THE WIREMOLD COMPANY: WIREMOLD®[1] DISTRIBUTOR INCENTIVE PROGRAM

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Scott Bartosch, vice president of sales, and Ed Miller, vice president of marketing, were meeting with Art Byrne, president, and Orry Fiume, vice president of finance, to discuss the ongoing changes in the marketplace that were having a negative impact on distributors participating in The Wiremold Company's current Synergy℠ distributor incentive program.

Scott Bartosch opened the discussion by saying,

> The consolidation of electrical distributors continues to accelerate. Fewer firms with more branches spread over wider geography. The big guys are consuming the little guys, or opening branches in smaller markets. The current distributor incentive program is local branch sensitive. As the larger firms purchase the smaller ones they wind up with small, scattered branches. These small branches do not qualify for the same incentives as the larger ones do and there is not recognition of the total firm's purchases. They feel that they are at a disadvantage in their smaller operations and they are right.

Ed Miller chimed in,

> We are concerned with the trend in the industry for manufacturers to craft their incentive programs based on a distributor's total volume rather than individual branch performance. In addition, loyalty to a manufacturer is no longer considered a factor. Many manufacturers are offering incentive packages regardless of whether or not the distributor promotes all or part of their product line. In effect, distributors are being paid whether or not they stock product and perform a service for the manufacturer. The threat to a performance-based distributor incentive program is apparent. We have

> built a strong base and reach into architects, engineers, users, and contractors and need to protect our spec[2] position from distributors splitting a bill of materials with potential competitors. As distributor consolidation continues they add distributors we either pruned off or never had, and those come with competing supplier relationships. Not having a loyalty program at the corporate level is making our current program more vulnerable to being split, driving pricing down and making it more difficult to maintain a complete system spec on a job.

Bartosch continued,

> Compounding the problem is the density of Wiremold Distributors in many markets. The effect of us being over distributed is beginning to lower the distributor's profit margin because of intense price competition between existing distributors. Any modification to the distributor incentive program must be coupled with a strong loyalty component and a plan to trim the number of authorized distributors.

After a thorough discussion, Art Byrne said,

> Well, so what are our options? And what are you guys recommending?

Company Background

The Wiremold Company was founded in 1900 by entrepreneur and inventor D. Hayes Murphy, who developed new ways of managing the wiring infrastructure for electrical power in industrial and commercial buildings and private residences. Manufacturing of raceway and devices for wire and cable management for electrical power remained the company's primary focus during the twentieth century. Late in the century, the company added raceway and devices for management of communications wiring (for both analog and digital devices) to its mission. The company was privately owned and controlled for its first one hundred years, although the board of directors made the transition to hiring professional managers in the 1980s. By the early 1990s, the company was experiencing severe price competition from other domestic players entering the category and its customer service had declined to unacceptable levels by industry standards. In response to these conditions, the board hired Arthur Byrne as president to orchestrate a Brownfield[3] conversion of the company to Lean business practices.[4] The company received the Shingo Prize for manufacturing excellence in 1999,[5] by which time it had become a large company[6] with most of its operations in the United States. The Wiremold Value System stated that the company was committed to continuous improvement (kaizen), superior service to customers, and that all associates would be trained and enabled.

The Go-To-Market Strategy At the time of the case, company officers regarded the company's Lean culture as a significant competitive advantage and sought to leverage it in the marketplace. The company had migrated its marketing go-to-market strategy to selling integrated wire and cable management solutions and away from selling just a catalog number such as raceway plus parts. Electrical and communications contractors purchased company products to install wiring for electricity, communications, and data in integrated configurations[7] for new-build and renovation purposes from distributors located throughout the United States and Canada. Customer service surveys had shown that the pace of new product introductions, responsiveness in filling orders, commitment to satisfying customer needs, and general ease of doing business were the most important dimensions of customer satisfaction. Wiremold considered its distributors to be marketing and sales partners, not customers, and actively sought their participation in serving their end customers (the contractors, building owners, and system users).

Wiremold had developed a tightly integrated value chain that delivered a highly desired value proposition to key players in the construction industry. Architects benefited from being able to specify products with new functionality that blended in with the latest trends in interior décor. Engineers benefited from having the flexibility to adapt the designed space to meet changing requirements. Contractors benefited from solutions that were fast to install with lower installed costs, enabling them to get off the job quicker and go on to their next job. Owners benefited from having a wire and cable management system with low maintenance costs that could stay current with adds, moves, and changes and incorporate new technology for use in the workspace. Distributors benefited from being able to add value to a job and strengthen their local business relationships by managing the flow of materials, training installers, and bringing new cost-effective solutions to their customers. For the go-to-market strategy to work, Wiremold distributors and Wiremold needed to work closely together by sharing customer intelligence and building quality customer relationships.

One of the ways the company supported its distribution base was to require that all orders be placed through an authorized distributor to ensure that all parts necessary for the installation would be ordered and delivered according to the schedule specified in the order. In fact, much of the order could be filled from the distributor's own stock. The company knew that helping the distributors to manage their inventory asset base to improve profitability through higher material velocity flow and turnover would be important to implementing the strategy.

The Importance of Lean The company manufactured over 60,000 system components, 3,600 of which were stockable components. These components (parts) were classified into three categories, A, B, and C. All A and B items were usually manufactured daily, and all C items as needed with usually a 1- to 4-day lead time. All suppliers were required to provide just-in-time (JIT) deliveries of materials to the manufacturing plants, most of which were located in the United States, primarily in Connecticut, West Virginia, and Pennsylvania, with several smaller operations in the mid-west. The company had a strong commitment to continuing manufacturing in the United States and actively used *kaizen*[8] to continuously improve its operations. The company had begun bringing its key distributors in to allow them to participate on kaizen teams to facilitate their learning and applying kaizen to their own operations. At Wiremold, kaizen was a normal part of the company's operations.

In Lean manufacturing systems generally, all items are produced in accordance with real-time demand, allowing a Lean company to turn its inventories four to six times faster than other manufacturers. Wiremold was able to realize 16 to 24 inventory turns per year. As a result, the company had the capability to offer its distributors an opportunity to achieve ten or more inventory turns per year. This enabled the company to offer high-velocity inventory turnover as an important part of the value proposition for distributors as they would now be able to carry product line breadth and depend on the company for fast replenishment of items that they sold. Distributors' profitability on the Wiremold line would greatly exceed that of most of their other lines as they no longer had to carry large amounts of each Wiremold item in stock.

As a Lean company, the organization structure was flat and all management decisions were made by teams. An important company policy was that a team could not make a decision without the affirmative consent of all team members. Each team member was required to consider the operations of his or her functional department and the overall operations of the company prior to assenting to the decision. In practice, the team-based decision-making process resembled a jury system in which any one team member could, by refusing to agree to a proposed decision, require the team to continue working until a solution satisfactory to all could be found.

The New Product Strategy The company's new product development process used Quality Function Deployment (QFD) and the Voice of the Customer methodologies.[9] The company was known for its elegant, stylish, technically sophisticated and cost-effective solutions to wire and cable management problems. On an as-needed basis, the company's product development teams designed installation tools for contractors (specifically designed for new products) to provide cost savings and maintain aesthetic attractiveness.

The company's end customers consisted of contractors who installed the wire and cable management systems, and key influencers such as architects, engineering consultants, building owners, and tenants. The company considered all these groups as members of the decision-making unit (DMU) for systems solutions. The product development teams routinely surveyed all influencers to discover their wants and needs. New product launches were designed to communicate the features and benefits to all of the influencers who might participate in selecting a wire and cable management system for a new-build or renovation project.

The Cycle Truck Program

Originally conceived as a solution to a series of problems, through repeated kaizen events[10] the cycle truck program became a cornerstone of the company's time-based competitive advantage by enabling weekly deliveries to every distributor so that the distributors could reduce their invested capital in inventory and thereby achieve higher profitability on the same unit levels of sales. However, the cycle truck program provided additional benefits to distributors, customers, and specifiers.[11] Because some Wiremold products (primarily raceway) were ten to fifteen feet long, shipment by common carrier often resulted in damage or loss of goods. Because contractors needed a specific assortment of components for an installation, it was important that all of the components be delivered together. Because a shipment lost in transit could result in delays in project completion and lost revenue for a contractor (unless he had other jobs to keep his crew busy), all of the specifiers desired on-time delivery. Because shipment of more goods than were needed in a week resulted in someone's having to store the excess (at the distributor's warehouse or on the job-site), shipments for large projects could be scheduled for specific dates to minimize storage and handling requirements with the associated losses due to damage and shrinkage. The cycle truck program solved all of these problems and provided value for distributors, contractors, specifiers, and building owners alike. Wiremold owned all of the trucks and had complete control over their routes and scheduling. With this program, the company achieved a *perfect order fill rate* consistently in excess of 90 percent. (A perfect order fill was defined as the on-time delivery of 100 percent of the distributor's order with no missing or damaged goods.) The program had the effect of leveling demand on the factory, which greatly facilitated the company's *pull*[12] manufacturing system.

The cycle truck program required that distributors place their orders on or before a specific day every week to receive their deliveries on a specific day and time. For example, a distributor could place his order every Tuesday before 2 pm EST and his delivery would arrive at 10 am on Thursday: in effect, one-day delivery: every week, 52 weeks a year. This allowed distributors to plan for their replenishment orders and for those who had regional distribution centers (RDCs) to schedule the personnel to receive an incoming shipment and put it away with less risk of errors or co-mingling with goods from other suppliers. Furthermore, by using the company's Lean manufacturing system to produce any item when needed … distributors were able to carry a wider range of product so that they became known in their territories as the go-to place when you need something special in a hurry.

The Sales and Marketing Departments

The primary function of the sales and marketing teams in a Lean enterprise generally was to bring the information about needs of the desired customers and information about competitive challenges into the company in useable form for kaizen teams. At Wiremold, marketing and sales personnel were included in almost all kaizen teams (including those concerned with product development, production, and logistical processes) to ensure company resources were deployed to meet the needs of the target markets. In addition, marketing and sales at the company performed their traditional roles to generate demand for the company's products, support distributors, process orders, support field sales, and respond to requests for competitive pricing adjustments. Scott Bartosch, vice president of sales, led the selling (inside and outside sales) functions, sales team deployment, strategic selling relationships, and field execution of the go-to-market strategy. Ed Miller, vice president of marketing, led the development of the go-to-market strategy and its market positioning against customer needs and competition, along with product and program plans, service requirements, communications and advertising, the distributor incentive program, and the development of all written and electronic media. The two worked closely and well together, often interchanging responsibilities as needed to back up each other. Bartosch and Miller worked with the other members of the president's staff team to ensure that all efforts in the company were linked and coordinated. The president's staff team included the vice presidents of finance, human resources, production operations, information systems, product development, sales, and marketing.

The Inside Sales Department This group was known for its unusual and high level of responsiveness to distributors and specifying influencers (architects, interior designers, consulting engineers, contractors, and building owners working on a project) who would call the company directly seeking answers to technical questions. Field sales specification representatives were well-trained in helping specifiers determine the right solution for their application by offering different alternatives based on performance needs and budget. Sometimes the person calling had forgotten to ask a question of the field sales representative. To back up the field and offer ongoing support to the specification influencers, several technical staff people were available with detailed product knowledge across the product lines to take calls from distributors and specifiers and provide the necessary technical product support. Together, the field sales specification representatives and the inside applications engineers contributed greatly to the company's credibility in the marketplace as a supplier of leading-edge solutions to wire and cable management problems.

Inside sales was also exceptionally supportive of the field sales representatives. Bartosch observed, "The field sales reps like to touch base with the 'mother ship' on a periodic basis. They call in to hear the latest about plans for new product launches, to follow up on orders that distributors promised to place with us, to hear the latest on the company grapevine, and to make suggestions for new products." Wiremold dedicated two phone lines and two inside salespersons to support approximately 200 field sales reps.

Wiremold was unusual in that there was no customer service staff expediting orders, and no one following up or making corrections to field sales commissions. Correct order entry and a perfect order fill rate in excess of 90 percent made expediting unnecessary. Field sales commissions were paid automatically based on invoices to customers. Four people handled all billing and credit matters with distributors.

The Field Sales Force The field sales representatives were divided into two groups: distribution specialists and specification specialists.[13] Both worked within the same territory as a team and were paid on total sales in the territory. The specification specialist was an important component of the go-to-market strategy. If Wiremold were to give the distributor the maximum amount of help in maintaining high profit margins, the company had to bring unique solutions satisfying the needs of building owners and users to the specification influencers. A well-written product specification by one of the company's specification specialists meant less competition for both Wiremold and the distributor for that particular job, and thus higher margins on it.

The Distribution Specialist The task of the distribution specialist was to work with the distributors and small- to medium-size contractors. In working with distributors they were responsible for positioning the distributor's selling and marketing efforts to cover the market and coordinate their own and the distributor's efforts with the spec selling efforts by the specification specialists. They also mobilized the specification specialists to follow up on opportunities generated by the distributors. This two-way cooperative effort between the distributors and the company helped distributors to grow profitably and receive the greatest benefit from the company's Synergy distributor incentive program.

Summing up the company's policy, Miller and Bartosch said,

> Our commitment to the distributors is that they are to be viewed, not as customers, but as marketing and sales partners dedicated to serving the customer in cooperation with the manufacturer. Many manufacturers take advantage of their distributors, and the relationship between the two is often adversarial. They often view the distributor as the customer and try to make incentives for them to buy more. Instead, Wiremold focuses on helping their partners sell more in the marketplace instead of just trying to load up their shelves. Our company wants the distributors to make well above normal industry profits on our business and we work with them to make that happen.

Bartosch continued,

> I recall being at a distributor conference a few years ago listening to a respected educator discuss the future of electrical distribution in this country. At the time the distributors were operating at a profit level of about 7 percent of sales. He predicted that if they continued their current business practices they would be at 1 percent within ten years. At Wiremold we were determined not to participate in that future. By the way, the electrical distribution industry beat that projection by three years.

Wiremold's goal was to educate its distributors about Lean, and to engage them in a marketing partnership. The distribution specialists were the linchpins of the company's distribution strategy.

An important duty of the distribution specialists was to convert existing and new distributors to the Synergy program by helping them be more effective and grow in the end market, and to monitor each distributor's progress. About 70 to 75 percent of Wiremold's sales volume was served out of distributors' stock. Therefore, distribution specialists first worked on determining "market-suitable inventory" for each distributor. How frequently were the various parts of the Wiremold line ordered by the distributor's customers and what was being specified in projects by the specification specialist? At distributor industry conferences, Ed Miller promoted this approach with the phrase "You carry a wide breadth, and we will take care of the depth on our weekly cycle trucks." Miller's electronic presentations (slide shows using Powerpoint) were available to the distribution specialists on their laptop computers to use as an aid when meeting with distributors. Figure 1 contains an excerpt describing the cycle truck program. The data in the column labeled "Current Performance" could be updated weekly with the statistics that the company kept for all of the distributors using the cycle truck program. The column labeled "Target Performance" contained the metrics that the company used to evaluate its own performance.

Figure 1
Slide Explaining Cycle Truck Program

Wiremold Cycle Trucks

Wiremold Equipment and Personnel
Weekly Delivery of Product

Current Performance	***Target Performance***
• **Same Day Each Week**	**Same Day Each Week**
• **52 Weeks of the Year**	**52 Weeks of the Year**
• **92% First Time Fill Rate**	**100% First Time Fill Rate**
• **1.4 Shipments Per Order**	**1 Shipment Per Order**
• **12 Day Order Completion**	**6 Day Order Completion**

Reduce Depth of Stock Increase Breadth
Reduce / Eliminate Product Damage
Vehicle to Increase Inventory Turns

Source: Company documents

GMROI (gross margin based on return on investment) was a simple way of explaining the financial benefits of improved inventory turns to a distributor. *Investment* was defined as the distributor's average investment in Wiremold inventory at the distributor's cost basis. The *return* was the sum total of the distributor's gross profits over a twelve-month period on the sales of the Wiremold products from stock. To calculate GMROI, the distribution specialist worked with the distributor to find the distributor's total sales of Wiremold products from stock and the average inventory levels of Wiremold stock on hand during that period of time. The specialists then divided the *return* by the *investment*. Using this formula, a distributor would be able to support a larger volume of sales with lower investment in inventory if it used the cycle truck program to reduce its inventory carrying costs. Figure 2 contains an excerpt from a slide showing the financial outcomes to the distributor of increasing inventory turns.

After a distributor was using the cycle truck program, the field salesperson responsible for the account was required to meet quarterly with the distributor's local leadership to monitor progress on the marketing and sales plans they had established for the year, make mid-course changes depending on opportunities, share intelligence on the market and specific customers, and discuss ways to improve sales and customer service. The company's goal during these meetings was to explain how a distributor could *grow* its business. About 25 percent of the company's sales volume came from orders for

Figure 2
Slide Explaining GMROI

GM ROI = Gross Profit of Sales of Stocked Products / Average Inventory $

- Minimum target = 1.20
- Goal = 1.75
- Velocity or inventory turns = high impact

Example: $100,000 / year sales of stocked product
GM= 25%, means gross profit of $25,000

For 3 turns $= \frac{25,000}{33,000} = 0.75$ GMROI

For 4 turns $= \frac{25,000}{25,000} = 1.00$ GMROI

For 5 turns $= \frac{25,000}{20,000} = 1.20$ GMROI

For 10 turns $= \frac{25,000}{10,000} = 2.50$ GMROI

Source: Company documents

specific jobs that needed to be manufactured to specific customer requirements. (The specification specialists were actively working with specifiers to persuade them to specify Wiremold® for their jobs.) The distribution specialists explained that the company had developed procedures to make this business more profitable for the distributors by using the following example.

Suppose a contractor wanted to use a Wiremold® product on a large project. The contractor would typically call a distributor and order 50,000 feet of Wiremold® raceway and the appropriate fittings. Under the old way of doing business, the distributor would call the company and order all 50,000 feet, ignoring the fact that it might take the contractor two or three months to install that product on the job. Either the distributor or the contractor would have to store the raceway until it was needed, protect it from damage, and pay for it all at once. The company's solution to this problem was:

> We'll send you 10,000 feet every two weeks. We'll deliver it to the project or to the distributor. You don't have to store large amounts, and thus you will reduce damage and loss during moving and storage. And, you don't have to pay us all at once, so your money is not tied up in a bunch of material sitting in storage for months. This is made possible by the Wiremold Lean production system, which allows us to make any product when it is needed. Avoiding the big 50,000-foot batch allows us to spread demand on the factory and improves service reliability.

Although doing business the Wiremold way required a distributor to change its ordering and inventory management patterns, the Synergy program provided distributors with rebates of 2 to 3 percent annually based on the number of product lines carried plus an additional 1 to 2 percent for growth above 10 percent. The rewards were paid to each of a distributor's branches based on the sales that each particular branch had achieved over the entire year.

Pricing

The electrical manufacturing industry was characterized by intense rivalry. Many manufacturers competed in ways that tended to turn new products into commodities very quickly. The company had developed policies to defend its products from price commoditization. These included a one-price policy, a level playing field, and a tightly controlled process for considering exception pricing.

Most electrical manufacturers were willing to give some distributors better pricing than others. In contrast, Wiremold operated in the marketplace with a one-price policy for all standard products sold to distributors. The company refused to negotiate pricing on any product sold into a distributor's stock. The company never offered end-of-month or end-of-quarter discounts to artificially increase sales, clear inventory, or generate cash. Commenting on this policy, Ed Miller said,

> The key to maintaining our one-price approach has been to ensure the price is already at realistic market levels from a value standpoint. If we find products that are priced too high with an unsustainable price we reduce the structural (book) price and devalue the distributors' inventory, rather than get into major discounting.

Miller continued,

> The one-price policy also addresses the practice of regional prices of products. It has been a long-standing practice in the industry to vary prices regionally for the same part. This is no longer sustainable or maintainable since national distributors and contractors won't accept different prices for the same item.

Wiremold believed that they had a responsibility to their distributors to maintain a level playing field. The level playing field was an important component in building trust with distributors, and trust was essential to building strong relationships. Miller explained,

> Implementing a one-price strategy goes against how most people think. Our industry is conditioned to believe that if you buy more you should pay less. We always get the question: You mean I get the same prices for a $1,000 order as I do for a $100,000 order? Our answer to that is, Yes, we don't value our business with you the distributor on the value of one order; instead we value the total business you send our way and we offer you the best price all the time. We know that price negotiations are the most wasteful, time-consuming, and unproductive practice in our industry.
>
> As a company that practices Lean business management, getting rid of this waste is paramount. For example, 30 percent of a typical electrical manufacturer's field sales time is spent on negotiating prices. The equivalent of 30 people in a 100-person sales force are spending all of their time negotiating prices! Just think, if we can eliminate this waste our company can add 30 people in the field to sell our products. And the distributors can reduce their costs by a like amount: and will benefit from our increased selling efforts on their behalf!

Pricing on projects that the company was bidding for could be negotiated, but only when there was verified competition from another manufacturer of a like product. Field sales representatives did not have authority to change a published price or discount; they were permitted to request approval for a change from the list price *only if* they had in hand written proof of competition (at a lower price) for a very similar product (based on functionality, features, and benefits). With the written documentation in hand, they could request their regional manager to approve a price that they wanted to offer the distributor. However, regional managers could only approve deviations from list prices within well-defined small percentage limits. Above those limits, the request had to go Bartosch, who had final authority. The small number of negotiated orders, and the process for controlling any price concession, enabled Miller and Bartosch to keep a close eye on market conditions and competitive pricing strategies. About requests for exception pricing, Bartosch said,

> We rarely meet a competitive price. Our knowledge of the project, the specifying influencers, the contractor and the end user, as well as our labor-saving solutions, insulate us from having to meet the competition dollar for dollar. The company regularly maintains book price in the face of competition and is favored with the order anyway. Less than 10 percent of the company's business is a negotiated or special price versus an estimated 60 percent for the electrical industry as a whole.

As CEO, Art Byrne's primary strategic thrust had been for the company to achieve rapid production and delivery of high-quality products so as to be able to command category leadership and with it upward pricing flexibility. Another part of the strategy was to avoid selling to buying groups because they tended to purchase only the most basic products and they negotiated aggressively among manufacturers to get the lowest price and preferred payment terms. In summarizing the company's approach to pricing, Bartosch said,

> Because of our steady flow of new product introductions, our relationship with the specifying influencers, contractors, and our education programs at Union apprentice schools and for distributors, the company has become the preferred supplier in its product categories. In addition, education of our distributors on how to increase their sales and the good margins we offer to them has made the company "the supplier" for them to stock in the wire and cable management product category. As a result, we have been able to achieve regular price increases with a 90 percent plus realization factor on those increases.

Marketing to the Distributors

Distribution was a very traditional business. Bartosch commented,

> They're a bank and a warehouse. They buy from us and resell to a contractor or end user. So their business is the cost of money that they need and the amount and mix of inventory they have to carry and how much money they can make off that inventory and the local service they provide the customer. Distributors want the lowest possible inventory to fulfill orders complete in one shipment and the highest possible margin on the sale of that inventory in the marketplace.

Traditionally, industry terms (2% 25th 10th Prox net 30th) meant that a distributor could place an order on (say) the 29th of September, take 25 days, and pay on the 10th of the next month after that (November 10th in this example) and still get the 2 percent discount. The distributor could pay as late as the 30th of the month and not receive the discount (November 30th in this example). In practice, distributors skewed their orders to the last few days of the month to maximize the amount of time between receipt of the goods and when they had to pay for them. As a result, distributors usually had more inventory than they needed when their order was delivered. Sometimes they experienced stock-outs in the days leading up to the next optimal ordering date. Customer service (prompt delivery to job sites) tended to suffer just before the next scheduled delivery date. It was standard practice among the electrical manufacturers to assist the distributors by offering steep discounts for large volume orders at end of month or end of quarter.

Wiremold did not agree with how the electrical industry operated. Wiremold's strategy was to provide high value-added products to end customers and at the same time help its distributors improve the value of their own businesses through enhanced customer service. To support this effort, Ed Miller developed a series of presentations describing the company's Lean business practices, the acquisitions that had broadened the company's product line considerably, and the company's future direction. Figure 3 contains an excerpt from a slide presentation describing the value that the Wiremold line added to the distributor and to the end customers.

Introducing Lean Business Principles Wiremold's time-based competitive advantage was its ability to deliver quality products reliably and consistently within a short period of time after receiving an order, without holding the large inventories that its competitors

Figure 3
Excerpt from *The Value of Wiremold* Slide

The Wiremold Production System In The Marketplace

Wiremold	Distributor	End Customer
One Piece Flow	Flexibility Rapid Response Breadth Stocking	Flexibility Rapid Response
Quick Change Over	Increased Inventory Turns	Material Timing To Installation
Error Free Shipping	Lower Transaction Costs	Lower Material Carrying Cost
Cycle Shipping	Reduced Shipment Damage	Increased Support From Distribution
Superior Terms & Conditions	Simpler & Fewer Return Goods	Lower Installed Cost Product
Product Leadership	Enhanced Profit	Enhanced Profit

The Value Of Wiremold . . .

Source: Company documents

did to achieve high customer service levels. The company believed that its challenge was to take its advantages developed in the factory and leverage them in the marketplace: the network of independent distributors. Accordingly, several years prior to the time of the case, the company had implemented a series of changes to persuade the distributors to adopt Lean.

The First Step: New Payment Terms With the weekly cycle truck program in place, distributors placed some of their orders weekly but continued to order most of what they needed late in the month to take advantage of the industry standard payment terms of 2% 25, 10th Prox. These terms meant that an order placed on September 26 would be due for payment on the 10th of the month after the 25 days had passed, in effect on November 10th, and the distributor would still get the 2 percent discount. The discount would be lost only if the payment were received after November 10th. Almost 60 percent of a month's demand could hit the factories during the last week of the month and arrive on the distributors' docks to be received on the first week of the following month. It was impossible to do level manufacturing while the demand from the distributors was still fluctuating from week to week. As Lean company, Wiremold needed to find a way to level the demand.

Since 1919, the company had offered a 5 percent discount for on-time payment compared to the standard industry discount of 2 percent. D. Hayes Murphy, the company's founder, instituted the 5 percent discount policy for two reasons. First, with the higher discount, invoices would be processed first and paid on time. Second, in a fiercely competitive market, the additional 3 percent of cash discount dropped right to the distributor's bottom line as profit because it was not part of his actual cost of goods. Since the industry standard was 2 percent, the 2 percent cash discount was often passed to the distributor's customers. The extra 3 percent that Wiremold offered was almost always kept for the distributor, helping its profitability.

The company changed its terms to 5 percent with invoices dated from the 1st to the 15th due for payment on the 25th and invoices dated from the 16th to the 30th due for payment on the 10th of the following month. These terms meant that for an order placed on September 26, payment would be due on October 10 to obtain the discount. When some distributors balked at paying twice a month instead of once, the company did a study and discovered that many distributors were, in fact paying invoices four times a month, cutting checks weekly to ensure that they received the 5 percent discount.

The move to two payment due dates a month persuaded the distributors not to make large orders during the last week of the month. The company's factories achieved the desired leveling of their workload, and the field salespeople were able to have serious meetings about inventory turns with distributors. In the end, these changes drove significant changes in the composition and training of the field sales force.[14]

The Second Step: Annual Performance Meetings with All Distributors Helping the first thirty distributors adopt Lean was not difficult. Selling the next largest 420 was more difficult. The problem was that the historical work patterns of the distributor's employees changed in response to the Synergy program. Purchasing agents who used to do all their buying in the last week of every month were now busy every week. The receiving department was busy every week, not just early in the month. The accounts payable department was looking for and finding Wiremold® invoices for payment by the 15th and the 30th of every month, and in many cases paying the company weekly. Depending on the proportion of sales of Wiremold® goods in the sales mix, a distributor's reactions to these changes ranged from expressing mild annoyance to expressing the feeling that Wiremold was now dictating how to run the business.

To assist this second group, Wiremold initiated quarterly meetings with all distributor branches with an annual volume of $50,000 or more of Wiremold products. In these meetings, the distribution specialists provided training in how Lean business practices were in fact improving the distributors' operations, and how to increase the proportion of Wiremold® products that they sold in their total sales volume. Both of these factors helped distributors to increase their own profitability. Ed Miller also developed a slide presentation for the distribution specialists to use to help distributors implement Lean business practices when working with Wiremold. By the time of the case, the largest 450 of the company's distributors were on cycle trucks, ordering and receiving material weekly, and benefiting from lower inventories, increased inventory turns, and profits. Figure 4 contains a slide explaining why Lean was important.

Figure 4
Excerpt from Slide Entitled *The New Competitive Reality*

The New Competitive Reality

Productivity = Wealth

The Winners Will Be
Companies Who Focus
On Their Processes,
Not On Their Results.

Source: Company documents

The Issues

As they reflected on the meeting with Byrne and Fiume, Miller and Bartosch made a list of the issues. First, the company had too many distributors in a number of important markets. This was putting pressure on prices at the retail level as the distributors competed against each other.

Second, many of the larger distributors were complaining that the Synergy program was branch-specific. It was hard for distributors to agree to support Wiremold exclusively in their lead product category if it was not available to all branches in the company. Additionally, the exclusive agreement only covered local branches and not regional distribution centers where competitor products could be shipped in. It was costing some distributors lost incentive awards since their smaller branches were at a disadvantage in terms of earning the highest possible level of incentive awards. Table 1 provides a summary of the rewards for different sales levels on a branch-by-branch basis.

The largest volume branches selling $100,000 to $250,000 of Wiremold products a year could earn an extra 5 percent reward.

Table 1
The Two-Tier Synergy Rewards System

Sales level	$50,000 – $99,999	$100,000 and up
Loyalty incentives	1/2% to 2% depending on product line	1% to 3% same product lines
Growth incentives	1% to 2% for growth above 10%	1% to 2% for growth above 10%
Promotion	1/2% discount	Graduated up to 1.75% for sales levels of $1 Million and up
Bottom Line		The $100,000 – 250,000 distributor can earn an extra 5%!!

Source: Company Documents

Third, other manufacturers were revising their incentive programs so that distributors earned incentive dollars based on total volume of the total chain, not on a branch-by-branch basis. Should the company continue to buck this trend as it did with cash discount and inventory policies? Further, some competing manufacturers were offering incentives regardless of whether the distributor supported all or part of their product line. No competitor was actually offering a comparable breadth or range of wire and cable management solutions. It took at least three suppliers for a distributor to cover 85 percent of the Wiremold product range: with some key product benefits and advantages that Wiremold offered *still* not available. The distributor's actual performance in supporting the manufacturer's entire product line (or a significant portion of it) was no longer being included in the calculations of incentive payments by other manufacturers. Was this a significant threat to the attractiveness of the company's incentive system? The loyalty component based on the distributor's total sales of Wiremold products along the length and breadth of the product line was a significant component of the existing incentive system.

Fourth, the effect of distributor-led price reductions in markets where there were too many distributors was often a decline in distributor margins. The company wanted its distributors to earn good money for being the company's marketing partners.

Next, Miller and Bartosch held a brainstorming session to surface a number of ways to deal with the problems. The session resulted in a number of ideas and questions.

- Should the company use the Internet in new ways?
    - Perhaps to offer selected products direct to contractors?
    - Perhaps to offer lower prices to customers who purchased from the Internet?
- Should the company reduce the number of Wiremold distributors in selected markets where Wiremold products were "over distributed"?

- Should they revise the Synergy program to eliminate the loyalty component?
- Should they revise the Synergy program to consolidate all of the distributor's branch sales in calculating the incentive award payments?
- What was the real value proposition of Wiremold in the end market and to its distributor partners?
- How was that value proposition being attacked or possibly weakened?
- What did the company need to do to have its distributor partners want to be exclusive with Wiremold?
- How could the company ensure that their distributor partners would be more successful in winning new business and be more profitable than distributors selling competitive products?

In reflecting on these questions, Miller and Bartosch wondered if there might be some options that would address more than one issue or question. Further, in keeping with Wiremold's commitment to Lean business practices, Miller and Bartosch had an obligation to consult with other members of the president's staff as to how each option would affect their area of responsibility. The key would be to craft a set of actions that would improve each area's functioning (or at least have no negative impact) and that would improve the company's financial performance as a whole. Then they would be in a position to present their plans at the president's staff meeting to obtain approval of the vice presidents. Byrne had indicated that it was imperative to proceed at all possible speed.

Endnotes

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[1] Wiremold and Synergy are registered trademarks and service marks of The Wiremold Company.

[2] The term *spec* means the specifications and instructions that accompany the detailed architectural and engineering drawings given to the contractor to build. Taken together, all of the drawings and instructions are the project's "specs." Contractors placed orders based on project specs.

[3] The term Brownfield means that the conversion took place in an existing location within an existing business, including plant, equipment, and workers. In contrast, a Greenfield conversion would mean that the company moved to a new location and obtained new plant, equipment, and human resources.

[4] For more information about the conversion to Lean at Wiremold, see Bob Emiliani et al, *Better Thinking, Better Results: Using the Power of Lean as a Total Business Solution*, The Center for Lean Business Management, Kensington, CT, 2003. (Winner of a Shingo Prize in 2003 in the Research and Professional Publication category.)

[5] The Prize was named after Shigeo Shingo, a consultant to the Toyota Motor Company, who developed the SMED system (Single Minute Exchange of Dies) that made large reductions in manufacturing setup times possible. Reduced setup times in turn made quick change-overs on the production line possible, a key element in JIT (just-in-time) manufacturing.

[6] It is company policy not to disclose financial information.

[7] Wiremold was one of the first manufacturers to identify and solve the problems of wire and cable management that were created by electromagnetic frequencies emanating from electrical power lines that caused cross-talk between communications lines. The cross-talk was not as noticeable for analog devices,

but became a serious problem for digital devices (such as computers and digital telephones) connected to network wiring.

[8] Kaizen is a process by which a designated team redesigns a specific process within a prescribed period of time (usually 3 to 5 days). The goal of every kaizen is to achieve specific measurable improvements to the process.

[9] QFD is a product development methodology that ensures quality at every stage of the design, manufacturing, and launch process. The Voice of the Customer is a way to obtain customer wants and desires directly from them. For more information about the company's product development process, see Fransson, LaPlaca, and Maynard, "The Wiremold Company: Listening to the Voice of the Customer," *Business Case Journal*, Summer 2004.

[10] It is the authors' understanding that correct Japanese usage of the word <u>kaizen</u> refers to continuous improvement that is always ongoing. However, in actual U.S. parlance, organizations using Lean are often confused with matrix organizations, which they are not. In a Lean organization (such as Wiremold), each person reports to a functional manager, and may be assigned to a kaizen team for a period of (usually) three to five days. At the end of that time, the members of the team return to their normal work in their assigned posts. In the remainder of this case, we will follow American usage and refer to the *kaizen team* as those persons who use the *kaizen disciplines* during a *kaizen event* as part of the ongoing process within the company known as *kaizen*. We hope that the separate designations of who (the team), the how (the disciplines), and the time and place (the events) for the ongoing implementation of the process will eliminate the confusion between a Lean organization and a matrix organization.

[11] A *specifier* was someone who had a say in writing a specification for the components that would be purchased to manage the electrical power and communications wires and cables. Typically, specifiers included architects, electrical engineers, interior designers, and sometimes building owners. For some jobs, installation contractors would make the decision independently. For others, a specifier would write a specification that would direct the installation contractor to purchase and install specific equipment. Wiremold had a field sales organization (Specification Specialists) dedicated to contacting specifiers for the purpose of persuading them to specify Wiremold products.

[12] A pull manufacturing system is one that makes goods in response to customer orders rather than to build inventory for later sale.

[13] The responsibilities and roles of the specification specialists were to work with the specifiers, all parties who had an influence on the selection decision for a wire and cable management system. In practice, specifiers included architects, consulting engineers, interior designers, building owners, and, sometimes, lead tenants. The specification specialists were trained to assist in the writing of a specification for a wire and cable management system. The ability to write a "spec" was of great value to Wiremold in winning business.

[14] See the forthcoming "The Wiremold Company: The Field Sales Organization," Martha C. Fransson, Robin Chase, Edward B. Miller and Scott M. Bartosch. (Contact Martha C. Fransson.)