Looking up from survival mode, Part 2

Supply house executives talk about government priorities, consolidation and recruiting young talent in the second of a two-part series.

By Bob Miodonski
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Now that the nation is a few months removed from the uncertainty brought by the national elections, wholesalers can get their businesses back on track. They can, that is, if the federal government can get its priorities straight.

In the second of a two-part series, leading supply house executives address those priorities along with the pros and cons of industry consolidation and how to recruit more young people into wholesaling. In part 1 of this article, the panel addressed issues ranging from how their companies will fare in 2013 to what business issues keep them awake at night.
The wholesalers met during NetworkASA 2012, the American Supply Association’s annual convention. The group that gathered Oct. 17 in Orlando, Fla., consisted of:

- Dottie Ramsey, Modern Supply, Knoxville, Tenn.;
- Barry Portnoy, Aaron & Co., Piscataway, N.J.;
- Steve Cook, Northeastern Supply, Baltimore;
- Chris Fasano, TORRCO, Waterbury, Conn.;
- Ryan Tracy, Dakota Supply Group, Aberdeen, S.D.

**Topic: What are the top issues that the Obama administration must tackle for business to feel comfortable about investing in expansion?**

Leadership on important issues such as energy independence and taxes as well as more cooperation between Republicans and Democrats would help to promote business growth, the panelists said. It should be noted that the discussion took place less than a month before the national elections.

“Some clarity on business taxes would be very helpful,” Portnoy said. “It is critical for family-owned businesses to get the estate tax resolved. Either party that gets into office will have to deal with it in some fashion because the alternatives are ridiculous.”

Hults added: “Our industry is starting to see the effect of bad succession planning. Some companies are fragile and are going to be a target. In some cases, they are making themselves the target. The uncertainty of the situation in Washington compounds that.”

On the energy issue, Tracy noted: “Up in our market, I like the subsidies on wind, oil and energy itself. That is huge for us. To clarify the policy would be nice.”

The panelists who had participated in the ASA’s legislative days on Capitol Hill, or had otherwise met with their elected representatives, came away from the experience either frustrated or disillusioned.

“I did the ASA fly-in a few months ago. Every red-blooded American should do that,” Cook said. “It is amazing what you see in those two days. There is almost a divide in the House and Senate. You can walk down the halls of the Congress and if a Democrat passes a Republican it’s almost like the two don’t look at each other. You can feel the chill.

“In general, every Republican I spoke with was on board with every one of my talking points. When I went to the other side, in some cases, I almost felt threatened, which is probably too strong a word. But I definitely felt like the bad guy in Maryland.”

“It is frustrating,” Hults agreed. “You sit and talk with these young people on your legislator’s staff and, No. 1, they’re as smart as hell. They’ve been very well trained and you absolutely know that they understand the party line, and you can talk until you’re blue in the face. If you’re talking with someone on your side, however, all you have to do is walk in and they want to give you a hug. But actually changing people’s minds is very difficult.”
The legislators’ lack of knowledge on issues important to wholesalers is distressing, Cook said. What he has found more effective in increasing their understanding than just stating the facts is to tell stories.

Even so, in his last meeting on Capitol Hill, Cook said he met with the staff of a Democrat, whom he considers one of the nation’s most liberal senators.

“We didn’t agree on anything, and at the end of the meeting I said to them: ‘I hope you know we can’t spend our way out of this. No one here on Capitol Hill appears to have the guts to cut our way out of it, which is probably not possible anyway. The only way is to create jobs, and get guys like me going again, and this situation will fix itself.’ But they do not believe that,” Cook said.

With the discussion shifting to jobs, Portnoy said his company was embarking on a new policy that he hopes will stimulate job growth.

“We’re taking imported iron fittings off the shelves of all our branches within the next few weeks and we’re putting domestic product on the shelves,” he said. “At our distribution center we’ll still have imported product because of competitive pressures, but at every counter that’s what we’re doing. We need jobs in this country, and maybe we are in a position to do something about it. I’m tired of talking. It’s time for action.

“We’ll use it in our marketing and let customers know what we’re doing, but that’s a secondary consideration.”

“We’ve always focused on domestic product, and I go one step further on a personal basis,” Hults said. “I buy almost nothing over the Internet. I buy everything local that I can. We try to drink beer made in Michigan. We use coffee creamer from a local company with the thought that local companies are employing local people who one of these days might be able to buy a toilet because they have a job.”

Federal laws and regulations from the EPA and other agencies have put supply houses in a position where they almost have to buy products being made overseas, Ramsey said.

“I applaud Elkay for filing and winning an antidumping suit against Chinese producers of stainless-steel sinks,” she said. “We had people come in trying to sell us stainless-steel sinks that were 50% or 60% cheaper than Elkay, and we refused to buy them.”

**Topic: Consolidation is revving up again. Is that good or bad for the long-term health of the industry?**

What happens in Washington has a direct impact on the corporate makeup of the wholesale industry, Portnoy said. The panelists – who all represent independent supply houses – see both good and bad in wholesaler consolidation.

“Isn’t consolidation inevitable with the complexities of tax policy on generational succession and the
whole issue of leadership in the third and fourth generations?” Portnoy asked. “Even if companies want to stay independent, can they?”

Cook believes that independent businesses are better community stewards because they get more involved with their customers outside the supply house. That’s tougher for roll-up companies to do, he said.

“It is an advantage that we’re close to the customers,” Ramsey said. “We know their kids and their spouses. With the independents, you put the face with the company.”

She also believes that independents can act more quickly in their business transactions. They don’t have to go through corporate attorneys to make a decision.

“As an independent, we can be responsive, nimble and personable, that’s an asset for us,” Fasano said.

The competition can get negative, Ramsey said, when large wholesalers use their deeper resources to get jobs at thinner margins than many independents can afford.

“They are very hard competitors,” she said. “They will come in to try to buy the market with no consequences.

“The point I am trying to make is that it would be a bad thing if they tried to gobble up all of us. I would not sit at this table with a big national and have the discussion we’re having.”

Dakota Supply Group encounters all kinds of competitors in the upper Midwest, Tracy said. He sees good and bad about the big national and independent wholesalers.

“What Chris is saying is what we live on,” Tracy said. “And some of things Dottie is saying are very true, so I guess it just depends.

“I think consolidation keeps us sharpening our saw, too, knowing that it can happen and is happening if we don’t get better.”

Relying on materials from the ASA Educational Foundation helps independents offset the advantage the large wholesalers have with greater resources for employee development, Fasano said.

“That’s the way we’re going to survive and compete in the long term. Price is something that is always going to be there,” he said. “We want to make sure we are as sharp as we can be. To be strong financially, with sound store practices and good people, is what keeps the nationals out because they can’t deal with that.”

Hults said he has been visiting Ferguson branches for the last 20 years.

“There are aspects of their business that I really admire,” he said. “If it’s a high-profile job, a big order, we don’t have the resources to go toe to toe with them. But day-in and day-out, we find it no more difficult to compete with them than the companies they acquired. A lot of it is that personal connection.”
**Topic: How can the industry do a better job of getting young professionals interested in the supply house business?**

For the most part, the panelists agreed, large wholesalers have done a good job of hiring young talent. For their own part, independent supply houses have stepped up their own recruiting efforts.

“One of the things I admire about Ferguson is the ability to recruit people into our industry who were not just somebody’s nephew or grandson,” Hults said. “I noticed the same thing with W.W. Grainger, which is more in our industry than a lot of people realize. They do a really good job of recruiting.

“With the job market being soft, I’ve noticed we can get kids on an internship basis while they are still in school and have access to a greater pool of people than maybe five years ago.”

Tracy said that wholesalers need to do more to market themselves in their local markets.

“At tech schools and junior colleges is one way,” he said. “Social media and Craigslist are other ways to get people involved and maybe touch a different generation.”

Company-supported benefits may help to attract young people, Fasano said, but wholesalers should examine what they are offering.

“The list of benefits we provide to employees doesn’t necessarily match what is important to this age band,” he said. “So, if I’m trying to hire somebody who is 22 years old, I’m not pitching 401k or company match. They want to know how much do I make, how much vacation and do I get my birthday off.”

Another challenge in recruiting is managing the expectations of the younger generations, Fasano said.

“Our obligation to our employees is to provide them with a path to however they define success, be it a certain job or more money. Establishing and managing expectations on both sides is really a key to managing and ultimately retaining an employee.”

TORRICO has found its most fertile recruiting has come through the word of mouth of its own employees, Fasano said. No one is going to refer an acquaintance to a company if it reflects poorly on the person.

“We’ve done a relatively good job of doing the small things for our people,” he said. “It goes a long way in engendering loyalty and building a relationship with your employees.”

Modern Supply had recently hosted a family day at the zoo for the employees of its branches, Ramsey said.

“That way we got to meet the spouses and the children,” she said. “It was inexpensive but all the branches got to interact with one another. They work together every day, but they didn’t really know each other.”
NetworkASA 2013 will take place Oct. 2-5 in Washington, D.C.

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