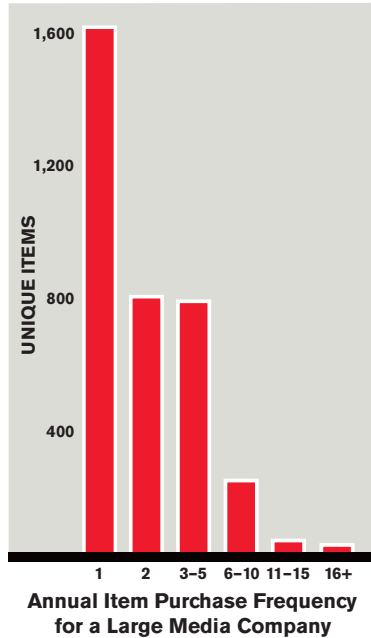


Growth

Purchasing Pattern

Managing the unpredictable by relying on Grainger



Grainger provides businesses and institutions with the products they need to maintain their facilities. The company doesn't manufacture any of the products it carries, but it does make it easy for customers to find and buy those products. Grainger's success is built around the service it provides, characterized by these unique strengths:

- A broad product line to handle customers' diverse requirements
- An efficient supply chain that can get products from suppliers to customers quickly
- A local presence, so that customers have immediate access to the most frequently needed items
- An integrated information system that connects customers, products and information
- Employees who have product knowledge and a passion for customer service

Competitors may have some of these characteristics; however, no one offers all of them to the degree that Grainger does.

Taking the Cost Out of Procurement

Grainger customers are continually looking for ways to reduce the time and money it takes to purchase facilities maintenance products. One of the most expensive aspects of procurement is the task of sourcing the products themselves.

Take, for example, one of Grainger's customers: a large media company (see graph at left). To operate successfully, this customer needs to maintain its printing facilities. Last year, that meant buying more than 3,500 different facilities maintenance products. That's not a difficult task if you know what you need and where to buy it. The ubiquitous 4-foot fluorescent bulb – one of the most popular items Grainger sells – is easy enough to locate.

Investing in Employees

Customer Service Employees

Grainger's most frequent contact with customers comes through the nearly 600 branches and call centers scattered throughout North America. The 428 branches in the United States and Puerto Rico average 12 associates. Some of these employees serve customers who drop by the branch, helping them find and buy what they need, either from products displayed in the showroom or by retrieving products from the attached warehouse. Other employees take customers' telephone calls; their knowledge of Grainger's overall product offering is key to helping customers identify and buy the products they need. These products may be picked up at the branch or shipped from one of nine distribution centers.



Investing in Employees

A key part of serving customers involves the training and retention of employees. Grainger makes a significant investment in its employees, who in turn reward Grainger with loyal service.

	2005	2006
Number of hours of training per employee	27.2	32.0
Average years of tenure per employee	7	8

Stratified Sales Force

Grainger employs two different types of sales representatives: account managers who travel to customer locations and remotely manage relationships with large customers, and account relationship managers who connect with mid-sized customers using the telephone and other electronic means. Since 2002, Grainger has added 855 more sales representatives, an increase of 70 percent.

Sales Representatives – U.S. Branch-based Business

	2002	2003	2004	2005	2006
Account Managers	1,221	1,347	1,508	1,694	1,762
Account Relationship Managers	0	8	159	194	314

But what about a low-voltage pulse-width modulated DC adjustable speed control? Who do you call to find that? That's the sort of challenge almost every facilities maintenance customer faces at some point, because only 2 percent of the items are bought as frequently as once a month. Almost half are bought only once a year. And each year, most of the customer's purchases are for items the customer didn't buy the year before.

Here are some of the ways Grainger is helping customers reduce the time and expense of this challenge:

- Grainger employees are knowledgeable about the total range of products the company carries: 350,000 products spanning 17 categories. That expertise builds up over time; the average tenure of a Grainger customer service representative is greater than four years.
- Grainger can source items that it doesn't stock, such as product line extensions from Grainger's existing suppliers or products from other manufacturers.
- Grainger's print and online catalogs are organized to enhance the customer's experience, offering detailed, helpful technical information.
- Grainger's multiple Web sites offer search capabilities that allow customers to refine their searches using a variety of drill-down techniques.
- Grainger offers a pricing policy that discounts volume purchasing. This benefits customers wishing to consolidate their unplanned and infrequently purchased items along with items they buy regularly.

By consolidating purchases with Grainger, customers enjoy great service at competitive prices from one convenient source. And by making procurement easy, Grainger is driving growth.

Addressing Diverse Customer Needs

Customers' procurement tendencies vary depending on their size; therefore, they value different aspects of Grainger's service offering. By developing strategies to address these unique needs, Grainger is growing market share with customers both large and small.

Grainger's market share with large customers is 9 percent. These customers value the breadth of Grainger's product line and the many different ways of ordering what they need. They buy a wide range of products and appreciate the volume discount they receive for consolidating their purchasing with Grainger. A majority of the transactions from these customers are shipped from the company's nine distribution centers or four master branches in the United States.

With 3 percent market share among small and mid-sized customers, Grainger's opportunity for growth is even greater. For these customers, the branch network is invaluable. Most customers are able to drive to a branch within 20 minutes. The ability to access products locally enables them to reduce their own inventory, thereby saving space and carrying costs.

However, these customers are harder to reach. The addition of account relationship managers has helped Grainger gain share with the mid-sized customer by increasing awareness of the solutions Grainger offers. For the small customer, direct marketing raises awareness. In 2007, the company increased the number of catalogs it produces by almost 40 percent versus 2006 and plans to get these catalogs into the hands of more small customers.



Grainger employees are knowledgeable about the total range of products the company carries: 350,000 products spanning 17 categories.

Growth

Market Expansion

Grainger's multiyear Market Expansion program is helping the company gain share in the facilities maintenance market. At the heart of the program are marked improvements in

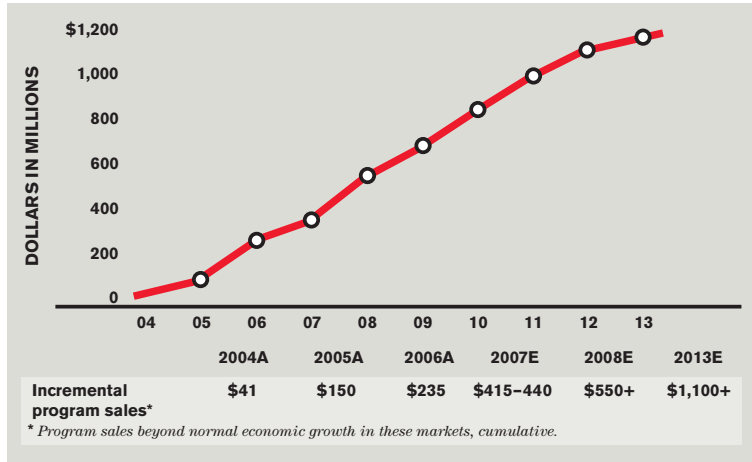
customer coverage and positioning of products and services within the top metropolitan markets in the United States. These markets represent approximately 50 percent of the country's overall facilities maintenance product opportunity.

Grainger already has a presence in these markets. But by examining branch size and location, inventory, sales coverage and marketing, the company is expanding its market share. Now halfway through the program, Grainger forecasts that incremental sales growth – that is, growth occurring faster than the market's economic growth – will be approximately 5 percent or better for each of the five years following completion of expansion activities.

Approximately half of Grainger's transactions take place at a branch; the rest are shipped from one of nine distribution

centers. Because branches are the primary source of products needed immediately by customers, Grainger's market expansion program is a critical factor in helping to grow sales, particularly among smaller and mid-sized customers who are frequent users of the branches. Since the program's inception in 2004, the company has added more than

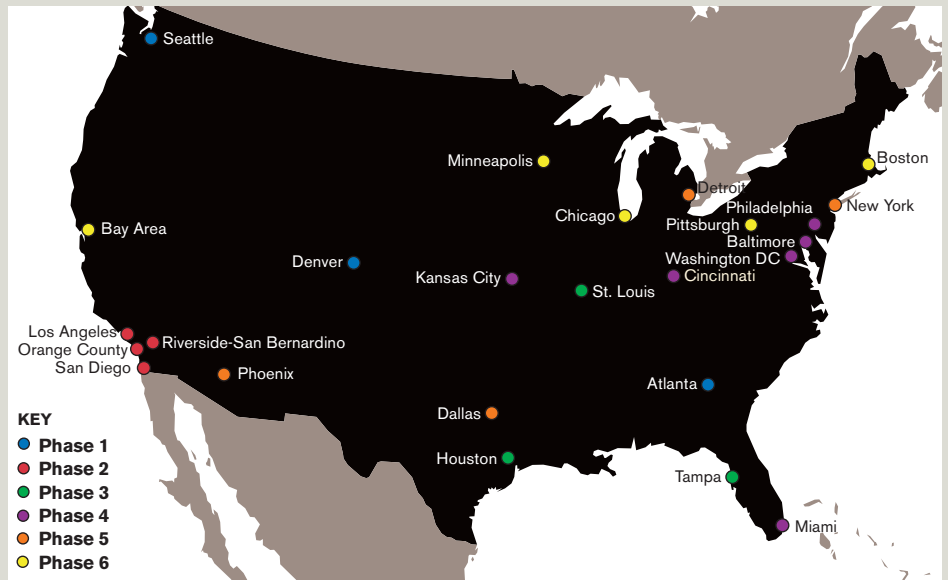
Market Expansion – Sales



Market Expansion

Market Expansion by the Numbers

CITY	POPULATION IN 2000 (IN MILLIONS)	BRANCH COUNT BEFORE	BRANCH COUNT AFTER	PERCENT COMPLETE 12/31/06
Atlanta	4.1	7	6	100
Denver	2.6	7	7	100
Seattle	3.6	6	8	100
So. California (4 markets)	19.2	18	24	97
Houston	4.2	7	11	82
St. Louis	2.6	3	5	100
Tampa	2.4	3	5	100
Cincinnati	2.0	4	7	100
Kansas City	1.8	2	3	100
Miami (2 markets)	3.9	7	7	100
Philadelphia	6.2	10	12	83
DC/Baltimore (2 markets)	7.6	10	10	73
Dallas/Ft. Worth	5.2	8	11	45
Detroit	5.5	7	8	50
Phoenix	3.3	4	4	40
New York (4 markets)	21.2	24	27	10
Chicago	9.2	18	19	0
Bay Area	7.0	13	13	0
Minneapolis	3.0	5	6	0
Pittsburgh	2.4	3	3	0
Boston	1.8	9	9	0



Market Expansion – Sales Results

Percentage growth in daily sales

	2004		2005				2006			
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Phase 1	14	12	11	4	9	15	11	14	8	6
Phase 2		15	14	13	17	13	13	14	12	11
Phase 3			19	23	18	16	13	15	15	8
Phase 4								9	10	4
Phases 5 & 6										

Note: Sales results are reported once the phase is 50 percent or more complete. Branch count may change based on further analysis.



1 million additional square feet of capacity in its branches. Other changes include:

- 26 additional full-size branches
- 17 new Grainger Express® locations
- 26 branch relocations
- 49 branch expansions

More than simply adding locations, Market Expansion is about increasing the footprint of

the branch. That's because Grainger traditionally enjoys higher sales per square foot in larger branches.

The company also closed 8 branches. If the company owned the branch, it was sold. To date, the company has realized net gains of \$15 million through the sale of real estate.

Product Line Expansion

The breadth and availability of its product line is a key factor that differentiates Grainger from most of its competition. Grainger carries more than 350,000 products in 17 different product categories to provide customers with products the same day (if stocked in a local branch) or the next day (if stocked in one of nine distribution centers).

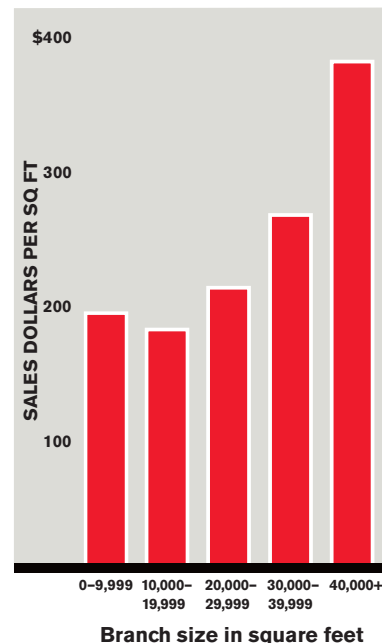
Having a supplier that can provide more types of items precisely when they're needed allows customers to reduce the number of suppliers they deal with, saving them time and money. That trend is helping drive consolidation in the industry.

Grainger is finding that selectively adding products is a way of accelerating sales growth. In 2006, the company added more than 43,000 new products – predominantly fasteners, but also electrical, cleaning and ventilation products. The newly added products contributed 1 to 2 percentage points to the company's overall growth rate. The company expects that the introduction of an additional 25,000 products will add 1 to 2 percentage points to the company's sales growth in 2007. These new products include:

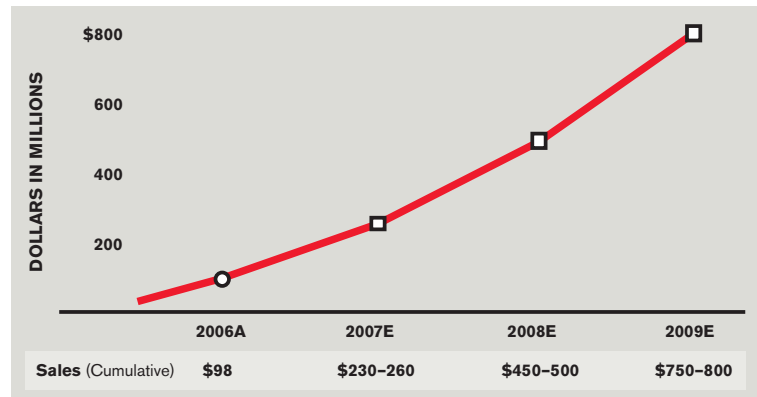
- 8,500 material handling supplies, including conveyors, hoists and casters
- 6,500 plumbing products, such as high-grade pipes, valves and fittings
- 2,000 fasteners, such as nuts, bolts and screws
- 1,000 security products, such as locks and hinges

Product line expansion is another way Grainger plans to grow. Over time, Grainger expects to become the broadest facilities maintenance supplier with the best local availability of the most requested products. Grainger branches can stock an average of 25,000 different facilities maintenance products across a variety of categories, all available for pick-up within half an hour. With the remaining items ready to ship from Grainger's network of distribution centers and master branches, the company can reach 99 percent of U.S. businesses and institutions next day.

Branch Sales per Square Foot
Bigger branches, higher sales



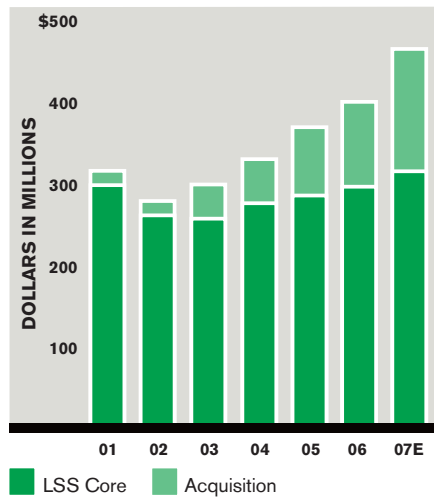
Product Line Expansion – Sales



Growth Lab Safety Supply

Lab Safety Supply

Annual sales



2007 Segment Guidance

- > SALES GROWTH OF 9 TO 11 PERCENT
- > OPERATING MARGINS OF 13.5 TO 14.0 PERCENT

Acquisitions

Importance of Acquisitions

Acquisitions represent the most effective and efficient way for LSS to increase revenues and capture market share. Since 2001, LSS has acquired six direct marketing companies. Because these companies have limited customer overlap, LSS can cross-market its existing products to the new customers. The acquisitions are typically accretive in the first year and have diversified LSS' customer base and reduced its dependence on manufacturing customers.

FISCAL YEAR	ACQUISITION	MARKET OPPORTUNITY
February 2001	Ben Meadows	Natural resources and forestry management
April 2003	Gempler's	Agriculture, horticulture, grounds maintenance and contractor markets
January 2005	AW Direct	Service vehicle accessories (including auto service, utilities, government and construction)
January 2006	Rand Materials Handling Equipment	Material handling
November 2006	Professional Inspection Equipment and Construction Book Express	Building inspection, engineering and construction

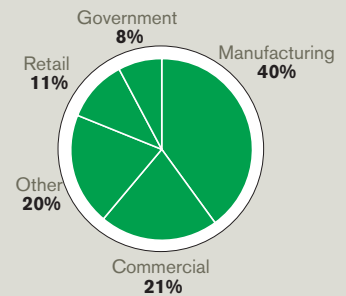
Lab Safety Supply, Inc. (LSS) is a leading business-to-business direct marketer of safety and industrial supplies in North America. Today, more than half of the 170,000 products LSS sells are non-safety-related, reflecting the company's strategy to diversify its customer base and product offering.

LSS offers extensive product depth, technical support and high service levels to customers representing diverse industries. Its customers prefer to order directly from a catalog or Web site. During 2006, LSS issued 13 unique catalogs covering safety supplies, material handling, lab supplies, towing/service trucks, home inspectors, and other lines targeted to specific customer groups. Customer orders are fulfilled and shipped same-day from LSS's centralized distribution center located in Janesville, Wis.

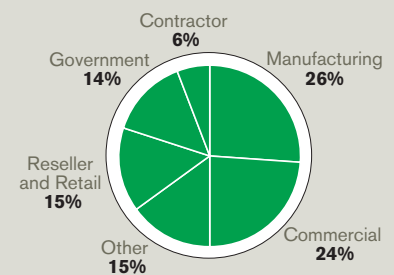
LSS is growing its business through strategic acquisitions, which diversify its customer and product base. In 2006, LSS achieved record sales of more than \$400 million, an increase of 8 percent. Refining its targeted catalog media strategy and leveraging IT and other investments across the business should improve profitability in 2007.



2000 Sales by Customer Category



2006 Sales by Customer Category

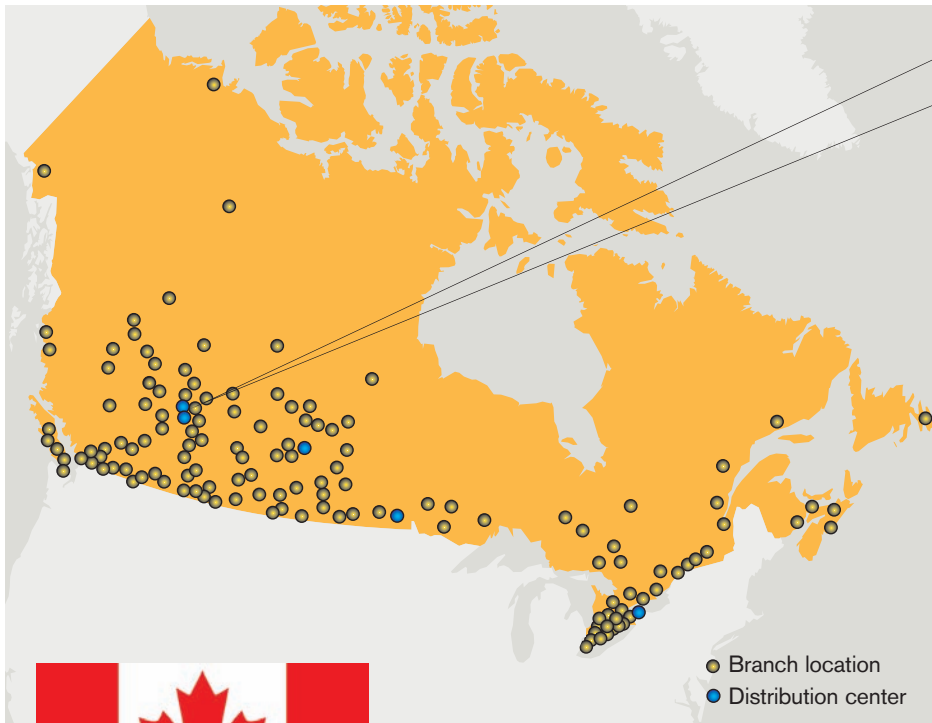


Growth Canada

Grainger’s business in Canada, Acklands – Grainger Inc., is the leading broad-line distributor of industrial, fleet and safety products serving the \$12 billion Canadian MRO market. Its 50,000 customers have access to more than 100,000 products. This business markets to customers through its catalog, offered in English and French, and online at acklandsgrainger.com. The company operates 155 branches and five distribution centers throughout the country.

Acklands – Grainger achieved record sales of \$565 million in 2006. Accelerating sales growth and improving profitability in Canada are high priorities for Grainger. Under the direction of new Canadian leadership, the company intends to leverage many of the successful learnings from the core business in the United States to drive improvements in operating earnings, including:

- Improving distribution center and branch productivity and accuracy through process improvement
- Increasing product availability to improve service levels and reduce backorders
- Expanding gross margins through better pricing discipline, more private label brands and improved purchasing coordination with the core business
- Reducing operating expenses



2007 Segment Guidance

- > SALES GROWTH OF 8 TO 10 PERCENT
- > OPERATING MARGINS OF 4.5 TO 5.5 PERCENT



Spotlight on Edmonton, Alberta:

Acklands – Grainger is taking a page out of the Market Expansion Program playbook as it has begun to enhance the look and feel of its branches. Branches are receiving new signage and a showroom layout that stresses the product breadth and depth that Acklands – Grainger offers. The strategy is designed to help drive better awareness among customers and accelerate sales growth.

Growth Mexico

Grainger's business in Mexico – Grainger, S.A. de C.V. – is the leading distributor of facilities maintenance products in the country. The market for these types of products is estimated to be approximately \$10 billion and continues to grow. In 2006, the overall Mexican economy grew faster than that of the United States. Mexico's gross domestic product increased 4.8 percent versus 3.4 percent for United States.

Grainger is seizing this opportunity for growth. With sales up 20 percent in 2006, Grainger has launched a multiyear expansion program to reach more customers and capture additional market share. Today, customers have access to more than 35,000 products through a Spanish-language general catalog, which is customized to the local marketplace; online at grainger.com.mx; or over the counter at eight branches. During the next three to five years, this business expects to:

- Add approximately 15,000 additional products to its offering
- Open 10 to 15 additional branches
- Expand its logistics network with three new master branches

Once these enhancements are complete, this business should be able to reach 90 percent of its customers in Mexico with next day shipping.



Spotlight on Chihuahua:

The new 20,000-square-foot branch in Chihuahua that opened in October 2006 offers a look into the future for Grainger, S.A. de C.V. This is Grainger's first presence in Chihuahua, a community of 500,000 residents located 200 miles south of El Paso, Texas. Chihuahua is known for its bustling industrial economy.

The Chihuahua branch opened in a record 12 weeks. In addition, it is acquiring new customers at a pace triple the rate averaged by other newly added Mexican branches.



Growth China

In 2006, Grainger established a distribution presence in China. This represents the company's first marketing operation outside of North America. Why China? China's economy has become the fourth largest in the world, and it has grown at an average annual rate of 9 percent over the past 10 years. At current and projected growth rates, by the year 2040, China is forecasted to have the largest economy in the world.

The expected growth of the facilities maintenance supply market is equally as robust. This highly fragmented market is anticipated to expand from an estimated \$38 billion in 2006 to \$70 billion in 2014.

Approximately half of the market is made up of industrial customers.

Grainger launched its operations in China with a 120,000-square-foot distribution center with showroom and a will-call express location in the Shanghai metro area. Operations in Shanghai opened for business in the 2006 third quarter, complemented by a Chinese-language catalog with nearly 20,000 products and a transaction-enabled Web site, grainger.com.cn. Approximately 90 percent of the products offered by this

business are sourced within China.

Grainger is branded in China as Gu An Jie, which in Mandarin stands for Stable, Safe and Fast. Plans call for several new will-call express locations within the greater metropolitan Shanghai area in 2007.



Spotlight on Shanghai:

Similar to the rest of China, the facilities maintenance market in Shanghai is highly fragmented. The many local and regional distributors tend to concentrate primarily on serving large customers. By contrast, Grainger is initially targeting smaller Chinese businesses and international corporations with facilities in and around Shanghai.

To establish and grow these relationships, Grainger is changing the way Chinese customers procure their MRO products. Traditionally, these customers have traveled to a crowded area in downtown Shanghai called the hardware district to buy maintenance supplies from a variety of suppliers with small storefront locations. With Grainger, orders can be placed over the phone, online, or in person at the distribution center or will-call express branch. Product is shipped to the customer or picked up at either Grainger location. The result is unmatched breadth and availability, coupled with convenience and dependability.

Recognizing the nuances of this new market and establishing a business in China will take time. Grainger intends to refine its business model in Shanghai before extending its presence to additional markets in China.

MRO Market – China

