.09	1.85
108	Misc. Metal	474.1	474.9	466.7	3.1	14.70	-0.18	1.57
"New" April Index		320.1	April Inflation Index			612.64	0.23	3.92
"New" March Index		319.3	March Inflation Index			611.23		
			April 2011 Inflation Index			589.52		

New index reflects 1977=100 base other #: 1967 To convert multiply by .52247 ed to increase 5.2 percent in 2012. This increase is slightly less than the 5.6 percent increase predicted in December 2011 for 2012, but greater than the 4.6 percent increase reported in December for 2011. This reflects the continuing strength in the sector as 47 percent of respondents expect an average capacity increase of 14.1 percent, 8 percent expect decreases averaging 19.1 percent, and 45 percent expect no change.

The capacity to produce products or provide services in the non-manufacturing sector is expected to increase 3.3 percent during 2012.

Capital Expenditures

Manufacturing survey respondents expect a 6.2 percent increase in capital expenditures in 2012. This is greater than the December 2011 forecast when members predicted an increase of 1.9 percent. Currently, 42 percent predict increased capital expenditures in 2012, with an average increase of 23.4 percent, while the 13 percent who said their capital spending would decrease expect an average decrease of 25.8 percent. Forty-five percent say they will spend the same.

Non-manufacturing purchasing and supply executives are expecting to increase their level of capital expenditures 3.6 percent in 2012 compared to 2011.

Price

The 55 percent of manufacturing respondents who say their prices are higher now than at the end of 2011 report an average increase of 5 percent, while the 19 percent who report lower prices report an average decrease of 4.2 percent. The remaining 26 percent indicate no change for the period.

When asked to predict 2012 price changes, 61 percent of respondents expect the prices they pay to increase by 5.3 percent for the full year of 2012 compared to the end of 2011.

Non-manufacturing respondents report that their purchases in the first four months of this year cost an average of 1.8 percent more than they cost at the end of 2011.

Employment

Manufacturing respondents forecast that employment will increase 1.4 percent during the balance of 2012, with 45 percent expecting employment to be 5.6 percent higher.

Non-manufacturing respondents forecast that employment will increase 1.9 percent during the balance of 2012.

Business Revenues

Looking ahead, expectations by manufacturing respondents are for increased revenues in 2012 an overall net nominal increase of 4.5 percent in business revenues for 2012 over 2011. Sixty-six percent of respondents say that nominal revenues (before adjusting for inflation) for 2012 will increase an average of 9.5 percent over 2011.

Non-manufacturing respondents forecast that business revenues for 2012 will increase 4.8 percent compared to 2011.

Capital Expenditures: 2012 vs. 2011

The table below shows the percentage of manufacturing and non-manufacturing respondents to the recent ISM survey who predict higher, same or lower capital expenditures in 2012. The bottom row shows the average change expected in capital expenditures.

	Manufacturing Forecast	Non-manufacturing Forecast
Higher	42%	34%
Same	45%	51%
Lower	13%	15%
Average Change	+6.2%	+3.6%

Prices: Predicted Change 2012 vs. 2011

The table below shows the percentage of manufacturing and non-manufacturing respondents to the recent ISM survey who expect to pay higher, the same or lower prices by the end of 2012. The bottom row shows the average price change expected.

	Manufacturing Forecast	Non-manufacturing Forecast
Higher	61%	68%
Same	21%	24%
Lower	18%	8%
Average Change	+2.3%	+2.6%

Employment: Balance of 2012

The table below shows the percentage of manufacturing and non-manufacturing respondents to the recent ISM survey who predict higher, the same or smaller overall employment for the balance of 2012. The bottom row shows the average employment change expected for the balance of 2012.

	Manufacturing Forecast	Non-manufacturing Forecast
Higher	45%	32%
Same	41%	59%
Smaller	14%	9%
Average Change	+1.4%	+1.9%

MARKETS UPDATE SUPPLEMENT P. 4

Rexel

Continued from p. 1 of this section

how we can bring more of that into Rexel," Greene says.

Greene declined to talk about other potential acquisition targets for Rexel, but said the company intends to be an acquirer and the U.S. is an attractive market.

Jeff Baker, president of Platt Electric Supply, will become president and CEO of Platt Electric Supply and will become vice president of Rexel Inc. He will assume an enhanced leadership role on several key initiatives for the broader Rexel business in the U.S.

The transaction, subject to customary conditions, should close in early July and Platt Electric Supply's operations should be consolidated from July 2012.

News Digest

Continued from p. 1 of this section

Privately-owned housing starts in April were at a seasonally-adjusted annual rate of 717,000, 2.6 percent above March and 29.9 percent above April 2011, according to the U.S. Census Bureau and the Department of Housing and Urban Development.

Industrial production increased 1.1 percent in April. At 97.4 percent of its 2007 average, total industrial production for April was 5.2 percent above its year-earlier level. The rate of **capacity utilization** for total industry moved up to 79.2 percent.

The 1Q2012 **PTDA Business Index** was at 75.4, the eighth consecutive quarter for business growth among Power Transmission Distributors Association members. The reading in the fourth quarter of 2011 was 67.3.

Wholesale prices fell 0.2 percent in April, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. Prices for finished goods were unchanged in March and increased 0.4 percent in February.

Manufacturer News

Lincoln Electric Holdings, Inc., Cleveland, OH, has acquired Wayne Trail Technologies, Inc., a privately held Ohio-based manufacturer. Terms were not disclosed.

Precision Castparts Corp., Portland, OR, reported fourth-quarter sales of $1.9 billion, a 16 percent increase year-over-year. Profit increased 24.8 percent to $338.4 million. Fiscal-year sales were $7.2 billion, a 16 percent increase. Year-end profit increased 20.7 percent to $1.2 billion.

Brady Corp., Milwaukee, WI, reported third-quarter sales of $331.6 million, down 1.9 percent. Profit decreased to $27.7 million from $28.6 million. For the first nine months, sales were $1 billion, a 0.5 percent decrease.

Allied Motion Technologies Inc., Denver, CO, reported first-quarter sales of $26.8 million, up slightly from $26.7 million last year. Profit fell 4.5 percent to $1.16 million.

Rexnord Corp., Milwaukee, WI, reported sales for the fourth quarter ended March 31, 2012, were up 19 percent to $546 million. Profit was $9 million. Sales for the year were up 16 percent to $1.97 billion.

Louisiana-Pacific Corp., Nashville, TN, reported first-quarter sales of $362 million, a year-over-year increase of 9 percent. Loss from continuing operations was $11 million, versus a $23 million loss for the prior-year period.

The Home Depot, Atlanta, GA, reported first-quarter sales of $17.8 billion, up 5.9 percent over the same period a year ago. Profit grew 23.2 percent to $1 billion.

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