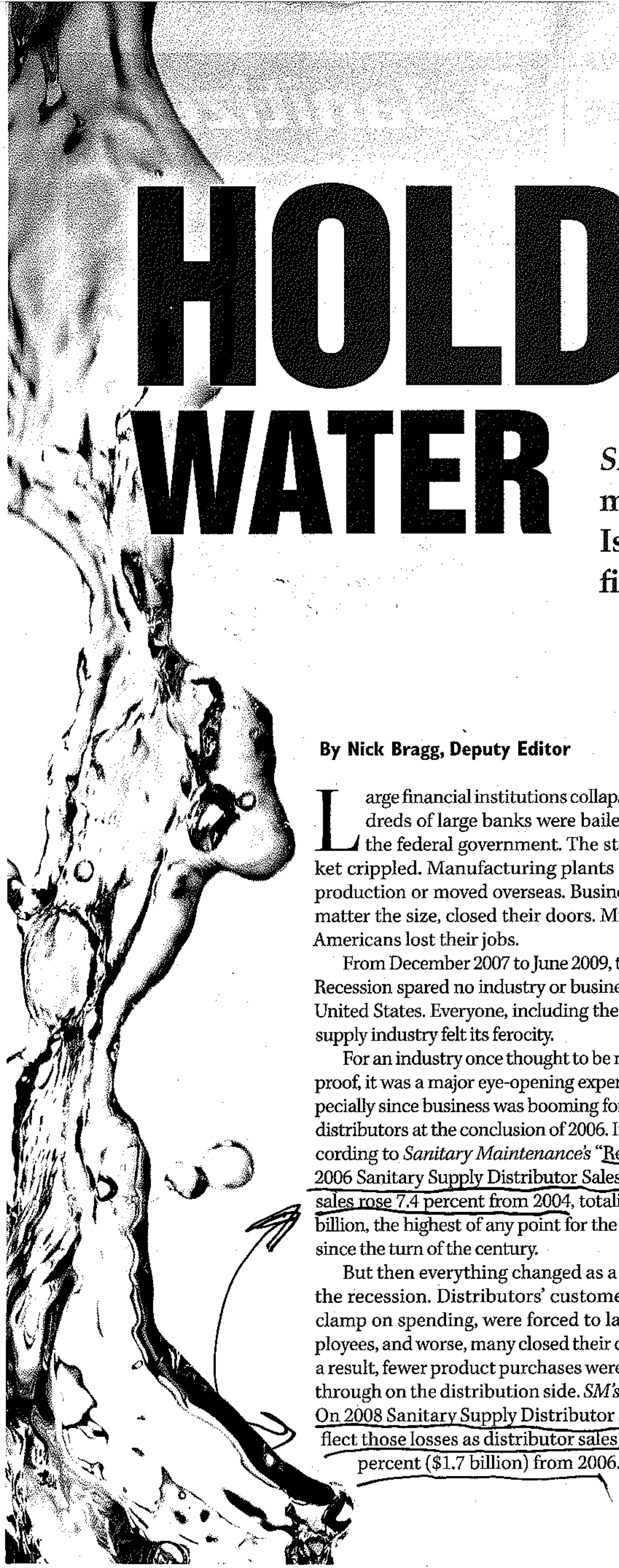


HOLDING WATER

SM's **latest sales study shows modest gains for distributors. Is the worst of the recession finally behind us?**

By Nick Bragg, Deputy Editor

Large financial institutions collapsed. Hundreds of large banks were bailed out by the federal government. The stock market crippled. Manufacturing plants stopped production or moved overseas. Businesses, no matter the size, closed their doors. Millions of Americans lost their jobs.

From December 2007 to June 2009, the Great Recession spared no industry or business in the United States. Everyone, including the sanitary supply industry felt its ferocity.

For an industry once thought to be recession-proof, it was a major eye-opening experience, especially since business was booming for jan/san distributors at the conclusion of 2006. In fact, according to *Sanitary Maintenance's* "Report On 2006 Sanitary Supply Distributor Sales," overall sales rose 7.4 percent from 2004, totaling $24.8 billion, the highest of any point for the industry since the turn of the century.

But then everything changed as a result of the recession. Distributors' customers put a clamp on spending, were forced to lay off employees, and worse, many closed their doors. As a result, fewer product purchases were coming through on the distribution side. *SM's* "Report On 2008 Sanitary Supply Distributor Sales" reflect those losses as distributor sales sunk 6.6 percent ($1.7 billion) from 2006.

Although the National Bureau of Economic Research proclaimed the recession over in June 2009, most distributors in the jan/san industry say they felt the lingering effects well into 2010 and still do on the cusp of 2012.

But most distributors didn't cave into the recession's transgressions and subsequent hangover. With their backs against the ropes, they instead fought back the only way they knew how — by selling.

Nose To The Grindstone

Often preached during a recession, the one way a business can work its way through an economic meltdown is to sell its way out of it. And that's exactly what most distributors in the jan/san industry did. They hired more outside sales reps to recoup lost margins. According to *SM's* "Report On 2010 Sanitary Supply Distributor Sales," distributors hired an average of five more outside salespeople compared to 2008, who were tasked to hit the streets to win more business.

"It is wise to invest in assets that create revenue," says Louie Davis Jr., senior territory manager with Central Paper Co., in Birmingham, Ala. "Human capital is the best asset in which to invest to create revenue."

According to the overall sales numbers for 2010, the hiring of additional outside sales reps proved

MERGERS AND ACQUISITIONS

RPM International Acquires Legend Brands Family

Medina, Ohio-based **RPM International** has signed an agreement to purchase the **Legend Brands** family of companies, including Dri-Eaz Products, ProRestore Products and Sapphire Scientific. The Burlington, Wash.-based Legend Brands companies will become part of RPM2, a unit of RPM International.

Under the sales agreement, Legend Brands will remain a stand-alone operation within RPM2 and will continue to be led by its existing management team and headed by CEO Bill Bruders.

The Legend Brands acquisition is RPM's first major investment in equipment manufacturing.

PEOPLE

Spartan Chemical Co., Inc., Maumee, Ohio, promoted **John Swigart** to president.

In addition, the company promoted **Jim Lenardson** to corporate executive vice president; **Dave Reed** to vice president, national accounts; and **Don Papenfus** to vice president, operations.

York, Pa.-based Gent-l-kleen Products Inc., announced **Scott Hermes** as national sales manager.

AFFLINK, Tuscaloosa, Ala., accepted the resignation of **Joe Ondriezek**, vice president of operations to attend to family obligations. In his absence, former CFO **Chip Shields** will return to lead all operations of the buying group.

Roadnet Technologies, Baltimore, selected **Dan Lines** as director of financial planning and analysis. The company also selected **Karan Gupta** as director of finance and revenue planning.

HydraMaster and U.S. Products, Mukilteo, Wash., have filled four key positions within both divisions: **Doyle Bloss**, marketing and brand manager; **Joe Verslui**, national accounts manager; **Mark Baxter**, product manager; and **Ollie Nielsen**, Southeast regional manager.

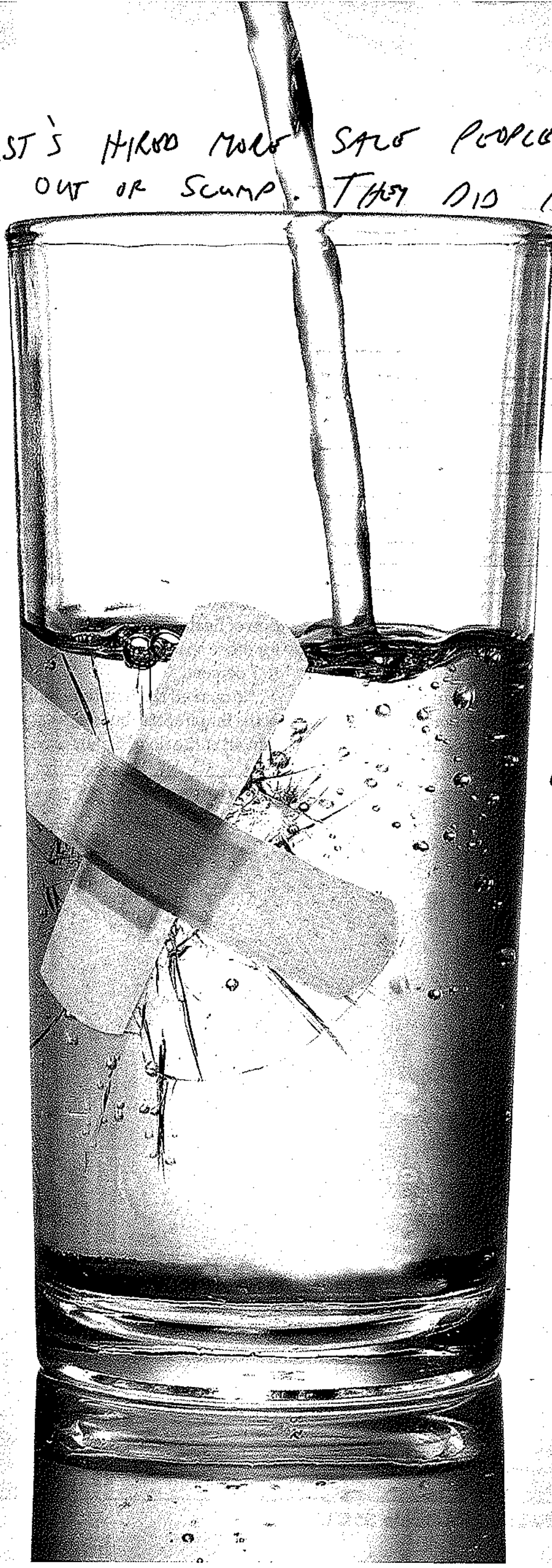
NISSCO (National Independent Sanitary Supply Companies), Dulles, Va., announced **Ginny Petru** as its director of marketing.

The buying group also added **Keen Umbehr** as director of business development.

Betco Corp., Toledo, Ohio hired **Bob Gail** as senior vice president, sales.

Two Deerfield, Ill.-based United Stationers associates, **Janelle Rampersad**, United Stationers Supply director of category management, technology, and **Shelly Flanagan**, general operations manager, Cleveland and Pittsburgh, have been honored by *Diversity MBA* as the magazine's 2011 "Top 100 Under 50 Emerging Leaders."

DIST'S HIRED MORE SALES PEOPLE TO SELL ITSELF OUT OF SLUMP. THEY DID NOT CUT ~~EMPLOYEES~~ NOR DIRECT SALES STAFF.



2004-2006 = ↑ 7.4%
2006-2006 = ↓ 6.6%
2010-2008 = ↑ 2.0%

BSC's = 15.5% (↑)
INDUSTRIAL = 15.3% (↓)
EDUCATION = 15.0% (↑)
HEALTH CARE = 13.3% (↑)
OFFICE BUILDINGS + PROPERTY MGMT = 8.3% (↓)

to be successful. Distributor sales rose 2 percent over 2008. Unfortunately, however, the industry is still playing catch-up to the pre-recession sales numbers of 2006.

Interesting to note is that in 2006, distributors had an average of eight outside salespeople and four inside salespeople and were able to bring in $1.2 billion more in total sales than in 2010, where distributors had an average of 15 outside reps and five inside reps. Distributors say that can be chalked up to less business being in existence.

"Sales numbers still lag because there is not as much business in existence. The pie has gotten smaller," says Davis. "A contracting economy is characterized by less production and less consumption, therefore there are few new entities for distributors to sell to. Combined with this is the unfortunate fact that not many businesses that existed in 2006 simply are not in existence today. So, for a distributor to grow and prosper, it must be determined to take market share from competitors."

Market Segments

Although the pool of customers shrunk from the recession, distributors were still able to muster gains. In 2010, contract cleaners represented the largest percentage of distributors' sales per market segment (15.5 percent, an increase of 1.4 percent since 2008). Distributors say this increase comes

as a direct result of more and more facilities outsourcing their custodial operations to building service contractors who charge less for cleaning. This way, facilities can concentrate their efforts more on revenue producing functions.

"Companies are looking at what their strongest skill sets and disciplines are and are outsourcing the rest. Housekeeping is usually the first to be outsourced," says Nick Spallone, president of Tahoe Supply Co., LLC, Carson City, Nev.

Distributors also noticed the trend of outsourcing with their industrial customers (manufacturing plants, food processing, utilities warehouses) as manufacturing jobs were eliminated and shipped overseas. Previously jan/san distributors' highest-ranking market sector dating back to 2006, industrial market sales dipped 1.4 percent to 15.3 percent from an all-time high of 16.7 percent in 2008.

"We have noticed the drop-off of the industrial base with a large degree of industrial customers cutting back or shutting down," says Ed Stasiak, vice president of Kalamazoo, Mich.-based KSS Enterprises.

The educational market (schools, colleges and universities) ranks third and has grown to 15 percent, an increase of 0.6 percent since 2008. Distributors interviewed for this article say these numbers are minimal due to the fact that the move by educational facilities towards privatizing has reduced their selling opportunities. Many national, large-scaled building service contractors with the power to purchase direct from manufacturers are taking over educational accounts and are cutting the distributor out of the business equation.

The health care market (hospitals, nursing homes, clinics, medical and dental offices) remains the fourth leading market segment for distributors (13.3 percent of sales) and grew 2.4 percent since 2008. Distributors say cleanable space grew in number in this market during the recession. So, as square footage grew, hospitals were required to clean more. The threat of hospital-acquired infections also has ramped up cleaning efforts since hospitals are no longer reimbursed for Medicare and Medicaid patients who acquire an infection as a result of their hospital stay.

Commercial facilities such as office buildings and property management firms round out the top five, but sales have dipped 1.7 percent to 8.3 percent since 2008.

Stewart Strauss, president and CEO of Port Chester, N.Y.-based Strauss Paper Co., says his company's largest customer base is commercial facilities, and from 2008 to 2010, his company saw a 13 percent decline in sales. This decline coincides with the unemployment rate in the U.S. reaching no lower than 9.4 percent in 2010.

"When unemployment is high and people are no longer employed, we sell less," he says.

Another reason for the decline in commercial facility sales can be directly tied to the number of vacancies across the U.S. In November 2010, the National Association of Realtors reported the vacancy rate for office space stood at a national rate of 16.7 percent.

"It marked the first time in the history of the Empire State building that you could rent an entire floor," Strauss says.

Distributor Sales Volume: Product Categories

In the business of selling commodities, it should come as no surprise that in 2010, paper and plastic products still made up the leading product category by sales volume (see page 20 for complete survey results), even though it represents a decline in sales volume from 2008 when it accounted for 53.2 percent of distributor sales. Paper towels, facial tissue and toilet tissue were still the leading seller in this category, where distributors experienced an increase of 8.3 percent. Can liners were the next hottest selling item in this category, which saw a considerable increase in sales (rose 4.5 percent since 2008 when it ranked fourth). Foodservice disposables dropped significantly (6.4 percent) from 2008, when it ranked second in this category.

The chemicals category ranked second in sales in 2010 and increased 2.5 percent from 2008. Popular selling items in rank of order continued to be resilient and hard floor chemicals as well as cleaners and degreasers.

The supplies and accessories category remained at 9.3 percent from 2008, but saw a rise in overall sales dollars (nearly $55 million). The best selling items in this category were gloves (dropped 1 percent from 2008), mats and matting (remained the same), and floor pads, which saw an increase of 2.2 percent since 2008.

Power equipment accounted for 7.9 percent of distributor sales volume in 2010, an increase of 2 percent since 2008. The three top selling items in this category remained the same as 2008 as the sale of automatic scrubbers ranked highest, followed by upright and wide area vacuums, and replacement parts. Distributors say facilities were willing to purchase these large ticket items as a way to improve cleaning times while having to deal with less overhead.

Other janitorial products accounted for 2.4 percent of sales, a drop of 2.7 percent since 2008.

What is evident from the 2010 sales numbers is more customers have accepted and adopted green cleaning products. Green supplies and accessories rose 6.8 percent from 2008, while green paper and plastic products also saw an increase of 2.1 percent. Distributors say today's customers are more willing to invest in a green system because the payback is recognized in a relatively short time window.

The sales of green chemicals did dip 2.3 percent in 2010 from 2008, when it accounted for 25.3 percent of the total chemical sales volume, but this drop correlates with the increase in green equipment, which require fewer chemicals, says Spallone. In fact, the sale of green power equipment rose 3.7 percent from 2008.

Reflecting On 2011 And Looking Forward to 2012

With sales slowly inching back to pre-recession numbers, distributors are still hesitant to proclaim the industry completely out of the woods from the uncertain economy. Customer spending remained in a relative holding pattern in 2011, prompting distributors to proactively seek out new accounts to recognize a profit.

"We grew a little bit. We worked harder to keep up and just to eek out a little bit of growth this year," says Charles Moody, president of Solutex Inc., Sterling, Va. "We had to do it with more customers this year. Customers spent a little bit less because of budget cuts, so we had to scramble and work a little harder to beat 2010's sales."

Most of today's distributors have been able to protect their bottom lines and hold them at an even level or grow them modestly from 2010, some have experienced losses, while a minority have had banner years.

"2011 was a tougher year than 2010 but I think [the distribution industry as a whole] will come out slightly ahead," says Moody.

Market trends from 2010 continued to carry over into 2011, but new business opportunities have been slim, and more distributors are finding themselves in a fight over the same pool of business, according to Jennifer Rosenberg, president of Acorn Distributors Inc., Indianapolis.

Distributors say contract cleaners and industrial market accounts continue to remain their top customer market gainers, while educational and health care accounts continue to show growth. Contract cleaner growth, however, is bitter sweet because it mostly comes at the expense or loss of sales in the educational market, according to Stasiak.

Distributors say product categories that will save on labor and can promise a quick return on investment such as power equipment, will continue to be a steady gainer.

"Capital expenditures are starting to loosen up," says Spallone. "We are seeing more big pieces of equipment moving out our doors. Companies that tightened up their belts are starting to reinvest in their cleaning departments."

Large distributors are expected to continue to grow by acquisition and market expansion. 2011 saw several small distributors sell to larger distributors due to the fact that they weren't able to be competitive on price.

Business threats from outside competition such as big-box stores is also top of mind entering 2012 as these companies often steal business by low-balling distributors' pricing and win over customers who are still price shopping. Distributors say they must differentiate themselves from these box-mover entities by providing value on the back-end of purchases to entice price-conscious end users.

most distributors didn't cave into the recession's transgressions and subsequent hangover

As the pages on 2011 come to a close, distributors are encouraged by the minimal gains, but they are still preparing for an uphill climb in 2012.

"There are still many hurdles ahead for distributors," says Stasiak. "The education market will continue to privatize and national accounts and buying groups will continue to grow. Product cannibalization and margin compression will also continue. Every distributor will need to have a plan as to how they will combat these movements to support growth. Those without a plan will not make it." SM

EXCLUSIVE SURVEY RESULTS

DISTRIBUTOR SALES 2010

The "Report On 2010 Sanitary Supply Distributor Sales" is conducted every other year by *Sanitary Maintenance* magazine, in conjunction with ISSA.

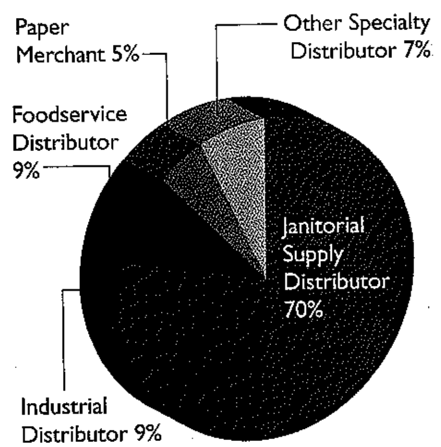
Some highlights from this year's study include:

- Distributor sales grew 2 percent from 2008 to 2010. Sales now total $23.6 billion.
- More than one-third of distributors sell locally (within a 60 mile radius).
- Industrial, Educational, and Contract Cleaners accounted for 45.8 percent of distributor sales in 2010.
- Paper and plastics is the leading product category by sales volume; garnering more than 50 percent of total sales.
- Towels/Facial Tissue/Toilet Tissue continues to be the product that sold the most by dollar volume.

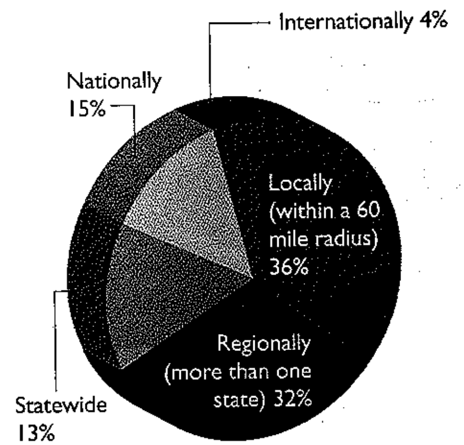
This study was designed, prepared and conducted by the Research Department of Trade Press Media Group Inc., publisher of Sanitary Maintenance *magazine in conjunction with ISSA. Its primary purpose was to gather information on distributor sales of chemicals, janitorial supplies, paper/plastic products and power equipment. Data shown in this report was derived from non-duplicated questionnaires returned from a random sample of* Sanitary Maintenance *readers, which includes ISSA members. Projected market totals were computed using weighted means. Dollar figures presented represent sales by distributors after markup. Estimates for manufacturer sales based on these figures are difficult to make since markup varies from category to category and from one distributor to another.*

The data contained within this report is believed to be reflective of the janitorial supply distribution industry and does not reflect size of each market segment or product group beyond that.

TYPE OF DISTRIBUTOR



DISTRIBUTORS' SALES TERRITORY

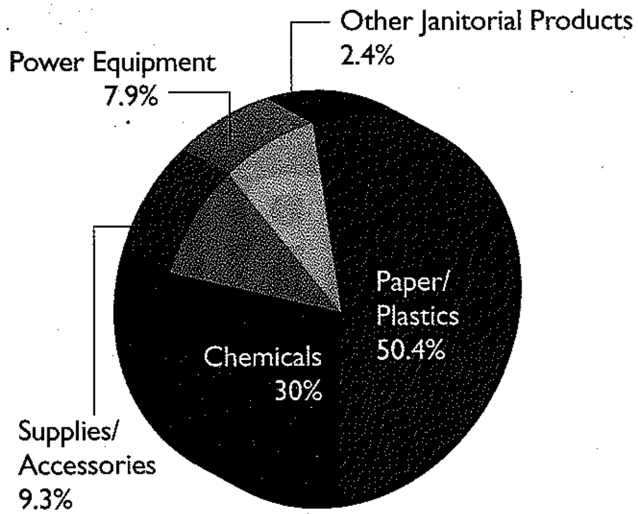


2010 DISTRIBUTOR SALES BY MARKET SEGMENT

Contract Cleaners	1	$3,664,770,400	15.5%
Industrial (manufacturing plants/food processing/ utilities warehouses)	2	$3,617,483,040	15.3%
Educational (schools/colleges/universities)	3	$3,546,552,000	15.0%
Health Care (hospitals/nursing homes/clinics/medical/ dental offices)	4	$3,144,609,440	13.3%
Commercial (office buildings/property management firms)	5	$1,962,425,440	8.3%
Governmental (municipal/county/state/federal)		$1,655,057,600	7.0%
Retail (grocery/shopping malls/department stores/ auto dealers/misc. retail)		$1,347,689,760	5.7%
Restaurants/Clubs (stand-alone/country clubs)		$1,205,827,680	5.1%
Hotels/Motels		$1,111,252,960	4.7%
Recreation (stadiums, health clubs, movie theaters, casinos, bowling alleys)		$851,172,480	3.6%
Religious (churches, convents/etc., EXCLUDING hospitals & schools)		$662,023,040	2.8%
Transportation (airports/public transit/airlines/ bus and rail stations		$567,448,320	2.4%
Residential (apartment buildings/condominiums)		$307,367,840	1.3%
Total		**$23,643,680,000**	

BREAKDOWN OF 2010 PRODUCT SALES

2010 DISTRIBUTOR SALES VOLUME



TOTAL SALES **$23,643,680,000**

2010 CHEMICAL SALES			
Bio Enzymes (drain opener/drain cleaner/etc.)	7	$390,579,000	5.5%
Carpet Care Chemicals (shampoos/ pretreats/spotters/etc.)	6	$393,954,000	5.6%
Cleaners & Degreasers (glass/wall)	2	$1,263,261,000	17.8%
Disinfectants & Sanitizers (bowl/ porcelain cleaners/etc.)	3	$655,759,000	9.2%
Hand Cleaners (bar/liquid/powder/etc.)	4	$625,146,000	8.8%
Hand Sanitizers		$350,910,000	4.9%
Ice Melts		$321,343,000	4.5%
Insecticides, Herbicides & Pesticides		$37,645,000	0.5%
Laundry Detergents	5	$403,976,000	5.7%
Odor Control (blocks/liquids/gels)		$335,654,000	4.7%
Resilient & Hard Floor Chemicals (stripper/neutralizers/seals/finishers/ restorers/spray buffs/etc.)	1	$1,684,659,000	23.7%
Warewash Chemicals		$454,295,000	6.4%
Other Chemicals not listed above		$189,374,000	2.7%
Total		**$7,106,555,000**	

23% of chemical sales in 2010 were green products

2010 SUPPLIES/ACCESSORIES SALES		
Absorbents/Spill Containment	$34,548,000	1.6%
Brooms & Brushes	$125,616,000	5.7%
Cloth rags (not microfiber)	$78,331,000	3.6
Dusters & Dust Mops, & Applicator Pads	$113,338,000	5.1%
Floor Pads	$197,657,000	9.0%
Floor Machine Brushes	$24,525,000	1.1%
Gloves (light weight/disposable & safety)	$293,620,000	13.3%
Hand Tools (scrapers/screwdrivers/ pliers/hammers/flashlights)	$57,137,000	2.6%
Mats & Matting	$239,608,000	10.9%
Microfiber Products (mops, clothes, etc.)	$166,998,000	7.6%
Mopping Equipment	$156,123,000	7.1%
Protective Clothing/Equipment	$46,376,000	2.1%
Safety Products (other than gloves)	$68,008,000	3.1%
Signage/Barricades	$26,734,000	1.2%
Squeegees	$26,187,000	1.2%
Traditional Washroom Fixtures (non touch-free hand dryers, dispensers, toilet partitions)	$68,935,000	3.1%
Touch-Free Washroom Fixtures (hand dryers, dispensers, flush valves)	$54,346,000	2.5%
Warewashing Equipment	$38,629,000	1.7%
Waste Handling Equipment (carts/receptacles, not liners)	$84,195,000	3.8%
Wet Mops (all types, except microfiber)	$187,852,000	8.5%
Window Washing Accessories (buckets/holsters/etc., not squeegees)	$43,720,000	2.0%
Other Supplies/Accessories not listed above	$71,458,000	3.2%
Total	**$2,203,941,000**	

23% of supplies/accessories sales in 2010 were green products

2010 POWER EQUIPMENT SALES		
Automatic Scrubbers	$394,562,000	21.1%
Battery Powered Floor Machines (polishers/ burnishers)	$109,410,000	5.9%
Carpet Extractors	$202,970,000	10.9%
Electric (Corded) Powered Floor Machines (polishers/burnishers)	$207,244,000	11.1%
Pressure Washers	$39,920,000	2.1%
Propane Powered Floor Machines	$47,989,000	2.6%
Power Sweepers	$41,483,000	2.2%
Replacement Parts	$258,156,000	13.8%
Restroom Cleaning Machines (not including pressure washers)	$53,089,000	2.9%
Vacuums (backpack)	$86,419,000	4.6%
Vacuums (tank and wet/dry)	$101,379,000	5.4%
Vacuums (upright/wide area)	$261,333,000	14.0%
Other Power Equipment not listed above	$62,931,000	3.4%
Total	**$1,866,885,000**	

26% of power equipment sales in 2010 were green products

2010 PAPER/PLASTIC SALES		
Foodservice Disposables (napkins/ plates/bowls/cups/cutlery/wraps)	$1,445,201,000	12.1%
Industrial Wipers	$349,265,000	2.9%
Liners & Bags (paper or synthetic/ plastic)	$2,553,098,000	21.4%
Packaging Products	$1,541,204,000	13.0%
Towels/Facial Tissue/Toilet Tissue	$5,832,641,000	49.0%
Other Paper/Plastics not listed above	$189,027,000	1.6%
Total	**$11,910,436,000**	

37% of paper/plastics sales in 2010 were green products

ADDITIONAL SALES INFORMATION

Average Number of Salespeople Employed

15 *Outside Salespeople*

Inside Salespeople **5**

2010 AVERAGE GROSS MARGIN