

COMPANY PROFILE

# W.W. Grainger, Inc.

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## COMPANY OVERVIEW

W.W. Grainger, Inc. (Grainger or "the company") is a broad-line distributor of maintenance, repair and operating (MRO) supplies and other related products and services to businesses and institutions. The company primarily operates in the US and Canada with presence in Europe, Asia and Latin America. It is headquartered in Lake Forest, Illinois.

The company reported revenues of (US Dollars) US\$10,137.2 million for the fiscal year ended December 2016 (FY2016), an increase of 1.6% over FY2015. The operating profit of the company was US\$1,119.5 million in FY2016, compared to an operating profit of US\$1,300.3 million in FY2015. The net profit of the company was US\$605.9 million in FY2016, compared to a net profit of US\$769 million in FY2015.

## KEY FACTS

<b>Head Office</b>	W.W. Grainger, Inc. 100 Grainger Pkwy LAKE FOREST Illinois 60045 5201 LAKE FOREST Illinois USA
<b>Phone</b>	1 847 5351000
<b>Fax</b>	
<b>Web Address</b>	<a href="http://www.grainger.com">www.grainger.com</a>
<b>Revenue / turnover (USD Mn)</b>	10,137.2
<b>Financial Year End</b>	December
<b>Employees</b>	25,600
<b>New York Stock Exchange Ticker</b>	GWW

## SWOT ANALYSIS

W.W. Grainger, Inc. (Grainger or "the company") is a broad-line distributor of maintenance, repair and operating (MRO) supplies and other related products and services to businesses and institutions. Balanced portfolio of products and services increases the competitiveness of the company and positions it as a one stop solution for MRO supplies. However, intense competition will create pricing pressure, which may affect the profits at the company.

<p><b>Strength</b></p> <p>Balanced Portfolio of Products and Services Large and Diversified Client Base Higher Margins and Effective Allocation of Resources</p>	<p><b>Weakness</b></p> <p>Dependence on the US for Majority of Revenues</p>
<p><b>Opportunity</b></p> <p>Robust Outlook for the B2B e-commerce Market in the US Growing Facilities Management Services Fragmented North American MRO Industry</p>	<p><b>Threat</b></p> <p>Intense Competition Government Regulations</p>

### Strength

#### Balanced Portfolio of Products and Services

Grainger distributes a wide portfolio of MRO supplies and other related products and services through local branches, sales representatives, catalogs and e-commerce. Its products include material handling equipment; safety and security supplies; lighting and electrical products; power and hand tools; pumps and plumbing supplies; cleaning and maintenance supplies; building and home inspection supplies; vehicle and fleet components; and other items primarily focused on the facilities maintenance market. In addition, Grainger offers inventory management solutions.

Moreover, the company has a balanced revenue mix. During FY2016, safety and security product line accounted for 18% of Grainger's total revenues. This was followed by material handling (12%); metalworking (12%); cleaning and maintenance (9%); hand tools (8%); pumps, plumbing and test equipment (7%); heating, ventilation, and air conditioning (HVAC) (5%); electrical (5%); lighting (4%); power tools (3%); fluid power (3%); power transmission (2%); specialty brands (2%); motors (1%); and other product line accounted for the remaining 9% of Grainger's revenues.

Balanced portfolio of products and services increases the competitiveness of the company and positions it as a one stop solution for MRO supplies. In addition, it also increases Grainger's cross-selling opportunities.

### Large and Diversified Client Base

The company has a large and diversified client base. Grainger serves more than three million active customers worldwide through a network of highly integrated branches, distribution centers, websites and export services. In FY2016, the company's US business segment operated in all 50 states through a network of 284 branches, three national contact centers and 39 regional contact centers. The company's logistics network in the US is comprised of 18 distribution centers and serves customers ranging from small and medium-sized businesses to large corporations, government entities and other institutions. Grainger also offers its products through its website, [grainger.com](http://grainger.com), which provides access to approximately 1.9 million products and KeepStock inventory solutions which includes vendor-managed inventory, customer-managed inventory and on-site vending machines. The company's Grainger catalog offers 383,000 MRO products. Moreover, heavy manufacturing, the company's largest customer category accounted for 17% of total revenues in FY2016. This was followed by government (14%), commercial (13%), light manufacturing (13%), contractor (9%), transportation (6%), retail/wholesale (5%), natural resources (4%), and resellers (3%) and other (16%). The company's large and diversified client base enhances the brand image and also provides enhanced opportunities to further drive top line growth.

### Higher Margins and Effective Allocation of Resources

Grainger has higher margins and has effectively allocated resources as compared to its peers. For instance, in FY2016, the company recorded an operating margin of 11%, which is higher than its competitors such as WESCO International and DXP Enterprises. For FY2016, WESCO International and Graybar Electric Company recorded operating margins of 2.8% and 2.5%, respectively. During the same year, Grainger recorded a net margin of 6%, while WESCO International and DXP Enterprises recorded net margins of 1.4% and 0.8%, respectively. Higher margins compared to peers reflect the company's ability to deploy its resources in profitable avenues and indicates improving operating efficiency.

## **Weakness**

### Dependence on the US for Majority of Revenues

Although, the company has extensive geographic presence, it derives majority of its revenues from the US region. At the end of FY2016, Grainger generated 77.3% of its total revenue from the US. High dependence on a single market may restrict the company's growth to the local economy and makes it susceptible to changes associated with the economic and political situation of the country. Overdependence on a single market makes Grainger substantially vulnerable to the market condition in that region, increasing its business risk.

## **Opportunity**

### Robust Outlook for the B2B e-commerce Market in the US

The consumer purchase pattern has been changing significantly over the years and has led to increased

use of e-commerce channel. According to industry estimates, the business-to-business (B2B) e-commerce market in the US generated \$825 billion in sales in 2016. Moreover, the market is projected to grow at a compound annual growth rate (CAGR) of 7% during 2016-20 periods to reach a value of over \$1,132 billion in 2020. Grainger's customers are increasingly adopting ecommerce and the company has effectively tapped into this trend. Grainger is a pioneer in B2B e-commerce having launched the Grainger.com website in 1995. The website provides access to approximately 1.9 million products and KeepStock inventory solutions which includes vendor-managed inventory, customer-managed inventory and on-site vending machines. Grainger, through its dominant position in the B2B e-commerce space, will be able to effectively drive sales from this channel which offers lucrative growth opportunities.

#### Growing Facilities Management Services

The company has been witnessing significant growth in the facilities management services market. According to industry estimates, global facilities management market is expected to grow from \$28.9 billion in 2016 to \$56.7 billion in 2021 at a CAGR of 14.4% during 2016-21. The market is expected to be driven by the infrastructural development, technological advancements, cloud ubiquity worldwide and the changing workforce dynamics. Grainger offers products that include material handling equipment, safety and security supplies, lighting and electrical products, power and hand tools, pumps and plumbing supplies, cleaning and maintenance supplies, building and home inspection supplies, vehicle and fleet components and many other items primarily focused on the facilities maintenance market. The company's strong performance in the facilities management services is expected to provide incremental growth opportunities in the long term.

#### Fragmented North American MRO Industry

The company is one of the leading MRO suppliers in the highly fragmented North American MRO industry. According to the industry estimates, the global MRO market is valued at approximately \$75.6 billion in 2017. Furthermore, the market is expected to grow at a CAGR of 2.4% to reach a value of approximately \$84.9 billion by 2022. The company is the leading player in the highly fragmented North American MRO industry, with a market share of 6% in the US and 7% in Canada. The company's market share coupled with highly fragmented North American MRO industry provides incremental growth opportunities to enhance customer base and revenues.

### **Threat**

#### Intense Competition

Grainger faces intense competition in all of the markets it serves. It faces competition from manufacturers (including some of its own suppliers) that sell directly to certain segments of the market, wholesale distributors, catalog houses and retail enterprises and internet-based businesses. Grainger provides local products, sales representatives, catalogs (which include product descriptions and, in certain cases, extensive technical and application data), electronic and e-commerce technology and other services to assist customers in lowering their total facility maintenance costs. Its key competitors include Applied Industrial Technologies, WESCO International, Fastenal Company, Genuine Parts Company, Lawson Products and DXP Enterprises. Intense competition will create pricing pressure, which may affect the

profits at the company.

#### Government Regulations

Grainger's business is subject to various laws and regulations in every jurisdiction where it operates and compliance with these laws and regulations increases the cost of doing business. The company is subject to several laws and regulations including advertising and marketing regulations; anti-bribery and corruption laws; anti-competition regulations; data protection (including payment card industry data security standards); data privacy (including the US and the European Union, which has traditionally imposed strict obligations under data privacy laws and regulations that vary from country to country) and cybersecurity requirements (including as to protection of information and incident responses). The company as a government contractor selling to federal, state and local government entities is also subject to environmental protection laws; foreign exchange controls and cash repatriation restrictions; health and safety laws; import and export requirements; intellectual property laws; labor laws; product compliance laws; supplier regulations regarding the sources of supplies or products; tax laws (including the US taxes on foreign subsidiaries); unclaimed property laws; and laws, regulations and standards applicable to other commercial matters. Grainger is also subject to audits and inquiries in the normal course of business.

The company is subject to a wide variety of additional laws and regulations and any changes to the legal and regulatory environments could increase the cost of doing business, and such costs may increase in the future as a result of changes in these laws and regulations or in their interpretation. Any violations could impact Grainger's financial condition or operating results.

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