



MEDLINE INDUSTRIES INC.

**Transforming the Healthcare Business
with mySAP™ CRM**

BUSINESS TRANSFORMATION STUDY



Medline Industries Inc., partnering with SAP, integrates online and traditional sales processes to create efficiencies and improve the customer experience.





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MEDLINE INDUSTRIES INC.

AT A GLANCE

Profile

Industry	Healthcare
Revenue	US\$2.4 billion (2005)
Employees	4,500
Location	Mundelein, Illinois
Web Site	www.medline.com
Solutions & Services	mySAP™ Customer Relationship Management application (SAP® E-Commerce application and mobile sales functionality)
Implementation Partner	SAP Consulting

Medline is the largest privately owned manufacturer and distributor of healthcare products in the United States. The company provides supply chain-focused cost management programs and supplies over 100,000 items such as wound-care products, gloves, and wheelchairs to the entire continuum of care, including hospitals and extended care facilities. Medline is committed to enhancing the quality of patient care while containing costs.

Key Challenges

- Enhance depth and breadth of customer relationships
- Manage a large number of products – over 100,000 and growing
- Improve pricing process and reduce pricing credits
- Provide field sales and customers with visibility into pricing, orders, and inventory
- Lower channel support and customer service costs

Why SAP Was Selected

- Unique functionality for managing pricing, orders, and customer information
- Integration with the mySAP™ ERP application containing pricing and customer data
- Scalability for handling a large volume of data
- Positioned for future growth

Implementation Best Practices

- Engagement of business operations from the outset
- Strong alignment with business requirements
- Focused pilots and rapid scaling to full go-live
- Strong collaboration between staff and SAP® Consulting
- Knowledge transfer from SAP Consulting to Medline, which empowered Medline to take full control of its software after go-live

Low Total Cost of Ownership

- On-time and within-budget implementations
- Rapid four-month rollout for SAP E-Commerce application
- Low ongoing support costs

Financial and Strategic Benefits

- Integrated view of customer activity across online and direct sales channels
- Increased use of customer self-service through Medline.com
- Enhanced profit margin by up to 3%
- Improved customer retention by up to 10%
- Reduced revenue lost due to pricing errors by up to 10%
- Enhanced productivity of sales representatives by up to 20%

Operational Benefits

- Lowered cycle time for completing pricing requests from days to hours
- Reduced pricing discrepancies and credits to customers
- Increased Medline.com order volume to 15% of sales
- Significantly compressed order-to-cash cycle times
- Reduced cost to serve customers
- Positioned to execute order processes increasingly through electronic channels





“In addition to supporting the new mobile client and integrating with our existing SAP software, we realized that mySAP CRM had a lot of functionality we could leverage.”

Dave Rolston
Vice President of E-Business
Medline Industries Inc.

KEY CHALLENGES

Medline – Focused on Helping Healthcare Institutions Contain Costs

Just as demands for improved performance are increasing, hospitals, nursing homes, and other healthcare service providers are facing reduced operating margins, caused largely by lower insurance and government reimbursements. Medline, a leading healthcare supply company, helps its customers sustain profitability by reducing supply chain and material costs. Specifically, Medline's mission is to provide quality products and cost-containment solutions to healthcare providers, while enhancing the quality of patient care.

Medline was founded in 1966 and has grown to become America's largest privately held manufacturer and distributor of healthcare supplies and services. Focusing on efficient and innovative supply chain management, the company serves the entire range of healthcare providers, including hospitals, surgery centers, and extended care facilities. It distributes medical-surgical products such as exam gloves as well as durable medical equipment including wheelchairs.

Financial Strength and Vertical Integration

Medline is financially strong, allowing the company to offer value-added services and solutions for optimizing supply chain distribution systems that are unmatched by rivals. These cost-management efforts encompass a range of guaranteed savings programs covering order handling, billing services, and customized distribution programs. Medline's salespeople act as consultants to ensure that these

business solutions meet customers' needs, and the resulting offerings are a source of growth for the company.

With seven manufacturing facilities in North America and over 25 dedicated plants worldwide, Medline produces many of the 100,000 products it sells, delivered to customers through a network of 32 distribution centers. Medline's vertical integration and direct approach enable the company to offer competitive prices and superior services – facilitating significant growth in recent years. In fact, Medline has managed to maintain its growth rate at a steady 10% per year. The company's ability to plan its resources well has allowed it to control its prices.

A Focus on Service Excellence and Quality

Medline operates in a tight market, with rivals offering similar value propositions – including competitive prices resulting from vertical integration and direct distribution networks. Thus, Medline seeks every advantage possible. Medline's sales force provides the company with one notable strength: its 700 dedicated sales reps have been acclaimed as among the best in the country, and Medline has been honored with several service excellence awards.

Another competitive edge is the quality of Medline's products and services. Medline is dedicated to providing the highest-quality products and has attained compliance with the most stringent international quality standards, including ISO 9000, EN 46000, and FDA Quality System Regulation (QSR). To continually improve service quality,

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Coral Johnson

A Member of the Central Supply
Organization of Libby Care Center
Libby, Montana

Medline pursues a quantitative approach to its supply chain management services. Every Medline program includes a financial analysis, which presents measurable opportunities and progress to customers – and guarantees cost savings. Medline also leverages technology to streamline customer collaboration processes. For example, Medline uses electronic data interchange (EDI), offering a full suite of transactions to its trading partners and fully integrating order-handling operations into popular e-commerce marketplaces for healthcare.

As a result, Medline’s customers benefit from lower costs, more accurate processes, and fewer product defects. Many Medline customers prefer to rely on a single vendor for one-stop shopping. Medline’s strong performance builds customer confidence, thus fueling the company’s growth in revenue and market share. But the company has continued to face challenges from competitors offering a range of products and cost-containment services that rival Medline’s.

Complex Pricing in the Healthcare Supply Industry

The healthcare supply business is characterized by complex pricing; companies that handle pricing processes well can gain an advantage. In Medline’s case, sales reps must address hundreds of special price requests each day while the company maintains prices and discounts for its large and growing list of products. Sales reps work with customers and the internal finance group to ensure that pricing serves individual customer needs and remains competitive while generating profits.

Medline’s legacy system supported the field sales force in placing orders, providing data on order status and inventory information. However, the system was unable to execute orders electronically, and sales reps lacked real-time access to pricing information. Hence pricing advantages were lost, sales were delayed, and errors occurred that led to customer credits.

Opportunities for Improvement with Online Sales

Medline had developed a Web site that included order-handling capabilities. Nursing homes and other smaller facilities, which typically lack procurement systems to cover their inbound supply requirements, would use the Web site for order placement. Larger organizations such as hospitals and surgery centers would generally place orders using EDI, but use the Web site to check specific invoices and orders.

Medline recognized several opportunities to improve Web site operations. Because the system was not integrated with other Medline applications, delays were frequent and often required that people get involved to address order processing, accounting, product catalog maintenance, and so forth. The evolution in breadth and depth of Medline’s product lines compounded the problems. Further, the system offered customers only limited access to information regarding orders, shipments, invoices, and payment transactions – and information about Medline’s products and cost-containment services. Finally, the system had some security limitations: for example, customers could not restrict information about their purchases or control access by individuals at their facilities.

Medical Products Industry Drivers and Implications



WHY SAP WAS SELECTED

SAP® Support for Healthcare

Medline had used SAP® software since the mid-1990s to support order-handling, inventory management, and accounting processes. When Medline began investigating more advanced customer relationship management (CRM) solutions, the company found that the mySAP™ Customer Relationship Management (mySAP CRM) application has sophisticated features that would enhance its ability to manage orders, pricing, and customer information. For example, field sales could use the mobile sales functionality of mySAP CRM for real-time price information transfer and direct order placement. And both customers and field sales could use this functionality for presentation and processing on Medline.com. The company did consider several other vendors. However, “No one else came close to delivering the functionality we wanted,” says Dave Rolston, vice president of e-business for Medline.

Medline also chose SAP Consulting¹ as its implementation partner. “We knew that getting complex pricing information from our ERP software onto our reps’ laptops would be challenging. And we knew that SAP Consulting could deliver the necessary expertise,” says Rolston.

Medline found that the strong integration between mySAP CRM and the mySAP ERP application provides many benefits – for example, visibility by field sales into up-to-date order status, pricing, and customer information, enabling faster and better decision making in the field.

“No one else came close to delivering the functionality we wanted.”

Dave Rolston
Vice President of E-Business
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¹ SAP Consulting is an integral part of the SAP Services organization – a single point of access to comprehensive expertise including consulting, education, support, custom development, and hosting.

IMPLEMENTATION PROCESS AND BEST PRACTICES

Gaining Value Quickly

Medline implemented mySAP CRM rapidly in phases covering mobile sales functionality and the SAP E-Commerce application. Collaboration between Medline and SAP was vital to success. “We collaborated as equal partners,” states Rolston. “And our relationship is now much stronger as a result.”

Also, SAP Consulting provided knowledge transfer covering software configuration and other facets of ongoing operation, empowering Medline to take full control of its software after go-live. “SAP Consulting not only helped us implement the SAP solution, but transferred a lot of knowledge as well,” says Rolston. “In addition to supporting the new mobile client and integrating with our existing SAP software, we realized that mySAP CRM had a lot of functionality we could leverage.”

Strong Governance and Project Management

Key members of Medline’s leadership team were involved in designing and implementing both mobile sales and e-commerce functionality. In particular, the IT group worked closely with the company president and vice presidents of sales, as well as several sales reps, to ensure that these projects met Medline’s business requirements.

The executives made decisions about implementation priority based on gap analyses covering capabilities of the legacy systems versus new functionality offered by SAP. They also guided the work of Medline business and IT analysts, which ranged from 15 to 20 staffers at any one time. Implementing SAP E-Commerce was completed mostly with internal staffing resources, while the mobile sales project involved three experts from SAP Consulting and software development staff from SAP AG.

Solid Relationship Between Medline and SAP Consulting

Because of the strong relationship between the two companies, Medline has also facilitated benefits for other SAP customers by providing input on new functionality for mySAP CRM. Rolston comments, “We have been actively involved with SAP’s customer council and a number of suggestions regarding CRM have been included in subsequent releases of mySAP CRM.”

Medline’s IT Architecture

SAP Solutions:	mySAP CRM (SAP E-Commerce, mobile sales, and analytics functionalities) and mySAP ERP
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Number of Users:	6,500 customers; 700 sales reps
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Number of SAP Software Instances:	1
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Database:	Oracle
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Operating System:	Sun Solaris
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Type of Network:	Internet Protocol
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Server Technology:	IBM
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BUSINESS PROCESS TRANSFORMATION AND VALUE REALIZED

Enhanced Visibility by Field Sales Staff Leads to Service Improvements

Medline's sales reps now have an integrated view of customer activity across online and direct sales channels, with much greater visibility into sales orders, products, and inventory. They can synchronize data more efficiently and use many system functionalities even when they can't connect.

As a result, sales reps can serve customers more proactively. For example, as orders are placed through the Web site, through EDI, or other channels, the reps can download data to their laptops to check for problems such as stock-outs – and then intervene on behalf of the customer. Or they can reserve specific products in inventory to ensure timely order fulfillment. “Everything is more real time,” says Jeff Boswell, IT manager of e-commerce and CRM for Medline.

Customers have noticed. “We're more likely to order from Medline,” says Coral Johnson, a member of the central supply organization of Libby Care Center, a 108-bed healthcare facility in Libby, Montana. “The Web site is very easy to use compared to Medline's competitors'. Whether we use the Internet or place an order directly with a Medline representative, we have real-time information about product availability and the immediate offer of a suitable substitute for out-of-stock items. These capabilities allow us to do more business directly with Medline.”

Pricing Improvements Reduce Errors and Improve Profitable Growth

A highly important benefit area has been in pricing; because of the new system, pricing has become more accurate and the process is completed much more quickly. Pricing accuracy has improved thanks to system integration, which ensures that pricing is based on the most up-to-date information. Sales reps can now create customer-specific price conditions based on the customer's profitability. And when reps are unable to connect to the network – when they're at a customer site, for example – they can still run pricing simulations.

Because mySAP CRM is integrated with mySAP ERP, the cycle time for completing pricing requests has been reduced from days to hours. This improves the likelihood that Medline will secure business at an appropriate margin – and increases customer satisfaction. “Now the sales reps know the standard price, which allows them to set an appropriate customer-specific price,” says Boswell. “For example, a rep can sit down with a customer at 9 a.m., agree on a price by 9:15, and place an order by 10 – well in advance of the delivery cutoff time in placing an order for that day. That's a very seamless process, and we didn't have that capability before.”

“We can place orders in less than half the time it takes on the competitors' sites.”

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Pricing improvements have led to a significant reduction in pricing discrepancies, resulting in fewer collections issues and a drop in customer credits because of incorrect quotes. “Even though Medline has many products and very flexible pricing, invoices are very accurate – especially compared to Medline’s competition,” says Johnson. And as customers are more satisfied and more likely to purchase from Medline, pricing enhancements have supported more than invoice-related cash-flow improvements; they have supported business volume and growth in profits.

Customer Self-Service with Medline.com

While mobile sales functionality improves sales reps’ services to customers, SAP E-Commerce has helped customers help themselves. Medline.com allows customers to place orders, track existing orders, confirm pricing, and perform other transactions, enabling direct access by customers. For example, a customer can log in and browse the catalog, check product availability, and then determine the location of the distribution center shipping the goods. If the order is being filled from a nearby warehouse, the customer will know to expect the shipment the following day. In short, the ease of use of the Web site promotes efficiency for Medline’s customers. “We can place orders in less than half the time it takes on the competitors’ sites,” says Johnson.

Medline Insight, an online reporting tool for the company’s customers, provides a self-service model for delivering reports. Medline Insight allows customers to maintain general ledger codes of interest to monitor spending, track paid and open invoices, and enforce product standardization across facilities. Key reports include invoice detail, invoice summary by order channel, and monthly statements. The tool provides summaries of purchasing information to aid customer decision making, and reports can be automatically e-mailed to the customers on a regularly scheduled basis. Medline Insight is the presentation layer that customers use to access the invoice and other summary information delivered by the SAP NetWeaver® Business Intelligence component.

“The Web site is being very well received,” says Rolston. “Customers tell us that they like being in control – they can access the site at their convenience, place orders, and find all the information they need.” In fact, the number of Medline.com customer IDs has doubled during the 18 months following implementation, and use of the site is growing steadily.

Improved Operational Effectiveness with Adoption of Medline.com

“Customers aren’t the only ones that have benefited from the SAP software implementation,” Rolston says. “We are able to provide our internal users – both sales and management – with efficient, modern tools so they can do their jobs more effectively.”

Medline’s internal accounting and other departments have online access to invoice and credit documents. As a result, if accounts payable staffers are missing an invoice, they no longer have to call credit collection or the customer service reps and wait for someone to fax the invoice.

Customer self-service, such as checking inventories, tracking sales orders, and placing new orders, takes a huge burden off the company’s call center and has increased the accuracy of the order process. Also, sales reps are using the Web site to help their customers, and the combination of increased customer self-service and better information available online allows reps to provide even more personal services to their accounts.

Another efficiency benefit has resulted from the fact that the order volume is shifting toward “touchless” electronic methods, particularly Medline.com (see Figure 1 for a breakdown of the current state). Medline.com order volume has recently grown to 15% of sales and is expected to account for more than 20% of sales in the near future.

These results are in line with Medline’s growth objectives and are also improving margins by reducing the firm’s cost to serve. The shift is benefiting Medline customers by lowering transaction costs – both for organizations relying on Medline.com for specific functions, such as checking the status of EDI orders, and for smaller facilities that use Medline.com as a full-function procurement system.

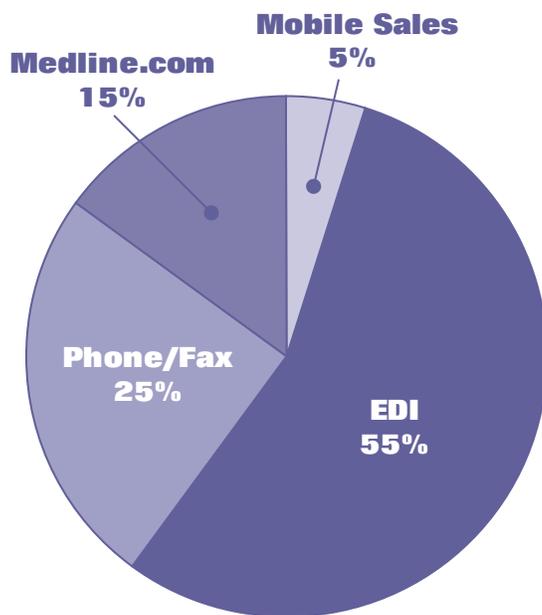


Figure 1: Medline’s Order-Handling Methods (2006)

Medline Improves Critical Processes

The following table captures examples of processes that improved as a result of the implementation – and the consequences of these changes.

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Medline's Profitable Growth

Process Area	Problems	After SAP® Software	Impact
MOBILE SALES			
Order Handling	<ul style="list-style-type: none"> Limited visibility into order status and inventory 	<ul style="list-style-type: none"> Ability to view orders from all channels Ability to view account activity information more efficiently Ability to reserve specific inventory for individual customers Ability to identify Medline products that serve the same purpose as a competitor's 	<ul style="list-style-type: none"> Ability to intervene on behalf of customers to ensure orders are fulfilled Greater insights into future demand Significantly compressed order-to-cash cycle times Better competitive positioning
Pricing	<ul style="list-style-type: none"> Lack of up-to-date standard pricing information 	<ul style="list-style-type: none"> Ability to access current pricing and create customer-specific price conditions 	<ul style="list-style-type: none"> Improved pricing accuracy, fewer price discrepancies, and more satisfied customers Ability to identify "minimum selling price" triggered by variables within the current economic environment Faster cycle time – from days to hours to establish specific prices for customers
Business Review	<ul style="list-style-type: none"> Limited visibility into expected sales and profitability 	<ul style="list-style-type: none"> Clear understanding of customer profitability 	<ul style="list-style-type: none"> Sales reps can adjust their approach to individual accounts
E-COMMERCE			
Self-Service Order Handling	<ul style="list-style-type: none"> Limited product-searching capability 	<ul style="list-style-type: none"> Enhanced product searching Specific information about sourcing and shipment timing Able to enter promotion codes to trigger discounted pricing Use of Adobe/PDF-enabled SAP forms to present invoices, credit memos, and other items 	<ul style="list-style-type: none"> Increased use by customers of Medline.com for "touchless" order placement Greater customer satisfaction Reduced burden on call center and sales staff Ability of sales staff to focus on consultative activities rather than transactions Lower cost to serve
Self-Service Reporting	<ul style="list-style-type: none"> Limited information available to customers about their purchases 	<ul style="list-style-type: none"> Creation of Medline Insight, a self-service online reporting tool Customers' ability to monitor spending and invoices 	<ul style="list-style-type: none"> Better customer insights into spending patterns and how to improve efficiency Better enforcement of Medline product standardization across customer facilities
Medline Accounting Operations	<ul style="list-style-type: none"> Limited access to invoice and credit documents 	<ul style="list-style-type: none"> Access to documents essential for following up on accounts payable, returns, and other issues for accounting staff via Medline.com 	<ul style="list-style-type: none"> Streamlined accounting and credit processes Greater accounting and sales staff productivity Lower cost to serve

Through the implementation of mySAP CRM mobile sales functionality and SAP E-Commerce, Medline has improved its end-to-end sales and service processes, contributing to profitable growth. Top-line growth is improving because the company has improved customer retention by up to 10% and reduced revenue loss caused by pricing errors by up to 10%.

Medline is growing and thus still adding sales reps. But thanks to the new software, sales reps are free to focus on the consultative aspects of their roles – for productivity gains of up to 20%. This improvement – coupled with increased pricing accuracy and better cost containment – has resulted in a profit margin enhancement of up to 3%.

In short, Medline is improving its profitable growth because the new software supports the customer relationship at the core of the company’s strategy. “We’re building trust and helping customers achieve their cost-containment objectives,” says Boswell. “Our customers increasingly want to do business with us, and that’s central to our steady growth.”

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Jeff Boswell
IT Manager of E-Commerce & CRM
Medline Industries Inc.

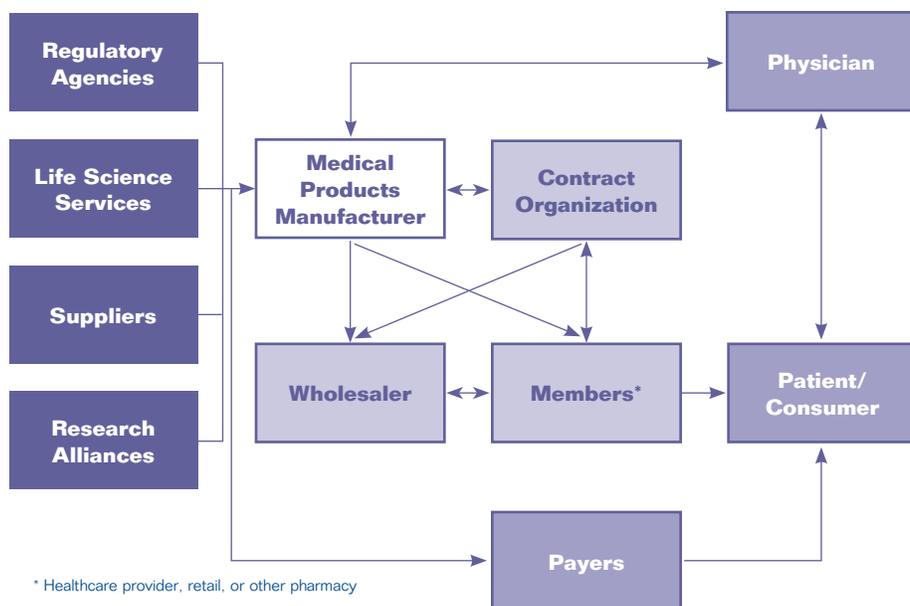


Figure 2: Medical Products Ecosystem

FUTURE ROAD MAP

In the future, Medline plans to implement the marketing functionality of mySAP CRM to better understand its market segments and enhance design, execution, and monitoring of marketing campaigns. Medline also plans to implement mySAP CRM interaction center functionality to improve its ability to respond to customer inquiries across telephone, e-mail, and other channels of communication. Medline is positioned well to integrate these enhancements into its existing SAP software infrastructure.

LESSONS LEARNED

As the implementation progressed, the company found the following tenets key to success.

Lessons Learned

Let business strategy shape the implementation.

- Medline is uncompromising about how its business needs to operate to compete successfully – including offering a growing number of products to the market and pricing them appropriately.
- The company found it was essential to adhere to its strategy when designing and implementing its CRM solution.
- Adhering to strategy involved customizing software when necessary to ensure business requirements were met.

Deploy in phases.

- Medline implemented in phases both for its sales force and for customers using its e-commerce Web site, deciding against a “big bang” approach.
- The phased approach was particularly beneficial for e-commerce because it allowed Medline to refine its systems in six implementation waves of about 1,500 users each over a three-month period. (Customers were permitted to convert to the new system when they were ready.)
- The phased approach ultimately ensured that Medline sustained business continuity and satisfied the broad range of its customers.

Choose the right implementation sequence.

- In Medline’s case, requirements dictated that implementation of the mobile sales functionality come first – before SAP E-Commerce.
- While mobile sales was the more complex implementation, this sequence did enable building the infrastructure to ease the SAP E-Commerce implementation and thus enhance the customer experience.
- From this favorable experience, Medline recognizes the importance of its implementation sequencing and keeping its IT landscape as simple as possible.
- Medline will consider business priorities and the overall impact of the implementation – as well as the order for creating infrastructure – as it plans future implementations.

“Customers aren’t the only ones that have benefited from the SAP software implementation. We are able to provide our internal users – both sales and management – with efficient, modern tools so they can do their jobs more effectively.”

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Vice President of E-Business
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THE BEST-RUN BUSINESSES RUN SAP™



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