

Strategic Planning for Distributors

Part 2: Key components to execute

This second of a two-part article addresses how distributors can build and implement an effective strategic plan.

By Brent R. Grover

As I outlined in the first part of this article, a sound strategic plan is a gauge and tool for better decision-making and can help you communicate to employees how and why their contribution is important to the future of your distribution company.

Companies usually go wrong when they conduct their annual business planning process because they link the operating plan for the next year to the expected results from the current year. Instead, the annual business plan should work toward fulfilling the "Big Hairy Audacious Goal" outlined in your longer-term strategic plan.

Though an outside facilitator can be beneficial, the strategic planning process is simple enough for most companies to do on their own.

Key components of a strategic plan:

1. determine your driving force;
2. define your "sandboxes";
3. recognize your Strengths, Weaknesses, Opportunities and Threats;
4. create a Big Hairy Audacious Goal;
5. outline your financial objectives;
6. pinpoint a business concept, strategic issues and strategic breakthroughs; and,
7. implement your plan (hardest of all).

The Driving Force

Every business has a single driving force that dominates the enterprise. For example, the driving force of an energy producer is its natural resources holding; for a fast-food franchisor the driving force is its distribution system; for a TV shopping network the driving force is its unique selling method.

The first step for a strategic planning session is identifying the company's driving force. This is often difficult for distributors. Many teams incorrectly believe their companies' driving force is growing sales or increasing profits. Some feel their driving force is technology, or their proprietary selling approach.

The correct answer for most distributors is a uniquely deep understanding of their customers' needs, or an especially strong knowledge of the applications of their products and services. Either way, each distributor has one, and only one, driving force that is the fulcrum of its strategy.

Distributor's "Sandboxes"

Each distribution business has a specific set of three sandboxes in which it *plays*:

- products and services;
- customer segments; and
- geographic markets.

The strategic planning team is charged with defining what is to be inside each sandbox, and then to prioritize. The three priorities are: grow, maintain and harvest. Any product/service, customer segment or geographic market below these priorities must be left out. Distributors have a tough time filtering opportunities out; they find it difficult to assign any priorities other than *grow*. Managers enjoy talking about what their companies have started doing recently, but one of the most challenging questions for distributor managers to answer is "What have you *stopped* doing lately?"

The products and services sandbox includes the broad product categories (not individual products, lines or brands) that need to be in the *grow*, *maintain* or *harvest* categories. In addition to products, distributors need to include and prioritize

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their value-added service offerings in the sandbox. Getting paid for services is a major and timely challenge for most distributors.

SWOT Analysis

The textbook approach to strategic planning asks us to undertake an analysis of the internal and external environments, and to identify the company's strengths, weaknesses, opportunities and threats (usually called SWOT). The SWOT analysis is an important step, due to the critical nature of customer *and* supplier relationships for distributors, and also due to the very low barriers of entry and exit for competition.

The time-consuming (and expensive) SWOT research process can be streamlined in two ways. Early in the process, the facilitator can conduct a private and confidential structured interview with each member of the planning team. This enables each person to share concerns and to have direct input on the process.

Interview results also help to create a customized survey tool of about 40 questions. Every person in the distribution company who has trading partner contact (customers *or* suppliers), or who is in a supervisory role, will provide input on the electronic survey.

They will be able to do so from their computers, confidentially, and have the opportunity to provide input such as "What would I do if I were CEO?" and "If I could change one thing what would it be?"

They will also rate the company's products and services compared with its competitors,

evaluate the company's opportunities and so forth. Participation at this level provides priceless information as well as a sense of ownership of the results.

The Big Hairy Audacious Goal

Author Jim Collins popularized the term BHAG in his famous book *Good to Great*. My favorite example of a BHAG is President Kennedy's 1961 goal for the space program of "an American on the moon by the end of the decade."

JFK's goal had the necessary ingredients: exactly what is to be done, by when. It was memorable, inspiring and certainly audacious – but the goal was of course also achievable (with great sacrifice!).

Distribution organizations need a BHAG, one that goes beyond the rather meaningless "motherhood and apple pie" of most mission statements (such as "Exceed customer expectations" or "Be the supplier of choice"). The rank and file responds better to a BHAG like Lexus' "Beat Mercedes."

We have seen our clients develop BHAGs – such as "\$100 million by 2008" or "XYZ's largest distributor in the U.S. by 2010" – that have propelled their companies forward.

Financial Objectives for Three Years

Why three years and not five or ten? We're seeing more changes in the playing field occur in six months than we used to see in two years. It's too difficult to see around the corner due to new technologies, rapid globalization and shifts

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in government policies, to name a few reasons.

The organization's BHAG needs to be translated into financial goals. Three-year goals calibrate the annual business planning process into a quest toward the BHAG rather than the old "last-year-plus X%" method.

Specific goals (such as sales, gross margin percentage, personnel productivity, fill rates, error rates, customer satisfaction, receivables and inventory metrics) also form the platform of a tracking system (Key Performance Indicators or KPIs). The KPIs can be the starting point of every management meeting, the basis of incentive compensation and the benchmark of management effectiveness.

Business Concept

Not to be confused with the driving force, the business concept is a short statement of why customers buy from us instead of competitors. The concept may be the "elevator speech" that helps every employee to stay on message.

Example: "We are the only distributor in the market that services and repairs all brands of equipment whether we sell it or not." Another possibility might be: "We carry all brands and have the lowest prices in the market."

One of the issues we help distributors deal with is the contradictory business concept, such as this: "We have the deepest inventory, same-day service at no extra charge, no minimum order, a sales rep for every account and the lowest prices." Gulp! They usually aren't making any money, either.

Strategic Issues

The planning team needs to pinpoint the company's strategic issues, usually half a dozen major stresses that must be addressed if the company is to move forward.

The company's playing field may be rapidly changing due to competitors' moves, and possibly due to the distributor's own failure to make necessary moves. For distributors these moves often involve key sales people moving from company to company, major suppliers adding or dropping distributors, and expansion of competitors into new markets.

Distributors also need to do scenario planning on the things that could literally knock them off their feet: a natural disaster, failure of a large customer, relocation of a customer's business, etc.

Strategic Breakthroughs

The strategic planning process finally boils down to choosing two or three strategic initia-

tives or breakthroughs that need to be started immediately and successfully executed within the next three years.

The strategic breakthroughs might be opening a new branch or branches, hiring key people away from competitors, making acquisitions or securing new product lines. The critical next step is to translate these strategic breakthroughs into the tactical steps to make them happen. The emphasis here is on what actions are to be taken, under whose leadership, with what resources, how, and when. There has to be short-, medium- and long-term goals and actions with specific people accountable for specific steps that advance the execution.

Implementation

All good planning eventually "deteriorates into real work." The excitement of crafting a strategic plan fades, the facilitator goes home, and the plan goes into a drawer. Due to day-to-day challenges, information overload and the constant demands of any business, management teams often fail to "walk the talk" of their strategic plans.

Distributor management teams need to be accountable for executing the plan and achieving the intended results. The board holds the CEO accountable; the CEO holds the managers accountable. Incentive compensation, including deferred compensation such as phantom stock, must be linked to the strategic goals.

As Jim Collins says, a business needs to "have the right people on the bus, in the right seats." The organization has to have enough capable people to get the job done. Jack Welch's "rank and yank" (evaluate all employees and drop the bottom performers every year) may be too radical for most distributors, but candidly we have seen many distributors who are too tolerant of sluggish performance and failure to achieve results.

A good strategic plan, executed violently by talented managers, is the surest pathway to top-quartile performance.

Brent Grover's firm, Evergreen Consulting, LLC, advises owner/managers of closely-held distribution and manufacturing companies about the challenges of strategy and ownership succession. Brent, a former national firm CPA and business school accounting instructor, has published several articles about these topics. He was in the distribution industry for over 25 years, most recently as CEO of National Paper & Packaging Co. Brent can be reached through his Cleveland office at 216-360-4600 or brentgrover@evergreenconsultingllc.com.

Rexel to Buy GE Supply

Acquisition doubles Rexel's size in U.S.

The Rexel Group has agreed to pay \$725 million to acquire GE Supply, the electrical distribution arm of General Electric. That price represents a roughly 7X EBITDA valuation, according to MDM estimates. That valuation is more in line with industry norms compared with prices paid in deals announced earlier this year.

By Lindsay Young

The Rexel Group has agreed to pay \$725 million to acquire GE Supply, creating a company with revenues of about \$4.7 billion and making it one of the top three electrical distributors in the U.S.

That price represents a roughly 7X EBITDA valuation, according to MDM estimates, a number Rexel's U.S. chief Dick Waterman didn't dispute in an interview. "We normally don't disclose that, but let's just say you're in the neighborhood," said Waterman, Rexel Inc. CEO and executive vice president.

That "neighborhood" is more than a stone's throw from prices paid in other large deals announced earlier this year. The Home Depot paid 12X EBITDA for Hughes Supply, and MSC Industrial shelled out 11.3X EBITDA for J&L Industrial Supply.

"GE Supply, Rexel and (controlling firm) Clayton Dubilier & Rice are experienced professionals. If the neighborhood of 7X was the multiple, this was a fair price," said Robert

Cornog, managing partner of Revolution Capital, an advisory firm focused on wholesale distribution. "This is a dramatic contrast to the multiples associated with other large deals this year."

From Captive to Stand-Alone

The price is more in line with industry norms, and may reflect the fact that GE Supply, based in Shelton, CT, has been a captive unit of General Electric. It distributes GE products as well as products from more than 200 other manufacturers and also supplies GE plants throughout the world. "We have signed a contract for a few years not only on the sell side but also on the buy side," Waterman said.

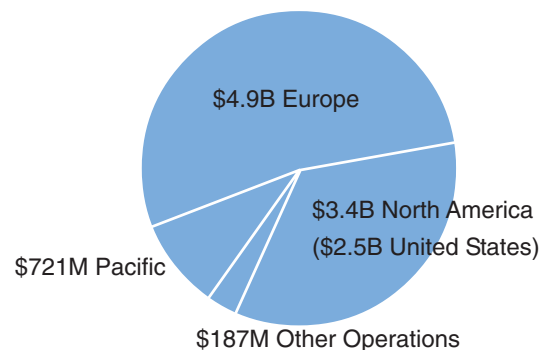
Waterman is excited for GE Supply's growth possibilities as a stand-alone organization: "Their previous focus was more of a channel to push a GE product. They have the expertise, but they just haven't had the opportunity to develop it as well as they could. And we of course are going to push that. They are an established brand and they have a good name. They do some things very well."

GE Supply provides Rexel with an expertise in integrated supply and industrial contracts. Waterman said GE Supply's customer base is more than 50 percent contractor. Rexel's is a little less than that, at roughly 48 percent. Both companies reap about 35 percent of their sales

Rexel by the Numbers (Before GE Supply)

- **Countries:** 24
- **U.S. States:** 34
- **Employees Worldwide:** 21,000
- **U.S. Employees:** 4,945
- **Branches Worldwide:** 1,686
- **U.S. Branches:** 300
- **Product Families:** 7
- **U.S. Acquisitions since 2000:** at least 10

Rexel Sales (\$9.4 billion worldwide)



SOURCE: WWW.REXELUSA.COM

from industrial. Waterman said Rexel is looking to expand its reach in the electrical contractor sector.

GE Supply and Rexel will operate under a dual-banner strategy.

“The GE Supply team has done a great job of growing the business,” said James P. Campbell, president and CEO, GE Consumer & Industrial, in a press release. “Rexel is committed to fostering GE Supply’s continued growth by providing support that will help the business expand its presence, products and services for their customers.

“It’s a great fit. The terms of this sale also ensure that GE Supply will remain a strategic distribution channel for GE products. This is a big win for us and for the customers that count on GE Supply.”

Aggressive Strategy

Clayton Dubilier & Rice led a team of three private equity firms to buy Paris-based Rexel for 6.7X EBITDA in 2005 in what was then the largest public-to-private transaction in Europe. Since then, Rexel has been particularly aggressive on the acquisition trail, recently buying up large companies in Switzerland, Italy and the U.S.

The aggressive strategy fits with ownership by financial buyers. Most private equity firms buy a company and actively build it to leverage the return on their investment several years down the road.

The GE Supply acquisition will nearly double Rexel’s revenues in the U.S. – consistent with Rexel’s strategy to build a stronger plat-

form here. “That will make us more important to our customers and hopefully to our vendors as well,” Waterman said.

GE Supply reported \$2.2 billion in pro forma annual sales; Rexel posted \$2.5 billion in U.S. sales in 2005. By comparison, WESCO International, Pittsburgh, PA, reported \$4.4 billion in 2005 revenues. Graybar Electric, St. Louis, MO, reported \$4.3 billion in 2005 revenues.

Waterman said Rexel will now look for smaller acquisition targets to further strengthen its position in the U.S.

GE Refocuses

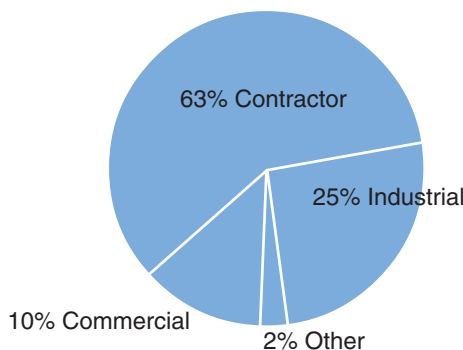
The sale of GE Supply is part of GE’s strategy to focus on higher-return enterprises, according to a GE release. GE plans to reinvest the proceeds into core operations and fund restructuring. GE Supply’s current management, including CEO and President Jeff Schaper, will remain with the business.

GE Supply employs 2,500 people in more than 150 locations around the world. Its core electrical distribution activities operate mainly in the U.S.

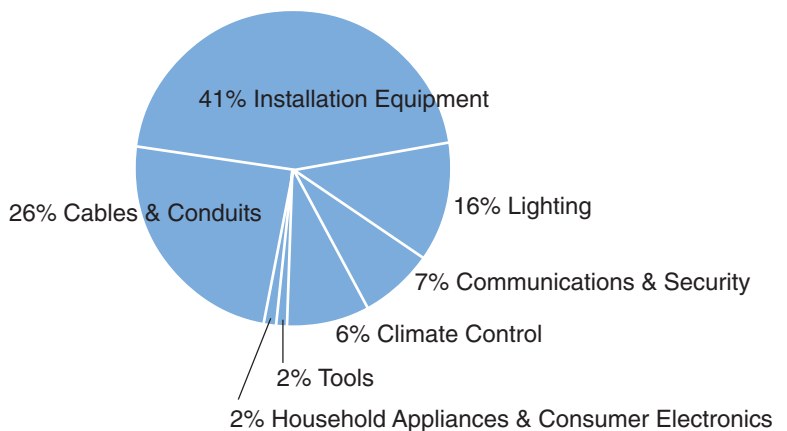
Rexel operates in 24 countries through a network of 1,686 branches. In 2005, the Group employed 21,000 people and posted sales of 7.4 billion euros. Its U.S. company, Rexel Inc., Dallas, TX, has more than 4,945 employees and 300 branches in 34 states.

With the purchase of GE Supply, Rexel expands into Ireland for the first time. GE Supply also has operations in Asia and Hungary, adding to Rexel’s presence in those areas.

Rexel U.S. Customer Mix



Rexel Product Mix



■ *Technology Case Study*

Four Locations, One System

Allied Valve: Start with clean data

The Company

Allied Valve was created in 2004 when the new owners bought locations in Iowa, Chicago, Indiana and Wisconsin and joined them to create a company that would supply, repair and customize industrial valves for buyers at refineries and power plants.

The previous owners had been contracting down to nothing. "We didn't want to see the businesses go away, so we bought them," says President Jim Knox. All the new owners had been associated with the old businesses.

Allied wanted to quickly implement a business operating system to update the aging software it was inheriting. It needed a unified platform to support growth, and a system that would provide full functionality to salespeople on the road. One of Allied's goals was to better synchronize its service and repair operations.

To run all four locations as an integrated operation, Allied needed across-the-board inventory and service visibility.

'Skeleton' of the Business

Allied started business off with a full package from NetSuite, which includes invoicing, payables, inventory management and customer information features.

"We have four locations, several million dollars worth of inventory, seven salespeople and 1,000 active customers," Knox says. "If we're going to do business, we've got to have a system like this. Without it, it would be a body without a skeleton. It would collapse."

The implementation was quick. Within three months, all four locations were online and employees were trained. Knox's daughter is the point person for the technology at Allied. She works part-time and did much of the training in the initial stages of implementation. She was trained by NetSuite, though she had a computer background and an understanding of data management systems.

Key Benefits

Visibility from anywhere is a key benefit Allied has derived from implementing the system. "There's very little that goes on in this company that isn't run through the system," Knox says.

Knox can sit down anywhere he has Internet

access and check on accounts receivables, how each of his salespeople is doing, where Allied's at with various customers and get inventory updates.

The visibility extends to inventory available at each of Allied's four locations.

"I am able to enter a customer order in Iowa and have it shipped from one of our locations to the customer. In the past, I would send a fax, they would ship it down to Iowa, and then we would ship it to the customer," Knox says.

Allied also runs an extensive service business, which includes repairs and valve testing. With its new system, Allied can keep track of service operations throughout the company on a centralized calendar.

"This is a very fluid business and things change rapidly," Knox says. If a customer tells Allied he is going to shut down part of a plant for service, Allied needs quick visibility into what everybody in service is doing.

In addition, just as the company is able to see what its service department is doing, Knox can check to see where Allied's valve-testing equipment is at any given time.

The company is still discovering some of the benefits to the new system. Recently, Knox says, his daughter figured out Allied could set the system to e-mail a salesperson when one of his customers makes a purchase. The salesperson could click on a link within that e-mail that would take him to details of the purchase.

"A lot of the (sales) action takes place between purchasing and inside salespeople," Knox says. "Our outside salespeople might not even know a transaction is in progress on one of their accounts." With this feature, they will know.

Tips

Knox offers two bits of advice:

- Clean up inventory and customer data *before* uploading it into a new system. "If a company is of the mind to convert to NetSuite or any other suite, the starting point is your basic data. Your start-up is only as good as that data."
- As a smaller distributor, you don't need a host of workers focused on IT. But you do need at least one person (for Knox, it's his

daughter, Jodie, who works part-time) who knows the ins and outs of the software and who understands data management systems. This person should also be willing to sit down and figure out what

makes the system tick and how to get the most out of your investment.

Read other MDM case studies online at this story or at www.mdm.com/stories/distcasestudies.html.

Werner Co. Files for Ch. 11 Bankruptcy Protection

Citing high debt levels and rising prices for aluminum and other raw materials, Werner Co., Greenville, PA, and its affiliated companies have filed for Ch. 11 bankruptcy protection.

Werner is a global manufacturer and distributor of ladders, climbing equipment and ladder accessories.

In papers filed in U.S. Bankruptcy Court in Delaware, Werner reported audited net sales of \$472.3 million for the year ending Dec. 31, 2005. As of March 31, 2006, Werner reported assets of \$201 million and liabilities of \$473.4 million.

Werner is highly-leveraged and is facing the maturity of significant portions of debt in its current capital structure, court documents reveal. At the same time, Werner says, it is undergoing a significant operational restructuring, including transferring operations to a new facility in Juarez, Mexico.

Werner also cites strain from the rising price of aluminum and other raw materials used to make its goods. The company says in court documents it has experienced "significant constraints on profit margins and liquidity."

Werner explored out-of-court options, including the sale of business segments and other assets. But due to liquidity constraints, Werner reports it was forced to file for protection under Ch. 11 of the Bankruptcy Code.

"The strategic repositioning of Werner is well underway. In the past few years, we have moved significant production to Mexico and China in an effort to become the low-cost provider of climbing products. We have revitalized our product development team, resulting in the planned rollout of 15 new products and brand extensions over the next year," said Steven P. Richman, Werner's president and CEO.

"... In recent years, however, Werner has been constrained by its highly leveraged capital structure and by the continuing unprecedented high prices for aluminum and other raw materials. Quite simply, we have too much debt. We intend to use the Chapter 11 process to reduce this debt significantly and develop and implement a new capital structure that will allow us to invest in the business."

To help fund its operations during the reorganization process, Werner has secured a commitment for \$99 million in debtor-in-possession (DIP) financing from Black Diamond Commercial Finance.

Subject to court approval, these funds will be available to satisfy obligations associated with conducting the company's business, including payment to suppliers under normal terms for goods and services provided after the Chapter 11 filing and payment of wages and benefits to employees and independent sales representatives.

Werner expects its operations to function normally during the Chapter 11 process, with little impact on how it conducts business:

- Customers will be served in the normal course. Werner's manufacturing and distribution facilities are open on normal schedules, and the company expects to continue to fulfill customer orders and provide uninterrupted customer service.
- Suppliers will be paid. Werner plans to continue paying suppliers for all goods and services they provide after the filing.
- Employees will continue to be paid. Werner plans to provide all wages and benefits for active employees as usual and without interruption. Likewise, the company plans to provide its independent sales representatives with their usual commissions on a timely basis.

The Chapter 11 filings by Werner and its affiliates were made in the U.S. Bankruptcy Court for the District of Delaware. Werner's principal legal advisors for the Chapter 11 proceedings are Willkie Farr & Gallagher LLP and Young Conaway Stargatt & Taylor LLP. The Company's financial advisors are Rothschild Inc. with Loughlin Meghji + Co. assisting Werner with its operational restructuring.

More information about Werner's reorganization is available on the company's Web site at www.wernerladder.com. Find links to Werner's court filings at this story online at www.mdm.com.

Monthly Wholesale Trade: Sales and Inventories for May 2006

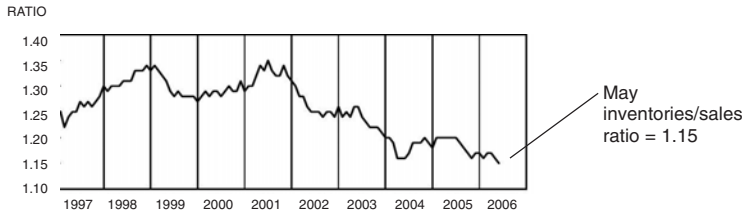
May 2006 sales of merchant wholesalers, except manufacturers' sales branches and offices were \$325.5 billion, up 1.6 percent from the revised April level and were up 12.1 percent from the May 2005 level. May sales of durable goods increased 2.6 percent from last month and were up 10.9 percent from a year ago. Sales of metals and minerals, except petroleum, increased 4.6 percent from last month and sales of electrical and electrical goods increased 3.9 percent. May sales of nondurable goods increased 0.7 percent from last month and were up 13.3 percent from last year. Sales of paper and paper products grew 3.3 percent from last month.

Inventories. Total inventories of merchant wholesalers, except manufacturers' sales branches and offices, after adjustment for seasonal variations but not for price changes, were \$375.8 billion at the end of May, up 0.8 percent from last month and were up 7.8 percent from a year ago. The April preliminary estimate was revised upward \$1.4 billion or 0.4 percent. End-of-month inventories of durable goods increased 0.8 percent from April and were up 8.7 percent from last May. Inventories of metals and minerals, except petroleum, increased 2.9 percent from last month and inventories of furniture and home furnishings were up 2.7 percent. End-of-month inventories of nondurable goods increased 0.9 percent from April and were up 6.2 percent compared to last May.

Inventories/Sales Ratio. The May inventories/sales ratio for merchant wholesalers, except manufacturers' sales branches and offices, based on seasonally adjusted data, was 1.15. The May 2005 ratio was 1.20.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 1996-2006

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



Source: U.S. Census Bureau

Monthly wholesale trade: Sales and inventories May 2006

NAICS Code	Business Type	Sales \$ millions	Inventories \$ millions	Stock and Sales ratio	% Change in Sales 4/06-5/06	% Change in Sales 5/05-5/06	% Change Inventory 4/06-5/06	% Change Inventory 5/05-5/06
42	U.S. Total	325,547	375,808	1.15	1.6	12.1	0.8	7.8
423	Durable	160,352	238,082	1.48	2.6	10.9	0.8	8.7
4231	Automotive	26,939	37,220	1.38	3.0	13.4	-1.4	11.9
4232	Furniture & Home Furnishings	5,572	7,975	1.43	1.2	11.7	2.7	4.9
4233	Lumber & Other Construction Materials	11,682	16,009	1.37	0.0	9.1	0.2	9.9
4234	Prof. & Commercial Equip. & Supplies	26,652	30,554	1.15	0.5	5.1	2.1	6.7
42343	Computer Equipment & Software	13,168	10,765	0.82	-1.5	-2.0	2.6	4.6
4235	Metals & Minerals	12,589	20,458	1.63	4.6	14.6	2.9	2.1
4236	Electrical Goods	23,660	29,520	1.25	3.9	8.4	1.2	8.1
4237	Hardware, Plumbing, & Heating Equipment	7,954	14,241	1.79	2.8	17.6	0.4	13.5
4238	Machinery, Equipment & Supplies	26,384	60,242	2.28	-0.6	9.3	1.1	13.4
4239	Miscellaneous Durable	18,920	21,863	1.16	9.3	17.8	-0.3	0.2
424	Nondurable Goods	165,195	137,726	0.83	0.7	13.3	0.9	6.2
4241	Paper & Paper Products	8,161	7,432	0.91	3.3	12.3	-0.5	3.2
4242	Drugs	30,941	29,663	0.96	2.2	16.0	0.1	0.1
4243	Apparel, Piece Goods & Notions	10,028	15,253	1.52	-0.9	2.9	-0.9	-2.2
4244	Groceries & Related Products	36,413	24,545	0.67	-1.0	2.7	0.1	5.2
4245	Farm-product Raw Materials	10,101	11,932	1.18	0.9	12.6	3.5	6.5
4246	Chemicals & Allied Products	7,700	8,558	1.11	2.1	7.5	0.0	6.9
4247	Petroleum & Petroleum Products	35,464	10,926	0.31	1.2	38.7	7.1	35.9
4248	Beer, Wine & Distilled Beverages	8,149	9,519	1.17	-0.1	2.2	1.5	10.9
4249	Miscellaneous Nondurable Goods	18,238	19,898	1.09	0.1	7.6	0.7	9.8

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

Industrial & Construction Markets Update

PERSPECTIVE

What does the perfect distributor look like? If there were such a thing, industry consolidation would have progressed much farther than it has to date. That this industry continues to thrive in its fragmented form underscores that customers have not reduced the definition and value of distribution down to two or three choices in any given product sector.

But the definition of value is shifting quickly; the challenge for distributors is to find the right spot for their customers, for their manufacturer suppliers, and increasingly their investors. That's a tough order. In some cases, distributors have been in dysfunctional relationships with customers and manufacturers for too long; they have massive barriers to fix before they can even identify the value they need to deliver to stay competitive.

Too many distributors are trying to make old models work in new conditions. Put another way, too many distributors are trying to skate to where the puck *was* or *is*, not where it *will* be. The Wayne Gretsky metaphor was OK five or ten years ago. But today there are ten golden pucks scattered out there on the hockey rink of distribution, not just one!

Every customer faces a more complex set of problems to solve with fewer resources than five years ago. Never has the distributor been in a better position to create value and opportunities at customer locations, while at the same time more vulnerable to competitive sourcing alternatives.

Customers are changing the definition of how they value the functions of distribution. So are suppliers. Because of that, distributors are in the hot seat. The new model is how to turn that hot seat into the driver seat. That's where the money is.

Global electrical distributor **The Rexel Group** has agreed to buy **GE Supply**, GE's electrical distribution business, for \$725 million. After the acquisition, GE Supply will operate as a stand-alone subsidiary of Rexel. The acquisition will nearly double Rexel's revenues in the U.S. GE Supply has \$2.2 billion in pro forma annual sales; Rexel posted \$2.5 billion in sales in 2005.

UK-based **Wolseley**, parent of Ferguson and Stock Building Supply, has agreed to acquire **DT Group**, a distributor of building materials with operations in Denmark, Finland, Sweden and Norway, from **CVC Capital Partners** for 1.498 billion euros, or \$2.48 billion, including the assumption of net debt. DT Group's EBITDA was \$212.87 million, putting the acquisition price at about 11.6X EBITDA. About 80 percent of DT Group's sales are through builders' merchants to trade professionals, 13 percent to the DIY market, and 7 percent to the wholesale market.

Citing high debt levels and rising prices for aluminum and other raw materials, ladder maker **Werner Co.**, Greenville, PA, and its affiliated companies have filed for Ch. 11 bankruptcy protection. In papers filed in U.S. Bankruptcy Court in Delaware, Werner reported audited net sales of \$472.3 million for the year ending Dec. 31, 2005. As of March 31, 2006, Werner reported assets of \$201 million and liabilities of \$473.4 million. Werner is highly-leveraged and is facing the maturity of significant portions of debt in its current capital structure. At the same time, Werner is undergoing significant operational restructuring, including transferring operations to a new facility in Juarez, Mexico.

Motion Industries, Inc., Birmingham, AL, distributor of industrial maintenance, repair, and operation (MRO) replacement parts, has acquired **Lewis Supply Company**, Memphis, TN. The acquisition is the company's biggest foray yet into the industrial supply sector. Motion purchased Wichita, KS-based general-line distributor Hub Supply Inc. in 1998. Lewis Supply's general mill supply product offering includes casters, cutting tools, fluids, machinery accessories, power transmission, material handling, precision measurement and safety products. The company also provides integrated supply capabilities.

Genuine Parts Company, Atlanta, GA, announced its second-quarter sales totaled \$2.7 billion, up 8 percent from the second quarter of 2005. Profit was \$120.7 million, an increase of 9 percent from the same period in 2005. For the six months ended June 30, 2006, sales totaled \$5.2 billion, up 8 percent from the same period in 2005. Profit for the six months was \$234.6 million, an increase of 8 percent. Business segment **Motion Industries** grew sales by 10 percent.

US Electrical Services LLC, Chester Springs, PA, has agreed to purchase **Wiedenbach-Brown Co. Inc.**, Westchester County, NY. WB brings USESI, which is being pieced together by former Sonepar chief Richard Worthy, national account expertise in lighting and electrical supply. It has offices in

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Hicksville, New Rochelle and Hawthorne, NY; Boston; Columbus; Kansas City; Los Angeles; and Seattle. The acquisition will be Worthy's third this year.

Canada wholesale revenues rebounded 0.9 percent in May to \$41.8 billion, after declining 0.3 percent in April. While most of the seven wholesale sectors registered gains, more than half the increase was attributable to higher sales in the automotive sector. Building materials sales also contributed to the gain.

Reliance Steel & Aluminum Company, Los Angeles, CA, has agreed to acquire **Yarde Metals Inc.**, a metals service center based in Southington, CT. Yarde had sales of \$385 million in the fiscal year ended June 30, 2006. Yarde was founded in 1976 and specializes in the processing and distribution of stainless steel and aluminum plate, rod and bar products. Reliance also reported a 91 percent gain in sales for the second quarter and an increase of 105 percent in net income. The sharp gains were due in part to the acquisition of Earle M. Jorgensen Company April 3, 2006.

The Home Depot Supply subsidiary **Williams Bros. Lumber**, Suwannee, GA, has acquired **Forest Products Supply Inc.**, Sarasota, FL. The purchase is William Bros.' second this year in Florida. Williams Bros. recently purchased Cox Lumber Co., with \$396 million in sales in 2005. That acquisition nearly doubled the size of Williams Bros. and extended its reach into key

growth markets in Florida and the Southeast. Forest Products Supply operates primarily in the Sarasota area.

W.W. Grainger, Chicago, IL, reported an 8 percent increase in sales for the second quarter ended June 30, 2006. Sales were \$1.5 billion versus \$1.4 billion in the same period last year. Profit was up 15 percent to \$94 million. Sales for the six months ended June 30, 2006, were \$2.9 billion, up 7 percent versus the same period last year. Net earnings increased 17 percent to \$180 million.

The Fastenal Company, Winona, MN, reported sales increased 19.7 percent in the second quarter 2006 over the same period in 2005. Sales totaled \$458.8 million for the three-month period ended June 30, 2006. Profit increased 15.4 percent. Sales for the six-month period ended June 30 totaled \$890.5 million, an increase of 20.8 percent over sales in the same period in 2005. Profit increased 21.7 percent.

Barnes Group Inc. sales grew 10 percent to \$308.9 million in the quarter ended June 30, 2006. Profit was \$18 million, up slightly from the \$17.6 million in the same period last year. **Barnes Distribution** sales grew 11 percent, driven by increases in Barnes Distribution North America as a result of increases in Corporate Accounts, up 11 percent, and Tier II, up 33 percent, along with increased selling prices.

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Explanation of SW Distribution EV and EBITDA Indexes® (See next page)

Construction of the Indexes

Each index is cap-weighted based on aggregate enterprise value and EBITDA. The initial value of each index was set equal to 100 as of Jan. 31, 2003, and each was recomputed as of the last trading day of every month thereafter. Divisor adjustments were made to account for any company entering the indexes, in the case of an IPO after Jan. 31, 2003, and for any material acquisition or divestiture made after the start date for which there was data available. To show more clearly these indexes in relation to the S&P 500 Index, we adjusted the S&P as of Jan. 31, 2006, to a conformed value of 100 and adjusted every month thereafter. Financial data used to calculate the indexes have been provided by Bloomberg Financial Markets without any independent verification by Starshak Welnhofner & Co. Errors in making the index calculations are the responsibility of Starshak Welnhofner & Co.

Disclosures for the SW Distribution EV and EBITDA Indexes® on next page

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Wholesale Distribution Index & Comparables (Data as of June 2006)

(in \$ millions, except multiples)

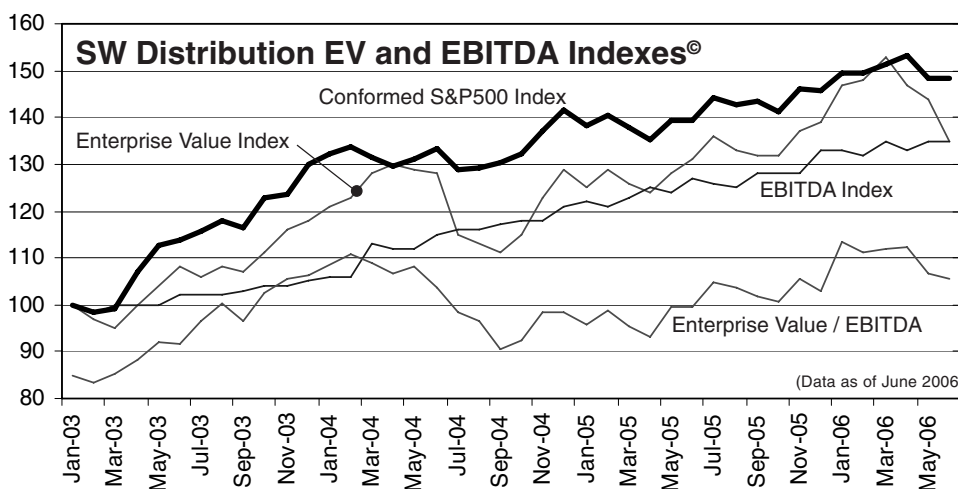
(LTM = Latest 12 Months)

Company	Enterprise Value	LTM Sales	Sales Growth	Gross Margin	LTM EBITDA	EBITDA Margin	EV to LTM Sales	EV to LTM EBITDA	Inv. Turns	Cash Cycle (Days)	LTM Sales / Employee (\$000's)
Airgas Inc	\$ 3,682	\$ 2,830	10.1%	45.9%	\$ 396	14.0%	1.3	9.3	6.8	37.9	\$ 275
Anixter International Inc	\$ 2,441	\$ 4,041	22.1%	24.0%	\$ 241	6.0%	0.6	10.1	4.6	95.8	\$ 722
Applied Industrial Tech Inc	\$ 1,087	\$ 1,850	11.4%	27.2%	\$ 124	6.7%	0.6	8.7	6.8	71.2	\$ 419
Barnes Group Inc	\$ 1,267	\$ 1,128	9.5%	36.2%	\$ 129	11.4%	1.1	9.8	4.6	61.2	\$ 182
Beacon Roofing Supply Inc	\$ 1,261	\$ 1,142	87.3%	24.3%	\$ 92	8.0%	1.1	13.8	6.3	57.7	\$ 529
Builders Firstsource Inc	\$ 982	\$ 2,417	15.6%	25.7%	\$ 212	8.8%	0.4	4.6	11.5	41.5	n/a
Building Material Holding Cp	\$ 1,147	\$ 3,224	54.4%	22.3%	\$ 284	8.8%	0.4	4.0	13.2	44.7	\$ 154
DXP Enterprises Inc	\$ 188	\$ 206	49.6%	27.2%	\$ 13	6.5%	0.9	14.1	6.8	66.9	\$ 460
Fastenal Co	\$ 6,036	\$ 1,677	19.7%	49.7%	\$ 326	19.5%	3.6	18.5	2.3	183.7	\$ 211
Genuine Parts Co	\$ 7,601	\$ 9,994	9.0%	31.3%	\$ 779	7.8%	0.8	9.8	3.2	112.3	\$ 315
Huttig Building Products Inc	\$ 232	\$ 1,129	12.7%	19.5%	\$ 35	3.1%	0.2	6.6	7.9	44.6	\$ 526
Industrial Distribution Grp	\$ 95	\$ 541	1.7%	21.9%	\$ 12	2.3%	0.2	7.6	7.5	53.8	\$ 416
Interline Brands Inc	\$ 1,019	\$ 880	14.3%	38.2%	\$ 97	11.1%	1.2	10.5	3.5	110.1	n/a
Kaman Corp	\$ 527	\$ 1,135	12.7%	26.2%	\$ 43	3.8%	0.5	12.2	3.9	122.9	\$ 306
Lawson Products Inc	\$ 346	\$ 475	24.8%	61.3%	\$ 43	9.0%	0.7	8.1	2.5	144.0	\$ 291
MSC Industrial Direct Co-A	\$ 3,066	\$ 1,208	14.3%	47.0%	\$ 221	18.3%	2.5	13.9	2.6	156.3	n/a
Park-Ohio Holdings Corp	\$ 396	\$ 964	13.7%	14.4%	\$ 74	7.7%	0.4	5.4	4.1	106.8	\$ 284
Pool Corp	\$ 2,539	\$ 1,636	31.5%	28.0%	\$ 155	9.5%	1.6	16.4	3.4	46.9	\$ 511
Reliance Steel & Aluminum	\$ 3,466	\$ 3,543	21.7%	26.1%	\$ 448	12.7%	1.0	7.7	6.3	69.2	\$ 633
Ryerson Inc	\$ 1,537	\$ 5,688	-6.0%	14.8%	\$ 238	4.2%	0.3	6.5	5.1	92.7	\$ 981
Smith International Inc	\$ 11,124	\$ 5,973	30.6%	30.6%	\$ 882	14.8%	1.9	12.6	3.9	125.7	\$ 406
Valley National Gases Inc	\$ 335	\$ 199	25.9%	51.4%	\$ 37	18.4%	1.7	9.1	9.0	44.7	\$ 296
Watsco Inc	\$ 1,724	\$ 1,731	14.0%	25.2%	\$ 131	7.6%	1.0	13.2	4.6	88.2	\$ 541
Wesco International Inc	\$ 3,987	\$ 4,696	27.7%	19.4%	\$ 269	5.7%	0.8	14.8	8.5	20.1	\$ 783
WW Grainger Inc	\$ 6,269	\$ 5,611	6.3%	39.8%	\$ 654	11.7%	1.1	9.6	4.4	82.3	\$ 392
Trimmed Mean	\$ 2,064	\$ 2,264	18.9%	30.3%	\$ 202	9.2%	0.9	10.2	5.4	80.2	\$ 419

The Chicago investment banking firm of Starshak Welnhofer & Co. has prepared the following indexes from public data as of June 30, 2006.

Figure A (above) highlights key financial metrics for 25 publicly traded wholesale distributors with an enterprise value of at least \$75 million on Jan. 31, 2006.

Figure B (below) plots the **SW EV Index**[®], which tracks the aggregate enterprise value of 64 publicly held wholesale distribution companies as of the close of the last trading day in any month during the index period. EV means market capitalization of equity plus preferred stock plus total interest-bearing debt net of any cash. **Figure B** also plots the **SW Distribution EBITDA Index**[®], which tracks the aggregate past 12 months of EBITDA as of the close of the last trading day in any month during the index period. EBITDA is earnings before interest, taxes, depreciation and amortization, in certain cases adjusted by Bloomberg for income or expenses thought to be non-recurring.



The SW Distribution EV Index decreased by 6.6% in June, closing at 134.9% on June 30th from a restated 144.4 on May 31st, and has now actually fallen by 3.3% on a year to date basis. This compares with the Conformed S&P 500 Index which was flat last month, and is now up 1.7% on a year to date basis. We note that the EV Index now trails the Conformed S&P Index by a meaningful margin for the year and since inception. The SW Distribution EBITDA Index was flat in June, closing at 135.5 on June 30th, identical to the restated number on May 31st, and is now up by 1.6% on a year to date basis.

Starshak Welnhofer & Co. is a private investment banking firm serving middle-market companies since 1990 with a special focus on distribution. It is a financial advisor to corporations and not-for-profit entities in the issuance of debt and equity securities to institutional investors, M&A transactions, ESOPs, debt restructurings, reorganizations in or outside of bankruptcy proceedings, fairness opinions, valuations and expert testimony. The firm is a registered broker/dealer and a member of the NASD. For more information or a complimentary copy of its monthly newsletter, please contact William G. Welnhofer at 312-444-9367 or b.welnhofer@SWandCo.com or Ste. 2530, 55 West Monroe St., Chicago, IL 60603. Please see the previous page for important information regarding the data shown above.

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MDM News Digest

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Watsco Inc., Coconut Grove, FL, distributor of air conditioning and heating products, reported revenues grew 16 percent to \$512 million for the second quarter ended June 30, 2006. Revenues grew 15 percent on a same-store basis. Net income was up 28 percent to \$28.7 million. For the six months ended June 30, 2006, revenues grew 15 percent to \$906 million, with revenue growth of 14 percent on a same-store basis. Net income was up 32 percent to \$41.8 million.

Illinois Tool Works, Glenview, IL, has acquired two manufacturers, **BagCo Inc.**, a provider of plastic recloseable packaging for the industrial, medical and consumer markets, and **Kester Inc.**, a supplier of solder and related materials for electronic and microelectronic assembly suppliers.

Two subsidiaries of massive building materials supplier **Pro-Build Holdings** have announced

acquisitions. Brooklyn, NY-based **Strober Building Supply** has purchased millwork and kitchen specialist **Rowley Building Products**, Middleton, NY, and its sister company, construction financing business **Builder's Capital LLC**. **The Contractor Yard**, Charlotte, NC, acquired **Building Materials Wholesale/Retail Inc.**, a supplier of drywall and related products also in Charlotte.

Kennametal Inc., Latrobe, PA, has recently increased its ownership in its Italian and Spanish affiliates. This grows Kennametal's ownership in **Kennametal Italia S.p.A.** from 55 percent to 66 percent and in **Kenci S.A.** from 43 percent to 53 percent. Kennametal Italia serves the Italian metalworking market via a service center and operates a manufacturing facility that provide products for Kennametal's global network. Kenci serves the metalworking market in Spain and Portugal.

Motion Industries Acquires Lewis Supply

Motion Industries, Inc., Birmingham, AL, distributor of industrial maintenance, repair, and operation (MRO) replacement parts, has acquired Lewis Supply Company, Memphis, TN.

The acquisition is the company's biggest foray yet into the industrial supply sector. Motion also purchased Wichita, KS-based general-line distributor Hub Supply Inc. in 1998.

Lewis Supply's general mill supply product offering includes casters, cutting tools, fluids, machinery accessories, power transmission, material handling, precision measurement and safety products. The company also provides integrated supply capabilities to a segment of its

customer base.

"This strategic move is a continuation of our expansion plans, and we are pleased to have Lewis Supply join our organization," said Motion President and CEO Bill Stevens.

Lewis Supply was founded in 1916 by T. Walker Lewis in Helena, AR. The company was later acquired by Setech Corporation in 1997 and grew to its current branch and integrated supply operation, employing 102 people in four facilities: Jackson, TN; Corinth, MS; Madison (Nashville), TN; Memphis, TN, and its integrated supply locations.

With 2005 sales of \$2.8 billion, Motion Industries is a distributor of bearings; mechanical, industrial automation, electrical, pneumatic, and hydraulic power replacement parts; hose and rubber products; and industrial supply products.

Motion Industries has more than 460 operations including nine distribution centers throughout North America and serves more than 150,000 customers from the automotive, chemical, food and beverage, wood and lumber, iron and steel, pulp and paper, and pharmaceutical industries.

Motion Industries is a wholly owned subsidiary of Genuine Parts Company.

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