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The Case for Proactive Inside Sales

Effective programs don't require huge capital investments

The May 25, 2012, issue of MDM featured an article on the state of proactive selling in distribution on both outbound and inbound calls. Proactivity was defined as making planned outbound calls and/or leveraging inbound calls using a variety of techniques such as cross-selling and probing for additional needs. Nearly half of all respondents to a recent survey of MDM subscribers said that their inside sales reps proactively sell less than 10 percent of the time.

This article examines how a proactive inside sales force can be critical to serving mid-market and small customers as part of a broader multi-channel strategy; it includes steps for initiating an effective program.

By Debbie Paul
and Jonathan Bein, Ph.D.

If created and managed well, outbound and inbound calling programs can be very effective. What's more, implementation does not have to be expensive or overly complex.

Proactive inside sales is essential for channel alignment and ensuring effective channel coverage.

Figure 1 shows a mapping of different sales and customer service representatives to market segments. The largest accounts have field sales representatives assigned to them. The smallest accounts are serviced by customer service representatives and e-commerce as appropriate. Mid-market accounts are handled by proactive inside sales representatives and customer service representatives. This approach aligns the cost to acquire and the cost to serve an account with its size. There are several benefits:

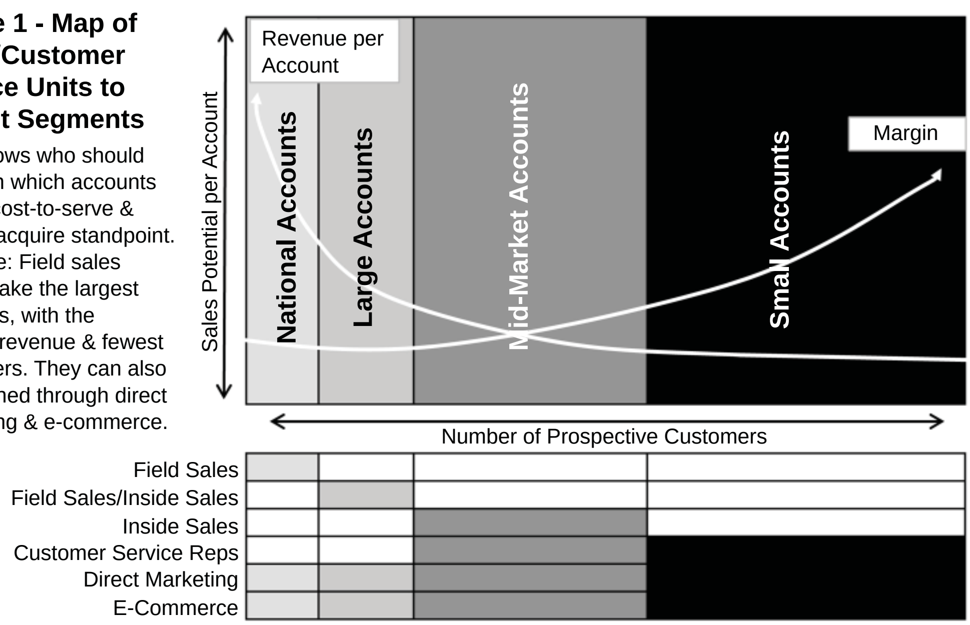
Field sales representatives are freed up to focus on the largest accounts. The large accounts are typically 80 percent to 90 percent of total revenue. They need more customer service support, and typically have lower margins.

Underserved and unserved mid-mar-

continued on page 3

Figure 1 - Map of Sales/Customer Service Units to Market Segments

This shows who should focus on which accounts from a cost-to-serve & cost-to-acquire standpoint. Example: Field sales should take the largest accounts, with the highest revenue & fewest customers. They can also be reached through direct marketing & e-commerce.



INSIDE

PERSPECTIVE ■ Commentary by Thomas P. Gale

Data Confirm What Distributors Know: 2011 Was a Good Year

Last week we released our 2012 Wholesale Distribution Economic Factbook. This comprehensive report on the U.S. wholesale distribution industry provides detailed 2011 and 2012 economic data for 19 wholesale distribution sectors. Overall, the news was good: The strong rebound of 2010 continued in 2011, though at a slightly slower pace.

Here are a few highlights:

Once again, the wholesale distribution industry grew faster than the overall U.S. economy in 2011. Aggregate revenues of wholesaler-distributors increased by 9.3 percentage points more than nominal U.S. GDP. Industrial distributors experienced the largest real rate of growth, increasing 15.3 percent in 2011, after adjusting for the effects of price changes.

For the combined 19 sectors of wholesale distribution that we track, 2012 marked the second year of double-digit revenue growth as the industry continued to recover from 2009. Industry revenues in 2011 totaled $4.7 trillion, an increase over 2010 of 13.2 percent, compared with the previous year-over-year increase in 2010 of 12.8 percent. We forecast that industry revenues will increase by 6.8 percent in 2012.

Employment in the industry increased, though probably at a slower pace than many of us would like to see. Fourth-quarter 2011 employment in the industry increased by 64,800 jobs (1.4%). The wholesale distribution industry now employs more than 4.7 million people – more than one out of 25 private-sector U.S. nonfarm workers.

Productivity in wholesale distribution grew in 2011 with average annual revenues per employee at $996,600, up 12 percent from the previous year. This indicator often reflects in part an increasing use of technology to streamline workflow, as well as process change.

Only six sectors recorded year-over-year job losses in the fourth quarter, with the largest percentage declines in Office Product Wholesalers and Paper Merchants (-2.6%) and Pharmaceutical Wholesalers (-1.9%).

In addition to full sector reports, the 2012 Wholesale Distribution Economic Factbook supplies benchmarking data for each of the 112 sub-sectors in the wholesale distribution industry, including revenue and employment growth trends, the number and size distribution of companies, gross margins, wages and other operating statistics – information you can use to help plan for the coming year. Order the 2012 Wholesale Distribution Economic Factbook, or one of the 18 individual sector reports, at www.mdm.com/wder. Or call us at 888-742-5060. Use promo code **premium20** for 20% off your report.

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Call Centers

Continued from page 3

ket accounts now have inside sales reps and customer service reps who will be more responsive than field sales. Because these accounts are now served proactively, they will grow significantly. We have found that even one touch from an outbound salesperson can yield incremental sales.

The business from the mid-market and smaller accounts is typically higher margin. In contrast to revenue from large accounts which can be lumpy, a larger number of mid-market and small accounts creates a smoother revenue stream.

This channel alignment also allows all of your customers to feel important to your company regardless of their size.

Where to Start: Outbound Calling

Creating a small outbound calling program does not require a large bankroll. For the small to medium-sized distributor, it can be as simple as getting a single person on the phone making outbound calls.

Here are some suggestions for where to start:

Find a salesperson with a "hunter" personality. Look for someone who likes to pick up the phone and make things happen. The hunter personality is curious and is inclined to ask questions when speaking with the customer. They truly want to understand your customers' business and how they can add more value. They are typically motivated by achieving financial goals.

Create a call guide designed to probe for customer needs. Each call will be different based on the customer, but there is basic information to be learned. Is the customer growing their business? If not, why not? Are there other individuals within the company that would benefit from learning more about your company? These are just a few of the questions that should be considered when creating a comprehensive call guide.

Track productivity using the phone reporting system or have the salesperson keep a daily tally of calls made and contacts they spoke with. This will enable managers to track program effectiveness and list cleanliness. A good rule of thumb is to expect your representative to make a minimum of 70-85 dials per day. This number will vary based on the cleanliness of the list, as well as the corrections/updates made to the list. Initially, the number of contacts (qualified people to speak with) may be low, until the list is updated, but once cleaned, the number of contacts made should be at least 20-30 per day.

Another way to view productivity is to track total talk time. This will account for time spent on both inbound (customers calling back in response to a voicemail left) and outbound calls and will give a more accurate view. The amount of talk time will depend on several factors, including the type of business and the follow-up required, but should generally be in the three to four hours per day range.

Create a database of the good contacts for use in future campaigns. You will be gathering some good information that you didn't have before, so a place to enter this information is paramount. If you have a customer relationship management (CRM) system, use it to store and manage this new data. If you don't have a CRM system, a spreadsheet in Excel will be sufficient to keep the information in one place. Do not depend on your salespeople to keep this information in their heads.

Create goals that reflect the behaviors you want. If the initial goal is to reach as many customers as possible to probe for needs, then create a goal around contacts reached. If you are trying to increase margins by cross-selling product, then reward salespeople on margin growth. Lifecycle management metrics also play a key role here.

On-boarding, growth, retention and reactivation are all key measurements that will reflect the efforts of this group and should be measured carefully. This is the group who will be calling customers who are no longer buying to find out why. They will also participate in growth programs such as presenting new product lines and finding other buyers within the organization. It is imperative that customer lifecycle measurements be in place.

If done effectively, outbound calling can result in year-over-year double-digit sales revenue growth. A leading electronics distributor saw sales to small and medium customers grow 20 percent in the first six months of the program, while a leading electrical distributor saw revenues grow over 25 percent the first year its program was in place. One of the largest national construction supply companies saw revenues grow 27 percent in six months using a combination of inside sales and direct marketing.

The other advantage of an outbound calling group is scalability. The largest expense associated with this capability is payroll. An experienced outbound representative compensation package can typically run from $40,000 to

Call Centers

Continued from page 3

$50,000 per year, depending on where your company is located. The payback from outbound calling is relatively quick, with results appearing in as little as four to six months. As revenues grow, the program becomes self-funding and justifies additional representatives.

Where to Start: Inbound Calling

Today, most distributors are not using their inside salespeople to proactively grow sales. Many are using a service model to create customer loyalty by providing consistent reactive order and customer service on the inbound call. While there has been a lot of discussion about customer relationship management, few distributors really practice it.

For example, how frequently do inside salespeople ask customers how they can make them more successful? We often find that inside salespeople say they are "overwhelmed" with service tasks and simply have no time to ask these questions. But realistically, how much time would asking a few probing questions really add to the call? Not much, but most inside salespeople don't do it because they are not trained or comfortable performing this function.

If you already have an inside sales team taking inbound calls, leverage this activity by training them to be more proactive on the inbound call. Train them to cross-sell key product lines. Many distributors have said that customers don't realize the breadth of the distributor's product base, so cross-selling should be a key component of your inside sales strategy. If the inside salesperson has a good understanding of the customers' business – which they should – they can intelligently suggest other product lines that the customer may need.

Create a list of common items and their crosses, such as flashlights and batteries, and put the list in a visible location on the salesperson's desk. If you have a more sophisticated ERP system, you may be able to "screen pop" these crosses when the salesperson brings up the initial item.

Don't confuse cross-selling with upselling, however. Upselling is asking customers to purchase additional quantities of the same item; cross-selling will expand your customers into your other product lines. For distributors, cross-selling is usually more important than upselling.

Since this is a new activity for most companies, be prepared to track it closely. Your management team must be committed to keeping this top of mind until it is a regular part of each salesperson's role. Once cross-selling has been mastered, begin to add other activities, such as asking for other contacts within the organization and uncovering additional needs.

If you don't have an inside sales team already, here are some basic guidelines for creating one:

Look for individuals with more of a service orientation ("gatherers"), who are outgoing and curious. Members of your inside sales team should enjoy building relationships and have good probing skills, but they should also have the ability to service customers quickly and efficiently.

Set up a basic multiple line phone system, so that more than one call can be managed at a time. As you grow the group, a small investment into an automatic call distribution (ACD) system could be a plus, as it would enable routing calls to the first available individual. This enables faster, more efficient customer service.

ACD systems also come with basic reporting packages to track the total number of calls per rep, total call time, average hold time and abandoned calls. These are your efficiency and service measurements. Couple them with sales measurement such as sales revenues year-over-year per customer, average order size and number of product groups ordered from.

If you don't have an ACD, you can still get key statistics by having the representatives tally the number of calls they take and the results of each call.

Set up a database for the customer information being collected. As with outbound sales, inside salespeople will be collecting a lot of good information that can be used in the future. If a CRM system is not available, using a simple Excel spreadsheet to capture key contact information (not already captured in the ERP system) such as position, order/quote preferences and email address.

Specific call guides are not usually necessary because inbound call content is usually set by the caller, though it is necessary to train the team how to manage the call once it is understood what the customer need is. Inside sales is a balance of sales and service, so each representative must learn how to manage the call for optimum balance.

Goals for inside sales should be a combination of sales and service. Some examples would be percent increase in average order size, percent increase in profit dollars and percent of calls abandoned (ideally this should be 3 percent or less).

It is easy to define incentives for inbound selling programs. Have some fun by creating daily or weekly contests around a particular program. Recognize those individuals who consistently perform with compensation and recognition programs. Have senior management hand out rewards. Publish results in a weekly email to the sales organization or in the company newsletter. Make it important, and your salespeople will make it a habit.

As we said before, both outbound and inbound calling programs can be very effective if created and managed well. And combined with lifecycle management campaigns, and excellent website and direct marketing programs, you will be well on your way to becoming a world class sales and marketing company.

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 Allstate Insurance. Contact them at jonathan@realresultsmarketing.com or visit www.realresultsmarketing.com.

The Ongoing Shale Gas Opportunity

Despite regulatory concerns, growth still expected in shale oil & gas markets

Distributors continue to home in on the booming domestic oil & gas market, driven by gains in oil and gas shale exploration and production. They say that despite concern over possibly stiffer regulations and environmental challenges, these markets continue to grow faster than other end-markets and hold potential for growth down the road.

By Nissa LaPoint

The oil and gas market has always been a focus for GHX Industrial Inc., a Texas-based industrial distributor, but when a new technology to extract gas from shale in the U.S. emerged over the past decade, the company aggressively expanded its industrial hose and gasket business into new geographic markets.

Many distributors like GHX Industrial have benefited from a surge over the past five years in oil and gas shale exploration and production in the U.S. and Canada.

"We're very bullish on the opportunity for a long-term robust market," says Dan Ahuero, chairman of GHX's board of directors. "Short of any kind of government intervention that could affect us negatively, we have a long-term positive outlook for this type of business."

Tipco Technologies, Owings Mills, MD, an industrial distributor based near one of the hottest markets in the country for shale gas – Pennsylvania – is also watching developments closely.

Shale gas developments have offset declines in sales to the military for the distributor. Tipco has opened two new branches in the past two years, and the company has plans to open a ninth location in West Virginia to focus on future shale projects.

In addition to offering a market opportunity for many distributors across sectors, the boom has caused some hiccups and price increases as plants sell out of certain products that are in high demand. But for the most part supply chain interruptions have smoothed out, Tipco President Rob Lyons says, as suppliers and distributors work together to ensure customers' needs in all segments are met. He has high hopes for ongoing opportunity in these markets.

Distributors are right to be optimistic. According to a recent report from the International Energy Agency, at current production rates, there are more than 100 years worth of gas, half of which is stored in shale and other formations. Recent reports also indicate that other countries are starting to exploit technology to extract shale gas to meet rising energy needs.

The IEA estimates that gas production could grow by 55 percent through 2035, driven mostly by production from unconventional sources such as shale.

According to the Pennsylvania Department of Conservation and Natural Resources, a shift in how shale is viewed, technological advances in drilling, the increased demand for natural gas coupled with higher energy prices and Wall Street's acceptance of unconventional plays have all contributed to making this an attractive opportunity for producers – and in turn those who sell to them.

Ups and Downs of Shale Gas

A new way of extracting gas from shale – a method developed in Texas at the Barnett Shale in the late 1990s known as hydraulic fracturing, or fracking – led to increased interest in several areas of the country. As gas prices increased and technology advanced enough, fracking became more competitive with more traditional oil & gas drilling.

Newer assessments from the Energy Information Administration and U.S. Geological Survey indicate that only 3 percent of the potential shale gas reserves in the U.S. have been tapped. One of the biggest boom areas is the Marcellus Shale formation that covers parts of Pennsylvania, New York, Ohio and West Virginia.

Other targets are found in northern Michigan, Texas, Louisiana, Arkansas and North Carolina. The EIA has also found potential for gas extraction in Tennessee, Alabama, Kentucky and Georgia.

Around 2007, GHX began acquiring businesses that had locations near the major shale plays. They purchased All Hose and Specialty in Louisiana, and Robsco Inc. and McCarty Equipment Company in Texas.

"That gave us immediate access to the shale activity," Ahuero says. GHX expanded its product line to meet the unique needs of these markets to include a line of valves specific to the industry. "We've added a lot of new equipment to be able to handle this kind of business," Ahuero says.

But while many companies across sectors have positioned themselves to serve shale gas markets in recent years, they haven't always been reliably strong, according to Eric Smith, associate director of the Tulane Energy Institute, a part of Tulane University in New Orleans, LA.

More recently, the supply of natural gas has risen and as a result gas prices have hit a low, which is great for consumers, Smith says. But this means that drilling for gas has slowed at the Marcellus Shale and other gas plays in the U.S.

Fluid power distributor Livingston & Haven, Charlotte, NC, said it has seen this in its business. The distributor supplies hydraulic motor circuits to an OEM that manufactures heat exchanges used on generator sets required for fracking, which requires rigs to drill down then horizontally below the earth's surface before fracturing the rock and releasing petroleum or natural gas.

So attention for producers has recently shifted to oil. "The bad news is with low gas prices and high oil prices, they won't be drilling for gas," Smith says. "They're drilling for oil."

The Shale Oil Opportunity

According to a USGS report, 56 trillion cubic feet of shale oil and gas is left undiscovered, amounting to 23.9 billion barrels of oil in the U.S. Oil shale plays, identified by a solid bituminous material called kerogen, are found in Ohio, Indiana, Kentucky, Colorado, Wyoming, Utah and California.

The largest oil shale play is in the Monterey Shale in southern California, which is estimated to hold 15.3 billion barrels of technically recoverable oil, or 64 percent of estimated undeveloped shale oil resources as of January 2009, according to the EIA.

The Bakken Shale, which stretches across North Dakota, Montana and into Canada, ushered in a boom in those areas.

The promise of local supply is encouraging for distributors. "We're very excited about the opportunity to service this industry and the chance to grow with it," Ahuero says.

"The real underpinning is that the nation wants to become independent on our own energy and right now the new technology with the shale drilling gives us that ability to import less and utilize the technology to tap into the reserves that we have right here in our country."

Regulatory Concerns Drive Uncertainty

Distributors say ongoing conversation about the safety of extracting oil and gas via fracking creates uncertainty in these growing markets.

Fracking continues to be a target of environmentalists, who say the technique may contaminate groundwater and even cause earthquakes. Vermont recently announced it may be the first state to outlaw the practice, even though it has very little in terms of energy reserves. It's unknown how that move will affect other states. Other states, including New York and Maryland, have moratoriums on the practice while its impacts are studied.

Concerns about environmental impacts will prevent oil exploration in the near future at some sites, including the Green River Basin Shale, found in Colorado, Wyoming and Utah. Federal bans restrict oil exploration of this shale, which is estimated to hold the largest deposit in the world, as much as 1.4 trillion barrels of oil, according to USGS. Some reports say that while there's not exploration, permits to drill for testing have been issued.

Industry groups will continue to track regulatory developments in these markets closely.

"The shale revolution is changing the face of American energy development," the American Petroleum Institute's President and CEO Jack Gerard said recently in a news release.

API represents more than 500 oil and natural gas companies. "It's boosting domestic oil and natural gas production, putting hundreds of thousands of people to work, and delivering added billions in revenue to state and federal government.

"How much more will depend in part on government regulations."

Planning for Market Shifts

Tipco's Lyons says that while there is some unpredictability in these markets, because of the region he serves, with a history of ups and downs in markets like steel, automotive and construction, "we can turn pretty quickly and redirect our efforts" when needed.

One way he maintains that flexibility: giving his eight branches the autonomy to meet the needs in their markets.

"They choose what to focus on," he says, finding the best opportunities for growth.

And while shale oil and gas markets may have some unknowns, they are growing faster than other end-markets for many distributors – which will continue to make them an attractive opportunity.

- Lindsay Konzak contributed to this report.

Forecast: Pent-Up Demand Drives Manufacturing Recovery in the U.S.

Robust spending on goods in the first quarter of 2012, spurred primarily by pent-up demand to purchase items previously postponed by both consumers and businesses, is enabling manufacturing to continue leading the U.S. economic recovery, according to the latest *Manufacturers Alliance for Productivity and Innovation (MAPI) Quarterly Economic Forecast*.

MAPI predicts that inflation-adjusted gross domestic product will expand by 2.2 percent in both 2012 and 2013, a solid increase from 1.7 percent growth in 2011. The 2012 forecast keeps pace with the previously estimated 2.2 percent growth, while the 2013 forecast is down slightly from the 2.4 percent growth anticipated in MAPI's February quarterly report.

"Spending on goods, adjusted for inflation, increased at a 13 percent annual rate in the fourth quarter of 2011 and at a 7 percent annual rate in the first quarter of 2012," MAPI Chief Economist Daniel J. Meckstroth, Ph.D., said.

"Consumers and businesses were more confident about their economic prospects and/or they were unable to postpone purchases any longer, particularly motor vehicles. Another indication that the economy is on a sustainable growth path is that employment levels are growing in manufacturing, construction and the services sectors, leading to relatively balanced employment growth."

Manufacturing production will outpace the overall economy and is expected to show growth of 5.2 percent in 2012 and 3.3 percent in 2013. The 2012 figure is up from 4 percent and the 2013 estimate is down from 3.6 percent from the February forecast. Manufacturing is expected to see a net increase in hiring, with the sector forecast to add 312,000 jobs in 2012 and 361,000 jobs in 2013. These figures are well above the February forecast of 210,000 jobs in 2012 and 220,000 jobs in 2013.

The economic outlook, however, is not without risk.

"Iran has threatened to disrupt oil tanker traffic in the Strait of Hormuz, and although tensions have recently eased, any disruption to shipping traffic would dramatically push up oil prices," Meckstroth said. "A second risk factor is if the sovereign debt crisis spreads to the banking sector in Spain and Italy. There could be a threat for forcing government bank bailouts, the breakup of the euro currency, and U.S. bank losses on European debt and another bank lending freeze. The third major risk is political gridlock over the federal spending fiscal cliff and raising the debt ceiling issues that must be dealt with in early 2013."

Production in non-high-tech industries is expected to increase by 5.2 percent in 2012 and by 3.1 percent in 2013. High-tech manufacturing production, which accounts for approximately 10 percent of all manufacturing, is anticipated to grow at a 5.3 percent rate in 2012 and 7.7 percent in 2013.

The forecast for inflation-adjusted investment in equipment and software is for growth of 7.9 percent in both 2012 and 2013. Capital equipment spending in high-tech sectors will also rise. Inflation-adjusted expenditures for information processing equipment are anticipated to increase by 7.5 percent in 2012 and by 8.7 percent in 2013.

MAPI expects industrial equipment expenditures to advance by 7.7 percent in 2012 and by 9.3 percent in 2013.

The outlook for spending on transportation equipment is for growth of 15.7 percent in 2012 and 9.4 percent in 2013. Spending on nonresidential structures will improve by only 0.3 percent in 2012 before accelerating to 4.4 percent in 2013.

Surveys: Growth in 2011 Sparking Innovation and Collaboration in 2012

Executives of manufacturing firms expect growth to continue in 2012, and they expect that growth to enable new investments in innovation, according to two recent industry surveys.

More than half of the respondents to ThomasNet.com's newest Industry Market Barometer survey reported company growth in 2011. And three out of four of the more than 3,700 industrial manufacturing and supply professionals surveyed expect this growth to continue in 2012.

This continuing growth is igniting a new wave of investments among manufacturers preparing to meet future demand. Eighty-three percent of manufacturers are spending on capital equipment, hardware, software and facilities to increase production capacity, according to the survey.

Growth in 2011 also means more financial wiggle room for companies wanting to try out new ideas in 2012. Many IMB respondents are more aggressively pursuing business in new industries (58 percent) and investing in new and/or innovative products or services (66 percent).

Another survey released this month by KPMG International also found an optimistic outlook among manufacturing executives. According to the company's *2012 Global Manufacturing Outlook: Fostering Growth through Innovation*, 75 percent of respondents are optimistic about their business outlook over the next 12 to 24 months.

According to the KPMG study, global manufacturing executives are cautiously optimistic in the wake of the recession and remain focused on cost management and operational efficiency initiatives. But like the IMB study, KPMG findings show that companies are increasingly turning to new product development and value-added service offerings to spur further growth.

Forty-four percent of U.S. executives and 36 percent of global executives surveyed in the KPMG study indicate their companies will increase investment in innovation and research and development; 72 percent of global respondents believe that 'transformational innovation' is either in full swing or will be so in 12 to 24 months.

Innovation won't happen in isolation, according to KPMG findings. Just over 60 percent of global respondents said they will work with customers for customized product development and with suppliers for product design.

Jeff Dobbs, KPMG's global head of Diversified Industrials, pointed out the benefits of this collaborative mindset. "Customer and supplier collaboration in the earliest stages of product development allows for cost- and risk-sharing and lets manufacturers focus on what they do best by leveraging the expertise of external partners, accelerating speed to market," he said.

This stronger focus on innovation – coupled with dramatic technological advances – is having a significant impact on manufacturing business models, which are becoming more service-oriented. Shifts in value propositions, such as pricing models or augmenting products with value-added services, ranked third (49 percent) after cost structure and new sales targets as intended changes KPMG respondents plan to make.

The rise in value-added services is expected to boost profits. Nearly two-thirds of respondents predicted new or enhanced customer services will make a "significant" or "very significant" contribution to profits in the next 12 to 24 months.

"In an attempt to buffer down-cycles, manufacturers are expanding their product offerings to include value-added services," Dobbs said. "While this may potentially add to their profit margins, it should also help them strengthen customer relationships and identify future sales opportunities."

Internet technology will also play a dual role in improving customer service and identifying new opportunities.

According to ThomasNet's IMB survey, 47 percent of respondents cited customer service as a key benefit of their company websites. Almost 45 percent say their web presence opened new sources of revenue.

IMB respondents reported plans to continue investing in their websites.

Among product and custom manufacturers in particular, 86 percent are investing in online marketing this year, and 52 percent are increasing those investments over last year.

- Angela Poulson

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Industrial & Construction Markets Update

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Interline Brands Agrees to be Bought by Private Equity Firms

Interline Brands Inc., Jacksonville, FL, MRO distributor and No. 14 on MDM's list of the top 40 industrial distributors, has agreed to be acquired by GS Capital Partners LP (a Goldman Sachs vehicle) and P2 Capital Partners LLC in a transaction valued at $1.1 billion, or $25.50 per share in cash.

The price represents a premium of about 42 percent relative to the company's closing stock price on May 25, 2012, and a 31 percent premium relative to the company's trailing 30-day average closing stock price.

"We remain laser-focused on our goals and capabilities, and look forward to working with partners that have proven track records of investments in the distribution sector, as well as financial and operational expertise in global markets. Moreover, Interline has operated successfully in both public and private settings in the past. As we now look forward, GS Capital Partners and P2 Capital Partners have a shared vision of our value creation opportunities and the actions needed to realize them," said Michael J. Grebe, Interline's CEO.

Interline intends to maintain its corporate headquarters in Jacksonville, FL, as well as its distribution and sales footprint.

In addition to equity from funds managed by GS Capital Partners and P2 Capital Partners, it is anticipated that certain members of company management will invest a portion of their proceeds from the transaction.

The transaction is subject to shareholder and regulatory approvals.

The agreement allows Interline to solicit alternative proposals for acquisition through June 28, 2012. If there is not a better offer, the transaction is expected to close by the end of the third quarter of 2012.

Following the announcement, Interline's board of directors was targeted for

continued on p.4 of this section

Distributor News

DGI Supply, a DoALL Company, Wheeling, IL, has agreed to acquire **K & H Sales**, Inc. in Northern California. The deal is expected to be finalized by July 1.

Houston, TX-based **MRC Global** Inc. has agreed to buy **Chaparral Supply**, a subsidiary of **SandRidge Energy** Inc. Chaparral Supply provides PVF products and oilfield supplies to its parent organization SandRidge. MRC plans to merge Chaparral with the company's existing Alva, OK, service location.

Mayer Electric Supply Company, Birmingham, AL, has acquired **Mustang Electric Supply**, Lewisville, TX. The acquisition is Mayer's first in Texas.

BDI (Bearing Distributors, Inc.), Cleveland, OH, has acquired **Brown Bearing Co**., Spokane, WA. The business is now known as Brown Bearing Co., a division of BDI.

Praxair Canada Inc., the Canadian subsidiary of Danbury, CT-based **Praxair**, Inc., has acquired five **Airgas** branch locations in western Canada, including Calgary, Red Deer and Edmonton, Alberta, and Regina and Saskatoon, Saskatchewan.

Marco Supply Company, Roanoke, VA, has acquired **Superior Concrete Supply**, Monroe, GA.

Building Material Distributors, Galt, CA, a wholesale distributor of specialty building materials, acquired **Master Fasteners International**, Long Beach, CA, and **Fastener Source**.

Toronto-based **Russel Metals** Inc. has agreed to acquire **Alberta Industrial Metals** Ltd., a metals distribution and processing service center located in Red Deer, Alberta. The purchase price is $30 million.

Wesco Aircraft Holdings, Inc., Valencia, CA, has agreed to acquire **Interfast** Inc. for C$134 million (US$130.3 million) in cash. Interfast is a Toronto-based distributor of specialty fasteners.

WESCO International Inc., Pittsburgh, PA, No. 2 on MDM's list of top electrical distributors, has appointed Kenneth S. Parks vice president and CFO.

American Tire Distributors, Inc., Charlotte, NC, executed a stock purchase agreement of **Consolidated Tire & Oil**, Inc., Saint Gabriel, LA.

Turtle & Hughes, Inc., Linden, NJ, has acquired **Mag-Trol Long Beach** Inc., a wholesale distributor of electrical and automation equipment, supplies and renewal parts based in Long Beach, CA.

Würth Adams opened a new branch and distribution center in Aurora,

continued on p.2 of this section

MARKETS UPDATE SUPPLEMENT P. 2

News Digest
Continued from p. 1 of this section

CO. The new facility improves Würth's geographical reach and logistical capabilities throughout the region.

Shale-Inland Holdings, Chicago, IL, has made four executive appointments. Darrell Jean has been named executive vice president, CFO; Navid Gardooni, chief information officer; Jody Pitts, vice president of marketing; and Rob Broyles, executive vice president, finance and corporate development.

St. Louis, MO-based electrical distributor **Graybar** has made Kathleen M. Mazzarella the company's 11th president and CEO. She succeeds Robert A. Reynolds, Jr., who will serve as Graybar's executive chairman.

IBC, Hartford, CT, has formed an alliance with **IMARK Group**, Inc., Bowie, MD, which will allow end-users access to a broader network of local and regional independent distributors.

Performance Food Group Inc., Richmond, VA, has agreed to acquire **Institution Food House** Inc. from **Alex Lee** Inc. IFH is a $600 million distributor based in Hickory, NC, with an additional location in Florence, SC.

Economic News

New orders for manufactured goods in April, down three of the past four months, decreased $2.9 billion or 0.6 percent to $466 billion, the U.S. Census Bureau reported. This followed a 2.1 percent March decrease. Excluding transportation, new orders decreased 1.1 percent.

New orders for manufactured durable goods in April increased $0.3 billion or 0.2 percent to $215.5 billion. This increase, up two of the past three months, followed a 3.7 percent March decrease.

The **Chicago Fed National Activity Index** rose to +0.11 in April from -0.44 in March. The index's three-month moving average, **CFNAI-MA3**, ticked down to -0.06 in April from +0.02 in March, falling below zero for the first time since November 2011.

Construction spending during April 2012 was estimated at a seasonally adjusted annual rate of $820.7 billion, 0.3 percent above March, according to the U.S. Census Bureau. The April figure is 6.8 percent above the April 2011 estimate of $768.2 billion. During the first four months of this year, construction spending amounted to $238.5 billion, 7.3 percent above the $222.2 billion for the same period in 2011.

The **Purchasing Managers Index** (PMI) registered 53.5 percent in May, 1.3 percentage points lower than April's reading of 54.8 percent, according to the latest Manufacturing Institute for Supply Management Report on Business. This indicates ongoing expansion in the manufacturing sector, but at a slower pace than last month.

Real gross domestic product increased at an annual rate of 1.9 percent in the first quarter of 2012 (from the fourth quarter to the first quarter), according to the Bureau of Economic Analysis. In the fourth quarter of 2011, real GDP increased 3 percent.

Aggregate GDP growth in non-U.S. industrialized countries, which include Canada, the Eurozone (plus Denmark, the United Kingdom and Sweden) and Japan, is expected to be no higher than 0.5 percent in any quarter through 2012, according to the **Manufacturers Alliance for Productivity and Innovation (MAPI) Global Outlook – May 2012**. In 2013, growth of 1 percent is anticipated in the first quarter, 1.5 percent in the second quarter, and 1.2 percent in the last two quarters.

Gross domestic product in the Eurozone is expected to reach negative territory, -1.5 percent in 2012 and -0.4 percent in 2013, according to **the Manufacturers Alliance for Productivity and Innovation (MAPI) European Industrial Outlook**. GDP growth in Central Europe will avoid the recession, with a forecast for 1.7 percent growth in 2012 and 2.3 percent growth in 2013.

Relative to March, the **Canadian Industrial Product Price Index** (IPPI) was unchanged in April, according to Statistics Canada. The **Raw Materials Price Index** (RMPI) fell 2 percent, largely because of mineral fuels.

The **Bearing Specialists Association Annual Distributor Survey** revealed aggregate sales volume increased 14.7 percent in 2011 over 2010. In 2011, the aggregate number of employees increased 3.5 percent. In 2010, the number of employees rose 1.8 percent.

April marked the second month in a row with a decrease in activity for members of the Industri-

continued on p.4 of this section

Wolseley Sales Increase 4.7% in Third Quarter

European distributor Wolseley reported sales for the third quarter ended April 30, 2012, were £3.2 billion (US$5 billion), up 4.7 percent over the same period a year ago. On a like-for-like basis, sales increased 3.8 percent. Trading profit was £141 million (US$220.3 million).

For the first nine months of the fiscal year, sales from ongoing operations were £9.4 billion (US$14.7 billion), a year-over-year increase of 6.3 percent. On a like-for-like basis, ongoing sales were up 4.6 percent. Trading profit was £451 million (US$704.8 million).

Ferguson

In the U.S., like-for-like revenue growth in the third quarter was 9.4 percent and most of the key businesses continued to take market share. While Repair, Maintenance and Improvement markets were broadly flat, the modest recovery in new residential markets continued. The Blended Branches business generated strong like-for-like revenue growth and improved gross margins with profit strongly ahead.

The Industrial and Waterworks businesses also made good progress, benefiting from recent acquisitions and improving its trading performance.

The Heating, Ventilation and Air Conditioning business also grew well although revenue and gross margins were lower reflecting the removal of government tax incentives for higher specification equipment. Overall U.S. trading profit of £95 million (US$148.5 million) was 19 million ahead of last year.

During the quarter, Ferguson acquired Reese Kitchens, Inc., Indianapolis, IN.

Wolseley Canada

Revenue in Canada in the quarter grew by 7.9 percent on a like-for-like basis. The Industrial business continued to benefit from the oil, gas and mining sectors. Improving market conditions also benefited the Waterworks business although growth trends were slightly weaker in HVAC. Trading profit of £6 million (US$9.4 million) was £2 million ahead of last year.

Europe

Like-for-like revenue in the UK excluding last year's contract loss was 1.9 percent driven by Plumb and Parts Center despite weaker demand. Pipe and Climate Center and Drain Center performed well generating good growth. Headcount was 68 lower than at 31 January 2012 as we continued to focus on the cost base. Trading profit for the quarter was £26 million (US$40.6 million), £3 million ahead of last year due principally to lower bad debt charges. Operating expenses included £1 million of one-off restructuring charges.

In the Nordic region, like-for-like third-quarter revenue decreased by 1.7 percent. The seasonal pick up in new residential construction markets in Denmark was weaker than last year although the business continued to hold market share.

Growth rates were also held back in Sweden and Finland in lackluster markets, though the businesses protected gross margins. In Norway demand was subdued although it continued to be underpinned by a strong oil and gas sector. Trading profit was £7 million (US$10.9 million) in the quarter, £8 million below last year.

During the quarter Wolseley completed the acquisition of a single branch building materials business in Denmark.

Ole Mikael Jensen, the current managing director for Central Europe, was appointed CEO for the Group's Nordics and Central Europe regions. Jensen replaces Steen Weirsoe, who will retire August 1, 2012. Jensen joined Wolseley as a result of the DT Group acquisition and has been in his current role since 2009.

Like-for-like revenue in France declined by 6.1 percent as new construction markets weakened. Ending government stimulus activity may have an effect on activity levels going forward. Trading profit was £9 million (US$14.1 million) in the quarter, £6 million below last year and included £1 million of one-off restructuring charges.

In Central Europe like-for-like revenue was flat as price deflation on Euro sourced products in Switzerland constrained sales, but gross margins were ahead of last year. In Austria the business generated higher revenues and held gross margins in the period. Like-for-like revenue was flat in challenging markets in Holland. Trading profit of £5 million (US$7.8 million) in the quarter was £2 million below last year.

MARKETS UPDATE SUPPLEMENT P. 4

News Digest
Continued from p. 2 of this section

al Supply Association, but activity remained in positive territory. The **ISA Economic Indicators Report** showed manufacturer activity in April at 58.92 percent compared to 61.82 percent the previous month and the distributor index at 57.8 percent compared to 62.6 percent in March.

Heating, Airconditioning and Refrigeration Distributors International (HARDI) announced **U.S. HVACR average distributor sales** for April were up 8.3 percent. HARDI's Monthly Targeted and Regional Economic News for Distribution Strategies (TRENDS) Report showed growth in six of seven U.S. regions, with three in double-digits.

Manufacturer News

Stanley Black & Decker, New Britain, CT, has acquired **Powers Fasteners**, Brewster, NY. Powers will be marketed as a key brand under Stanley Black & Decker's CDIY segment.

Parker Hannifin Corp., Cleveland, OH, announced that Bob Barker, EVP, operating officer and group president of Aerospace, will retire after 39 years with the company.

General Cable Corp., Highland Heights, KY, has agreed to acquire **Alcan Cable**, the wire and cable business of **Rio Tinto** plc. The purchase price is $185 million in cash.

Eaton Corp., Cleveland, OH, has agreed to acquire electrical equipment supplier **Cooper Industries** plc, Dublin, Ireland. Total transaction equity value is approximately $11.8 billion.

Thermadyne Holdings Corp., St. Louis, MO, changed its name to **Victor Technologies Group**, Inc. The name of its wholly-owned subsidiary Thermadyne Industries, Inc. will change to Victor Technologies International, Inc.

RBC Bearings Inc., Oxford, CT, reported sales for the fourth quarter ended March 31, 2012, were $111.3 million, up 25.2 percent over the same period a year ago. Profit increased 56.6 percent to $15.5 million. For the full fiscal year, sales were $397.5 million, up 18.4 percent. Profit increased 43.3 percent to $50 million.

Columbus McKinnon Corp., Amherst, NY, reported sales for its fiscal year ended March 31, 2012, were $591.9 million, up 13 percent from fiscal 2011. Profit was $27 million, compared to a year-ago loss of $36 million. For the fourth quarter, sales were $159.6 million, up 10.8 percent. Profit was $9 million, versus year-ago profit of $2.5 million.

Protective Industrial Products, Inc., Albany, NY, has agreed to acquire **Integrated Sourcing and Supply Innovators**, LLC., Marion, OH.

Interline
Continued from p. 1 of this section

investigation by shareholder litigation firm Ryan & Maniskas, LLP.

The investigation involves possible breaches of fiduciary duty and other violations of law related to the approval of the transaction by the company's board of directors; in particular, whether the company undertook a fair process to obtain fair consideration for all shareholders of Interline Brands.

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