

Big Book, Big Opportunity

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The word at the root of “succession”—intentionally relevant or not—is success. This abstraction is no less implied as it is a tradition for MSC Industrial Supply, as it embarks on the latest “passing of the torch” from CEO David Sandler to his board-appointed successor, Erik Gershwind.

“Each one of our transitions has always led to a higher level of success for the company,” explains Sandler. “It’s our repeatable formula.”

A “repeatable formula” for success would sound like a brazen claim, if it weren’t for MSC’s track record. When the Melville, NY-based distributor went public nearly 15 years ago, the company embarked on a period of growth that has sustained—recessions and all—to this day. The company gained market share in the past few years, and for the fiscal 2010 fourth quarter, net sales rose 30.3 percent to \$461.4 million, compared with \$354.1 million in the prior year period.

Wired For Growth

“The company is really wired for growth,” says Gershwind, COO and a 14 year company veteran. By “wired,” Gershwind refers to MSC’s ingrained strategy of taking a very systematic approach to its evolution. “One of our biggest challenges is to make sure we stay disciplined. It’s easy to see opportunity all over in a market that’s this big and this fragmented.”

So instead of hungrily gobbling up companies and spreading itself thin with its existing customer base, MSC has developed a consistent strategy of drilling down its core competencies. This means training and expansion of its sales force and

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increasing technology and service offerings through improved eCommerce and industrial vending.

Besides its core areas, MSC has made a protracted effort to expand its product lines over time. The recent recession years have been no exception, as the company notably added 43,000 new products to its 2010/2011 Big Book®. In addition, the company hopes to take its long-term success and expertise in the metal working market—where MSC's roots lay—and repeat it systematically in other markets. It also has meant heeding the input of a team strictly tasked with assessing potential merger and acquisition opportunities.

MRO Visibility

A highly motivated team is necessary, it seems, to deal with the changing shape of customer relationships coming out of the recession. Even as cash pressures slowly ease for manufacturers, it's unlikely that their reliance on value-added services will wane. If there's one thing end-users learned from the circumstance, it's that cash is hidden everywhere.

With this understanding has come an increase in customer savvy—a better idea of what they want and how to get it. It also has manifested itself in a shift from simply cost-based formulas to a more comprehensive approach to purchasing. Part of this has shown itself in inventory as a cost center, with end users trying to find ways to mitigate the carrying costs.

"MRO is very tricky because most of the spend—unlike in other areas—can't be planned. The majority of what a customer is going to buy, they might not use again for a long period of time. They're dealing with lots of suppliers and a ton of SKUs. If you don't have a lot of repeat items and you don't know when you're going to need it, it's tough to get clear data and good visibility," says Gershwind.

"One of the trends in our business has been a heavier focus on solutions, not just having the product. These are solutions aimed at giving customers more visibility into where their spend is going, helping them plan better, and helping them streamline the procurement process."

Tech Savvy

Another evolution MSC has worked tirelessly to promote is its technical capabilities. Over time, the company has morphed from an old-fashioned "catalogue house" to what it is today: a "supermarket," armed with a knowledgeable team of experts. According to Gershwind, "If you look at the MSC value proposition, we play the role of supermarket to the industrial world. We give customers one-stop shopping." So what if market perception assumes that a supermarket lacks in comprehensive technical know-how? It's been a work in progress, but the evolution of MSC has been apparent: "Earlier on, we had a lot of great products, but we didn't have the expanded value-added services that we now have," says Sandler. "We will invest over time in more types of these capabilities—to build out the knowledge, training, and services that will lend themselves to that level of proficiency, product line by product line."

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Some of MSC's current programs offer value-add beyond product category maintenance, and into purchasing analysis and inventory management. MSC's Competitive Advantage™ program offers benefits like automated replenishment, comprehensive data collection, application optimization, and tooling management in the form of tool-usage reporting for instant accountability. It's this attention to detail and knowledge improvement that has allowed MSC to evolve from its former reputation.

"MSC used to be a national catalog house," says Gershwind. "Now, if you went and visited one of our branches and spent a day with one of our salespeople, it looks and feels very much like a local, technical distributor." This, says Gershwind, is because of the type of people the company has hired, and the training programs it's put into place. "It's the national backing with, very much, a local feel."

Looking Forward

The executive succession plan is an indicator of MSC's systematic structure—this process can take up to three years to execute, highlighting the company's methodical and thorough approach to long-term viability. In a market like this one, you can't afford to see management gaps that could effect the customer. "You can't miss even once, any day," says Sandler.

"We're thinking about what's going to be important to the customer long-term, and what we need to be focused on developing today and investing in, in order to meet their needs four or five years down the road," adds Sandler. "Ultimately, it's about what you think you can do best for your customers because, at the end of the day, that's where the rubber meets the road."

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