

Distribution[®]

The Complete Resource for Distributors

www.inndist.com

**TOP COMPANIES
TACKLE TOUGH
TIMES**

**MSC MAKES
ITS MARK**

**AN INTERVIEW
WITH HD
SUPPLY'S CEO**

The BIG 50

*ID's annual list of the largest
industrial distributors*

David Sandler
President and CEO
MSC Industrial Direct

2007/2008

GSA Contract
GS-04F-00104
USPS MPO Contract
ZC4905-03-B-4457

MSC
Industrial Supply Co.

Industrial Supply Co.
WRC

David Sandler, president and CEO of MSC Industrial Direct, got his start in distribution 34 years ago while still in college at Boston's Northeastern University, when he began selling hardware supplies as part of the school's co-op program. That led to him starting a small, niche industrial distributorship called Dancorp Industrial Supply.

"I wound up selling the business to MSC in the late 1980s ... during MSC's beginning to expand from being a niche regional metalworking player," Sandler told *INDUSTRIAL DISTRIBUTION*. "I became a branch manager. That's how I started in the company; I've had the good fortune of working through almost every functional area, gaining more responsibility along the way."

It's an advancement path MSC tries to follow to this day as its employees work their way up the ladder.

"[It was] great training, just fabulous training," Sandler recalled. "The more cross-functional training and exposure that we can get folks through their development in the business, the better they are in being able to really be successful and broaden their skills."

MSC's president and CEO David Sandler tells *INDUSTRIAL DISTRIBUTION* about his 34-year-old roots in distribution, why the slowing economy helps MSC and how its culture affects its every move

MSC checks in at No. 12 on this year's *Big 50*, having posted record results for fiscal 2007. Sales rose more than 28 percent to \$1.7 billion, while net income jumped more than 27 percent to nearly \$174 million. The trend continued into 2008; the company posted second-quarter sales of \$436.5 million, up about 8 percent, and net income rose 17 percent to \$47.5 million.

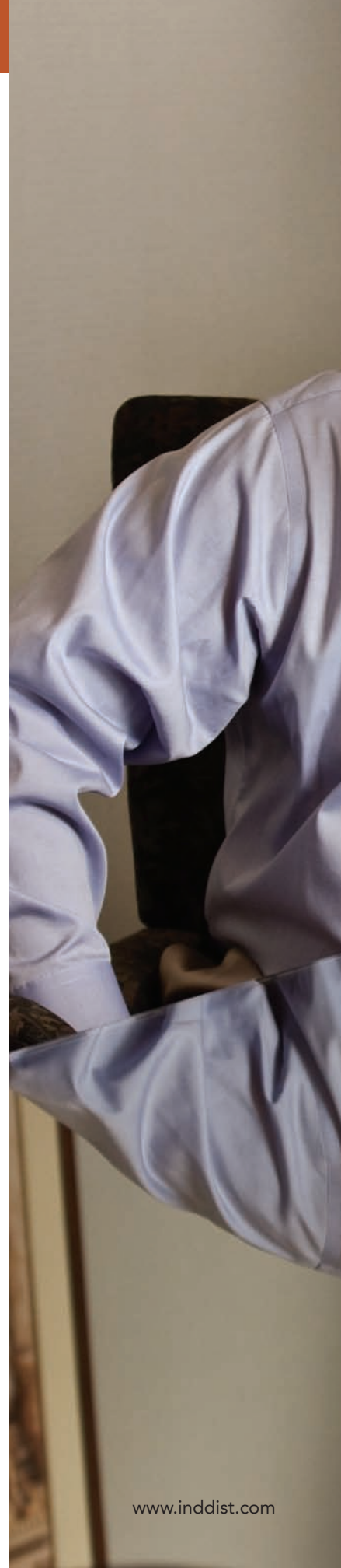
The gains came despite a challenging economic environment for the manufacturing sector. Sandler, perhaps counter-intuitively, says those circumstances represent an opportunity for MSC to grab market share from smaller competitors—which represent about 70 percent of the company's competition. The downturn means deteriorating cash positions and lower margins for small independent distributors, he explained during a conference call with analysts to discuss the second-quarter results.

"When this occurs, their value proposition erodes, forcing them to use price as the only tool to maintain their business," Sandler noted.

Culture

CLUB

By Brad Perriello, Associate Editor





MSC's moves to expand last year included what its chief executive termed a "heavy" investment in personnel, with the company taking its sales force from 715 associates to 814. The company also bulked up its line card, adding 24,000 new items; early this year MSC doubled the size of its safety catalog.

During a lengthy April chat with ID, Sandler touched on a range of topics, from MSC's 2006 buyout of J&L Industrial Supply, to the company's acquisition strategy, why the downturn in the economy is good news for his firm and how its culture shapes every facet of its operations.

INDUSTRIAL DISTRIBUTION: *Last year the big news for MSC was the 2006 J&L Supply acquisition and integration. Can you give us an update on that?*

DAVID SANDLER: The acquisition has really been just an enormous success for our company. We've integrated the business and, probably most importantly, what the acquisition gave us ... was just a great group of associates we've been able to add to the MSC team. The acquisition further enhanced our market-leading metalworking position in the United States; [it] complements our metalworking growth business and our MRO growth strategy. We're really excited about the opportunities that lie ahead now, as we continue to both share and enhance the combined capabilities of both of our businesses.

ID: *Sales grew roughly 28 percent for MSC this year. What do you credit for the increase?*

SANDLER: J&L was certainly a significant factor in our sales growth in fiscal 2007. That acquisition really enabled us to further take market share. It expanded our revenue base, not only in the year, but positioned us for long-term growth. We also, in addition to J&L, had strong performance at MSC in terms of our organic growth. That's really just based on us executing against our plan to take share and to grow.

We're going to continue to benefit from the heavy investments we've made

and will continue to make in our field sales expansion, our product expansion and as we continue to invest [in] and enhance our value-added services. All of this really translates into success across all of our primary customer segments—basically, the way that we characterize that [is] our large national accounts, our government business and our core business—our core, historic small to mid-size manufacturing customer base. [Those are] the three broad segments that we use in characterizing our business.

ID: *At MSC, you refer to employees as associates, to emphasize that they are building careers with the company. How do you reinforce that message with them?*

SANDLER: We're constantly involved in training, both product training and process training, understanding our solutions-based models. ... We're constantly investing in training to make [associates] more effective in the field and also investing in their careers, expanding their skills [for] their promotional path through the company.

ID: *MSC recently launched the largest safety catalog in company history. What was behind the decision to double your safety products catalog? Are there any other product lines you're looking to expand?*

SANDLER: At MSC we view our customer as our boss, so when our boss talks, we listen. Our customers have told us that worker safety and access to safety-related products are really more important than they've ever been. Based on that feedback, we decided to significantly expand both the number and range of products that we offer to help our customers ensure that their employees have a safe working environment.

It's really an example of how we partner with our customers. We listen to them and as a result of that, we're constantly adding to our offering and enhancing our services. We introduced, this year alone, thousands of new products, well beyond what we did in safety. This year's number was just north of 20,000 [new products introduced]. We're constantly expanding that product SKU base of over half a mil-

lion items by adding more and more of the items ... that will enable us to meet our existing customers' needs, as well as new customers' needs as we expand into market segments beyond just our core manufacturing customer base.

ID: *With new sales offices in Fresno, Calif., Seattle, Portland, Ore., and Salt Lake City, MSC is making a push west; with sales operations in the United Kingdom, you're moving east as well. You also added 99 new field sales associates during fiscal 2007, an increase of almost 14 percent. What was the thinking behind those investments and what's next on the horizon in terms of expansion?*

SANDLER: Growth [is so] core to our business that we've actually woven it into our culture. It's really part of who we are, it's how we bring our mission statement to life. ... Our mission statement is in fact to be the best industrial distributor in the world, as measured by our four stakeholders—our associates, our customers, our suppliers and our owners. So virtually everything we do is tied back to growing our business profitably and taking market share.

We're constantly and aggressively building out our field sales organization. We're probably close to 1,000 strong and growing throughout the United States. We focus that growth on both existing markets within the U.S. and new markets. The west is one of those relatively new markets we are continuing to heavily invest in.

Another way that we expand is to focus on enhancing our value-added services. We're committed to helping our customers reduce their cost of procurement. That might be through a vendor managed inventory service, it might be through offering a vending machine program, or through some of our e-commerce and e-procurement capabilities, or anything new that may be coming down the pike. Part of that is really a focus on continuous innovation in what we do.

We were fortunate enough to [get into] the U.K. through our J&L purchase. We really view the U.K. as a great growth opportunity and one that's going to be significant over time, as we see international expansion as an important part



of our long-term growth strategy. In the near-term, we've got a terrific team out there [and] we're learning about the market. It isn't an area that we are currently focused on, in terms of heavy investment, but it is something that we are very excited about for the future.

ID: *Are there any acquisitions on the horizon?*

SANDLER: We develop a five-year strategic plan and then we stay very, very focused on executing that plan. But where we can, we step back and look at executing our plan faster or more effectively—in fact, if there's an acquisition that would more effectively let us get to a strategic objective more quickly than, say, an organic build-out of a program, then that's absolutely where we consider [making an acquisition].

That's exactly the approach that led us to the J&L acquisition and it's one that we're going to continue to maintain, that same kind of disciplined, high-threshold, high-hurdle-rate approach. [A potential acquisition has] got to pass a high bar, but those that do pass the very high bar [are] something we would opportunistically try to drive into our plan. Any business that we look to bring into the MSC family would need to strengthen our competitive positioning, it would need to be accretive to our profits and, most importantly, it would need to be accretive to our culture.

We've been at this for a long time. We've had enormous success in J&L, but not everything that we've done over the last 25 years has been successful. We've learned from our share of mistakes.

ID: *Were there any major changes in your management team over the past fiscal year?*

SANDLER: No major changes, though we did have one addition over this past year that further enhanced our team.

One of the things that's really unique about us is that we balance an aggressive, growth-focused culture with long-term stability and security. Because of that, we've really put a premium on a stable and experienced management team and one that's worked together for a long time. Our executive team probably has an average tenure of almost 15 years; I personally have been with the [company] for almost 20 years.

We also look to strategically inject new thinking and new capabilities into our team. ... This year we brought in a new CIO, [Charles Bonomo], that we felt could help take our systems capability and our IT capability to the next level.

ID: *How important is the Internet to MSC's business? What do you use the Web for and how do you see that changing in the years ahead?*

SANDLER: It begins, as everything does here at MSC, with our culture being extremely customer-focused. We're constantly looking for ways to help our customers reduce their total cost of procurement. And so, from the very beginning of the e-commerce age, we've been focused on really developing and providing a solution that was going to help our customers in that effort.

We developed our site and launched www.mscdirect.com, our online portal, in 2000. During that time there was an awful lot of hype about the way other companies were approaching [development of] their sites—a lot of glitzy, front-end things, things that would require a lot of investment but were really questionable in terms of what the payback to the customer would be.

So we took some time back in the late 1990s to figure out what was really going to be value-added for our customers, that might not have all the sizzle of what was going on out there but would functionally really be [a] value-add for the customer. We stayed true and focused on that mission and today e-commerce accounts for

almost 30 percent of our sales. We expect our Web-based sales to continue to grow strongly as we continue to enhance the site and add more and more [e-commerce] tools.

ID: *It sounds like you got out ahead of the Internet revolution. What drove that process?*

SANDLER: It really comes down to our culture, which is very customer-focused, paying attention to what was going to be important to our customers and not focusing on things that might be fashionable at the time but that weren't going to add real customer value.

I will tell you that many in those days said to us, "Man, you guys are so late. Look at what's going on with the e-commerce boom. You guys need to be out in front of this. There's all kinds of 'dot com' companies that are coming up—why don't you spin off and have a 'dot com' at MSC?"

The reality is that wasn't what was going to have value for our customer. We developed the site and today it's an integrated tool that's part of the solution we provide to our customers. It's not, as many early adopters thought it would be, a separate, unique and distinct business. It's another part of our value proposition that's integrated with however our customer wants to do business with MSC.

ID: *What's your outlook for the economy and MSC's prospects for 2008? What about 2009 and the next few years?*

SANDLER: We believe that MSC is a really unique story, because of an amazing balance of growth and opportunity that we have at the company, combined with stability and security. Our culture is the engine that drives both. We've got the benefit of a lot of history; we've been around for 67 years. We're fortunate and I'm fortunate to have a great legacy in place, in terms of that value-focused culture and a rock-solid foundation that's been developed and provided to us by our founders, Sid Jacobson and his son Mitchell Jacobson.

We really see that culture and foundation as a competitive weapon. It might

seem corny, but the only boss we have is our customer and we make decisions utilizing our mission as our guide, balancing the needs of all of our stakeholders. All of our decisions are balanced in the interest of our associates, our customers, our owners and our suppliers.

Really, all of that is the fabric of what makes us continue to grow in this highly fragmented MRO market. The market is clearly dominated by thousands or tens of thousands of smaller, traditional distributors, but we really see this consolidation accelerating because of the intense pressure on our customers to compete globally and to compete in their industry or their marketplace.

The bottom line is that customers are demanding more and more value. They have to, because they're very focused on taking costs out of their businesses and focusing on streamlining. They have to be to compete. So distributors with a national footprint, those that are well capitalized, that have scale and the ability to drive more and more customer value, we think will have and continue to have a significant advantage.

ID: *Finding and keeping solid employees is a perennial concern in distribution. What's your take on the coming wave of "baby boomer" retirements?*

SANDLER: That's going to be one of the challenges for all companies. We've got the very good fortune of having a very exciting distribution company.

Many that look at the industry may say, "Gee, it doesn't seem like it's growing. What's happening with that industry?"

We think that it's a vibrant opportunity for the young, middle-aged and old to hook their wagon and build a career at MSC. We're a company that's taking share, we're part of a very exciting consolidation in a highly fragmented market. The market is huge, at \$140 billion in this country—you could argue actually, when you start adding OEM spend, that it's \$300 billion and north—and that doesn't even include the half a trillion [dollar] worldwide opportunity that we're just beginning to get our hooks into.

We think this is a pretty exciting place to build a career—and fortunately, lots of folks of all ages see it the same way. ■

simplify with...



*reduce time and effort
\$pent on purchasing*

for more information about eVMI and CMI, call **800.753.7970**

MSC...is your source for

Safety

call for your

FREE Safety Catalog!
800.645.7270



MSC[®]
Industrial Supply Co.
mscdirect.com