Inside Grainger

Nancy Syverson, Managing Editor

When the recession hit, industrial distributor W.W. Grainger had two things its competitors didn't: cash and a vision. Here's how the $4.8 billion dollar company is restructuring to improve customer service, gain market share, and create the "perfect order."

Ask president and chief operating officer, Wesley M. Clark to describe Grainger's recession-survival strategy and he will tell you: "We're going to power through it." When he says this, he exudes the self-confidence of a man who deeply believes in what he is doing.

It's a big responsibility, running the leading and largest industrial distributor in the United States. Already more than two times the size of its closest competitor, W.W. Grainger, the Lake Forest, IL-based king of industrial distribution, plans on holding on to that distinction. "This is a time when a lot of industrial distributors have cut back their inventory position," says Clark. "The bottom of a recession is a tough place to manage cash flow." According to Clark, a lot of distributors have cut back inventory and sales reps. Some have shuttered facilities; a few have gone bankrupt. But not Grainger. "We use a recession as an opportunity to gain market share," says Clark.

In 2001, Grainger generated $500 million in cash from $4.8 billion in sales. That money is being put to work in an aggressive plan that invests nearly half of it back into the business. Grainger announced in early 2002 its intent to invest $200 million to build nine new distribution centers and ramp up its inventory at its 390 branch "stores" across 50 states and Puerto Rico in $100 million increments. By making an investment of this magnitude at a time when capital investments are practically non-existent, Grainger has made a bold move to corner the fragmented MRO distribution market. The company's strong balance sheet and cash flow allow the company to do things their competitors can't.

But while Grainger has many competitors estimated at 150,000 most are small, local mom-and-pop operations that make up about 90% of the total industrial-distribution market. Large competitors most of which are a less than a fourth the size of Grainger include Applied Industrial Technologies, Ferguson Enterprises, Airgas Safety, Wesco, Cameron and Barkley, and GrayBar Electric.

"Our competitors tend to specialize in particular product lines," says Clark. "We go broad so you can get all the things you need to get the job done at one place as opposed to being technically deep in any one pipeline." The Grainger customer, he says, cuts across markets and has a variety of needs. This includes all manufacturing sectors, as well as non-manufacturing customers that include the U.S. government, health-care organizations, airlines, transportation providers, food service companies, hospitality providers, retail stores, and the telecommunications industry. This very broad-based customer has helped Grainger grow, but it has also challenged company efforts to streamline orders through a variety of channels. Company executives realize that everything Grainger has gained in size, it can potentially lose if its distribution system does not efficiently move product to the customer.

To avoid becoming too big and losing the local regional markets, Grainger is repurposing its distribution network to bring product closer to its customers. Over the next two years the company will build four new automated distribution centers, sized from 350,000 to 400,000 sq. ft., situated closer to customers. These new distribution centers, (which Grainger calls Distribution Centers of the Future or DCoFs) will provide immediate same-day shipping for branch customers. In addition, five of its existing nine, older distribution centers will be reconfigured to the DCoF format. The company says it will eventually close its remaining four, older DCs.
"This strategy should help reduce the time required to fulfill customer orders," says Mike McGrew, company communications manager. "Automation in the DCoFs will enhance efficiency and accuracy, helping us get the right product into customers' hand on time, every time."
The focus on smaller, local regional areas has always proven successful for the company. From its beginnings in 1926, Grainger has been a family-owned business, focused on fulfilling the customer's needs when it is needed. As the leading industrial distributor, it's goal is the same: to provide the customer with personalized service on a local level. For example, the Grainger integrated supply unit, which purchases MRO supplies and manages the procurement process for its clients, was recently restructured so that district sales managers would have a smaller scope of control. According to Michael Blackwell, regional branch services vice president, instead of being responsible for 20 to 35 territory managers, the district sales managers are now only responsible for about 15 territory managers. In this way, they can work more closely with their territory managers and maintain all-important customer relationships. The task of managing broad regional areas has also been improved with what the company calls its coaching database. With this tool, the district sales manager can plug in tasks that he wants the territory manager to work on, follow up on progress, and design courses for developmental improvement. Branch sales have increased 14% during the third quarter, which the company credits to the building of closer customer relationships.
The reconfiguration of the branch network is an idea that observers say Clark, a 10-year Grainger veteran, is well suited to carry out. Before his promotion to president and COO, the 50-year old Clark was group president of the branch-based distribution network. He has a strong background in strategic planning, sales, operations and quality, some of which came from his experience as a general manager with Granite Rock, a California-based concrete-products manufacturer and 1992 winner of the Baldrige National Quality Award.
The challenge of a stagnating economy and a bear of a distribution network seems to invigorate Clark. Grainger transacts as many as 11,000 shipments per hour, he says, "and the complexity associated with that is very high. Our customers want to be able to buy over the Internet, over the telephone or walk into a branch. They require one set of customer files and transactions, all with one set of pricing, parts numbers and services." This high volume of transactions in combination with ever-changing customer demands keep the chances of error high. Sloppy orders defeat repeat business, so Clark has created the vision of what he calls the "perfect order." In a nutshell, the perfect order is the fulfillment of customer expectations, whatever they are and wherever they are. It's a goal any distributor would probably claim to have, but Clark's vision may be more demanding. In his mind, the perfect order is one that is repeated thousands of times per day. It involves many steps, from consultation to ordering, fulfillment, tracking and delivery any one of which can

cause the process to become less than perfect. In Grainger's world, the branch is where this happens. It is the hub of customer activity and the place where business relationships are born and developed. Though they look like retail showrooms, Grainger branch locations open exclusively for the company's professional customers. Products are displayed on shelves and racks. On one wall is the distributor's signature customer-service area, usually with swivel chairs and countertop service. A customer can pick products directly from shelves or make volume requests that can be filled from the 18,000-sq.-ft. warehouse typically located behind each showroom. Branches also accept telephone and fax orders.

"We focus on the customer," says John Meese, manager of the Grainger showroom in Wheeling, IL. "You won't find a customer here who waits more than a couple of minutes. The key thing is understanding your customer and what they're after" he says, adding that his employees know most customers by name and also know what businesses they're in.

Close customer relationships facilitate the perfect order, just as the new strategy to localize the branches with proximate distribution centers allows for its realization. The branches, which typically also ship $1 billion in merchandise per year, will continue to serve customers in person, but will no longer ship. "Branches will be freed to focus 100% on their local relationships," says Clark, "and will be able to expand inventory tailored to their local market."

Evidence of that part of the plan is apparent at Grainger's branch store in Morton Grove, IL. Piled high in the aisles of the 28,000-sq.-ft. warehouse area are signs of the latest inventory infusion. Manager Gary Dowd, an MBA who has worked for Grainger for 15 years, affirms that customers come first in his branch, one of the largest in the Grainger chain. "We go the extra mile when it comes to service," he says. "We stay focused on the customer and make sure they leave here with their problem solved."

In addition to the branches, Grainger is cultivating its Web site, www.grainger.com. Online since 1995, the site was the first among its competitors to post a complete electronic catalog. Orders over the Internet are routed to the closest distribution centers to ship to the customer seamlessly and quickly. Grainger's Web-based sales increased 29% to $110 million in the 2002 third quarter, up from $85 million.

"A lot of our customers are figuring out that electronic purchasing is the way to reduce process costs," says Jim Ryan, executive vice president, marketing, sales and service. To help them do that, Grainger offers a full range of e-commerce solutions from EDI to fully-integrated electronic purchasing systems. "A year ago, grainger.com was about 7% of our sales," says Clark, and today, the percentage is 12% and growing."

With its use of the Internet, Grainger believes it has elevated sourcing to an art. For example, it led to the company to start an online service called FindMRO.com, a sourcing site that locates hard-to-find products for Grainger customers. Created in 1999 by Ron Paulson, now regional branch services vice president, FindMRO.com grew from listening to customer comments in the branches. "If someone can't find a product they need, they always end up at Grainger," says Paulson. "For a lot of companies, spot buys are extremely costly in terms of the price paid for the product and the time spent looking for it. FindMRO.com does the legwork for them and it ends up costing customers a lot less money. Our motto is: Just tell us what you want and we'll find it."

Since Grainger's investment announcement, the company has enjoyed a boost in earnings. October's modest economic gains certainly helped. So did the fact that the company's sales to the manufacturing sector only account for about 30% of overall sales. Though Grainger's stock price at press time had not yet benefitted it has declined about 15% since mid-year Clark believes the company "will continue the investment to make that transaction absolutely perfect from the customer's perspective." Clark predicts that it will be hard for customers *not* to do business with Grainger now and in the future, he says, "because we will make it so easy."