

MARKETING

CASE

Presented by

FASTENAL[®]

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Fastenal Introduction

Fastenal is a company specialized in industrial supplies distribution. It was founded in 1967 in Winona, Minnesota, by Bob Kierlin and four of his colleagues who collectively invested \$30,000 in the company. The original idea was to distribute fasteners packs¹ using custom-built dispensing machines. However, they soon understood that there was not enough demand for this specific product. Hence, they decided to diversify their offer by including nuts and bolts, which they sold through more traditional means.

The company has grown steadily and intensively over the years. In a video presentation of the company's history, its founder said: "We started out as the smallest of 10,000 companies operating in this industry in the United States. Today, we rank first out of 10,000." The regional manager Mr. De Nitto added that "Fastenal has experienced the strongest growth in the industry since its inception".

Half a century later, Fastenal is the North American leader in the industry of the wholesale and distribution of industrial supplies enabling manufacturing production, construction of structures, protection of personnel and maintenance of facilities and equipment. The range of merchandise available includes 18 product categories (Appendix 1), encompassing an inventory of one million different product codes (SKUs). A range of services are added to that merchandise (Appendix 2) including real-time management of the customer's supplies, notably through computerized ERP systems integration (*Enterprise Resource Planning*), measuring instrument calibration and equipment repairs. As the company also possesses its own machining centres, it is in a position to respond to customized customer requests for specific parts or templates not offered on the traditional sales market. Nowadays, Fastenal makes USD 5.3 billion a year (2019) as a multinational operating in 26 countries and has more than 3,000 branches and 22,000 employees.

Their formula for success, as this expression illustrates the company's evolution and situation well, is the quality of its workforce. While this formula is less than original, it seems to be authentic to the point where it inspired one of the company's slogans: *Growth Through Customer Service*. Although Fastenal is a company that distributes goods, and those companies are often undifferentiated among suppliers, they believe that it is the quality of the services and those who provide them that make the difference. According to the CEO, Daniel Florness, this advantageous

¹ This explains where the company's name comes from... *Fasten-All*.



difference from the competition can be attributed to the three pillars of the company's corporate culture: local presence, friendliness and innovation.

Fastenal Canada Organizational Structure

Fastenal Canada is the first foreign subsidiary of the brand. Established in 1994, its head office is located in Kitchener, Ontario. Most of the 1,500 Canadian employees are spread across the 250 locations of the brand, which are divided into large geographical areas across the entire country. These are in turn broken down into regions commonly referred to as "districts". Accordingly, we find the following territories: "Western Canada," "Ontario" and "Eastern Canada" (Quebec and the Maritimes). The Ontario market represents 50% of all Canadian revenues. The remaining 50% is equally divided between the other two territories. More than 40,000 Canadian customers are satisfied by Fastenal's goods and services every year.

The construction materials and supplies wholesale retailers industry (SCIAN 416) represents a \$4 billion market for "Eastern Canada" annually. The organizational structure of the "Eastern Canada" region is also divided into five geographic regions, commonly referred to as "districts." Each of them is composed of a dozen branches. The branch is the business unit on which the company's business model has been based since its inception. The branch acts as a gateway between Fastenal and its customers and this explains one of the company's particularities: decentralized decision-making authority.

Branches usually take two forms: the strategic branch and the public branch. The "Eastern Canada" region hosts seven branches, which are business units exclusively dedicated to the company's largest customers. Therefore, a branch is specifically dedicated to a limited number of clients, and sometimes even to just one, such as Bombardier. Depending on the customer's size and needs, some can even be located on-site (in the customer's plant, for example). The goal is to be at the heart of the customer's business in order to supply and serve them in the most efficient way. Some may be located inside public branches, separating their activities using a simple curtain.

Scattered across the territory, the public branches look more like demonstration rooms, as they all stock a great deal of basic lines to which are added more specific goods in order to meet the needs of local customers. These are intended to be points of sale allowing customers to discover and acquire merchandise just as in "traditional" stores. In-store sales represent a marginal



percentage (between 2% and 5%) of the company's total revenue, and it has no intention to strategically boost this channel of sales. Merchandise is sent from the fully automated 140,000 sq. ft (13,000 m²) distribution centre (located at the Kitchener head office) to the branches, and from there, orders are shipped to customers. The complete operation usually takes place within 24 hours of the order. The services and work teams are also deployed around the branches.

Fastenal Canada's Business Profile and Clients

Fifteen percent of Fastenal's revenues currently come from electronic transactions. This can be achieved by purchasing online (e-commerce) at Fastenal.ca or by using an electronic integration business model. Popularized by the SAP company, this system combines the different functions of the client's business (accounting, finance, supply, etc.) in a centralized information system within the vendor company's system. This "Fastenal-client" integration is more common and convenient for Fastenal's large customers, especially those identified as "national accounts."

Fastenal Quebec-Maritimes's customer base is categorized according to monthly purchase volume. The active customer base is broken down as follows:

- 500 clients generating less than \$1,000/month, often referred to as "small clients" and,
- 2,200 customers buying for more than \$1,000/month, referred to as "big customers." This category is, however, diverse in terms of purchase volume. An organizational customer such as Bombardier, for example, can spend an average of \$600,000 or \$700,000.

Purchase volume normally corresponds to the customer size. Even if these "small customers" have limited purchasing power, it should not be excluded that some of them may eventually become "big customers." Besides, market development is a growth opportunity that Fastenal can consider. In Quebec alone, there are more than 240,000 companies employing fewer than 100 people. So far, 45% of Fastenal's revenues come from "National Accounts," a subgroup included in the "big customers" group.

Overall, the "Quebec-Maritimes" territory has a monthly sales volume of \$11 million. Regionally, the Greater Montreal accounts for approximately 35% of total turnover. Other regions are showing interesting growth potential because of their industrial sectors, even if their importance may not be reflected in sales results at this time. This is particularly true for the Centre-du-Quebec region (the city of Drummondville as an industrial pole) and for Abitibi-Témiscamingue. There are also opportunities to consider the Chaudière-Appalaches district as an SME incubator.



“The business relationship is more important in Quebec than anywhere else in Canada,” says De Nitto, in order to explain the particularities of the Quebec market. “Especially when your business is far from urban centres.” This is the amalgam of factors among which we can observe smaller companies with a more user-friendly business mentality based on the quality of exchanges, the importance of the knowledge network and the primacy of loyalty.

Combined with a smaller supplier base, these characteristics mean that once the relationship with the customer is well established, it is likely to be longer lasting and therefore more profitable than relationships established elsewhere in the country.

Fastenal provides services to a wide variety of organizational customers. They may come from both governmental and paragonovernmental sectors (e.g., ministries, municipalities, hospitals, schools, etc.), and the commercial sector (e.g., factories, service companies, etc.). Fastenal’s product offering is designed to meet the needs of businesses who need supplies to operate. In addition to the varied sectors of activity, the diversity of the clientele is also reflected in the size of the organization. This ranges from a small family business with a handful of employees to a large organization with hundreds or even thousands of employees. For the sake of complexity, each organizational client functions its own way. Buying needs and criteria differ as well. The decision-making process and the way to maintain and develop business relationships are idiosyncratic. Naturally, Fastenal is not dealing with an organization, but with individuals who have the authority to make purchasing decisions within the organization.

Fastenal’s customers’ purchasing criteria are as numerous as its customers can be. Yet within the same organization, two players may have different decision-making criteria. Organizational clients, however, are known to base their purchasing decisions on more “rational” factors than are those associated with individual buyers. Broadly speaking, buying motivations vary depending on whether the buyer is price-oriented or service-oriented. The buyer in the first group places the lowest possible price as a discriminating purchasing criterion between offers. Since the supplies offered are undifferentiated to him, the price will be a significant factor in decision. He will thus seek to negotiate the best prices, going for the most beneficial perspective. The second type of buyer will focus their decision on the solution that will allow them to see their needs fulfilled (e.g., speed of delivery) as reliably as possible, without worries. Trust to receive what is promised drives the supplier selection decision here. According to Mr. De Nitto, “Our best “fit” is with those who understand the service because our focus is to save on the total acquisition and ownership cost of goods.” Brief evaluation may suggest that for an order of products similar to those of competitors, Fastenal’s prices will be approximately 10% higher.



For the corporate customer, two main decision-making levels can be identified. The first group is composed of the key decision makers of the organization, which, depending on its size, can be either the owner (in the case of SMEs, for example), the organizational buyer, or the procurement manager in larger units, and can go as far as the CEO or VP for procurement. Despite their apparent heterogeneity, these functions have in common to be located higher up in the operations hierarchy.

On the other hand, the second group is made up of individuals involved in more operational functions, busy working on-site. We can think of plant foremen or storekeepers (inventory managers), who are responsible for distributing and dispatching supplies and equipment to internal users.

The Competitive Structure of the Industrial Supplies Wholesale Market, and Fastenal's Position

The Canadian wholesale distribution market for industrial supplies is very competitive with a range of players able to position themselves on the variety of products and services offered. Quebec's general portrait of the industry reveals a few large suppliers (Acklands Grainger, McMaster Carr, Acklands Grainger, Tenaquip, Ficodis, Wajax) and more than 300 small independent local providers covering the entire territory. Some of them, such as Acklands Grainger, offer turnkey services comparable to Fastenal. With its large size, its presence in the economic base for more than a century and its significant resources, this company is a major competitor to Fastenal.

Most of these players have a business model that relies on a "traditional" sales system through the deployment of a field sales team that may or may not include e-commerce sales. Therefore, McMaster Carr stands out from the crowd by betting exclusively on online sales. Wajax is a strong competitor among players with smaller product lines. Historically specializing in power transmission products and supplies, a product line practically untouched by Fastenal, the company has since gradually diversified its product offering to the point of potentially attracting the customers targeted by Fastenal. Finally, Ficodis, a company originally from France, has the particularity of growing very quickly by integrating small players in the industry that are often located outside of major centres. Their revenues in 2015 were estimated at \$16 million, with a projection of \$100 million for 2020. Otherwise, the revenue growth model in the industry tends to be based on intensive growth through market penetration, market development or product development.



Fastenal's unbridled growth from the very beginning can be explained by its service excellence. Such a high quality level reflects the synergy between the infrastructure, the expertise and the staff quality, which is rarely matched by the competition.

The company runs its own fleet of trucks. This autonomy allows the company to quickly ship goods from the Canadian distribution centre in Kitchener to the customer's location, usually within 24 hours. This responsiveness is essential in the real-time management and provisioning to customers, where a balance between storing a surplus and a shortage must constantly be reached.

This computerized inventory management takes two main forms. The first takes the form of vending machines at the customer's location. The machines, called FAST Solutions (see Appendix 3), similar to the machines used for non-durable consumer goods such as chips, soft drinks, and candy, are used here to provide the supplies most frequently requested by the customer (e.g., bolts, adhesive rolls; protective gloves, etc.). The operator-user is given an access code that allows his employer to have oversight of inventories, making the user responsible and accountable for his choices, further reducing waste and theft. These machines are estimated to reduce the consumption of supplies by as much as 30%. Employees also lose less time travelling to and from their workplace. Inventory management is shared directly with Fastenal in real time to ensure that machines are always supplied with the right quantity and at the right time, resulting in additional savings for the customer. Although Fastenal is not the only one in the industry to use this automaton service, its longevity is certain. The founders already had the marketing of this operation in mind at the outset, but it was only slowed down by the limitations of the existing technology. As of today, more than 115,000 machines are deployed by Fastenal to its North American customers, twice as many as the entire fleet of the competitors' vending machines combined. Recognizing the strength this represents in its service offering, Fastenal intends to expand on it, notably by acquiring the manufacturer of the machines, which will cut their cost price in half when comparing it to the price paid by the competition.

Inventory management also depends on other technologies such as barcodes, RFID, infrared, electronic scales, push notifications, etc. Beneath this vast array of technologies, the goal remains the same: to provide turnkey service that frees the client from the burden of supplying, stock managing, and accounting processing.

The number of branches and their geographical coverage is unmatched by the competition, allowing Fastenal to be near any potential customer: *We Are Where You Are*. Such proximity



helps to ensure physical reactivity in the transport of goods, the multiplicity of contacts, but also, to facilitate and consolidate business relations with customers, able to deal with a supplier from their home community.

The Workforce Challenge

As for the branches, they are given the decision-making power to adapt the business solution to the customer's specific needs. This is another hallmark for Fastenal: decentralized decision-making power. Fastenal believes in its business model. The company is convinced that this is the formula for success: high-quality service provided by the association of human and technological skills. Fastenal is just as convinced that the harmonization of this human-machine solution is the key to reaching its 10% annual growth objectives. The company nonetheless sees obstacles looming that could jeopardize its ambitions to the point of reconsidering its business model.

Mr. De Nitto argues that “there are three possible obstacles to development in business”: insufficient financial resources, maturing or shrinking markets, and workforce. His diagnosis for Fastenal therein is the following: first, the company is not in debt. In fact, it even holds several million dollars of liquidity. It therefore has the means to fulfil its ambitions in order to make investments. Second, the industrial supply distribution industry is growing in Canada. Consequently, Fastenal's challenge is to recruit and retain the workforce. The company's growth would be stronger if recruitment and training were done more quickly. The company takes a particular interest in young university and college graduates whom it recruits by travelling to education campuses. But recruiting is not easy. “We face a notoriety gap compared to other potential employers on university campuses (e.g., financial institutions), who also offer better starting salaries.” Once the “right” candidates have been recruited, the company provides them with comprehensive training, including through the “Fastenal School of Business program.” This three-phase formal program includes on-the-job training as well as training with online instructors. The program is as follows:

- Phase 1 includes job shadowing, sales calls and immersion in the basics of branch service.
- Phase 2 focuses on improved sales strategies and a deepening of the various aspects of the business.
- Phase 3 provides a pathway for continuing learning in order to help employees achieve their career goals.



“Customers are constantly expanding and becoming more complex,” says Mr. De Nitto, and the decentralized decision-making structure calls for a high level of autonomy and expertise from employees, which can only be achieved through a combination of training and experience acquired on the job and by drawing on a wide range of technical and relational expertise.

Branch work is a team effort that is deployed to develop the best business solution, individualized for each client. When fully effective, the employee is solicited by the competition because it is assumed that they will quickly perform well in another environment. “Compared to the work you have to do at Fastenal, working elsewhere is so easy, it’s a joke,” says Mr. De Nitto. A criterion often mentioned by founder Bob Kierlin as the basis of Fastenal’s success, the workforce quality represents a necessary, but not sufficient requirement to achieve the desired service quality. Mr. De Nitto summarizes his point as follows: “Drawing the right talent is a challenge. Training them right is a challenge. And when they are effective, that’s another challenge.”

As mentioned by Darrell Cooper, Territory Manager: “Things have changed over the years. More employees. More trucks. More technology. But one thing never: our ability to better serve our customers than anyone else.”²

Communicating Tools

Fastenal does not rely on mass media outlets in order to shape its reputation. Indeed, the company’s fleet of trucks wears its colours while travelling the country’s roads. Fastenal Racing NASCAR team is also a source of visibility,³ yet the scope of this is reduced, especially in the Eastern Canada market.

The “Fastenal.ca” website is adapted for Canadian customers and differs from the US head office website by authorizing transactions. It allows orders to be placed and invoiced directly to customers. It is also the main source of information about the company’s goods and services offering.

Fastenal Canada launched its LinkedIn platform in fall 2020 as part of its array of digital communication tools. By the end of November, 700 people were following it. “LinkedIn is usually

² SOURCE: <https://www.businessinfocusmagazine.com/2019/09/fastenal-canada-celebrates-25-years-of-growth-through-customer-service/>

³ Car racing in the United States



great for prospecting, but right now it's not," says M. De Nitto. The company is also on Facebook. The information available suggests that 95% of the 382 subscribers are employed by Fastenal Canada. Popularity seems to be higher on Instagram with nearly 700 subscribers. However, the subscribers' profiles are hidden. Twitter seems to be the social platform with the largest following (864 subscribers in November 2020). It is also the social media which the company has been using the longest (2014). The hashtag #WeAreWhereYouAre evokes one of the company's distinguishing features: extensive geographic scope implying proximity to its customers. Mr. De Nitto believes that digital marketing is far from being used to its full extent.

Meanwhile, the branches use their own means of communication to reach their active customers. Nothing structured or planned is really implemented to promote the company.

Most innovative branches communicate with their customers via email and newsletters. Those branches are "successful," says Mr. De Nitto. He also adds: "We exchange text messages with good customers every day." However, this is an informal approach that was initiated by some employees at certain branches. The company's business model was born and developed based on the strength of direct relationships with its customers. "The company's traditional success involves face-to-face canvassing, presenting your business card, going on plant tours, creating one-on-one interpersonal relationships. I don't have you as a client, I want you as a client: so how do we go about it?" says Mr. De Nitto openly. This informal approach was traditionally mirrored by the unpredictability of plant visits: 80% of them are made without appointment.

Problem and Task

Obviously, Fastenal's communication target is the supply decision makers in organizations and not individuals. The communication strategy therefore seems to be consistent. The common way to get known by Fastenal is standard in the industry where everything goes through networking and sales force canvassing, which are techniques used in the sales tunnel early stages.

Still, the pandemic has been challenging this approach effectiveness. Public health restrictions have changed the way companies operate. Business hours have decreased. On-site staff is limited. Wearing a mask is mandatory. Teleworking is either mandatory or favoured by employers. This means that sales representatives' courtesy visits have become rare, less appropriate, or completely useless, if not unproductive.



Mr. De Nitto considers that the Quebec-Maritimes Branch should consider using marketing tools more intensively and in a more structured way to achieve the annual objectives. A success indicator of the steps to be taken means that in 2021, 50% of revenues and 50% of active clients will have placed their supply orders through Fastenal Canada's website platform for the Quebec-Maritimes region. Of course, achieving this objective should not compromise the "standard" objective of a 10% annual increase in sales.

Mr. De Nitto believes that the Quebec-Maritimes Fastenal Branch must innovate in the way it canvasses potential customers and stay in touch with its active customers and business decision makers. This conviction was solidified when he consulted a blog boasting three advantages associated with marketing in B2B companies.⁴

1. A well-implemented B2B marketing strategy that integrates social media and other channels can significantly increase brand awareness.
2. An innovative B2B campaign with very little investment can have a major impact.
3. The number of leads generated is a milestone often used to measure the success of a B2B marketing campaign. Businesses believe that: more leads = more chances of conversion and that higher conversion rates = more profit.

How do we now reach customers who are at an operational level within an organization, for example a foreman or a storekeeper, when it was traditionally done face-to-face?

They may be reluctant to use social media platforms. How can we establish contact with this industrial clientele and eventually develop and maintain a business relationship knowing that they are typically between 45 and 65 years old, not very technologically oriented and reluctant to maintain remote relationships? How do we handle this with business leaders?

The pandemic will eventually come to an end, but when? Will companies return to their traditional methods or will they voluntarily choose to permanently adopt new ways of operating that were developed in times of crisis? Will they still judge physical meetings with suppliers valid and useful? A GetApp.com survey conducted among 503 US SMB decision makers in May 2020 showed that the pandemic was already having a major impact on the way they operate by cutting back on spending, with the exception of software purchases. In concrete terms, the most popular reduction measures included hiring freezes (50% of the survey sample), cancelling trips and events (48%),

⁴ SOURCE: Adapted from information accessed November 16 at: https://monday.com/blog/marketing/b2b-marketing/?marketing_source=adwordssearch&marketing_campaign=gb-s-dsa-e-desk-monday&aw_keyword=&aw_match_type=b&gclid=CjwKCAiA2O39BRBJEiwApB2lkm87jmC7TMK78h8me5e_NoyN1c6S6F2nfPrL2GGEYS7M-y4so3U2oRoCumUQAvD_BwE



cutting marketing expenses (42%), reducing working hours (34%), and reconsidering suppliers' agreements (32%). As for growth in software expenditures, the survey identified those for video conferencing (51%), messaging and chat (25%) and project management (7%)⁵.

Fastenal grew out of a technological innovation and human capital fusion. Adapting or even modifying Fastenal's business model in Canada could impact the US head office business model. Mr. De Nitto is expecting an innovative proposition that will be both efficient and relevant after the current pandemic period. Mr. Florness would certainly agree⁶:

Innovation is so important, and the way we address it is to welcome everyone's input. Fastenal employs over 20,000 people and we challenge everyone to come up with ideas and to try to find a way to let those ideas gain momentum. So, you essentially end up with these small incubator hubs within the organization. Supporting these ideas is important as a CEO. Should an idea require technology, you provide the technology, and if it requires financial support, you provide it as well.

⁵SOURCE: <https://www.getapp.com/resources/small-business-covid-19-crisis/>

⁶SOURCE: Excerpt from an interview with Daniel Florness in CEO Magazine, November 10, 2020. Loose translation. <https://www.theceomagazine.com/executive-interviews/manufacturing/daniel-florness/>



Appendices

Appendix 1

Fastenal's product lines

<u>SECTION</u>	<u>CATEGORY</u>
1.....	Fasteners
2.....	Material Handling, Storage & Packaging
3.....	Lifting & Rigging
4.....	Office Products & Furniture
5.....	Fleet & Automotive
6.....	Safety
7.....	Tools & Equipment
8.....	Plumbing
9.....	HVAC
10.....	Electrical
11.....	Chemicals & Paints
12.....	Janitorial
13.....	Hydraulics & Pneumatics
14.....	Power Transmission & Motors
15.....	Welding
16.....	Abrasives
17.....	Cutting Tools & Metalworking
18.....	Raw Materials



Appendix 2

Fastenal list of services as shown on Fastenal.ca

Services and resources



<p><u>Technical calculators</u></p> 	<p><u>Fastenal Brands</u></p> 	<p><u>International Sourcing</u></p> 	<p><u>Government</u></p> 
<p><u>Fast Solutions</u></p> 	<p><u>Ecological Resources</u></p> 	<p><u>Industrial services</u></p> 	<p><u>Industrial solutions</u></p> 
<p><u>LEAN Solutions</u></p> 	<p><u>Production services</u></p> 	<p><u>National accounts</u></p> 	<p><u>Resources of security</u></p> 
<p><u>Thrid-Party Logistics Provider (3PL)</u></p> 	<p><u>Quality, engineering and laboratory services</u></p> 		



Appendix 3

FAST Solutions

