

# DRIVING HIGH PERFORMANCE

This three-step management strategy puts you in the driver's seat to becoming a high-performance electrical distributor.

By Thomas J. O'Connor

Creating a strategy to put your company on the road to becoming a high-performance distributor requires commitment and drive. A three-step performance-scorecard process will help you propel your company toward the finish line to becoming a high-performance electrical distributor, but those three steps are a waste of time if your company doesn't also embrace three lessons.

After spending the last 15 years helping electrical distributors successfully craft and execute winning strategic plans, build performance scorecards, and link compensation plans to performance scorecards, I have learned three lessons.

1. A company's president must take personal ownership.
2. Branch managers must believe in and support performance scorecards.
3. All employees must be engaged, and management must continually share results with employees.

An integral part of building a successful company is refusing to settle for the status quo. The company's president needs to aspire to transform his or her electrical distributorship into something exceptional, a high-performance organization.

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That not only takes vision but also personal commitment and engagement. The president is the one who must integrate the strategic plan and performance scorecards with the new performance-driven culture. He or she must continually communicate to everyone how the company's strategy, performance measures and compensation rewards are all connected.

Outside of the company's president, the most influential leader for employees often is the branch manager. At geographically dispersed branches, managers are the everyday company leaders.

You cannot motivate employees to deliver exceptional performance by developing individual performance scorecards for them. Branch managers must be involved in the scorecard process, believe that their employees' performance goals are achievable, and understand how their performances are linked to their branch goals and to company goals.

Only about 5 percent of electrical distributors that I meet share key performance results with their employees. Not communicating key performance results is like saying, "You are not on the team, and you are not to be trusted." What message does this send? If you do not continually share key performance results, why should your employees be committed to your company's success? They need to be included, trusted, engaged in keeping score, and responsible for improved performance results.

This article will focus on multi-branch ABC Electric



## COMPANY PERFORMANCE GOALS

	Performance Measure	Description	Company Goal
<b>Financial Health</b>	<b>Sales Growth</b>	Measures the same store sales growth from one year to the next	15% Same Store Sales Growth Net of Market Inflation
	<b>Gross Margin Return on Inventory</b>	Measures the dollars of gross margin that are being produced by each dollar invested in inventory.	Minimum 125% GMROI from each Manufacturer
	<b>NIBT</b>	Measures the net profitability before taxes.	3.5% Net Income Before Taxes (NIBT)
	<b>Cash Cycle</b>	Measures the days' sales in average monthly inventory to the collection period for average monthly accounts receivable, less the days' payment for average monthly accounts payable.	78 Day Cash Cycle
<b>Customer Focus</b>	<b>Market Share</b>	Reflects the portion of business in a given market that a company sells.	7% Total Market Share
	<b>Customer Satisfaction</b>	Assesses the satisfaction levels of customers along specific performance criteria.	Total Customer Satisfaction Index (CSI) Rating of 70%
<b>Service Excellence</b>	<b>Order Fill Rate</b>	Measures number of orders filled completely on first shipment to a customer.	98.5% Order Fill Rate (OFR)
	<b>Order Accuracy</b>	Measures number of lines picked, packed and shipped accurately.	99.5% Order Accuracy Rate (OAR)
	<b>On-Time Delivery</b>	Measures number of orders delivered on time against customer requested arrival time.	99.5% On-Time Delivery Rate (OTDR)
<b>Employee Learning and Growth</b>	<b>Employee Satisfaction</b>	Assesses the satisfaction levels of employees along specific performance criteria by branch and department.	Total Employee Satisfaction Index (ESI) Rating of 70%
	<b>Employee Training</b>	Tracks the average annual hours of training per employee.	50 Hours of Training per Employee
	<b>Employee Productivity</b>	Measures gross margin contribution per employee.	\$110K Gross Margin (GM) per Employee

Supply (a fictitious name for a real company) that wanted to implement a performance management system to address its lack of shared strategy throughout the workforce.

Leaders at ABC Electric Supply developed an overall corporate objective, "To be No. 1 in every market we serve," but they didn't have a cohesive strategy to achieve this market position. They also did not have a performance management system that tied everyone's performance contribution into achievement of its overall corporate objective.

**Step 1: Develop a Strategic Plan.** The first step to becoming a high-performance distributor is to translate your corporate objective into a winning strategy.

Is your current "strategic plan" merely a try-harder refinement of last year's financial numbers sprinkled with some rose-colored optimism that meets or exceeds *Electrical Wholesaling's* national market growth forecast of 7 percent? Or instead, does your strategic planning foster in-depth strategic thinking and discussion?

At ABC Electric Supply, we conducted a two-day strategic planning session where the company's management team thoroughly analyzed ABC's internal strengths and weaknesses and external opportunities and threats.

Strategic planning sessions are best held away from the company in a "retreat" location because they allow managers to get away from their daily activities and focus the management team on the company's future. It also allows time to share best practices and strengthen personal relationships among managers.

Why is it necessary to conduct a formal strategic planning session? A well-facilitated strategic planning session will accurately identify all:

- External opportunities the company should pursue.

- Internal strengths the company can leverage for future growth.

- Internal weaknesses that need addressing.
- External threats.

- Correct strategies that align internal strengths and weaknesses with the company's external opportunities and threats.

An example of an external opportunity could be the size of your market. Your company could have a very small share of the contractor, industrial, utility and/or institutional marketplace and have many opportunities within one or more of these markets to grow share. Or, if your competitors' service quality is poor, you have tremendous opportunity to improve your service quality — order fill rates, order accuracy, on-time delivery — and increase sales.

Examples of internal strengths or weaknesses might be accounts receivable management, inventory management, market research, sales-force productivity, order fill rates, order accuracy, on-time deliveries, etc. You could be strong or weak in any of those areas.

External threats might include a new competitor entering your market, a competitor's pricing practices, industry profitability, third-party logistics companies, effects of global manufacturing, availability of qualified employees, etc.

Correct strategy is aligning a distributor's capabilities and resources with its environment. Every distributor has the same opportunities. The challenge is whether the distributor can seize the opportunities it pursues. A company's capabilities and resources will be under utilized if it doesn't pursue the right opportunities.

At ABC's strategy session, the management team first identified areas where all company strengths and opportunities aligned. Then, we identified areas where strengths and opportunities did not align as well as all company weaknesses and threats. Finally, we used this information to develop strategies with specific action plans, including time lines that leveraged ABC's capabilities to pursue its best opportunities. Knowing you have certain internal strengths and weaknesses without understanding how they impact the company is of little value. How they align is the key.

**Step 2: Build a Performance Scorecard.** Electrical distributors often fail to turn strategy into action. Once you craft a strategic plan that the entire management team accepts, the second step is building a performance scorecard that supports the strategy for the company, every branch, every department and each employee. Like an airplane's control panel or an automobile's dashboard, performance scorecards help an electrical distributor achieve its strategy by providing a comprehensive view of performance.

A performance scorecard is a set of business measures linked to business strategies and goals. A single scorecard is used for a specific job. For example, a counter salesperson's performance scorecard monitors and manages this individual's performance to a set of specific performance goals. These individual performance goals are tied to the branch's performance goals, and each of the branch's

performance goals is linked to overall company goals. An experienced counter salesperson may be responsible for averaging 35 orders and 140 lines written each day at an average gross margin of 24 percent. A beginning counter salesperson may have slightly fewer daily orders and lines for performance targets.

Every individual has a unique scorecard. Every branch and department has a scorecard. And the company has a scorecard. Designed properly, performance scorecards are easy to understand, and they help to quickly determine how close (or far away) targeted goals are for individuals, branches, departments and the company.

Performance measurements built into performance scorecards must be SMART — specific, measurable, achievable (stretch), realistic and time-bound. Goals must be linked. This means that achievement of an individual's performance targets must directly contribute to his/her branch or department goals, and achievement of those branch or department goals must directly contribute to achievement of overall company performance goals.

When crafting performance goals, continually ask:

- Do these goals keep the company focused on the key performance indicators?
- Are branch and department goals aligned?
- Can each performance goal be accurately measured?
- Can performance goals realistically be accomplished within a year?
- Is each target a "stretch" goal to achieve?

ABC Electric Supply chose a balanced scorecard strategic approach and performance management system. Balanced scorecards represent an approach to strategic management that surfaced in the early 1990s. Robert Kaplan and David Norton authored three *Harvard Business Review* articles on the balanced scorecard. They introduced four perspectives to include on the balanced scorecard: financial measures, customer measures, internal-business-process measures and learning and growth measures.

*Electrical Wholesaling's* December 2002 article "Enhancing Profitability" (page 26), which can also be accessed on *EW's* Web site at [http://ewweb.com/mag/electric\\_enhancing\\_profitability/index.html](http://ewweb.com/mag/electric_enhancing_profitability/index.html), provides more detail on the balanced scorecard.

The balanced scorecard rates your organization from different perspectives beyond merely financial measurements. ABC categorized their performance goals under four areas:

- Financial Health.
- Customer Focus.
- Service Excellence.
- Employee Learning and Growth.

Company, branch or department, and individual performance goals were crafted and linked under these four categories. ABC's management team created their overall company, branch, and department performance targets. Branch managers and department managers then developed individual performance goals that reflect branch goals or department goals with their employees. (See Company Performance Goals chart on page 35.)

**Financial Health.** Historically, financial numbers have driven the measurement for business. Sales, gross margin, net profit, accounts receivable, inventory, etc., have been measured for hundreds of years. Financial health




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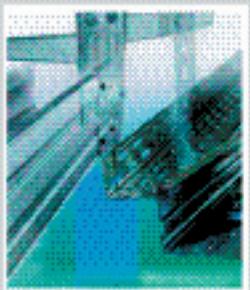
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measurements indicate whether a company's strategy, implementation, and execution are contributing to bottom-line improvement. For ABC, goals in this area included 15 percent same-store sales growth, a minimum of 125 percent gross margin return on inventory from each manufacturer, 3.5 percent net income before taxes and a 78-day cash cycle.

**Customer Focus.** Increasingly, electrical distributors realize the importance of customer focus and customer satisfaction as a leading indicator of an electrical wholesaler's overall health. If customers are not satisfied, they will find other electrical distributors that will meet their needs. Poor performance in this area is a leading indicator of future decline even if current financial health indicators are positive.

ABC's managers developed two customer focus company performance goals: to achieve 7 percent of total market share and to achieve a total customer satisfaction index (CSI) rating of 70 percent.

To accurately measure market share, Herm Isenstein of DISC Corp., Orange, Conn., ([www.discorp.com](http://www.discorp.com)) is an excellent resource. Isenstein has developed a user-friendly electrical industry software product called DataSearch that allows you to enter your sales data. This program will then automatically generate market share once your sales are entered into the system. There is no other product like this available for electrical distributors or manufacturers.

Customer satisfaction index (CSI) ratings are best arrived at through annual benchmarking mail surveys. Farmington Consulting Group has conducted mail surveys for 28 electrical distributors and has achieved an average response rate of 39 percent. We analyze customer satisfaction survey data by branch location, customer type and market.

**Service Excellence.** Metrics derived in service excellence areas provide everyone in the organization with feedback about how well their services conform to customer requirements. We know that high order-fill rates, order-accuracy rates, on-time delivery rates, etc., are important to customer satisfaction. ABC's goals included a 98.5 percent order-fill rate (OFR), a 99.5 percent order-accuracy rate (OAR) and a 99.5 percent on-time

### ABC ELECTRIC SUPPLY COMPENSATION PLAN

Name: \_\_\_\_\_ Title: *Branch Manager*

1. Following Annual Performance Bonus Pool of \$\_\_\_\_\_ is available for pay-out if Company achieves a Net Income Before Taxes (NIBT) of 3.5% of Net Sales according to Dec. 31, 2005 Financial Statement.

The following sliding scales will reflect the percentage put into the bonus pool if less than 3.5% NIBT goal is achieved:

- 3.4% to 3.0% NIBT pays 90% of bonus pool.
- 2.9% to 2.5% NIBT pays 80% of bonus pool.
- 2.4% to 2.0% NIBT goal pays 70% of bonus pool.
- Less than 2% NIBT pays no bonus.

2. Based on the bonus pool available, payment will be made based upon achievement of the following Branch Performance Goals:

Category	Branch Manager Performance Goals	Weighting
<b>Financial Health</b> (40%)	15% Branch Sales Growth	10%
	125% Branch GMROI	10%
	3.5% Branch NIBT	10%
	48 Day Branch Customers Collection Period	10%
<b>Customer Focus</b> (20%)	12% Market Share	10%
	Branch CSI of 70%	10%
<b>Service Excellence</b> (20%)	98.5% Order Fill Rate	10%
	99.5% Order Accuracy Rate	5%
	99.5% On Time Delivery Rate	5%
<b>Employee Learning and Growth</b> (20%)	Associate Satisfaction Survey	10%
	Hours of Training per Branch Employee	5%
	\$120K GM per Branch Employee	5%
	Total	100%

delivery rate (OTDR).

**Employee Learning and Growth.** Employee satisfaction, training and productivity measures are key to this category. Friendly, responsive and knowledgeable human capital is a vital resource to ensure high customer satisfaction and increased electrical distributor profitability.

ABC managers developed three employee learning and growth company performance goals: a total employee satisfaction index (ESI) rating of 70 percent, 50 hours of training per employee and \$110,000 gross margin (GM) per employee.

Using the company performance goals scorecard as a template, they next developed branch and department goals that were connected to achievement of company goals. Then, each employee's goals in their individual performance scorecards was linked to achievement of their respective branch or department goals.

A balanced scorecard can clearly translate a strategic plan into measurable objectives that achieve results. Properly designed, it provides an alignment framework for all employees. It

holds each member accountable for achievement of individual performance goals that tie into department or branch goals and then are linked to achievement of overall company goals. Everyone in the organization understands what each person or group is working toward.

**Step 3: Link Compensation to Performance Scorecards.** Financial compensation is a powerful performance lever. The third step to becoming a high-performance electrical distributor is developing a compensation plan whereby each individual employee is rewarded based upon achievement of company, branch or department, and individual performance goals. Incentive compensation plans must be connected to achievement of performance goals.

ABC's branch manager compensation model is based on a bonus amount being determined by the company first achieving its overall net income before taxes (NIBT) goal of 3.5 percent. Second, out of the available bonus pool, the payout is then predicated on a branch manager achieving his/her individual performance goals.

# Sales Staff

Weighted averages are also developed among the financial health, customer focus, service excellence and employee learning and growth performance goals. At ABC, 40 percent of the incentive compensation was allocated for branch managers achieving financial health goals, 20 percent for achieving customer focus goals, 20 percent for service excellence goals, and 20 percent for employee learning and growth goals.

ABC Electric Supply's compensation plan for one branch manager is outlined in the ABC Electric Supply Compensation Plan on page 38.

At ABC, all branch managers have the same 12 performance goals. However, with some performance goals, such as branch sales growth, branch NIBT, branch collection period and branch market share, the goal may vary by branch depending upon each location's stretch-achievable goals.

A branch manager is responsible for achievement of all service center performance goals. A branch employee would not have as many individual performance goals as a branch manager. Achieving all branch individual performance goals would result in that branch achieving all its performance goals.

Once performance targets are locked in, you must be able to continually measure results through monthly, if not weekly or daily, performance goal reporting, commonly referred to as business performance dashboards. There are many business-intelligence (BI) software packages that produce graphs, charts and other forms of visual data for summary performance scorecards. These at-a-glance reality checks are a quick way to gauge performance of individual employees to their goals. It also fosters a drill-down root-cause analysis behind a negative performance trend.

If you utilize an annual strategic planning session and a balanced-scorecard approach, you will devise new strategies and new processes built around customer focus, service excellence, and enhanced roles and increased training for your employees. The result will be higher internal and external customer satisfaction, increased sales, and higher profitability. This strategic planning approach will take you miles down the road to becoming a high-performance electrical distributor. □

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