Appearing in TED Magazine, July, 2003

The Sharper Your Focus, The Luckier You Get

Neil Gillespie
Principal Partner, Channel Marketing Group

"They Got Lucky," you'll often hear when someone has success out of the ordinary, especially during tough economic times. People are prone to snipe from the sidelines because they aren't enjoying much success lately.

While some companies do get lucky, most companies enjoying success in down times only *seem* like they are lucky. Most of the companies that are thriving despite the storms of gloom around them have done it with positive attitude, focus, planning and follow through. It's not by accident. They get "lucky" because they focus in an area and magically seem to turn up in the right places, or do the right things to set themselves up when the opportunities do "arise".

With two out of three core electrical market segments in the tank, what's a company to do?

So, residential is up, but industrial and construction are down. Which means most of the market is down. There are still opportunities to increase your productivity and take market share. It all starts with focus. You can focus on different segments and/or products. Even if there's not a lot of opportunity to chase, you can do things to increase productivity to ensure you're ready for the market when growth returns, and the electrical market usually exceeds GDP growth when it gets above three percent.

Work Harder and Grind it out?

Having talked to many manufacturers and distributors on behalf of NAED in the past year, I've discovered that most people may be working harder to boost customer sales and cost productivity in their companies, but they don't feel like they are getting a return for their efforts. I hate to say this, but there is probably a reason for the lack of ROI. There's not enough focus on the right opportunities to grow market position, nor is their enough discipline to stay on track with chosen targets. There is a better way, and it works. We need to get our heads out of just working harder by cutting costs, working incoming quotes harder or calling current accounts more often doing the same things.

Focus, Plan and Follow Through!

One prominent Midwestern electrical manufacturer reported significant (5% plus) sales growth last year, when the rest of the industry was down 8.8% according to DISC Corporation. I asked how they did it. They attributed most of their sales growth to creating a combination of trading area plans and national chain plans. The trading area

"The Baker's Dozen"

For Prospering in Good Times or Bad

1. Stop reading about doom and gloom where you are. Start thinking about taking share where you are not. (Van Meter)
2. Realize that your competitors are probably gloomy too. Make more calls and focus on taking away their business while they're brooding. Involve your suppliers in this too to make more joint calls. (Van Meter)
3. Boost Morale by changing or creating a new company culture. (Van Meter)
4. Target New Opportunities: Products, Market Segments (Fromm, Van Meter)
5. Segment The Market and Look for places where you can create competitive advantage. (Fromm)
6. Put a Business manager on a new segment initiative, not just a sales manager or salesman. (Fromm) Create a complete business plan with precise resource requirements. (Fromm)
7. Examine how you're organized and look for opportunities to consolidate key functions and inventory. (Van Meter, Roden)
8. Investigate how technology can help you focus, consolidate and leverage resources (Van Meter, Roden).
9. Investigate how technology can help you focus on sales opportunities better with CRM software like Sales Management Plus. (Fromm, Van Meter)
10. Eliminate dead inventory to generate cash. (Roden, Van Meter)
11. Measure people productivity in terms of gross margin generated per person. Make appropriate moves with unproductive positions. (Roden, Van Meter)
12. Target Expansion and acquisition opportunities early and keep a close eye on developments. (Roden)

plans listed all distributors and major customers in a trading area and targeted growth opportunities for both. The opportunities were targeted for the right strategic "fit" (what the manufacturer could do versus what the channel or customers needed). I didn't ask, but I'll bet they published significant "wins" quarterly and maybe even monthly. Reports of success are infectious and boost morale.

So, instead of a down year, they had a significant "up" year. They also reported that their competitors were detractors, saying things like "They only did well because they got a big chain to commit or got a certain large end user contract". I guess the detractors are right and everything depends on luck. Wrong!

They happened to target those opportunities, and got lucky because they were exactly in the right place at the right time, ***by design.*** They targeted the right opportunities early in the game, and they followed through. There's one other significant factor to note: The panning technique was the CEO's passion, he personally got involved with the planning technique, and he ***required*** follow through on the planning and tracking. I can vouch for this. I've seen it work and I've seen it not work. It works when a person high enough in the organization makes it a priority.

Adding a New Focus? Put a Business Manager on It.

Fromm Electric of Reading, PA has long been a good industrial house, featuring the Rockwell/Allen Bradley automation and control line. Fromm President Mike Fromm has long been a proponent of precise opportunity targeting, having pioneered their own technique of measuring their share of each customer and ***potential*** customer in the territory. Today, they're implementing even more sophisticated CRM software (Sales Management Plus from Taylor Market Media Group) that will make them even more focused on finding and executing on product sales opportunities.

Focusing better on your core business is wise. But a less than exciting long term forecast for your core market segment might make you focus on another as well. Fromm president Mike Fromm says it like this:

> "When you're just beating your head against the same wall again and again and not getting results, you need to do something else."
>
> "You can tell who's been doing it in a meeting of industry people… they have calluses on their heads."

That's cute advice, but what's the formula for getting into something relatively new?

"Put a **BUSINESS** manager on it," says Mike. "One who can plan for the complete set of value added strategy, location, supplier lines, inventory, promotional and sales strategies. Not just a sales manager. That usually ends up in chaos." "Look, had we not gotten into project construction and residential, we might not *have* a business now, so we had to do it right."

When the residential market was targeted for development, Mike turned to brother Lou, who was already groomed with branch management and marketing management experience in the construction market, including residential. As Mike says, Lou's new job included a "full scope of business management capabilities". That approach yielded excellent results: 2002 residential sales doubled over 2001 and they are up 30% YTD 2003. This was made even more significant with improvements in gross margin percentage and net margin for the business segment.

Lou was responsible for staffing, inventory, picking suppliers, marketing, sales and P&L. "Long before we even sold the first recessed light," said Mike Fromm, "We took steps to: first, understand the business opportunity, second, understand competitor strengths and weaknesses and third: Determine the required resources and costs."

The residential market was exploding, but based on their insightful market segmentation and competitive scan, Fromm focused on where they thought they could play best. Segmenting the residential market into a hierarchy of three segments, they decided to abdicate the middle one: showroom, and focus on the builder and high end home business.

In the builder business, they focused on the highly marketable items which would catch home buyer's eyes. Mike put it this way: "A perfect builder lighting package was not going to distinguish us. Everybody did that. Instead, we focused on highly marketable items that would delight homebuyers, and brought contractors and builders together to show how they could make more money this way.

"The items that are the most appealing to the home buyer are often not even on the radar screen of the builder. We showed them how to make money selling, for example, one dimmer switch where they made more money than they made on all the other switches in the house combined."

Some say Fromm got lucky by getting into the only real growth market and by picking up a key asset: their ace residential lighting designer. The duties of being a small lighting business manager were taking her away from what she loved: design. So Fromm bought her business, and freed her to focus on designing lighting for homes working for Fromm. Had Fromm not drafted a plan and identified a resource gap, they would have never recognized it as an opportunity when they heard about it.

Here's another thing Fromm did extraordinarily well: Their strategy followed the market focus. The other part of the two pronged strategy was to become an ally to architects and lighting designers early in the high end home design process and take steps to make sure their specification was realized as an order.

These new initiatives required bold thinking and action, plus an organization dedicated to a residential market focus. Mike adds that "Our salvation is not the resi business. There's more we need to do to grow and prosper. But here's the point: Don't be paralyzed by your down-market problems: Focus on a market, write a plan and take baby steps every day that are part of the plan."

Cultural Revolution, Physical Transformation: Van Meter

Van Meter Electric, of Cedar Rapids, Iowa decided to overhaul their company right after the business slowdown started. "The real wake up came at the end of 1998, though, when our sales had increased significantly but our bottom line had shrunk," says VMI President Jim Schmitt.

Prospering In a Down Market:
Van Meter Industrial of Iowa

Jim Schmitt and Barry Boyer of Van Meter Industrial, Cedar Rapids Iowa, offered these successful moves that generated 4% annual growth and impressive productivity for 2001-2002.

Growth Moves:

1. **Encouraged sales people** to ignore the news media that proclaimed a down market!
2. **More Joint Calls**: Found that it was possible to make additional joint calls with strategic manufacturing partners since their workloads were down.
3. **Increased calls on customers**: Competitors were cutting people and reduced customer calls since they "already knew that the customers had no new needs due to the downturn."
4. **Expanded penetration of construction market**, not their usual strength, by going from "passive participation" to targeting and working with accounts proactively.
5. **Implemented "Sales Management Plus"** CRM software to better understand sales trends and holes in sales coverage by customer. www.taylormmg.com
6. **Consolidated technical specialists** into a tech support center covering locations. Enabled greater specialization, hence greater value for specific customer applications.
7. **Proved Value of Tech Support:** Tech support began tracking all activities in fifteen-minute increments by customer. It proved a history of valuable services rendered.
8. **Fee for Service:** Started billing some customers for the services they had historically provided for free.
9. **Added telesales** to touch smaller customers more cost effectively
10. **Niche Business:** Expanded fee based training business.

Productivity and Technology Moves

1. **Rallied employees** to develop a new culture based on employee trust, open communication, candor, and keeping commitments to your team.
2. **Closely monitored gross margin per person** and took actions to maintain a consistent gross margin per person. Primarily achieved by not replacing attrition and making headcount reductions where necessary.
3. **Examined business units** that were not contributing profit. Restructured or eliminated those divisions.
4. **Implemented a Central Distribution Center** (CDC) to better utilize inventory. A difficult process, but in the long run achieved higher customer service levels while reducing overall inventory. Cost per line item shipped to customers shrunk 40% vs pre-CDC levels.
5. **Implemented Placeware Webconferencing**. Two thirds of

"We had already started to look at our business for productivity improvements. What we found was that we couldn't do it without first changing company culture."

In retrospect, what they accomplished after the wake up call was extraordinary. Schmitt explains that "After a number of acquisitions, we needed to do some things to bring the company together and leverage our size anyway."

Covering all the bases, Van Meter worked on company culture development, led by Barry Boyer, followed by focus on new markets, resource consolidation strategies, and sales productivity. Plus, they looked at every way possible to leverage technology to enable their productivity and consolidation strategies. They pruned unsuccessful businesses like networking to channel funds back into productive ones. Van Meter today is quite different from Van Meter three years ago.

The result? In a market that declined 15%, Van Meter grew an average 4% for 2001 and 2002. Did they do everything on their list? "No." says Schmitt. "We needed the market to cooperate on some items. Just like a football game plan, if you look at the results in the fourth quarter and they're not what you wanted, you adjust."

Despite the recession, they accomplished an impressive list of items by deciding to first ignore the bad news so they could stay positive.

VMI also visited other distributors to learn about best practices from their industry buddies in the areas targeted for productivity. The sidebar details all the "Right Moves" VMI took during the business downturn.

Lucky Man: Sam McCamy of Roden Electrical Supply

"The hardest thing to do in the world is to stay in the same place," says Sam McCamy III, of Roden Electrical Supply, Knoxville, TN. That's wise advice, and it's not the first time I've heard that from a sharp eyed field general like Sam, either. Stay where you are and you make yourself a target. Sam's philosophy is that it is better to be on the move.

Sam explained more about how this applies to his most recent experiences during the downturn in a recent interview. "In the last couple of years I learned that you should either "prune to grow" (eliminate poorly performing divisions and assets because it enhances focus) or if you're already pruned, focus on expansion. Pruning unproductive people, accounts and inventory is pretty smart before an upturn in the economy or any big thing you're going to launch into. Unproductive people and inventory hold you back. Dead inventory robs you of cash and unproductive people require attention from management that doesn't pay off. Eliminate or shift unproductive assets. Work mostly with productive ones. That goes for people, too."

After completing a spanking new state of the art automated 55,000 foot central distribution center in the second half of 2000, McCamy had to face three years of a decreasing market, yet managed to keep profitable during 2001 and 2002. Roden spent 2001 getting processes in top working order in their new CDC during a slumping market. That could have been a bit frightening, but during 2002, Roden responded by cutting costs, writing off dead inventory to generate cash from tax savings, and more than doubled their earnings before taxes as a percent of sales, even with the write-off.

Sales productivity was boosted by examining a ratio of total compensation and expenses for a salesperson to their gross profit and making appropriate personnel adjustments based on the results of that analysis.

Those were all definitely intelligent moves. But Roden has been about marketing and expanding opportunities for the past 7 years. While there were no expansion opportunities, Roden took the opportunity to spruce up the operating statement and balance sheet, reducing debt and adding profit to the bottom line. That put them in great position to expand when an opportunity was right.

McCamy claims he was lucky on the next point. But lucky or not, the most significant move was when he began negotiations to purchase another significant distributor late in 2002. It had always been on his scan of "possibles" since the late 90's. As of this writing, it looks like he won. Whether it turns out that way or not, the point is this: you can win or lose an opportunity when it arises, but your chances of success increase greatly if you target good opportunities, and target them early in the game. In addition, if you can't strike on opportunities now, work on your financials and people productivity to make yourself stronger when opportunities arise. But keep a sharp and constant eye on those opportunities, whether in a good market, or bad.

The Sharper Your Focus, The Luckier You Get.

Neil Gillespie is a principal partner of Channel Marketing Group, Pittsburgh, PA. He and partner David Gordon consult to distributors and manufacturers on strategies to help them take market share. (In good markets or bad). Reach Neil at 412.490.6950 or ngillespie@channelmkt.com. Website is www.channelmkt.com