# WINDS OF CHANGE AT
# MEASUREMENT EQUIPMENT SUPPLY COMPANY, INC.

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*This case was prepared and is intended to be used as a basis for class discussion. The views represented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The views are based on professional judgment.*

## Introduction

As Bill Smith got off the phone, he pondered over the implication of the call for him and the company that meant so much to Bill and his family. Measurement Equipment Supply Company, Inc. (MESCO) was a regional distributor of pressure, flow, and temperature measurement equipment for the oil and gas industry. The phone call was from OEM Products, Inc., a long time manufacturer of control equipment for which MESCO had served as a distributor. Now, in a practice that was becoming increasingly common among many other manufacturers, OEM Products wanted to go around MESCO and service their end customers directly, essentially cutting out MESCO's role in the distribution network and thus avoiding the discounted pricing traditionally provided to distributors. Could OEM Products successfully do it? Perhaps they could, along with other manufacturers. Bill was concerned.

## Background

MESCO was a third generation family business located in the Big Country of West Central Texas. Born out of an opportunity to service the oil and gas industry, the 50 year-old company operated as a wholesaler of industrial equipment such as controls, pressure and flow meters, gauges, thermometers, and related accessories.

The company was positioned as a distributorship servicing mid-range supply houses and small "mom and pop" stores that, in turn, supported individuals and smaller suppliers. Although the company sold a variety of products, its strength was in its product knowledge and stakeholder relationships formed over the past 50 years. The company's motto, "We've Got You Covered!!", emphasized its role as a full service provider, shaping its business around the needs of the customer and the relationships that were formed through this service.

The majority owner, Bill Smith, functioned as President and CEO of MESCO. Bill's father had organized the company as a closely held family corporation, established upon the values of family, church, and community in building business relations. As a result, Bill keenly understood the importance of integrity and faithful stewardship in building the relationships that had established a business presence for MESCO in the West Texas community. For both inside and outside sales functions, Bill emphasized the importance of the face-to-face, personal connections that build and strengthen a business. Because of these connections, Bill claimed that they (i.e., the people at MESCO) were "…good at what we do, AND we do it ethically and morally right." These practices and beliefs had worked well in keeping the business profitable for 50 years.

Repeat business was established based on core principles that added value to the customer stakeholder relationship and defined the value system for the company. Customers stayed with MESCO because of predictability of service; there were few "unknowns" when it came to interacting with the company. Product quantities and business processes were predictable yet flexible, which meant that customers received the right products consistently, with many products delivered to their door on the same day an order was placed.

The following details summarized the company's makeup:

- Customers: Approximately 1000 customers were on record with about 35% making regular purchases. Of the 1000 listed, 40-50% were oil and gas and small municipalities; 20-30% small and light industry companies, and a small number of end users (approximately 10%). The company stocked warehouses in Odessa, Midland, and Lubbock, principally servicing the greater West Texas region. The market served by MESCO extended east to west from Sweetwater, TX to the eastern half of New Mexico, and north to Amarillo and south to the Interstate 10 corridor.

- Suppliers: Approximately 100 primary suppliers were listed, with 20% accounting for 80 to 90% of MESCO's business. This vendor list consisted of original equipment manufacturers (OEMs), large wholesalers and sub-distributors.

- The company managed approximately 2000 SKUs, with 25% of the units purchased on a regular basis. SKUs are Stock Keeping Units – a tracking number assigned for items which reflects not only what an item is but also the form, quantity, and possibly the location in which the product is packaged and stored.

- Employees: The business consisted of both executive and administrative staff, clerical support for bookkeeping and inventory management, and inside and outside sales representatives.

- Stockholders: Although Bill Smith was the majority stockholder, his two sons also held minority stock positions in the company.

Besides physical products, distributors such as MESCO managed a tremendous amount of information due to their position between suppliers and various customers (Figure 1). A distributor had direct communication with manufacturers, other distributors, and customers, which made it necessary for MESCO to manage a tremendous amount of information generated from marketing, sales, distribution, purchasing, financial, and other business transactions. Because of the number of relationships which, depending on the size of the operation, could mean hundreds of thousands of interactions, the distributor was in a unique strategic position for knowledge management to mediate end-to-end stakeholder relationships.

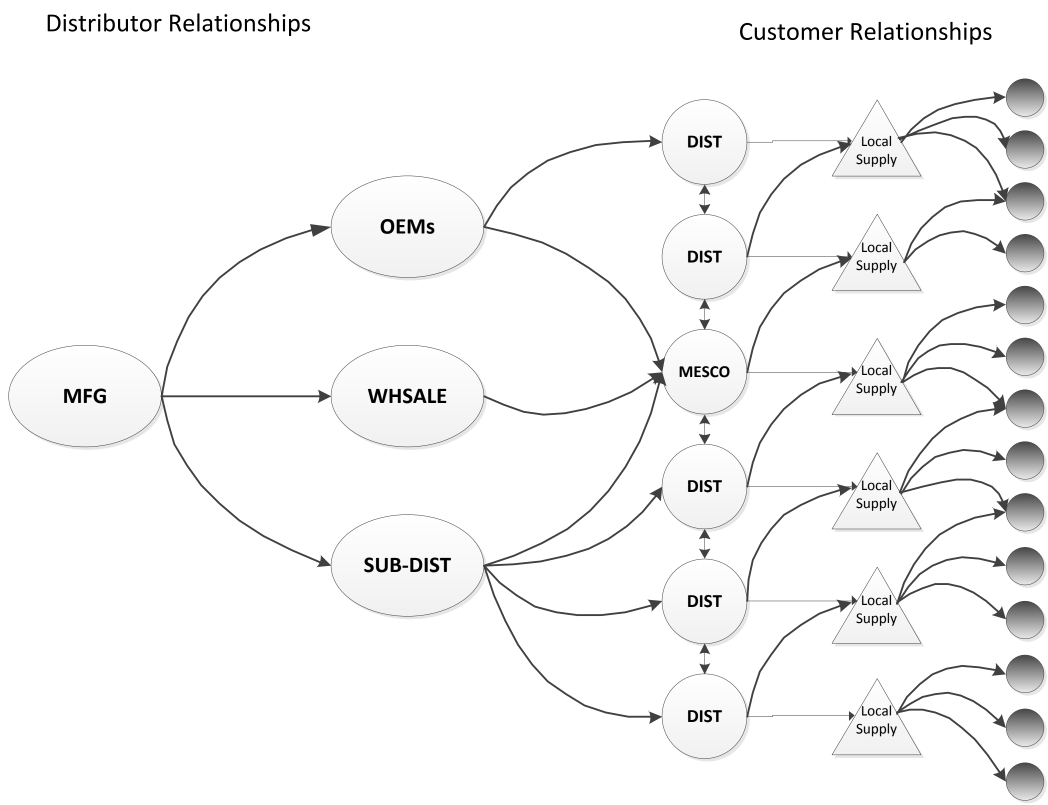


*Figure 1.* Supplier-Customer Relationships

## Current Issues

The issues facing MESCO included a diminishing market, new competition through disintermediation, and the establishment of a succession plan.

**Diminishing market.** Although the oil and gas industry continued to be a reliable source of income for MESCO, the trend in revenue generated from this market was questionable in the long run. Efforts of environmentalists continued to limit growth in the use of fossil fuels, and government agencies were providing financial support in the development of fuel alternatives. With this in mind, the company sought opportunities to expand its offering into markets that offered more sustainability for future operations.

**New competition through disintermediation.** As in any industry, economic conditions always threaten the viability of a distribution network. In MESCO's case, the economic downturn in recent years combined with shifts in government energy regulatory policy had left the oil and gas industry in a state of unpredictability, with businesses scrambling to identify additional revenue opportunities at all levels. In an unstable, weak economy, customer/supplier relationships had become strained as each sought to maintain a stable bottom line. As a result, implicit codes of conduct that were once standard practice in supply chain relationships became optional as integrity and character were sometimes sacrificed in favor of profitability. As a result, incentives for OEMs to remain loyal to distributors were weakened, resulting in manufacturers competing directly with distributors for end-use customers. This occurrence, known as disintermediation, is the removal of intermediaries in a supply chain, i.e., cutting out the middleman. The process of disintermediation was enabled by the advent and commercialization of the World Wide Web in the mid-1990s, as Internet technologies were used to remove information barriers and provide customers with a global offering of pricing and product availability.

Disintermediation was a legitimate concern for MESCO, confirmed as a serious threat that had a particularly devastating effect on the travel agency sector during the 1990s as people began booking their own travel arrangements directly with airlines and hotels over the Internet. By using the Internet as a delivery vehicle, intermediate players in a distribution channel could be bypassed unless a purpose and strategy was established and clearly communicated that defined a real value added through this relationship. For MESCO, some manufacturers understood the value of their relationship within the distribution network and maintained their honor by choosing not to not deal directly with the customer. However, other more established manufacturers chose to use alternative distribution channels such as the Internet to eliminate the middle man and take away the distributor's share of network profits.

**Succession planning.** Bill had been the Chief Executive Officer of MESCO for over 25 years. Not only were external factors and changes in the distribution industry a concern, there was also the need to consider internal changes that would occur over time as the company mapped out a succession plan as Bill approached retirement. Ownership of the company had passed on to Bill many years ago along with a set of standard management practices that both he and his father relied upon to build a competitive distributorship. However, Bill was concerned that his successors would be faced with a new set of challenges presented by trends in technology that would quickly outdate MESCO's current business processes. Technological advances in both inventory and information management had been implemented by manufacturers and upstream suppliers that rendered MESCO's operations slow and inefficient. A number of competitors had also taken advantage of readily available technologies to streamline operations and integrate both internal and external business processes. Although Bill had trained and positioned his two sons in lead management positions (i.e., Operations Manager and Inventory Supervisor), Bill understood that this training would not prepare them to compete in an industry that was expanding in its use of technology. With increased competition from manufacturers and the growing availability of information technologies, the immediate need was to put in place an infrastructure that could sustain the business under the next generation of management and support the changes needed to remain competitive. With the continued trend of losing customers to more responsive distributorships, either Bill or his sons would be faced with upgrading the company to take advantage of these opportunities to maintain the company's current position in the distributorship network.

## Need for Technology

Bill Smith understood the need to use technology to remain competitive and to position his company as a needs-focused organization ready to serve his customers in the 21st century. Bill also recognized how technology could be used to overcome the limitations of a business that relied on strong, people-dependent connections. These limitations had become increasingly apparent when competitors and other players began to use social networking and mobile devices to manage business relationships. With this in mind, Bill identified several opportunities that could be served through technology:

1) *Improved communications.* Communications within and among MESCO's stores could be improved using readily available technology. Although much of the exchange that occurred within the local office was conducted face to face, continuity and reliability in the transfer of information were still a challenge. Technology-mediated communications and 24/7 access to a common set of information could help everyone in the organization make real time decisions that were relevant to the customer's changing needs. Bill recognized that, although face to face communications were important in establishing relationships, such communications did not drive the efficiencies needed in day to day operations and could in fact hinder procurement-fulfillment business processes.

   External communications between the Odessa office and the Midland and Lubbock stores were also needed to gain the flexibility needed to plan and execute a common business strategy in a timely manner. As with the local store, a central database was deemed essential to integrating inventories between offices and to integrate the overall customer experience.

2) *Improved decision making*. The idea of a centralized database led Bill to investigate the positive aspects of an enterprise resource planning (ERP) system. In his research, Bill recognized the following benefits:

   - Use of current technologies would re-affirm MESCO's reputation and presence in the distribution network.
   - Use of current technologies would strengthen supplier-vendor relationships.
   - Improvement in logistics would occur through strategic alignment of transportation between stakeholders.
   - Better purchasing decisions would occur through improved communications.
   - Better decisions would be made through the availability of more timely, relevant information.

   Although Bill was able to identify some of the benefits of ERP systems, he was troubled by the stories he ran across of failed ERP implementations that left many companies bankrupt and no longer in business.

3) *Website/E-commerce*. Having a web presence was now essential in today's marketplace, regardless of the industry served. MESCO did not have a website and had faced numerous challenges in identifying the resources needed to design and host the site. In addition, a number of customer orders were still obtained through direct phone calls made daily by sales representatives. Although this contact continued to be instrumental in maintaining customer loyalty and building trust, this process slowed down the cash-to-cash business cycle and did not capture after-hours needs that were common in the oil and gas industry. Using technology to establish a ubiquitous presence on the Web where orders could be placed and a knowledge base accessed by customers during off hours would play a central part in extending the service that defined MESCO.

4) *Mobility.* Much of the communications at MESCO was managed using mobile phones. However, e-business activities were restricted to desktop computers and applications that were stored on local servers. The company had many opportunities to take advantage of applications made available through cloud computing to make information available to designated stakeholders around the clock and to manage paper-based processes such as accounts receivables and inventory management using mobile technologies (e.g., Androids, Blackberries, iPhones, and iPads).

5) *Enterprise and social networking technologies.* MESCO's success was all about relationships and service. Bill was keenly aware of the many opportunities available through both enterprise software and social networking applications that could be used to create efficiencies in business processes and extend current strategies that could build relationships with customers and key stakeholders. The challenge was to develop an implementation strategy using technology to build and secure relationships and to ensure that such interventions would not erode the core competencies that made the company a success.

Bill was mindful of a number of challenges that come with adopting new technologies. He had consulted with fellow distributors who had warned him of the level of financial resources required to commit to implementing and maintaining the latest technology. However, through these discussions, Bill was also made aware of three key business-related technology concerns:

1) *Business-technology alignment.* To obtain a competitive advantage and respond to rapidly changing environments, businesses often embraced new technologies without conducting a needs assessment or a complete analysis of current and future organizational structures to predict the impact of a change. As a result, companies often failed to fully implement the technology or never achieved the expected benefit from their IT investment.

2) *Clearly defining the role of the distributorship.* Manufacturers (suppliers) and customer needs were often blurred in the distribution network. Suppliers now required advanced inventory planning and management capabilities while customers were interested in having orders filled by a distributor with expertise in high volume logistics (e.g., shipping, handling, packaging, e-commerce linkages). Each connection was different and would require a different technology solution. MESCO's primary value to suppliers, besides physical delivery of their product, was personal relationships and a deep knowledge of regional customers for their products. Taking on inventory planning and management capabilities would require a logistics focus and the need to implement an extensive e-business solution to provide real-time knowledge about customer buying patterns and the ability to analyze data for predictive planning purposes. For customers, MESCO had added value through their experience in the oil and gas industry and extensive product knowledge. However, with access to much of this information now readily available on the Internet, product knowledge no longer provided MESCO with a competitive advantage. Currently, their primary value added for their downstream customers was speed of providing products and knowledge of the various manufacturers and their offerings in the measurement industry. More effective technology would be needed to become the inventory/procurement manager for their customers.

3) *Disruptive nature of technology*. As an avid reader of the daily news, Bill was very much aware of the changes brought about in the newspaper industry as the Internet became the dominant delivery mechanism for both local and international news. Bill considered a similar impact on his distributorship and wondered if the introduction of advanced technologies would completely redefine his operation and disrupt their existing business processes. For a fifty-year old business, Bill saw this as a legitimate concern and wanted to know more about how other industries had been impacted by recent technology innovations.

**Conclusion**

Several solutions would need to be considered for Measurement Equipment Supply Company, Inc. Appropriate use of the most current and readily available technologies could provide Bill Smith with the opportunity to take control of MESCO's future and function as a fully-focused intermediary and thus a key player in the distributor network. However, because of the disruptive nature and process-altering potential of IT solutions, Bill was equally concerned about implementation issues that had operationally and financially shipwrecked a number of companies, both large and small. As Bill Smith picked up the phone to make a luncheon engagement, he hung up and decided instead to call an emergency meeting to discuss this dilemma.