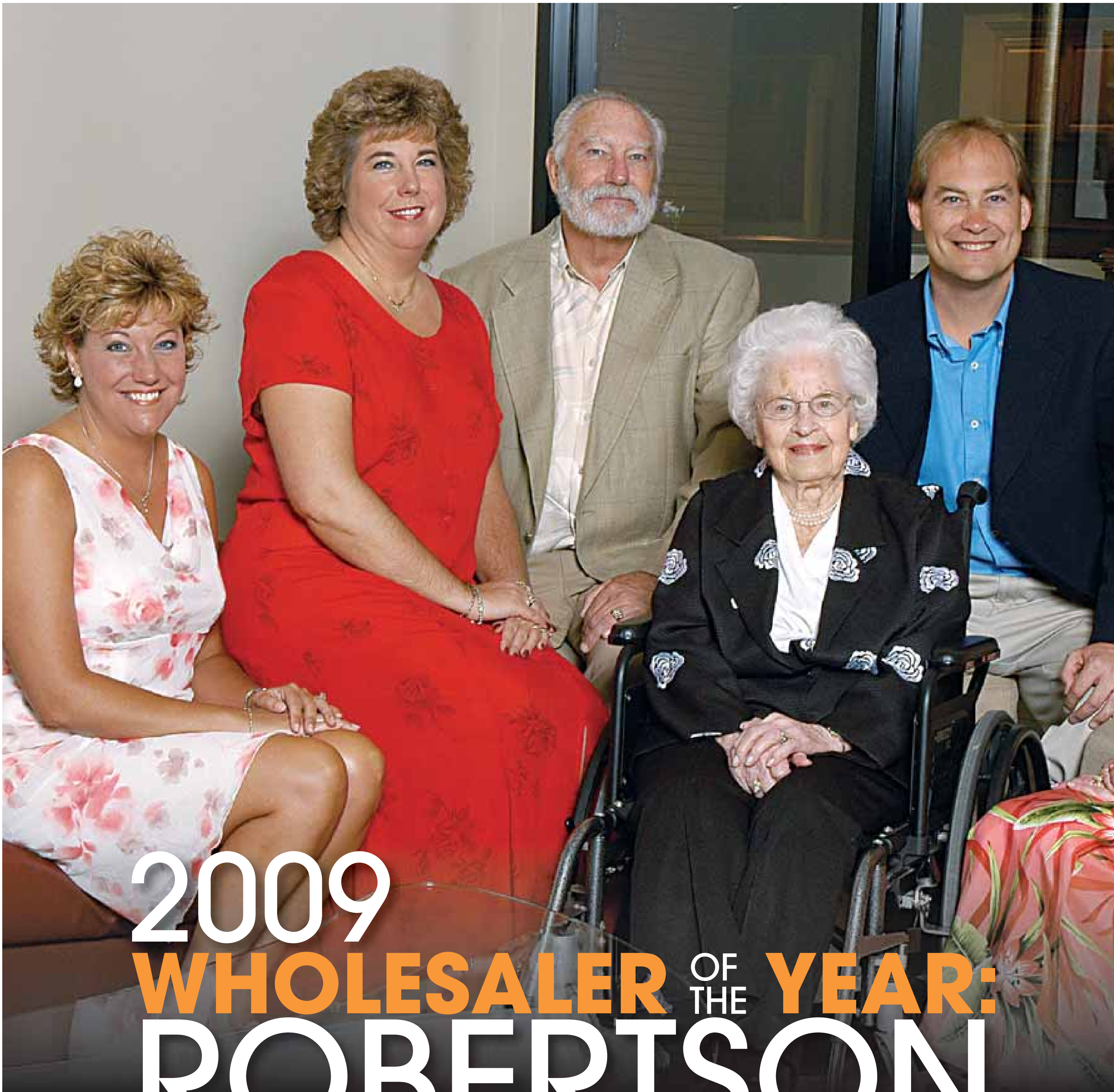

2009 WHOLESALER OF THE YEAR: ROBERTSON HEATING SUPPLY CO.

ALLIANCE, OH

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Robertson family members active in the business include: (from left) Linda Robertson Wonner; Sue Robertson Neil; Ed Robertson; Virginia Robertson (widow of the founder, seated in wheelchair); Scott Robertson; Lori Robertson Keller.

The industry can learn much from how an iconic regional distributor performs under duress.

>> By Jim Olsztynski

Our staff faced a conundrum in choosing our Wholesaler of the Year for 2009. Where would we find a PHCP distributor that has not suffered setbacks during this most economically catastrophic year in memory for almost everyone in the industry? So our quest veered in a different direction. Mindful that being wounded only adds to battlefield heroism, we decided that our readers have much to learn from how a highly successful company performs under duress. The one we settled on is an industry icon of innovation and stability.

Innovation and stability may seem like contradictory nouns, but not when describing Robertson Heating Supply Co. (Although starting out as a furnace specialist 75 years ago, the company expanded into plumbing way back in 1947 and now derives around 60% of its revenues from plumbing/hydronics.) Innovation, in ways big and small, has been a hallmark of this renowned regional distributor from its earliest days through the present. (See story on page 22.)

So has stability, evidenced by a celebration of the company's 75th anniversary earlier this year. Robertson Heating Supply (RHS) relies upon core values and many business practices instilled by its legendary founder, the late John Robertson. Operating 28 branches in the states of Ohio, Pennsylvania and Michigan, this company has prospered in a trading area encompassing America's aging industrial heartland whose economy was shaky even when construction was booming. When the bubble burst, RHS's customer base felt the shock waves more than most.

RHS has suffered accordingly from declining sales, layoffs and pay cuts like virtually every other PHCP distributor. Yet the company's survival has never been in doubt. Astute financial management has enabled the firm to continue a tradition of extravagant customer service even as the economy collapsed around them.

Heading the company as president/CEO since 1991 is the founder's grandson, Scott Robertson, who from early on was groomed for the job by his grandfather. "We're not making a lot of money now but we're in good shape financially, for which I give a lot of credit to my grandfather," Scott told me. "That's because he believed in reinvesting in the business during good years. We had plenty of them, so we've built up quite a nest egg. We could pay off this building tomorrow if we wanted to." (He is referring to the company's five-year-old sparkling distribution center/headquarters in Alliance, OH)

That headquarters itself says a lot about this company. Alliance, population 24,000, sits in a rural area of two-lane roads about a half-hour drive from the nearest Interstate highway. RHS branches are located in every major market of Ohio, as well as the big cities of Detroit, Grand Rapids and Pittsburgh. Every logistics consultant alive would advise them to situate their DC in a better transportation hub. I mentioned this to Scott, who simply shrugged and said, "This is our hometown."

Dave Roberts, RHS's director of marketing, joined the company five years ago after a long tenure with Rheem, one of the company's mainstay vendors. Roberts observed: "The thing that makes this company successful is the

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Robertson's top management includes: (front row, from left) Kevin Duro, director of DC operations; Roger Patterson, regional mgr.; Sue Neil, HR director & corporate secretary; Scott Robertson, president; Geoff Alpert, director of sales; Josh Dennis, IS dept. mgr; Don Lemley, vp of branch operations; Bryan Cain, plumbing purchasing agent; Collin Murphy, engineer.
Back row: Pete Todd, printing mgr.; Scott Middleton, director of showrooms; Dave Roberts, director of marketing; Tom Fogle, Rheem/Ruud brand mgr.; Ed Robertson, executive vp; Russ Burrier, Kitchen Div. mgr.; Bruce Bourne, vp of operations; Chris Roshong, credit mgr.; Mark Miller, HVAC purchasing agent; Chuck DelVichio, plumbing dept. mgr.; Brad Gross, engineering dept. mgr.

hands-on approach of family owners. Scott knows this company, its employees, the vendors and customers, and these are the things that attracted me to them."

RHS couples civic pride with paternalism — in the best sense of the word — towards employees, and that loyalty gets reciprocated. Almost one out of three of the 235 people that make the company go are members of the firm's "20-Year Club." They get treated to a lavish dinner in their honor each year, whether times are good or bad. Similarly, the company did not scrimp when it came to celebrating its 75th anniversary earlier this year. Every employee got treated to an all-expenses-paid weekend getaway with spouse, choosing from among four choices of sporting or entertainment events in Cleveland, Pittsburgh, Sandusky or Columbus. "Despite the cost, we wanted to thank them for their help," Scott said.

John Robertson's legacy includes something else that still characterizes the company he founded. Sue Robertson Neil, Scott's sister who works in the business as corporate secretary and HR director, commented that "Grandpa was always willing to share his knowledge. He helped so many people in the industry because of that willingness to be open with them."

Robertson also was an industry patriot who held a long string of leadership positions with ASA and its central region affiliate. Scott Robertson continues that tradition of industry involvement, as well as his grandfather's penchant for openness. In an industry where many wholesalers guard their sales volume like the Coca-Cola formula, Scott was remarkably forthcoming in discussing RHS's expected 10-11% sales decline in 2009 (to around $92 million), and the painful need to trim payroll by 34 people in the last three years through layoffs and attrition. Amid the downturn, Scott has even extended the company's traditional open-book management philosophy by revealing more and more financial information to employees.

Here we'll pick up my interview with Scott Robertson in a Q&A format.

Supply House Times: What are some of the things your company does that you feel gives you a competitive edge? First, I'll provide part of the answer myself based on my own observation — and that is developing and promoting a sheet listing your value-added advantages. (Editor's Note: To see the entire list, visit the RHS Web site at http://www.rhs1.com. Go to the Services menu, then to Value Added Services.)

Scott Robertson: Everybody does something well, the question is: Are you promoting that? We remind customers of all the special things we do via this sheet with all new accounts. Plus, we pull three or four items every month

Chuck Morrison (left) & Pete Todd comprise the company's in-house printing staff.

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ROBERTSON

A view inside the company's 285,000-sq.-ft. DC; trucks shuttle goods to branches in the wee hours to assure early arrival for contractors the next day.

that we send out with statements as continuous reminders.

One of our biggest advantages is that we supply 18 branches nightly with overnight deliveries from the DC. That enables us to promise not only next day delivery, but first thing in the morning. If a customer orders something late in the afternoon that his branch doesn't have, he'll get it by 7 a.m. We tell our customers that we work while they're sleeping, and when their alarm goes off in the morning, the item will be waiting for them at the branch.

Another big item with us is our catalog and price book, which we publish with our own in-house printing department. Updates come out every week or two, conveniently coded with the page and section numbers at the top. All a customer has to do is go to that location, remove the old page and replace it. Customers pay to subscribe to this service for either a printed version or online PDF format, which covers most of the cost of providing the service. We have around 625 print subscribers and some 225 online customers.

One thing that gives us an edge over big competitors is simply that we're a family-owned, personal and friendly company. When I go to a dealer meeting, I go as the company owner, not a branch or regional manager, and that counts with a lot of them. I act like them, live in their community and root for the (Cleveland) Browns. We don't ever want to be so fancy and big we lose that personal touch.

We're also very proud of our engineering department. We have five engineers on staff capable of producing designs, layouts and CAD drawings for our HVAC dealers.

Something else that's pretty unique is our jobsite crane delivery truck. We use it to help customers remove and set HVAC rooftop units, along with handling bulky materials like skids of pipe and crates of fittings.

Q: When did you first anticipate or feel the effects of the downturn, and how did you react?

Robertson: We first began to notice in November of 2006. We had a flat month of October and sales were down 13% that November. We were getting ready to go into our slow season anyhow, and signals we picked up from customers told us the economy was slowing down. Our first layoff was that November, because we saw a downturn coming and I've been to numerous business seminars warning against reacting too late to a downturn. That's a message I took to heart in weathering my first recession.

We subscribe to ASA's Operating Performance Report and pay close attention to the benchmark of employee costs — salaries plus benefits — as a percentage of gross profit dollars. Manpower is one of the biggest expenses for a wholesaler, and it shouldn't go above 55%. We were beyond that and needed to do something about it.

We explained this formula to all of our employees, and told them that even though we were trimming costs in a lot of other areas, if we don't cut thousands of hours from the payroll, it won't make any difference how much we save on coffee cups and trash collection.

The key is to communicate, and be specific. When you tell employees sales are down 10% or you missed a forecast by four points, those are just small numbers to them. But when you tell them that we missed our year-to-date sales forecast by $3.5 million, that's real money they can relate to and understand how sizable the problem is.

It's been a new challenge for myself and the management team. Robertson Heating Supply went 25 years, from 1981 to 2006, without laying off a single person. Since then we've had to lay off 19 people, plus cut working hours or salaries of everyone else by 10%. It's certainly not fun to make those tough decisions. We're earning our keep as managers more so than when things were progressing nicely.

Q: What have you learned from these tough times that you didn't know before?

Robertson: One of the things I've learned is that even if you think you're the leanest company around, there are five to seven percent of your employees you could do without if you had to. Your remaining people, if pushed, could do more.

When things are going good you can't help but think you're operating at total efficiency, but you're bound to have "fluff." In good times it's easier not to make difficult decisions. We went a quarter-century without any layoffs. We prided ourselves on that and beat it like a drum in promoting our company.

When the slump hit, our first approach was to identify and lay off people in unnecessary positions or weaker performers. We did that over the next three years, which amounted to 19 people, about 7% of our workforce. Now the people who are left are all good performers. We really like them and think we need them — and certainly will if things turn around. So when we needed to further tighten our belt we asked hourly employees to take four

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ROBERTSON

ROBERTSON'S 75-YEAR **HISTORY OF INNOVATION**

Legendary company founder John Robertson.

The history of Robertson Heating Supply Co. is hard to separate from the saga of its founder, John Robertson, perhaps the most dynamic individual ever to make the PHCP distribution industry his business home. He served as president of four national trade associations (ASA, along with its two predecessors, CSA and AI, as well as NHAW, predecessor of today's HARDI), and pioneered numerous business techniques that today are standard operating procedures with most wholesalers.

Among the innovations credited to him either as originator or one of the industry's earliest adapters are: single-story warehousing with mechanized material handling; punch-card tabulating (forerunner of computing), then actual computerization; LIFO accounting; "twig" branches (tiny one-man stores in out-of-the-way places); inventory control via EOQ; showroom merchandising; net pricing; in-house catalog/price service; trip and premium promotions; incentive sales compensation, and more. He also was a "people person" renowned for motivating employees and cultivating their loyalty. It's hard to think of anyone else with so much business expertise spanning so many disciplines — finance, accounting, sales and marketing, warehousing, logistics and personnel management.

Profound mutual admiration existed between John Robertson and *Supply House Times* founder Charlie Horton, another industry legend. In 1959 Robertson's company was named this magazine's first Wholesaler of the Year. In May 1983, on the occasion of *Supply House Times*' 25th anniversary, Horton named John Robertson "Wholesaler of the Quarter Century," telling his story in an exhaustive series of articles spanning more than 35 pages. Wrote Horton: "John is the Moses who led the children of the supply business out of the wilderness and into the Promised Land of professionalism and modernity."

Their relationship sprayed ink in both directions. Robertson penned regular monthly columns for this magazine on inventory and tax strategies along with other management topics throughout the 1960s and beyond, producing around 60 articles altogether. His articles on LIFO in particular reverberated around the industry. LIFO was an arcane accounting concept that few wholesalers were even aware of until he detailed its advantages in the pages of this magazine. Eventually most wholesalers followed his lead and adopted the accounting method to their good fortune.

Perhaps the crowning achievement of Robertson's genius is that he built a business that has prospered long after he departed. Notoriously egocentric, Robertson nonetheless had a knack for administration and delegation. He groomed successor CEOs that have carried on his legacy of success for three decades after he gave up day-to-day control of the business, and more than a decade after he left this earth.

In 1979, at age 67, he stepped aside as president in favor of Esmond Fogle, who had joined the company as credit manager in 1953 and then worked his way up to executive vice president. John Robertson's son, Ed Robertson, played a key role in managing the company's Kitchen Division and real estate side of the business under both the patriarch and Fogle. When the latter retired in 1991 after serving 12 years as president, Ed's son, Scott Robertson, took over and continued a tradition of growth and prosperity — until the economic devastation of the last couple of years that has knocked the entire industry for a loop. Other third-generation family members active in the business include Sue Robertson Neil, who serves as corporate secretary and HR director; Lori Robertson Keller, who directs accounts payable; and Linda Robertson Wonner, accounts payable clerk.

People like John Robertson come along maybe once a century and it's

Removable bar codes on magnetic plates make warehousing easier.

Aisle markers placed up high are easier to read and last longer.

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ROBERTSON'S 75-YEAR HISTORY OF INNOVATION

Robertson showrooms utilize pullout drawers as a space saver to display lavs.

unlikely anyone will have as much an impact on the industry as a whole for a long time. Closer to home, though, he appears to have passed along at least some of his genes for innovation. Robertson Heating Supply today is a storehouse of unique ideas and business practices. Many of them were incorporated into the company's 285,000-sq.-ft. headquarters and distribution center in hometown Alliance, OH. Here are some of its distinguishing features:

- The facility has a masonry wall with knockdown partitions on one end designed for easy future expansion. A driveway winds around the property in a wide arc around an expansive field on the other side of the wall that could accommodate more warehouse or office space.
- The DC is open 21 hours a day (closed only from 5:30 p.m. to 8:30 p.m.) and trucks are loaded in the wee hours for daily runs to most branches, enabling material to be available to contractors first thing in the morning.
- Docks are labeled with their destinations so shipping crews and drivers can efficiently load materials and avoid mistakes.
- For enhanced security, the 120 employees at company headquarters are issued electronic key cards for entry that restrict access to times and areas relevant to their jobs. When an employee leaves, instead of the expense and laborious task of retrieving keys and changing locks, the person's key card is simply deactivated in the main computer.
- Both warehouse and office facilities have energy-saving motion-activated lighting systems that turn on only when people are present.
- A pneumatic tube system conveys paperwork between the DC warehouse and offices to save time and effort.
- Material bar codes are pasted on magnets that can be easily moved around to different rack and bin positions.
- The DC includes a fitness center and even a small basketball/volleyball court for employees.
- Aisle location signs hang from ceilings rather than painted on the floors, which tend to become wiped out over time from forklift and human traffic.

hours a week off, or 10% pay reductions for our salaried people.

Another thing we found out is that employees will accept and understand the situation if you explain it to them clearly and honestly. They will come together and work together much better than anticipated. Years ago we used to hear complaints about losing coffee breaks or being worked too hard. We don't hear that anymore, which is somewhat comforting during this difficult time.

I've learned more in the last few years than ever before.

Q: In small towns like yours companies tend to have a lot of relatives working together. Doesn't that lead to trouble when you have to lay people off?

Robertson: It does lead to complications. We have few people working in this company who are related — exactly for that reason.

Q: What are some of the things your company is doing differently now than a few years ago when the economy was booming?

Robertson: A silver lining is that now our salespeople have time to call on non-traditional accounts like schools, maintenance departments, colleges and so on. In good times they tend to focus on customers they know and find excuses not to tackle accounts that involve small purchases or maybe a lot of people to get through. But now our core customers aren't giving us as much business, so we emphasize to our salespeople that their commissions

Robertson's branch managers. Small rural markets characterize the company's trading area, leading to many branches.

Robertson's large sales staff.

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ROBERTSON

SUPPLY HOUSE TIMES
WHOLESALERS OF THE YEAR

1959 — Robertson Supply	1985 — Noland Co.
1960 — Noland Co.	1986 — Familian Corp.
1961 — EMCO Ltd.	1987 — Hughes Supply
1962 — Raub Supply	1988 — Davis & Warshow
1963 — Atlas Supply Co.	1989 — LaCrosse Plumbing Supply
1964 — A. Y. McDonald	1990 — A. Y. McDonald
1965 — Horne-Wilson	1991 — RAL Corp.
1966 — Taylor Companies	1992 — Columbia Pipe & Supply
1967 — Palmer Supply	1993 — LCR Corp.
1968 — J. Levitt	1994 — Ferguson Enterprises
1969 — Kiefaber Co.	1995 — Hughes Supply
1970 — None	1996 — Familian NW
1971 — None	1997 — F. W. Webb
1972 — None	1998 — Apex Supply
1973 — Hajoca	1999 — Torrington Supply
1974 — Ferguson Enterprises	2000 — Wolff Bros.
1975 — Standard Plumbing Supply	2001 — Lehman Pipe & Supply
1976 — CSC Inc.	2002 — Todd Pipe & Supply
1977 — Trumbull Supply	2003 — Davis & Warshow
1978 — Harry Cooper Co.	2004 — WinWholesale
1979 — F. W. Webb	2005 — Castle Supply
1980 — Slakey Bros.	2006 — Red Man Pipe & Supply
1981 — RAL Corp.	2007 — Standard Plumbing Supply
1982 — Familian NW	2008 — Wilson
1983 — Moore Supply	2009 – Robertson Heating Supply
1984 — Apex Supply	

can shrink less in a down economy if they drum up some business from people they haven't called on before. We don't have magic dust, so conditions being what they are it's unlikely they'll be up for the year, but maybe they can lose only 5% of their income rather than 10-15%.

Q: The role of the outside salesperson has been diminished by many wholesalers in our industry in favor of an expanded inside sales force. You still employ a large outside sales force. Tell us your thinking about this.

Robertson: I don't totally agree with the shift toward inside sales, though we are moving a bit in that direction. Our branch managers used to be our inside salesmen, but we're now hiring a few people to fill that role. About four years ago we started a Customer Service Department here at headquarters whose job basically is to provide information requested by customers at all the branches.

We still have 31 full-time outside salesmen, down only two positions from five years ago. I still believe in them and think there's business to be had by bonding with people. We cover a pretty big territory and our goal is to see every account at least every other week and some weekly. Our salesmen are limited to 65 accounts, because I don't think they can service any more than that.

Manpower is one of a wholesaler's biggest expenses, and it shouldn't go above 55% of GP dollars.

We emphasize preparation rather than "drive-by shootings." That means having something to talk about on each call, like bringing customers information or focusing on a particular product, something that has value to both the dealer and to us. We still require call reports as well, asking who they call on, what was the key comment or complaint and whether they got an order. Nothing complicated, but we can plug the reports into our software to gain valuable information.

Q: Something else you do that goes against the grain of an industry trend is to operate showrooms attached to your branches, rather than as standalone operations in retail districts. What's your thinking here?

Robertson: When we first opened our showrooms they were wholesale only for contractors to use, so that's a large part of the reason they got attached to the branches. By the mid-90s we decided — like almost everyone else — that they have to be retail as well.

Nonetheless, having our showrooms situated in branches gives us the opportunity to better utilize manpower. It enables showroom personnel to do things for the company when showroom traffic isn't there. That's our basic thinking.

Q: What are some of the ways you've worked with vendors on one end, and your customers on the other, to weather the downturn?

Robertson: Much of what we've done this year was influenced by our 75th anniversary, for which we held some major trade shows, one here in Alliance last May as well as a couple of regional shows. These were buying events and our vendors, who are also feeling the downturn, worked with us to put together deals that worked out well for all of us. We sold a lot of product at our three buying shows — even more than we sold when we last put some on five years ago. These were shining successes in an otherwise disappointing year.

As for customers, we've worked with them mostly on credit issues. Contractors in general don't have cash flow or reserves like wholesalers or vendors, so we need to help them through this credit crunch.

Some of our biggest customers from the 1990s and early 2000s were new construction contractors who got hurt the worst when the bubble burst. Guys who were working 150 homes a year are now down to 30. Habitual deadbeats you can lean on, but it's harder when you're talking to a second- or third-generation customer who was doing a quarter-million a year with us and had been going on our trip programs for years. Now he owes $50,000 and doesn't have the money because he hasn't gotten paid. These are difficult conversations, and we've gone through lots of them in the last year and a half.

Q: Do you anticipate any fundamental changes in your business model over the long term based on your experience in this recession?

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ROBERTSON

Robertson: One question we're looking at is do we need this many branches? With 28 we tend to be split up more than most wholesalers, although a lot of that has to do with the many small markets we serve. The twig concept originated by my grandfather worked well for a time, but now we're down to two. Going forward, I think we'll be looking at a minimum $2.5-3 million volume range to justify a branch.

We've closed only one branch in the last five years but even though we operate lean, branches add to operating costs. If the downturn continues through next year, we'll have to look more closely at branch profitability and make changes.

Also, we're definitely starting to consider fewer outside salesmen over the long term. I think there will be more and more pressure for speed of contact. Even though our outside salesmen have computers, they can't react as quickly as inside support people who are at their computers all day and ready to answer customer questions.

Q: Your company was one of the first wholesalers in the industry to become computerized and one of the few still with your own customized system. Tell us about that.

Robertson: It goes all the way back to 1948 when Grandpa bought one of those old Univac machines. Ever since then we've been on our own system.

It's been updated many times. We still have most of our old software, including P&L and ledger modules and purchasing modules. We've since bought some off-the-shelf or specialized modules that our two full-time programmers integrated into our system.

There are advantages and disadvantages to having our own system. When the Y2K thing came out, we struggled. It was not a good time to have in-house computing. On the positive side, we can design our own programs. If we want to find out which customers bid certain products, what hasn't sold in the last four months or not sold more than two times in the last year, we can get that information.

A downside is when a new revolution like EDI comes around, we're going to pay money to figure out how to implement it. We continue to tweak online ordering. It's now around 3% of our business. That's small, but still amounts to around $2 million worth of sales a year so that's worthwhile. A customer can go online tonight and order something that he'll get by tomorrow morning.

Q: Do you see signs of any pickup in business?

Robertson: We believe right now we're no longer stuck sitting in the trough, things are not getting worse. We may be in that trough for a while, but I believe that by next April or May when our selling season starts we'll see an upturn. Maybe we'll get four to six points back. Compared to what we've been through this year, that's very positive.

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