



Case Study

Danaher and MSC Industrial Supply Company



Teaming to Drive Greater Success Through Ariba Supplier Network

Customer Profile

Danaher is a leading US-based company that designs, manufactures, and markets innovative products, services, and technologies with strong brand names and significant market positions through its worldwide workforce of approximately 37,000. The company's FY2004 revenues totaled \$6.8 billion, almost half of which was generated outside the United States. With leading businesses in professional instrumentation, industrial technologies, and tools and components, Danaher makes long-term investments in established international industrial enterprises. The company drives exceptional performance through the Danaher Business System (DBS), a continuous improvement initiative used to guide company culture and assess results.

MSC Industrial Direct (NYSE: MSM) is one of the premier distributors of MRO supplies to industrial customers throughout the United States. MSC distributes more than 500,000 industrial products from approximately 2,100 suppliers to approximately 342,000 customers. In-stock availability is approximately 99 percent, and standard ground delivery is next day to 80 percent of the industrial United States. MSC reaches its customers through a combination of more than 28 million direct-mail catalogs, approximately 91 branch sales offices, approximately 500 sales people, the Internet, and associations with some of the world's most prominent B2B eCommerce portals.

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The Challenge

Six years ago, Danaher started actively implementing Ariba® Buyer™ as a way to enhance spend visibility, reduce maverick buying, cut costs, and improve efficiency. At the same time, the company began to seek out partnerships with e-enabled suppliers who had the capabilities Danaher required to meet spend management objectives.

In response to customer requests, MSC introduced eProcurement capabilities in 2000 with the launch of its website, www.mscdirect.com, which is integrated to Ariba® Supplier Network™ via its Ariba® Ready™ PunchOut™ solution. MSC's new capabilities meshed well with Danaher's goals, and the two companies signed a national agreement to work together.

Both businesses quickly realized that increasing adoption and compliance rates was crucial to ensure trading partner success. When Danaher completed the Ariba PunchOut integration with mscdirect.com in 2000, its relationship with MSC intensified as the two organizations began coordinating their efforts to drive adoption rates up.



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■ The Solution

Close Collaboration

While each company brought its own resources and technology to the eProcurement initiative, collaboration has been the key to a positive outcome. “Increasing adoption is an ongoing issue, and has definitely been a joint effort,” says Bill Alpers, Corporate Director of Strategic Sourcing for Indirect Materials at Danaher.

From the outset, Danaher was a strong eProcurement champion, creating the right processes and infrastructure to ensure good results. “Danaher has worked hard to obtain corporate-level support, create a business case to substantiate benefits, implement the rollout in a rapid and timely manner, then follow through with thorough training,” says MSC National Account Manager Keith Lafrance.

“They’ve really embraced and endorsed it.” While the decision to implement eProcurement typically moves from the top down, some companies lose enthusiasm as the project rolls out, which creates problems and reduces benefits. “That’s never been the case with Danaher,” Lafrance says. “They’ve stayed with it full throttle.”

In turn, MSC met Danaher’s efforts with a high degree of support. “We’re a large organization, with 80 to 100 different US sites, and MSC has helped us in various ways to continually promote the system and explain the benefits specific to purchasing MRO supplies,” Alpers says. Moreover, MSC’s well-developed Ariba Supplier Network initiatives and programs are unique among the suppliers Danaher works with. “We haven’t seen anyone else doing it the way MSC does.”

The coordinated approach between the two companies has worked well. “Danaher is one of our most successful customers on Ariba PunchOut, which is a testament to the strength and growth of the relationship on both sides,” notes Peter Biagioli, Director of National Accounts for MSC.

Danaher’s effective use of spend management data also helps boost compliance. “Through Ariba we’re able to look at the spend and quickly see if someone decides to buy from a non-preferred supplier,” Alpers says.

Comprehensive Training

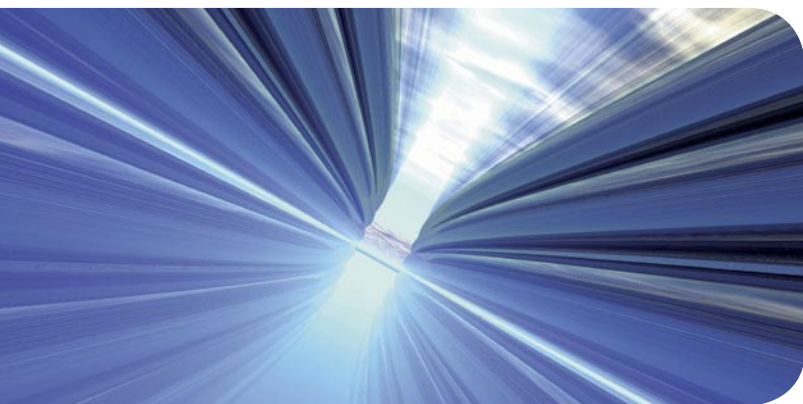
Effective user training is essential to boost compliance, and both Danaher and MSC participate in the process. When one of its companies or plant sites adopts the Ariba platform—which for Danaher includes Ariba Buyer with the Travel and Expense module—Danaher begins training during the initial rollout. The first step is to create a local group of core users and help them become experts, or “super users.” As part of this process, the group completes an order, tests it, and debugs it. “Once we know the system is ready to be used, we show end users how to manage their profiles and do a requisition for catalog and non-catalog purchases,” Alpers says. “We also review processes for requisitions tracking and approval and checking delivery status.” Towards the end of the training, Danaher recommends that the plant invite catalog suppliers on site to have them walk through functionality at a deeper level. “MSC is a leader in this area, and they have a good understanding of Ariba, which really helps demonstrate the system’s value,” Alpers explains.

MSC offers on-site training through its “Lunch and Learn” sessions, which are designed to familiarize users with the MSC catalog and the Ariba PunchOut process. MSC typically works with the site’s engineering and purchasing professionals to set up the meetings. “We explain the MSC model and solution with regards to purchasing MRO supplies,” Lafrance says. “During a session, a Danaher associate logs into Ariba and punches out to mscdirect.com. We walk through various processes to demonstrate ease-of-use and make it more user-friendly to folks on the floor.”



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The sessions draw a wide range of users, including those from difficult-to-attract groups such as accounts payable and engineering. “The MSC Lunch and Learns are an easy sell when we push Ariba out to a business; they get users comfortable with the relationship between Danaher and MSC,” Alpers says. To supplement the MSC supplier training, Danaher offers ongoing support to help users resolve problems. “There’s an on-site Ariba administrator, a help desk, and a very knowledgeable catalog manager,” Alpers says. “Most of that team has been together since inception, which is key.”



Replenishment Systems

MSC also provides valuable support through its replenishment system capabilities. All its solutions are automatically integrated to Ariba Supplier Network through Ariba PunchOut, with no additional programming required. Danaher users can replenish inventory in several different ways. One is via MSC’s customer-managed inventory (CMI) solution. “CMI lets requisitioners scan the barcodes of items they need and download that information to the MSC website, msdirect.com, through Ariba PunchOut,” explains Biagioli. “So instead of entering 30 line items, they can simply go online and pick up a basket of items they just scanned in, which really saves

time and reduces errors.” MSC also offers vendor-managed inventory (VMI) in which MSC personnel conduct barcode scans to create the shopping basket and recommend inventory replenishments, which are then approved by a Danaher associate.

“By integrating these solutions with msdirect.com, and in turn Ariba Supplier Network, we’re able to drive higher adoption and compliance, even among those who might initially resist eProcurement,” Biagioli says. This is particularly valuable for indirect spend. “MRO purchases typically involve myriad small orders from hundreds of suppliers,” Biagioli notes. “This makes it easier to capture those orders in the eProcurement solution, enhancing visibility for indirect spend.”

Promoting Catalog Use

Danaher continually encourages its users to purchase through the catalog, which increases savings and efficiency. “That’s something we’ve done differently than many Ariba Buyer customers,” Alpers points out. “We’ve seen companies that push only a few catalogs in the initial supplier enablement phases, then later start talking about getting all the spend going through the tools. But we started off that way.”

Extensive search capabilities on MSC’s online catalog and support for rich, dynamically updated data help Danaher users quickly locate the right products. They also enjoy a high degree of control. “Users can review their orders before placement, print MSDS sheets, check stock availability, and so on,” Biagioli says.

Effectively Utilizing Spend Data

Danaher’s effective use of spend management data also helps boost compliance. As usage grows, more spend goes through the system, enhancing visibility. This creates a clearer business case for the benefits gained by using Ariba—which in turn drives higher usage.

“You have to really use the data in the system,” Alpers says. “So when we see maverick spend outside the preferred supplier base, rather than going to those users and saying, ‘You should be using MSC,’ we can say, ‘Here’s what you



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“Our efforts to drive greater compliance, utilization, and adoption to Ariba eProcurement solutions increases ROI and overall benefits for Danaher while significantly increasing our revenue opportunities with them,” Biagioli says.

lost by not using MSC,’ which carries a lot more weight.” Though Danaher does not mandate compliance, it does follow up when non-contract spend occurs. “Through Ariba we’re able to look at the spend and quickly see if someone decides to buy from a non-preferred supplier,” Alpers says. Danaher then communicates internally where leakage is occurring. “The first note goes to the buyer, the next one to the manager, and the third to the president,” Alpers says. “Usually it doesn’t go that far, though.”

Danaher also uses system reporting capabilities to better manage supplier relationships and large contracts, like those with MSC. “Ariba helps us ensure those relationships are being handled effectively by providing a clear picture of our spend by supplier account, pricing, and volumes across companies and sites,” Alpers explains.

■ Adding Up the Benefits

Both Danaher and MSC have benefited significantly from their collaboration. Danaher has achieved Ariba rollout to almost all of its US operations, which encompass more than 45 different ERP systems. “We probably have 80 to 85 percent coverage in the United States,” Alpers says. “This year we’ll be focusing more on eProcurement in Europe,

particularly Germany and the United Kingdom.” Spend visibility has increased while non-contract purchases have dropped, reducing price creepage and cutting costs. “The benefits may seem small at each plant, but when you roll it across 80 or 90 locations, it creates major results,” Alpers points out. “Over a three-year period, Danaher has generated and maintained millions in savings with the help of Ariba spend management solutions.”

Danaher has realized extensive “soft savings” as well, such as better process efficiency and higher productivity. “It’s difficult to quantify productivity gains, but if you have thousands of users saving 10 minutes here and 10 minutes there, it really adds up,” Alpers says. “Some of our organizations only have two or three buyers, and freeing up their time so they can do things more strategically adds a lot of value for them.”

MSC’s consistent, exceptional support of Danaher’s eProcurement initiative has greatly strengthened the relationship between the two companies. This has resulted in higher adoption of the MSC Ariba PunchOut solution within Danaher, increased end user satisfaction, process efficiency gains, and more revenue channeled through Ariba Supplier Network for MSC.

“By supporting Danaher’s efforts to partner with suppliers to achieve eProcurement success, we’re able to help them as well as ourselves,” Biagioli says. “Our efforts to drive greater compliance, utilization, and adoption to Ariba eProcurement solutions increases ROI and overall benefits for Danaher while significantly increasing our revenue opportunities with them.” MSC will seek additional win-win productivity gains as the relationship moves forward, Biagioli asserts. “We continually learn from great customers like Danaher, and we hope to bring more innovation to the marketplace based on the feedback and experience we get from them.”

