

TAP INTO FOREIGN MARKETS

MAY 2005

www.tedmag.com

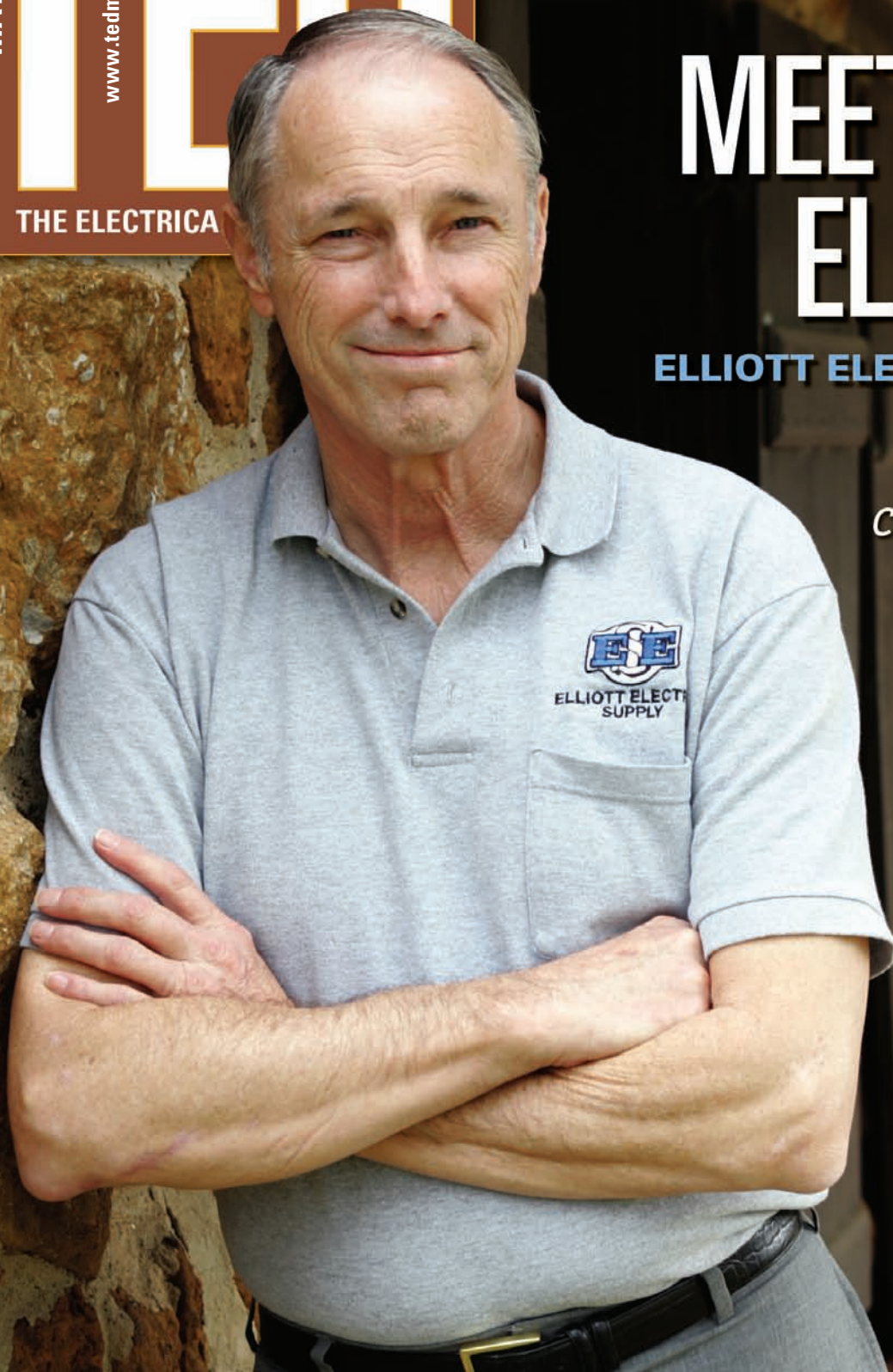
TED

THE ELECTRICIAN

MEET BILL ELLIOTT,

ELLIOTT ELECTRIC SUPPLY

NAED's new chairman has a passion for profits



UPFRONT

One for the road

CHANNEL WATCH

Opportunity knocks... again

SELLING SMART

Putting safety first

CHAIRMAN'S PROFILE

Story by Michael Martin

PHOTOS BY MIKE DeFILIPPO

Deep in the heart of the oldest town in Texas (Nacogdoches to be exact), Bill Elliott and his late wife, Micky, started a small electrical distribution company in 1972 with the goal of providing a living for their family. Bill initially served the company as the outside salesperson and Micky ran the lighting showroom. From humble beginnings, starting with \$20,000 in cash, a loan for \$80,000, and first-year sales of less than \$500,000, the company has not only made a profit every year since its inception, but it has also often doubled its annual growth. Today, Bill Elliott, who serves as president, along with his son, Billy (vice president), and a team of nearly 500 employees operate a regional powerhouse with more than 50 locations and sales of \$180 million in 2004.

Since its beginning, Elliott has maintained a commitment to the goal of having a minimum rate of 15% compounded annual growth. This goal has led the company to expand with new store start-ups and a few acquisitions. Amazingly, nearly all of its growth has occurred through internal financing—making money and reinvesting it in expansions. Today the company has a net worth greater than 70% of total capitalization, and has no debt.

To fully grasp the vastness of Elliott Electric Supply today, it's important to understand the geography in which it operates. While the state of Texas alone makes up more than 7% of the United States' total land area, Elliott also operates locations in Louisiana and Arkansas, which would calculate to operations in nearly 10% of the United States. Drive out of Elliott Electric's corporate headquarters in Nacogdoches with the mission of visiting every one of the company's locations, and the loop trip would tally up to 2,045 miles. And just stopping at each location—starting each day at 7:00 a.m. and finishing at 5:30 p.m.—would require more than four days.

These logistical facts, combined with the



DEEP IN THE HEART OF PROFIT

A look inside Elliott Electric Supply reveals dedication to growth and profitability as its lifeblood.

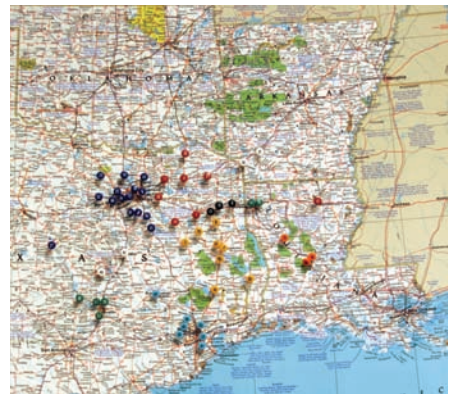


company's propensity for implementing technology and its commitment to developing employee and store autonomy are the main factors responsible for the way Elliott Electric Supply operates today. Because of the sprawl over the area and the fact that it has nearly 500 employees, Elliott uses technology to drive the company—and the company continues to succeed based on its original commitment to annual growth. At the core of its philosophy is the belief that if a behavior or procedure doesn't produce profit, it's not likely to be found in the company environment.

If profit is at the heart, then technology is the bloodstream

There are a few things one won't find at Elliott Electric Supply. One of them is file cabinets. "As far back as 10 years ago, we started doing document imaging," noted Robert Flores, controller. "About a year ago, we developed our own software to handle imaging—we process around 45,000 customer invoices per month and 200 new accounts per month. Now we retain all of that information on electronic files that can be pulled up at any time, in any place. It has really improved our efficiencies in handling customer orders. Everything that can be automated is automated. We don't deal with paper. We can also pull up supplier invoices, review them, click 'approve,' and it's done."

It should come as no surprise that



Elliott Electric Supply operates stores in nearly 10% of the United States.

Elliott Electric developed its own software for a function like imaging; the company has been building complex functions and operating on its own system since 1976, when Bill Elliott assisted in writing the first piece of software for the company.

"Early on we started writing our own computer software," noted Bill Elliott. "We couldn't afford anything else, so we started with CPM Basic, which preceded the software offered to IBM by Bill Gates. We eventually made changes as technologies became available, but I can remember when we got a 60 MB drive and we had to have a person on each side of it to lift it up—at that time it was state of the art. Looking back, the technology available today really blows my mind."

"We've had real-time communication since we opened our first branch nearly



Bill Elliott (center) and Billy Elliott (right) serve a customer at the company's Tyler location.

CHAIRMAN'S PROFILE

Continued from page 27

30 years ago," continued Bill Elliott. "At that time we were doing it with a phone line and multi-plexers. We've gradually worked our way to a relational database that allows user-defined reports on almost anything. We use 14 different models to determine stock levels for each store. Billy and I both wrote software for a number of years, but we've got a good-sized computer staff now and we're both out of the software writing business for the most part."

Phil Hale heads up Elliott Electric's technology department as computer services director, and explained that as the company grew, so did its technology needs and applications. "Over the years," Hale noted, "our department has evolved to service our internal and store location needs as well as those of the customer. We have a help desk with staff to deal with application issues. For example, if someone in a store location is having a problem, we can view exactly what they are looking at on their screen and walk them through the issue. The service desk deals with 40 to 50 calls per day."

"A number of our technology efforts are aimed at getting a better handle on inventory management and allowing our store employees to focus on handling customers," explained Mike Hail, inventory manager. "Over the past eight or nine years, we have centralized purchasing from corporate, except for two locations, which has helped us negotiate more consistent in-stock pricing and maintain better inventory levels. The more we can automate, the better the service levels are for the customer. Sixty percent of all stock vendor invoices are received EDI. Eighty percent of those are automatically posted to accounts payable. That number, and our profits, would be higher if more manufacturers participated in IDEA."

"Out of all the technology efforts we've got going on," noted Billy Elliott, "the most important things we're looking for at the end of the day are the keys that can help us raise profitability. We have always used gross profit as our measurement of success vs. using sales-related figures. To do that, we had to be able to see profitability with our data and reports throughout the company. We built reports that show our



Phil Hale, computer services director, demonstrates that the company builds its own hardware and software.

gross profit on a daily basis and also predict our end-of-month gross profit. Our stores and salespeople are rewarded based on profitability. This focus on profit has been the backbone of our company's success. By providing the right information and training, we've been able to get ourselves focused on building profit through better customer service, instead of just selling more stuff."

Bill Elliott explained that providing the right information to employees is critical in making customer decisions. "Using activity-

based costing allows salespeople to look at net profit by customer and to know why they're doing business with a particular customer. If the net profit isn't there, the data provides them with a way to decide whether it's worth selling to this customer or if their efforts would be better spent on someone else. In addition, if a salesperson can improve net profit year over year on a particular customer by a certain amount, then he or she gets rewarded. The idea is to keep sales focused on net profit. If we

Continued on page 30

CHAIRMAN'S PROFILE

Continued from page 28

make fewer deliveries, for example, there's more profit, and therefore more reward.

"In the process of establishing net profit as a metric for success and compensation," he continued, "we discovered that we needed to set up better controls. For one thing, we learned to load discounts for customers because consistency in price makes a big difference. Most customers don't want to negotiate price every time they need to buy. Consistent pricing helps the selling process and hopefully the payment process because tickets can go out rapidly when discounts are loaded into the system."

Task management, a beat at a time

"We added a task system whereby everyone involved in a process—from sales to purchasing to accounting—participates. We have seen dramatic improvements in problem resolution due to task management functionality," noted Hale. "Along with the scanned documents, we have implemented a task feature that allows us to assign responsibility to each person



Shelby Watson, human resources, displays the company's integrated systems of training and personnel management.

who is involved in resolving a particular problem. This has really freed up our people to deal with problems instead of spending time tracking down paperwork."

Flores noted, "The tracking system also helps us with customer and vendor disputes. When a customer disputes a charge, an automated task is generated for the salesperson. He or she doesn't receive commissions until there is a resolution. With

vendor problems, the system helps us make sure problems are resolved, everyone is paid in a timely manner, and we take cash discounts. The system also produces automatic lien notices. Each one is logged and a task is created to ensure that they are followed up on. Task management makes life much easier."

Good circulation system a necessity

All the data and reports in the world can't build a company. Elliott points to education efforts and dedicated employees as its true decision makers when it comes to building a profitable company. The distributor has a commitment to helping its employees advance and both requires and provides training.

"When it comes to profitability," noted Billy Elliott, "having the right manager in place with the right philosophies makes all the difference. We have good stores in bad locations that make money, and on the other hand we have bad stores in good locations that don't make as much—the difference is the manager and the staff of the location."

Shelby Watson, human resources manager, noted the importance Elliott Electric places on training. "As a company, we definitely understand the relationship between education and performance," explained Watson. "Elliott Electric feels that the most important training comes through on-the-job training, including knowing the



Mike Hail (left), inventory manager, and Robert Flores, controller, work together to analyze inventory pricing.

Continued on page 32

CHAIRMAN'S PROFILE

Continued from page 30

company's procedures. Importance is also placed on classroom training, which may fix some incorrect knowledge gained in the field, and now our e-training is another way of training on specific applications.

"We're in the process of adding more courses to our online system, which will provide more opportunities without the need for travel," continued Watson. "We've also built tests into our e-training efforts so managers can track employee development. E-training will definitely provide a tool to help us define career paths for our employees and to develop the skill sets needed to be successful."

An additional benefit of the Elliott Electric online training is that transcripts are tied to the personnel file so that managers can see an entire snapshot at review time and address areas where an employee might need assistance.

"Over the years, we've found that having people move up through the ranks works well for us," noted Bill Elliott. "We've also found that if we give employees tools to improve their work and make better livings, both the company and the individuals reap the rewards. There's also a certain methodology of how we do things at Elliott Electric that must be learned—sometimes when an employee comes to us from another distributorship, there are things we have to unteach, such as putting the same mark-up percentage on all products."

Bill Elliott is true to his word when it comes to promotion from within and rewarding loyalty: Of the company's first employees, Nacogdoches Branch Manager Rick Moehrinig, James Rudd, and Johnny Culpepper remain with the company today. Moehrinig, the second employee hired, went to work as a driver while he was attending college. Culpepper was hired to manage Elliott Electric's first branch in Tyler, Texas. Today, 30 years later, he manages the Tyler branch and his wife, Janie, handles the purchasing for that location. Rudd, who currently serves as vice president of marketing, started out as a truck driver nearly 30 years ago. Flores, Hale, and Billy Elliott all started with the company in the 1980s while in college, and today they serve as controller, computer service director, and vice president respectively.



Johnny Culpepper (left), manager of Elliott's Tyler location, and Bill Elliott have a 30-year history of building the company.

Transfusions and transformations

According to Flores, the company is defined in east Texas by its older locations. "But our stores in larger markets have a lot of opportunity for increasing profits," he noted. "In the areas where we're putting new stores, we have to work toward profitability, and we'll continue to do that, as well as open new locations."

Flores prefers new start-ups vs. acquisitions, "because we can start with clean inventory, a new store laid out the way we want it, and employees hired and trained to do things our way," he said. "With the purchase of an existing store, there are inventory issues as well as an inherited culture of how that distributor has done business. That can make it harder."

"Our future challenges will continue to be finding the right people and advancing training so that it will allow us to grow faster than we have been," explained Billy Elliott. "To continue growing at 15% each year, we will have to have the right training in place. As we get bigger, it takes the addition of more locations to maintain that goal. That means we have to get more people trained, faster."

"I would like to see us continue improving our customer profitability model," added Bill Elliott. "We recently added metrics to measure potential for the cus-

tomers based on the number of employees and the class of customer. Each class has a multiplier so that they can look at the sales report and figure out who is profitable and who we're getting a low percentage of business from. The better we get at using this model, the more we can focus on what we're all about—making money. ■■■

Martin is the editor of TED Magazine. He can be reached at mmartin@naed.org.

At a glance

- **2004 sales:** \$180 million
- **Locations:** 50+
- **Employees:** 475
- **Markets:** Contractor, industrial/MRO/OEM, institutions, municipalities
- **Mission:** Serving the customer
- **Publications:** *The Electric Times*, a monthly customer newsletter; and a product catalog, which is published three times per year and tied to an online catalog
- **Affiliations:** NAED, IMARK
- **Web address:** www.elliottelectric.com

CHAIRMAN'S OUTLOOK

Bill Elliott is uniquely qualified to serve as NAED's chairman—all, he joined NAED as a single-store distributor 33 years ago and has utilized the organization as a tool to grow his business ever since. His membership has run the gamut from being a small member with sales of less than \$500,000 to evolving into a regional chain leader with sales of \$180 million.

There's no doubt about it, Elliott likes to build things and has a passion for leadership and profitability. From building a company from scratch to creating software to run his business and improve margins, Elliott has spent a lifetime implementing new initiatives. And as he becomes chair of NAED this month, he already has a track record for building new things for NAED.

Eighteen months ago, as NAED Education Foundation chair, Elliott spearheaded the Foundation's efforts to create an endowment fund that would serve the entire industry and provide research that will improve the supply chain for years to come. True to form, working with NAED staff, more than \$6.5 million in commitments will be funded over the next five years.

"As the association moves forward," explained Elliott, "it's important for NAED as an organization to look at and service the entire supply chain, not just the distributor's role within it. If we're really going to try and improve

the channel as a whole, we've got to start with manufacturing and end with the consumer. We can't say we're only going to deal with issues within the distribution portion of the channel any longer—a distributor's profitability is affected by the entire process, not just by moving products.

"I see a lot of possibilities by bringing manufacturers into the organization with affiliate membership. I know some people are concerned about it because NAED has had an arm's length relationship with manufacturers for so many years. But I think developing new programs together really is the key to the industry's future success.

"We've already had great successes in building partnerships between manufacturers and distributors with the endowment process. The Education Foundation already has manufacturers serving on its board and now we're extending board level interaction to manufacturers through NAED's board of directors. The Channel Advantage Partnership Council is also made up of individuals from both distribution and manufacturing—all of these efforts are good steps in bringing both sides closer together. I don't know a distributor or a manufacturer out there who can't recall missed opportunities because the relationships weren't stronger.

"If we are going to be more

profitable, and I believe the whole industry needs to be, we have to find ways of getting the entire channel to address profitability. Viewing the channel as a continuous process will provide many ways for us to work together to improve our mutual profitability.

"I also think NAED has an obligation to educate distributors on the need to continue growing their businesses and make them more profitable. From our company's perspective, I feel we have an obligation to our employees to do more than simply exist. By becoming more profitable and growing, we create opportunities for them. A family-owned business that doesn't have an aggressive agenda for growth will probably end up selling.

"In addition to launching the endowment, a new online training initiative, and a membership model for manufacturers, NAED also has to develop more products that have a direct impact on the distributor's bottom line. There must be something we deliver to distributors that is important enough for them to invest their time and money in NAED. There's broad diversity within our membership in size and market focus. If we want to continue to provide value to our members, we will have to find ways of providing more specific services to each of these distributor types." ■■■

