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Next Level Service

Lawson Products creates a path towards organic growth

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Taking Business to the Next Level

Lawson Products has growth on the brain, and a clear path to get there.

BY ANNA WELLS

In the mind of Lawson Products CEO Michael DeCata, MRO is a nuanced business. Even in an organization that offers more than 300,000 products at every price point and performance level, the devil is in the details — and it's about so much more than simply stocking durable goods.

The Lawson Value Proposition

DeCata classifies Lawson's sweet spot as a subset of MRO — specifically the consumables side. "Almost everything we sell tends to be smaller; the kinds of things you don't always inventory," explains DeCata. "You don't often count flat washers in a drawer, you consume them."

Within the consumable MRO space, Lawson differentiates itself further: approximately 60 percent of what it sells in this niche is private label products.

For Lawson, private labeling is an opportunity to offer its customer additional varieties of products, but with an unusual twist: instead of a lower-end, lower-cost version of an existing quality product, the Lawson versions are engineered to be highly durable. "We're very proud of our private label products; they've been highly engineered, perform better, and customers really want them," says DeCata.

But products aside, Lawson views its primary value proposition to be a service-based one, centered primarily on its "Lawson Managed Inventory." Lawson considers its version of a traditional VMI to be so sophisticated that it becomes almost ingrained in its customers' operations. For example, a typical Lawson sales rep would arrive to unopened boxes of supplies at a customer's site. The rep would then be responsible for the put away, along with an informal inventory count and ordering. "We become an extension of the customer's location and a highly trusted partner — almost as if an employee," says DeCata. The sales reps are often so savvy that they know to re-order on a drawer that's still two-thirds full, and not re-order the drawer that's nearly empty because they're so familiar with the frequency at which the inventory turns over.

"For many in the MRO space, the value proposition goes something like — 'if your conveyor belt fails, call us and we'll get you a new one tomorrow or in a couple of days.' What we aspire to is — you will never call us, because the stuff will always be there," he explains. "There's no next day service. It's there, when you need it, before your mechanic reaches into the drawer. It's a very high bar, but it's what we aspire to."



And besides the inventory management piece, Lawson sales reps pride themselves on their consultative selling practices. "It's about the application and technical expertise that they (the customer) don't have the time to focus their efforts on," explains Allen Jacobson, Senior Vice President of Sales.

Building Infrastructure for Growth

The company's customer base is essentially reaping the rewards of Lawson's long-standing commitment to continuous improvement of its business operations. More recently, DeCata and his team have spent the last few years aggressively assembling the building blocks for a strategy towards organic growth. Part of this foundation came through investments in brick and mortar, which allowed the business to consolidate from three smaller buildings into a 305,000 square foot office and distribution center in McCook, IL. The warehouse floor features a pull inventory system for more centralized stocking and new packaging equipment for weighing and auto-bagging small MRO parts like fasteners. The whole operation was designed for scalability as Lawson looks to grow.

Secondly, the company has invested in state-of-the-art IT infrastructure, including SAP, in order to streamline operations and gain better transparency of its data. Says DeCata, "As a management team, we look at the key metrics in extreme granularity."

Ronald Knutson, Lawson's EVP and CFO, says that the \$40 million in capital investments over the past few years have been crucial in securing the foundation of the company. "Our relationships with our suppliers are much stronger, as is our ability to purchase product, receive it here, and send it to customers or our DCs, and to deliver on the customers' expectations," he explains. "We look at our key metrics every single day, and those include things like order completeness, line service rates, backorders... and we've seen dramatic improvements over the last 18 months. And if we see a trend that's moving in the wrong direction, we can react to it very quickly."



Shane McCarthy, SVP, Supply Chain, explains Lawson's kitting capabilities.

The People Factor

When it comes to investments in growth, Lawson hasn't stopped with brick-and mortar and IT; the company has also placed a strong emphasis on, and capital support behind, an aggressive goal of hiring and training additional salespeople.

According to Sue Eaglebarger, VP of Human Resources, Lawson views its sales new hires as being like a one-person, mini acquisition. "Almost like when you acquire a company you can boost your revenue quickly, we view hiring new sales reps as a way to grow our revenue incrementally," she explains. The company added 50 reps in year 2013 and is in the process of increasing its salesforce by 15 to 20 percent in 2014. These additions will help in existing territories by improving route density, but also allow Lawson to expand its footprint to other geographies in the U.S. and Canada.

DeCata acknowledges that attracting a talented workforce is an industry-wide hurdle. "Finding high-caliber, talented salespeople is a challenge. Once they're here, they tend to love it. But developing them, finding them, giving them the initial tools... that's a challenge in all industries, but particularly distribution," he says. "Distribution is all about process optimization. We neither have the burden nor the excitement around having to invent the next iPhone 6. But there is also a different kind of excitement. Young people who are attracted to process improvement, optimization, and analysis tend to like distribution."

Lawson sales reps are incentivized with unlimited earning potential, as well as the right amount of independence, and the company finds that its existing sales reps and customers are often the best recruiters. Once on board, training consists of technical

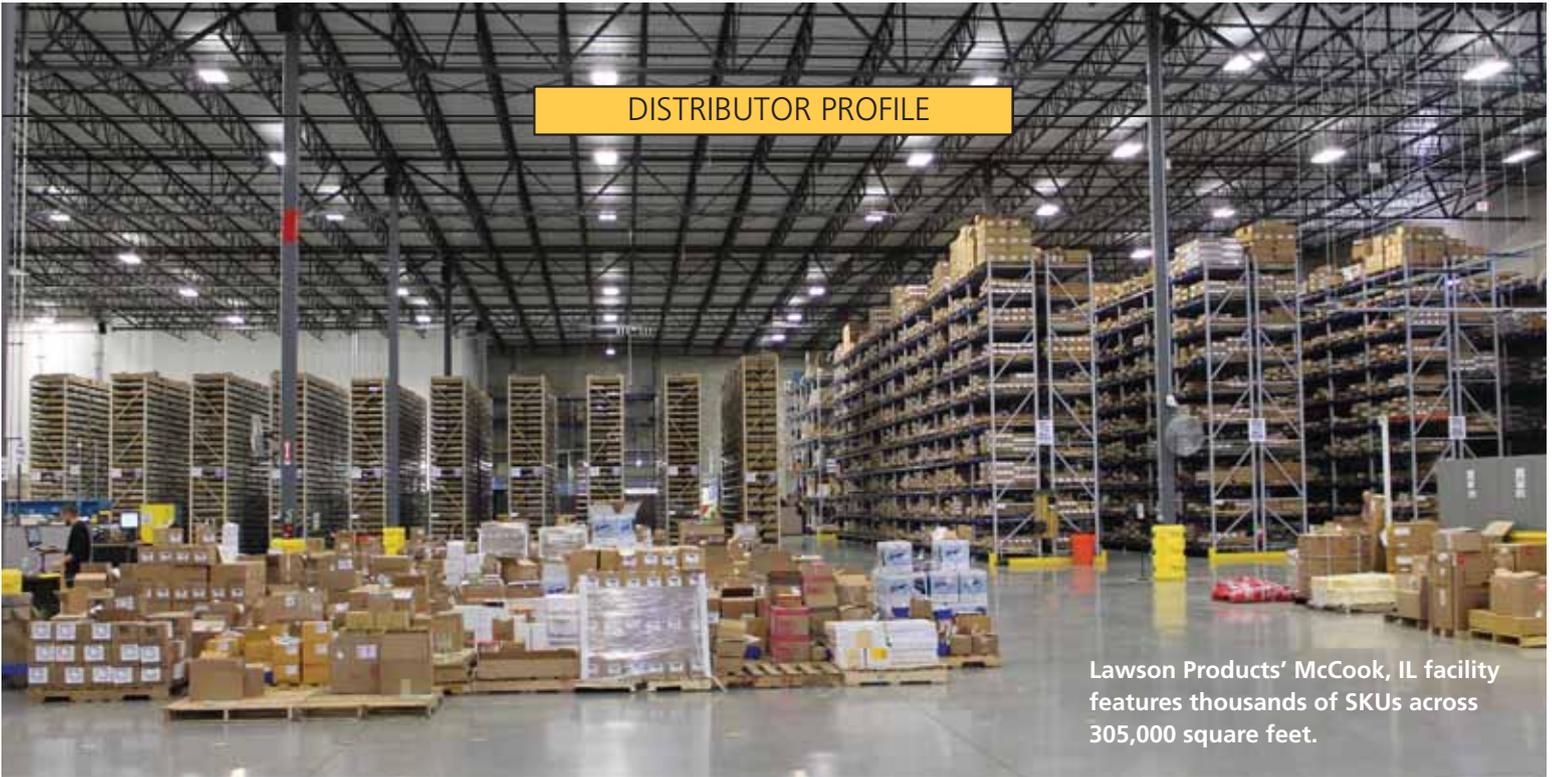
learning in order to ensure the salespeople are full-on product experts.

A Future in Continuous Improvement

Internally, the focus is on creating an environment where high performers want to work. This dovetails with a larger company cultural shift, as the organization looks to infuse new resources with training initiatives to help improve worker satisfaction. Most notably, Lawson has undertaken a Lean Six Sigma initiative, where various functional areas of the company are challenged to identify bottlenecks and drive waste out of their processes. "Continuous improvement is something we're embracing and encouraging," says Shane McCarthy, SVP, Supply Chain. From McCarthy's vantage point, some of the major impacts have been through the development of a new strategic sourcing department. "We're focusing on supplier interaction to make sure we're communicating to them what our expectations are."

On the warehouse floor, Lean means daily discussions with team leaders and feedback from employees on anything from process bottlenecks to ergonomics. "There's a lot of knowledge being gained by people across the organization," says McCarthy.

Liesl Abrahamson, VP of Marketing & Continuous Improvement, stresses that the Lean Six Sigma programs have been successful because they haven't been a top-down mandate. In fact, once the first wave of Lean got underway and results were evident, Lawson employees were clamoring to participate. The company worked diligently, using its new data visibility tools, to identify the performance across key areas and determine where the greatest opportunities were for improvement. It was about "using data – rather



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Lawson Products' McCook, IL facility features thousands of SKUs across 305,000 square feet.



than your gut – to make decisions,” says Abrahamson.

One big win relates to a value added service Lawson offers around special order procurement. “If there is something that is not in any of our warehouses, we can go and source that item for a customer on a special order basis,” Abrahamson says. “We focused particularly in the quotation area of the process and were able to reduce the cycle time – how long it takes us to respond to the customer – by more than 50 percent. Concurrently, we now process upwards of seven percent more quotations every day.” Lawson employees have been excited about the cross-functional collaboration, and better quality processes have meant less rework.

An additional soft benefit of the continuous improvement initiatives is that the Lawson salespeople can provide some insights around Lean and 5S in their customer’s sites — which is just icing on the value-add cake.

What’s Next?

Lawson Products’ company motto is “We Aspire to be Our Customers’ First Choice” — and it’s clear the business functions in a way that preserves this. It seems, at this point, that nothing is stopping Lawson from adding more customers to its existing base.

The company is in a position, says Knutson, where it is flexible as to where it might spend its dollars in the future. “We operate close to a 60 percent gross margin, which is very high relative to the industry,” he explains. “So we get tremendous leverage if we can grow sales budgets.”

Since the organic growth piece is well underway, does this mean strategic acquisitions could be in the pipeline? DeCata says yes, but it must be via “DNA-match” companies. These would be “businesses like us, only smaller. We’re not looking for adjacent product lines, or geography beyond the U.S. or Canada. We think that can be a great partnership. Because of the infrastructure we’ve built, we can help extend someone’s value proposition by joining us.”

Because value, after all, is at the heart of everything for Lawson Products. It’s evident that the company executive team has a lot to be proud of in this area, and they’re more than equipped to make the case to their customers and potential customers. “It’s really easy for us to sit down and draw a clear and objective metric-based cost/savings model,” says Jacobson. “Our value proposition is easy to defend.”