MODERN DISTRIBUTION MANAGEMENT
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Preparing for Uncertainty in 2008

Eight ways distributors can kickstart the new year

The economy and the decline of the dollar top the concerns of many (though not all) distributors and manufacturers, according to the latest MDM survey. Here are the key issues that surfaced in the November poll.

By Lindsay Young

As in the past few years, distributors are paying close attention to consolidation trends among suppliers, competitors, end-users and ERP providers, materials costs, sales force development, supplier relationships, recruiting and retaining talent and controlling worker benefit costs. Private label, foreign competition and global sourcing have also moved front and center.

We also asked consultants in wholesale distribution to share what they see developing. Here are starting points to help plan for 2008.

1. Plan for Economic Uncertainty

A good number of economists now believe that the U.S. could head into a recession or at least a significant slowdown. Federal Reserve Chairman Ben Bernanke indicated as much, without uttering the 'R' word, when he told Congress recently that the economy would get better before it got worse. The economy, Bernanke says, will soon slow noticeably as the housing market continues to fall and financial institutions tighten lending standards.

Regardless of whether we hit a recession or just a major slowdown – or even a minor slowdown as could happen in some sectors – many distributors say they are hunkering down.

One distributor in the MDM survey said: "We believe that 2008 is going to be a tight year, so we have been working to shore up and clean up our infrastructure as well as work with some of our slower/lower performing branches. We are also working very hard to ensure that our value proposition is what the market is actually looking for. In leaner years a distributor has to be the one to bring the most value to the market in order to be successful."

Others said they are looking for new manufacturers to represent and products to sell; managing their cash flow; reevaluating their work force; developing long-range strategic plans; pushing inventory responsibility back up the supply chain; cross-training employees; moving to private label; developing a stronger Web presence; and increasing their focus on documenting customer cost savings. "We are working harder on our service business and focusing on industries that are less likely to be hit hard by an economic downturn," one distributor said.

Mike Marks of Indian River Consulting Group (www.ircg.com) says distributors must be light on their feet. "The key is to have developed scenarios in advance to shorten the time required for meaningful response and also to recognize the need for change quickly. … As long as they can react quickly the economy should not be a major concern," he says.

Marks also says when market segments go into recession there are opportunities to make meaningful acquisitions. "Down markets are where strategic buyers gain strength over financial buyers." Brent Grover of Evergreen Consulting (www.evergreenconsultingllc.com) agreed: "2008-2009 may present a perfect opportunity to jump-start growth in market share by initiating a series of small acquisitions at favorable prices."

Marks says a down market is also an opportunity to pick up a stronger line. "Distributors should always have a secret list that describes their All-Star line card. Market turns are a great time to go out and

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INSIDE

mdm®

network with key suppliers you would like to represent."

A downturn is also an opportunity to acquire talent from competitors who would not normally be available, Marks says. Still, a distributor that is hurting will need to reorganize their sales force, especially if they are on a commission program. "Making everyone bleed a little puts their high performers at risk while the low performers just don't work as hard," he says. "Reducing staff and reassigning vacated accounts is a great way to keep high performers whole during the down part of the economic cycle."

2. Draw Good People

The retention and recruitment of talent was mentioned by nearly everyone in the MDM survey. The Industrial Careers Pathway, an initiative focused on recruiting students into ID programs and careers, reports that its mission is challenged by global competition, the fact a significant percentage of the work force is set to retire soon, a lack of awareness of this industry and a "broad misperception" of industrial careers.

Nancye Combs, human resources consultant (www.hrenterprise.com), says employers must work to be an attractive employer. "The lack of technical employees has reached a crisis state in some distribution market segments," she says. "… Employers must become proactive in training their own. Investment in training is essential. Tuition reimbursement is now a standard practice."

Smart management of compensation is key to retention – whether the economy is up or down. "Compensation remains the No. 1 reason employees leave their jobs. In spite of changes in the economy, talented knowledge workers (sales, IT, logistics) are in demand and there is a shortage of technicians … Casual management of compensation, without the knowledge of how to gain the most benefit from the compensation investment, is a waste of millions of dollars and gives little return to the distributor."

The keys: reputation, location, compensation and opportunity to grow. Improving the hiring process is the first major step to retaining employees, she says, and market-based compensation, including benefits, is essential. "However, employees work for people and poorly trained mangers and supervisors undermine all of the company's best efforts and hard work in finding the best employees."

As many distributors and manufacturers have learned though, recruiting and retaining good people is easier said than done. "The advice given to managers as the key to success is to hire 'good people.' I wish it were that simple," says Jim Ambrose, a consultant who focuses on branch management (www.branchmanagerceo.com). "Just go to goodpeople.com and choose a few to hire? It does not work that way. The answer is in developing good managers. A manager with strong business and leadership skills develops good people and attracts the best people."

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3. Strengthen Services

Nearly 60 percent of those who took the MDM survey said they were not relying more on services as a revenue source than three years ago. Those who are are looking at ways of improving their customers' productivity. More customers are looking to outsource traditional functions, and some distributors have grown smarter about charging for services.

"We charge for services we used to give away as part of large orders – for start-up assistance for example," one distributor said. "We charge much more for service now. Customers who have cut staff are willing to pay."

Other service-based moves by distributors described in the survey: inventory management; onsite job trailers; onsite diagnostics of fluid power systems; procurement services; safety services and training; equipment repairs and rentals; coolant maintenance and support; kitting; reconditioning of personal safety equipment; and a video-training-on-demand service for end-users.

One manufacturer says his company is trying to work more with channel partners: "We continue to add our own sales force and provide more distributor and end-user training sessions than in the past. This helps us bring to the forefront what our company has to offer."

What is your value proposition? Bruce Merrifield of Merrifield Consulting (www.merrifield.com) asks. Visit your top 10 accounts, or those with the potential to generate about 80 percent of future profit growth. At those accounts, do a "total value-creation audit" in which team members "staple themselves to both the paperwork and product" as it flows through the customer's facilities. Looks for points of confusion, hassle, fumbles, bottlenecks, down-time and under-utilization, Merrifield says.

Follow up with a report that offers ways to change how you work with the account and its employees to solve problems. Focus on lowering total procurement cost for product you supply them; maximize their up-time and on-time effectiveness; and/or lower their total cost of ownership.

"These process solutions cannot be identified, sold or implemented effectively by the sales rep who happens to be on the account," Merrifield says. "This is a honcho-to-honcho process re-engineering, co-creation challenge that requires a team implementation follow-up that will involve custom, one-off service solutions."

4. React to Global Trends

More distributors and manufacturers are seeing impacts from beyond North American borders, including exchange rate fluctuations and commodity price trends. Distributors are importing more products directly, though it can be tough to find reliable sources overseas.

Counterfeit products are making their way into North American and European markets, creating not only a safety issue for end-users but a brand-protection issue for manufacturers and distributors in all industries. "Grey market issues are re-emerging as the Internet connects buyers and sellers," says one survey respondent. One manufacturer says some end-users are importing safety products themselves and have hired a distributor to manage the process.

If you are doing business overseas, or plan to, one company recommends preparing yourself and your employees for currency, credit, language and freight issues. Freight costs are going up, some said, due largely to high oil prices.

"Distributors that partner with manufacturers in China must escalate their understanding of the cultural differences to avoid the issues associated with product quality and timely delivery," Combs says. "Many American business people remain naive in conducting business globally. Few manufacturing sources in Southeast Asia understand the highly competitive and scrutinizing nature of how business is done in America."

Globally, distributors should consider whether there are opportunities, especially in emerging economies in Eastern Europe and Asia, but in doing so they must pinpoint how they can add value to that supply chain. Consider this: Many manufacturers who have developed a presence in other countries say that distribution in emerging countries doesn't always make sense. One survey respondent said: "We are looking at costs and what channels we should use in emerging countries, and we decided that we should go direct in several countries."

5. Hone Pricing

As detailed in a recent MDM audio conference (www.mdm.com/conferences), strategic pricing is the next frontier for distributors and manufacturers to cross.

"Our partners are advising most of our distributor clients to focus on strategic pricing as their No. 1 priority for 2008. Pricing is the last unplowed field for most companies," Grover

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says. "Salespeople are overwhelmed with the challenges of managing the pricing for their customers. The chaos of distributor pricing begs for a simple, elegant solution. We have found that there is at least a first-year 200 basis-point potential (2 percent gross margin increase) for most distributors."

During the MDM audio conference, Marks spoke about going back to the beginning to audit your current pricing process, and moving forward from there. Pricing should not be left to the sales force, he says.

"When you talk about changing the rules, it is about creating a pricing policy that is subordinate to a pricing strategy, and it's been our experience that most folks don't have that," Marks says.

"When they have problems with pricing they just get a sharper pencil, and that's pretty much where it stops."

6. Develop Your Sales Force

"The selling relationship has changed dramatically," Combs says. "Those who sell to a small, intimate group, with long-standing relationships, should be okay for the foreseeable future, but those who sell to the big box stores and other large customers should already be aware that old-time relationship selling is 'out the window.'

"The new buyer profile is a recent MBA who is driven by climbing the corporate ladder and may know little about the products he/she is buying." In this case, results are the goal, in the form of price, timely delivery and value-added services.

Todd Youngblood of YPS Group (www.yps-group.com) says now is the time for distributors to increase accountability in their sales force. "Measure each of your sales reps in terms of how well and how often he or she executes each of your most critical sales activities," he says.

Identify which sales activities are truly critical to producing sales and margin, identify the best-performing rep for each critical sales activity; publicly post the performance numbers for each activity (not necessarily with names); and dedicate at least 30 minutes of each monthly sales meeting for training on how to better execute one of the critical sales activities.

This training should be conducted by your own sales reps, Youngblood says.

In addition, distributors should implement a "robust CRM system," says Youngblood. "Until the 'Opportunity Management' functions of your CRM system are regularly used by the entire sales team, the measurement and analysis described above is impossible."

In addition to improving accountability, Youngblood says distributors must hammer home the importance of a compelling value proposition: "Price, availability, product features, service and reputation do not qualify as components of a compelling value proposition. They do qualify as components of a value proposition that is essentially identical to that of every competitor out there. At a minimum, a compelling value proposition includes: a statement of how one or more customer business processes are improved, and quantification in money terms of the value of that business process improvement."

7. Maximize the Technology Available

As former Prophet 21 executive Doug Levin told MDM recently, distributors should make sure they are using all of the functions of their current IT package before buying a new one.

"Investigate the cost of getting your existing technology to do something that you might think, 'I need to buy a whole new system to get that,' because it probably will be less expensive to take your existing technology and make it do what you want," he says.

Marks agrees: "One strong payoff for most distributors would be to identify a critical constraint or recurring problem in their order process and dive into their existing package to see how it can be used to fix the problem."

If you have never looked at updating your technology, do an audit of your current systems and needs, and research your options. The industry is changing.

Some options have become more affordable for smaller distributors.

8. Build Strength & Productivity at Branches

Ambrose says it is essential that distributors push for productivity improvements at the branch level.

"There are a lot of busy people at branches doing a lot of 'stuff' every day in order for the business to provide value to the customer. But, are all these people doing the right things for the right customers? How much of what they are doing is caused by internal impediments? How much of what they are doing is for the wrong customers? My data suggests it is a lot."

Ambrose says each branch manager should create a specific vision for his branch based on market space, market share and key customers, and then focus activity around that vision.

State of Construction Mixed

STAFDA leaders: Despite residential slowdown, some markets remain strong

The Specialty Tools and Fasteners Distributors Association (www.stafda.org) had more than 5,600 participants at its November 2007 show in Nashville, TN, the second-largest turnout in the association's history. As always, the show's annual meeting included State of the Industry addresses from the association's president, Greg Drouillard, president of Target Building Materials Ltd., Windsor, Ontario, and a representative from a manufacturer member, Tim Tevens, president and CEO of Columbus McKinnon Corp., Amherst, NY. Here are notes of interest from those speeches.

State of Construction

In Canada, said Greg Drouillard, housing was 8 percent ahead in 2006 but the market has cooled in areas where heavy industry has experienced plant closures and subsequent job losses. U.S. home building is down 24 percent through September, he said, with the seasonally adjusted rate at its lowest level in 12 years.

"Unrest in the credit market is delaying the recovery of the real estate market," he said. Still, he reported nonresidential building in the first eight months in the U.S. was running 3 percent ahead of a year ago, with a 13 percent gain for stores and shopping centers and a 7 percent increase in office construction.

In addition, the market for renovation is strong. "There are still plenty of opportunities … although we may need to shift our sales emphasis. That won't be the first time for most of us, and we're fortunate to have that flexibility," he said.

Tim Tevens also had some optimism on the state of construction markets, which according to STAFDA represents 70 percent of its member companies' total business. The non-residential portion of the construction markets is holding strong, he said.

The oil, gas and petrochemical industries in particular are operating at all-time highs, Tevens said, and the construction of new power plants around the globe is also at a high level. "Every developed country in the world is rebuilding public works and energy infrastructure, and every developing country is building infrastructure for the first time," he said.

Still, the globalization of production has made participation in these markets more complex. Tevens asked: "When a new power plant is being designed in Houston and built in China by a construction firm from Germany, how do I participate in that business? When English is not the first language, and, in many cases, not even the second or third language of my customers, how do I support them? If contractors no longer want to buy my products, but just rent them, how do I respond?"

Rentals are expected to be over 40 percent of the construction market by 2015. That's up from just 5 percent in 1995, Tevens said.

Concrete consumption is at an all-time high in the U.S., representing 4.5 percent of global consumption – China is consuming 40 percent of the world's concrete, Tevens said.

Thirst for Information

Tevens said his company is "experiencing an insatiable thirst" for safety-related seminars and training from channel partners and end-users. This information includes everything from how to design and select the right product for an application to how to install, operate and maintain equipment.

"More and more, people are using the Internet to find that information," he said. "In a recent survey we did, our customers told us that the No. 1 source they use for information is the Internet. … In fact, in many cases, the information is becoming more valuable than the product itself. This raises a major question and opportunity for us as manufacturers and distributors. Is there an opportunity to sell the information itself, separate from the product?"

Tevens said the traditional model of a high-priced product with value-added service wrapped around it is being challenged. "How many of you have provided your customer with a value-added service, only to have the purchasing agent then put your product out for bid to the lowest bidder?" he asks.

Retaining Employees

Drouillard tapped into one of the top concerns of distributors: retaining employees. He said losing employees to "better offers" is a constant problem and must be addressed by considering the needs of the newest generations of employees.

Baby boomers, he said, were raised with the idea of company loyalty and a career path that considered middle management a "plum

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assignment." "That's not true of Generation Y workers," he said. Research shows those workers place a higher value on work-life balance, and they are less willing to sacrifice personal and family time for the office. Downsizing often targets middle managers, he said, so those jobs are less attractive.

"Today, retaining employees means a willingness to be more flexible about who does what," he said. "Giving employees more control over a significant portion of their job content can make the difference between losing and keeping them." Offer a "menu of work environments" to match their needs, including flex-time, tuition reimbursement, cafeteria-styled benefits, help with professional services, state-of-the-art equipment and multi-lingual courses.

Other Trends

"Customers want it their way more than ever," Tevens said. To meet this growing need, Columbus-McKinnon has structured its manufacturing facilities and Web sites to enable a customer to design a hoist with the combination of options and features that is needed for their specific application and then shipping within a day.

Tevens said this flexibility is an example of how channel partners can "beat the flood of cheap foreign imported products coming into the marketplace."

Traffic congestion can take a "costly business toll" on distributors, said Drouillard. Timely deliveries no longer are timely, and salespeople spend more and more time between calls. "There is no such thing as a 'free' delivery – it's just a question of who pays for it," he said.

Consider adding a minimum delivery charge, a fuel surcharge or savings to the customer if he picks up his order. "If we don't want to show a separate line item for delivery, we'll have to build these costs into our product prices," he said.

MDM Interview

New Firm Invests in Distribution

Distribution vets form Supply Chain Equity Partners, a private equity firm

Sensing a need for outside investors with a firm grasp of distribution businesses, a group of industry veterans, as well as consultants Adam Fein and Brent Grover, has formed the first private equity firm that will invest exclusively in distribution companies. The goal is to use the principals' and investors' experience, expertise and networks in the industry to help management maximize the growth and profitability of portfolio companies, says Jim Miller, a principal in the firm.

MDM: Where did you come up with the concept for Supply Chain Equity Partners?

Jim Miller: The idea actually came from the distribution industry itself. Supply Chain Equity was created to fill a void in the distribution sector that was expressed by distribution-company owners. A couple of years ago, I spoke to the distribution executives at NAW's Executive Summit about the "influx of private equity capital into the distribution sector."

The point of my presentation was to illustrate to distribution-company owners that another option besides selling to a strategic buyer existed in the market.

As your readers know, selling to a competitor is often not a palatable alternative to distribution owners for a number of reasons. Following the presentation, several distribution-company owners approached me and expressed their frustration in dealing with traditional private equity funds – namely, that most of these funds knew nothing about distribution. So, one of the owners finally says, "You've sold a number of distribution companies. Go raise a pool of capital from those folks.

We would be interested in partnering with someone who really knows distribution and can help us increase the value of the company over time." Much easier said than done. We spent the past year rounding up investors, and currently have over two dozen distribution veterans as investors.

MDM: Why distribution?

JM: The short answer is that distribution is what we know, and what most of our investors know best. One of my partners, Jay Greyson, and I spent much of the past decade working with distribution companies, or private equity firms seeking to invest in distribution companies, in a financial advisory capacity. Our investors have spent most of their lives in distribution. And Jay has developed and managed two large multichannel North American distribution and sales organizations.

We believed in distribution 10 years ago when the Internet was supposedly going to wipe out the sector and/or all distributors were going to be disintermediated, and we continue to believe in the sector today.

Actually, we probably have a greater faith in the sector today, as distributors increasingly perform those services for their vendors and customers that those vendors and customers cannot do efficiently or at all, or will not do for themselves. The best distributors have become increasingly important to the supply chain.

MDM: What can Supply Chain Equity do that other funds cannot?

JM: It is too broad a statement to say that no other fund can create any value for the distributor. There are a few good funds out there that know distribution.

Unfortunately for most distributors, the vast majority of those funds are the mega-funds that focus on $200 million-and-up deal sizes. 95 percent of the distributors in the U.S. are not appealing to such funds due to minimum investment requirements.

That being said, we do believe that Supply Chain Equity can create more value for more distributors seeking a partner than any other private equity fund.

The simple reason is that we and our investors have already done it – many of our investors are former owners themselves, who built world-class distribution companies. We also have some of the leading consultants and advisors to the distribution sector as investors, including NAW Institute for Distribution Excellence fellows Adam Fein and Brent Grover. They are all eager to share their experience with our portfolio companies to help them grow.

It's also important to note that we will waste less of a distribution-company owner's time educating us about their business – another point of frustration expressed by distribution-company owners.

Due to our strict focus and experience in distribution, management will spend a fraction of their time educating us about their company and the bulk of their time working with us on the key aspects of growing a leading distribution business.

MDM: Do you make only controlling investments?

JM: We do not need to acquire a control position in a distribution company. We prefer it, but don't have to have it. We'll even consider co-investing with another private equity fund, if we can get comfortable that the other fund plus SCE makes the optimal partner for the business.

We have two critical investment criteria: That the distributor is, or can become, a vital link in the supply chain; and that management is excited about partnering with SCE to take the business to the next level.

MDM: With a potential economic downturn on the way, and news of a credit crunch, is now the right time to launch this fund?

JM: Actually, we believe that the timing is almost ideal for Supply Chain Equity to launch. We are long-term investors and comfortable with the cyclical nature of certain sub-sectors of the distribution industry. Some of the best distributors in the world serve cyclical markets, and use the downturns to streamline and fortify their businesses and market positions. And not all sub-sectors of distribution are subject to the same cycles.

Finally, we've always been strong proponents of more conservative capital structures. A big reason behind the huge prices over the past few years was the overabundance of debt financing available in the market. The debt markets have rationalized and the resultant prices are rationalizing.

Given the turbulent economy and the rationalization of the debt markets and current valuations, more so than at any time in the past few years, we believe the key distinguishing factor for distributors in choosing their partner going forward will be the value-added nature of that partner. Given those dynamics, we chose now to launch Supply Chain Equity.

More information on Supply Chain Equity Partners can be found at www.supplychainequity.com.

Hagemeyer Accepts Buyout Terms

Rexel deal to acquire Dutch distributor worth about US$4.5B

Electrical distributors Rexel and Hagemeyer have reached an agreement on Rexel's all-cash offer of €4.85 for Hagemeyer's assets, valuing the company at €3.1 billion (US$4.5 billion).

The offer was approved by the boards of Rexel, Sonepar and Hagemeyer. Rexel has secured committed debt financing for the all-cash offer.

As previously announced, Rexel has agreed to sell Hagemeyer's North American, Asian-Pacific and selected European businesses to Sonepar after completion of the sale.

The overall transaction will combine the strengths of three major players in the distribution of electrical supplies. The transaction will broaden Rexel's footprint across Europe, while significantly consolidating Sonepar's position in North America and Asia-Pacific.

Rudi De Becker, chairman of Hagemeyer's Management Board, said: "This agreement safeguards the interests of our people and makes strategic sense both from an industrial and geographic perspective."

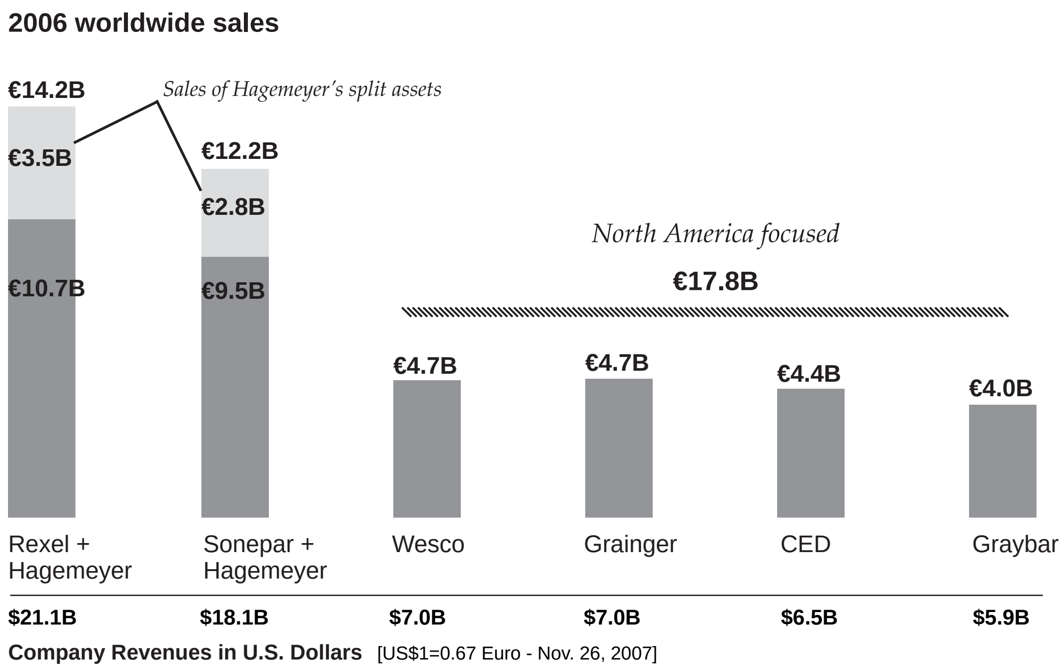
Marie-Christine Coisne, Sonepar CEO, said: "We look forward to the completion of the offer that will allow us to expand our worldwide footprint in North America and Asia Pacific as well as improve our position in selected European countries."

Following the transaction, Europe will represent 57% of Rexel's total revenues. Rexel will own Hagemeyer's Professional Products & Services (PPS) activities in the Baltic countries, Belgium, the Czech Republic, Finland, Germany, Ireland, the Netherlands, Norway, Poland, Russia, Slovakia, Spain, and the United Kingdom, as well as Hagemeyer's electronics distribution unit, ACE. The resulting increase to Rexel's sales, on a 2006 pro forma basis, is estimated at €3.5 billion (US$5.14 billion).

Sonepar says Hagemeyer's assets would strengthen its North American operations overall from €2.6 billion (US$3.7 billion) to €4 billion (US$5.7 billion).

Rexel's View of Consolidation in Electrical Supplies Distribution

In a recent presentation to industry analysts, Rexel presented this graphic on the size of major electrical distributors in North America and Europe as well as the size of Rexel and Sonepar after acquiring Hagemeyer assets. All numbers are in billions of euros. (See exchange below.) Estimate for CED is Rexel's and cannot be substantiated by MDM because that company is privately held.



Source: Rexel analyst presentation, November 2007; www.rexel.com.

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Industrial & Construction Markets Update

PERSPECTIVE

Many sources are predicting a more significant slowdown in 2008 than previously thought. Perhaps the only predictable certainty is that the attention deficit disorder the mainstream media suffers from will be epidemic. Not only is it an election year, but the credit crunch and residential construction downturn will give most reporters severe whiplash.

We don't predict the future, but we do try to offer observations and insight from our coverage of diverse distribution sectors in North America and abroad so our readers can plan and react quickly. Our lead article distills feedback gained in the latest MDM survey as well as a poll of distribution consultants to measure emerging trends and concerns.

Five years ago, the severe industrial downturn went unnoticed for a long time by national news outlets. This year, the industrial sector is making money, not headlines, even though growth has slowed to single-digit levels, according to sales trends in 2007. Most distributors we talked with a year ago planned on single-digit growth.

As noted in the article on p. 5, the construction industry holds some bright spots. Public works and energy infrastructure construction are expected to offer long-term growth opportunities in the global economy. Heavy construction companies are booking power construction projects at an unprecedented rate.

Lessons from the last downturn: Many distributors found new customers or grew surviving customers in smaller niche market segments. In many cases, the dollar volume decreased but the profitability increased as customers relied more on their distributors for higher levels of knowledge and support in product, service and inventory management functions. But don't expect to see that side of the story on the front page, except in MDM of course.

United Stationers Supply Co., Deerfield, IL, has agreed to acquire **ORS Nasco Holding** Inc., an affiliate of Brazos Private Equity Partners, LLC, for $180 million. ORS Nasco, Muskagee, OK, is a master distributor of industrial supplies, selling exclusively to independent distributors. The company has annual sales of $285 million. "Acquiring ORS Nasco will diversify our product offering and provide us entry into the estimated $22 billion wholesale industrial supplies market," said Richard W. Gochnauer, president and CEO of United Stationers. United Stationers is a $4.5 billion master distributor of office, technology, janitorial and breakroom supplies.

Philips Holding USA Inc., a subsidiary of **Royal Philips Electronics**, has agreed to acquire **Genlyte Group** Inc., a manufacturer of lighting fixtures, controls, and related products for the commercial, industrial and residential markets, for $2.7 billion in cash.

The acquisition allows Philips to expand in the green-lighting business in North America and to introduce Genlyte's products to the international market. About 90% of Genlyte's 2006 revenues were in commercial and industrial applications in 2006. The rest are focused on high-end residential applications. In the 12 months ended September 2007, Genlyte had sales of $1.6 billion.

The Trelleborg Group, through the **Trelleborg Sealing Solutions** business area, has acquired the privately owned seal distributor **Sealing Solutions** Inc., Colmar, PA, which has about 40 employees and sales of SEK 100 M (US$15.8M based on current exchange rates). Sealing Solutions is a distributor to the aerospace industry and industrial OEM companies.

Diversified manufacturer **3M**, St. Paul, MN, has agreed to acquire **Aearo Technologies** Inc., Indianapolis, IN, for $1.2 billion. Aearo is a supplier in the personal protection industry and manufactures and markets personal protection and energy absorbing products. Aearo has sales of $508 million.

KRG Capital Partners, a Denver, CO-based buyout firm, has sold drill-bit manufacturer **Varel International** to an affiliate of Atlanta-based private equity firm **Arcapita**, Inc. for $369 million. Varel, based in Carrollton, TX, is focused on the oil and gas, mining and industrial industries. Varel has sales in 41 countries, with 50% of its revenue outside of North America.

Textron Inc., Providence, RI, has completed its purchase of **United Industrial Corp**., a supplier to the aerospace and defense systems markets through its subsidiary **AAI Corp**. The total value of the transaction was $1.1 billion.

Duesseldorf, Germany-based **ThyssenKrupp Services** AG is expanding its aerospace materials services business by acquiring UK-based company **Apollo Metals Group**, which includes **Aviation Metals** for an undisclosed fee from **Murray International Holdings**, UK. The acquisition will combine Apollo's largely European and Far Eastern businesses with Thyssen-

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MARKETS UPDATE SUPPLEMENT P. 2

Krupp Services' largely U.S.-based operations to form a global enterprise with 30 locations in 13 countries and turnover of more than $700 million.

Worthington Industries, Columbus, OH, announced that its subsidiary, **Worthington Steelpac Systems**, LLC, has acquired a 49% interest in **LEFCO Industries**, LLC, a minority business enterprise. The resulting joint venture will become LEFCO Worthington, LLC. In addition to continuing LEFCO's existing products, the joint venture will manufacture steel rack systems for a variety of industries, including automotive and trucking.

Industrial production decreased 0.5 percent in October after having increased 0.2 percent in September. Total industrial production in October was 1.8 percent above its year-earlier level. Output in the manufacturing sector fell 0.4 percent. **Capacity utilization** for total industry fell to 81.7 percent, a rate equal to its year-earlier level.

Wholesale prices rose 0.1 percent in October, seasonally adjusted, the Bureau of Labor Statistics of the U.S. Department of Labor reported.

P&F Industries, air-powered tool and hardware manufacturer, reported sales for the quarter ended Sept. 30, 2007, were $30.3 million, down 6.1% from the same period a year ago. "The ongoing decline in new housing starts continues to adversely impact our businesses, particularly in the southern and western regions of the nation," said President and CEO Richard Horowitz. P&F operates through its two wholly owned subsidiaries: **Continental Tool Group** Inc. and **Countrywide Hardware** Inc.

Electrical distributor **Rexel** reported sales were up 3.5% in the first nine months of 2007 to 7.9 billion euro (US$11.5B). During the third quarter of 2007, Rexel saw continued growth in Europe and Asia-Pacific, led by the industrial and commercial end-markets while sales trends in North America were comparable to the second quarter.

Home improvement retailer **The Home Depot**, Atlanta, GA, reported third quarter 2007 profits of $1.1 billion, compared with $1.5 billion in the same period in fiscal 2006. Sales for the third quarter were $19 billion, a 3.5% decrease from the third quarter 2006, reflecting negative comparable store sales of 6.2%, offset in part by sales from new stores.

Court Dismisses Hoboken Wood Flooring's Bankruptcy Petition

The Ch. 7 bankruptcy petition recently filed by Hoboken Wood Flooring LLC has been dismissed by the U.S. Bankruptcy Court for the District of Delaware.

The dismissal is the latest twist in the closely watched case of a distributor that fell from the No. 1 position in the flooring market to insolvency over a two-year period.

No one knows what caused Hoboken to file for bankruptcy, though there are plenty of theories from suppliers, former employees and customers alike. But the dismissal of the company's petition means that the company's financial statements, which were never filed with the court, will not come to light, at least in this case.

The dismissal places Hoboken back where it was before filing for bankruptcy, and opens the floodgates for litigation by creditors against Hoboken and its subsidiaries, as well as its controlling investor, private equity firm Code Hennessy and Simmons.

The trustee in the case filed a Motion to Dismiss Nov. 15, and the case was dismissed Nov. 16. John D. McLaughlin Jr., special counsel to Young Conaway Stargatt & Taylor LLP, law firm based in Wilmington, DE, said this particular case of dismissal was rare, due to the size and complexity of the company. "Usually a trustee can come up with a deal with the lender to fund the administration of the case, or waits 30 days and files a 'no distribution report,'" closing the case in that way, he said.

In this case, the trustee had tried to strike a deal with Wachovia Bank and prepetition lenders to fund the administration of the case.

No deal was struck, the trustee had no funds to administer the case and so filed to expedite the motion to dismiss. The decision to file for dismissal was based on interviews with Hoboken representatives.

"In the interests of equity for the other creditors and parties-in-interest of the estate, and in order to permit them to join the race to the courthouse, ... the case should be immediately dismissed, thereby returning all the creditors to their pre-petition positions and giving them equal opportunity to collect their obligations," according to the Motion to Dismiss.

Quarterly Forecast: Manufacturing Growth to Slow to 1.9% This Year

The risk of recession is rising, thanks to the recent housing collapse and credit crunch, rising oil prices, slowing employment growth, and lack of consumer confidence, according to a new report.

The Manufacturers Alliance/MAPI Quarterly Economic Forecast forecasts that inflation-adjusted GDP growth will slow to 2.1 percent in 2007 and to 1.3 percent in 2008. "The U.S. economy in the past has experienced a recession from fewer shocks than we are now experiencing," said Daniel J. Meckstroth, Manufacturers Alliance/MAPI chief economist.

Manufacturing production growth will show a decline from 4.7 percent growth in 2006 to an estimated 1.9 percent in 2007, and is forecast to remain flat in 2008. These figures are down from the previously expected 2 percent and 2.9 percent growth, respectively, in the August forecast.

Production in non-high-tech industries is forecast to grow only 0.9 percent this year and to decline by 1.2 percent in 2008. There is, however, some positive news, as inflation-adjusted spending for computers and electronic products is expected to rise 11.5 percent in 2007 and 10 percent in 2008.

Spending on non-residential structures is forecast to rise a robust 12.1 percent in 2007 but by only 0.8 percent in 2008. The forecast calls for industrial equipment expenditures to increase 2.5 percent before declining by 3.4 percent, respectively, in the same years.

The outlook for spending on transportation equipment calls for a 10.3 percent decline in 2007 followed by a further 2 percent decline in 2008. However, aerospace equipment should grow by 11.8 percent in 2007 and by 12.1 percent in 2008.

There are other pockets of optimism. Export growth should outpace that of imports by a wide margin by the end of 2008. Inflation-adjusted exports should rise 7.7 percent in 2007 and 8.7 percent in 2008, while imports are expected to increase 2.1 percent in 2007 and 1.5 percent the following year.

The report expects long-term oil prices to remain relatively high throughout the forecast period but will not consistently exceed $100 per barrel for West Texas Intermediate. Additionally, the forecast predicts housing starts and automobile sales will rebound once credit conditions and economic growth return to normalcy in 2009 and 2010.

Manufacturers Alliance/MAPI Economic Forecast: 2007-2009

Estimated % Chg.	**2007**	**2008**	**2009**
Gross Domestic Product	2.1	1.3	2.8
Total Consumption	2.9	1.4	2.4
Durables	4.8	-0.5	3.4
Nondurables	2.4	1.5	2.3
Services	2.8	1.8	2.2
Nonresidential Fixed Investmt	4.5	1.6	1.5
Equipment Software	1.4	2	5.1
Information Processing Eqmt	7.7	5.3	5
Industrial Equipment	2.5	-3.4	-1
Transportational Eqmt	-10.3	-2	12.7
Structures	12.1	0.8	-6.3
Residential Fixed Investmt	-17.2	-23.3	6.4
Exports	7.7	8.7	9.2
Imports	2.1	1.5	4.5
Prices			
Consumer Prices	2.9	2.3	1.5
Excl. Food and Energy	2.3	2.1	2
Producer Prices, Finished Gds	4	3.2	1.3

Estimated	**2007**	**2008**	**2009**
Energy			
Imported Crude Oil ($ per barrel)	$68	$75	$71
Natural Gas Wellhd Price ($mmbtu)	$6.4	$7.6	$8
Nonfarm Inven. Chg. (billions $)	$0	$0	$30
Light Vehicle Sales (in millions)	16	15.3	15.7
Housing Starts (in millions)	1.346	0.965	1.29
Unemployment Rate (%)	4.6	5.3	5.3
Payroll employment (% chg.)	1.3	0.4	0.8
Production (% chg.)			
Manufacturing - SIC Basis	1.9	0	2.6
Computers and Electronic Products	11.5	10	8.7
All Less Comp., Commun., & Chips	0.9	-1.2	2
Factory Operating Rate (% cap.)	80.1	78.5	79

Source: Manufacturers Alliance/MAPI Quarterly Economic Forecast, www.mapi.net

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September Machine Tool Consumption Up 6.7% Year-to-Date

September U.S. manufacturing technology consumption was $438.95 million, according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association.

This total, as reported by companies participating in the USMTC program, was up 21.7% from August, and up 2.9% from the total of $426.39 million reported for September 2006. With a year-to-date total of $3,076.65 million, 2007 was up 6.7% compared with 2006. These numbers and all data in this report are based on the totals of actual data reported by companies participating in the USMTC program.

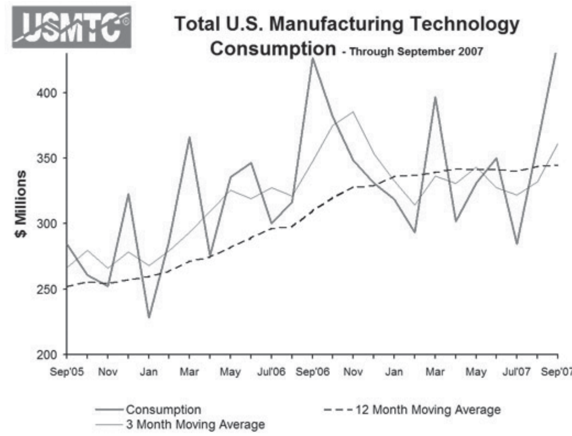
"Evidence that manufacturing is alive and well in the U.S. can be seen in September's extraordinary surge in manufacturing technology orders," said John B. Byrd III, AMT president. "It is especially impressive that orders surpassed those placed in September 2006, when the International Manufacturing Technology Show was in Chicago, usually a peak in order activity."

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

Analysis of machine tool consumption provides a reliable leading economic indicator as manufacturing industries invest in capital metalworking equipment to increase capacity and improve productivity. U.S. manufacturing technology consumption is also reported on a regional basis for geographic breakdowns.

Northeast Region

Manufacturing technology consumption in the Northeast Region in September stood at $46.26 million, down 8.9 percent when compared



with August's $50.77 million and 21.8 percent less than the total for September a year ago. At $470.54 million, the 2007 year-to-date total was 10.9 percent higher than the comparable figure for 2006.

Southern Region

Totaling $49.86 million, September manufacturing technology consumption in the Southern Region was 6.3 percent higher than August's $46.90 million and 19.4 percent higher than the September 2006 tally. The year-to-date total of $401.86 million beats the comparable figure for 2006 by 6.5 percent.

Midwestern Region

At $206.04 million, Midwestern Region manufacturing technology consumption in September was up 79.8 percent when compared with August's $114.60 million, and 46.7 percent higher than the September total last year. Compared with 2006 at the same time, the year-to-date total of $974.16 million represented an 8.7 percent increase.

Central Region

In September, Central Region manufacturing technology consumption stood at $97.48 million, 3 percent less than the $100.48 million total for August and 20.5 percent less than the total for last September. Compared with 2006, the year-to-date total $811.76 million was up 8.6 percent.

Western Region

At $39.31 million, Western Region manufacturing technology consumption in September fell 17.9 percent compared with the $47.90 million total for August, and was 37 percent less than in September 2006. The year-to-date total of $418.34 million was 4.4 percent less than the figure in 2006.

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