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2011 Dealer of the Year: R.W. Smith & Co., San Diego

An open corporate culture and unwavering dedication to training continue to drive this employee-owned dealership's success.

Written by Joseph M. Carbonara, Editor in Chief

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When measuring a company's success, what the organization does and the results it achieves are of the utmost importance. Equally important, though, is how the company goes about doing its business. This last factor is what allows companies to lay claim to emerge as best in class. Such is the case with R.W. Smith & Co., *FE&S*' 2011 Dealer of the Year.

Being employee owned and operated makes R.W. Smith a little different from most foodservice equipment and supplies dealers in that it has spawned an amazingly resilient entrepreneurial spirit that spreads from the receptionist's desk all the way through all of its satellite offices. In addition, R.W. Smith boasts one of the most transparent corporate cultures in the foodservice industry, giving employees access to mission critical data at all times and having a management team that remains consistently open and honest with every associate regardless of tenure or position. This approach allows the company's associates to maintain a laser focus on providing value for the customers and suppliers the dealership chooses as its partners.

R.W. Smith's best marketing tactics are having a well-trained sales force and empowering associates to do right by the customer. As a result, R.W. Smith has established a reputation for excellence in the markets it serves and the company has grown to more than \$75 million in annual sales from \$20 million since the employees purchased the dealership in July of 1997.

The dealership remains engaged in the foodservice industry at large through its employees' involvement in FEDA, buying groups and the like. R.W. Smith and its employees also give generously to local charities to support the communities in which they live and work.

For all these reasons and many more *FE&S* is proud to present its 2011 Dealer of the Year Award to the employee owners of R.W. Smith & Co. The following pages feature a Q-and-A style article with R.W. Smith President Allan Keck and some perspective from several of the company's employee owners who have been with the company for quite some time. We hope that you find this to be an informative look at *FE&S*' 2011 Dealer of the Year and the foodservice industry at large.

FE&S: How has the company changed since the employees bought it?

AK: Before the sale, we were a \$20 million company owned by the Smith family. They were not really investing in the business.

FE&S: What made the employees think you, as a group, would be successful owning the company?

AK: We thought we could double the business in five years because there was some fairly significant pent-up potential in the markets we served. And in 2003, we expanded geographically with the opening of our Dallas warehouse.

FE&S: What are some of the differences between an employee-owned company and one that's held by a single entity?

AK: When you become an employee-owned company (ESOP), you borrow as much money as you can from the bank and even then that is not enough. So we had signed a 14-year note in 1997. If we stayed true to those terms, the company would still be leveraged today. So we set a goal to retire that debt in five years and got out in four and a half years. You better be growing your sales and profitability because the stock of an ESOP is evaluated each year.

FE&S: The company seems to have a pretty good idea of how it wants to structure its revenues. Can you describe this for our readers?

AK: We have tried to stay within parameters where 60 percent of our business comes from the supply side and 40 percent takes the form of new construction. We realize that construction work is a capital intensive business that requires a lot more than the equipment investment and you have to be prepared to support that business.

FE&S: OK, so you had an idea that the business would be successful if the employees bought it. But once the Smiths transferred ownership to the employees there had to have been a few things happen that you did not expect.

AK: The biggest surprise was when we outgrew our people.

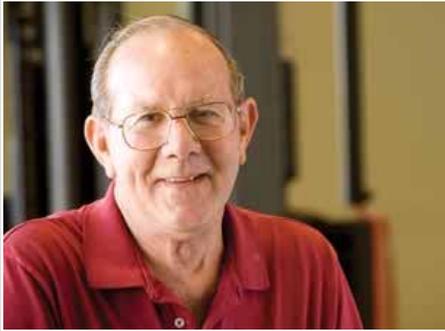
I joined a group called Vistage, which is a professional organization of presidents and CEOs of non-competing companies. We meet once a month at a member's business. The first part of the meeting consists of a presenter that reviews some strategic aspect of business. We cover everything from legal information to human resources issues to ways to



Strategizing in R.W. Smith & Co.'s War Room, a place where staff can meet to coordinate various projects, are (from the left) Herschel Hendrickson, purchasing manager; Kathleen Mac Pherson, controller; Robert Reed, credit manager and Sue Fitzgibbons, human resources director.

grow your business. Then in the afternoon we spend time dissecting that month's host business. The group becomes kind of like an unpaid advisory board in that they critique your business and hold you to your commitments.

My peers in Vistage told me that in trying to double our company we would outgrow our money, systems and people. The people part of that is what really surprised me. We have not outgrown our money.



Kress Goeltzenleuchter, Warehouse Worker

Years with R.W. Smith: 39

The company has changed a lot and the growth has been phenomenal since 1997. This company's vision and leadership are its strengths and right now we have a pretty good management team leading us and they know the company needs to grow to remain viable. Employee ownership gives you a chance to have an investment that helps you plan for retirement. As an employee owner your work stays on your mind, even in off hours, because you want to do a good job. Down the road not only the company benefits but you do, too. Allan Keck knew that the company had to grow to remain viable. I have seen a lot of people come and go and for me to be able to stay for nearly 40 years is an accomplishment for me personally and speaks to the company's stability.

And when AI came on board, he said we needed to become more committed to three-dimensional modeling and Revit. Basically, what this means is that your designer produces three-dimensional drawings of the foodservice operation. Those drawings get integrated with every other subcontractor's drawings and it allows you to detect any clashes with other areas before the project is done. Right now, this is an emerging area for dealers like us, but it will become something everyone needs to know soon. We've been awarded two projects because we have this expertise in house. Most other dealers have to outsource.

I always believed we could not make any money in schools. Our team proved me wrong and that part of our business is what saved us over the past few years.

FE&S: Still, a lot of these changes occurred during very turbulent and uncertain economic times. How did the employees react to the company making these management level changes?

AK: Remember, they are employee owners, so that changes their perspective. As employees, they get a paycheck but as owners they want to protect their investment. When they see the company change out its whole management team over a five- or six-year period, they got a better idea of what the dealership is trying to accomplish.

In all of that time, I have found that communication is the most important thing you can do. You have to be honest and credible with the employees. They see our interests are in the long-term growth of the company and we are trying to create shareholder value. So despite the economic upheaval, the employees saw what the company is trying to achieve and are sticking with us.

FE&S: Given the importance of communication, describe a few ways you are keeping employees in the loop.

AK: As the president of the company, I provide a quarterly update to the employee owners either face to face, via conference call or even webinars. These updates discuss how our revenue is fairing, any major initiatives, why we made certain decisions and other subjects important to our business. In fact, any of our employee owners can compare actual sales to what was budgeted via our every day intranet.

We also have it set up so employee owners can send anonymous suggestions to me. I got some questions because they saw we were making investments during a time when our core customers were struggling. We had an increase in bad debt write off because some customers were struggling with their finances. And some of the growth plans we put in place prior to 2008 were put on hold. The trust we had established previously served as a foundation for tough times.

FE&S: R.W. Smith's culture is clearly different from a lot of other foodservice equipment and supplies dealerships.

AK: As we started changing this aspect of our culture one of my biggest concerns was wondering if we knew how to share. I came from a culture where we did not share information with employees and only a handful of people seemed to know our sales and profitability.

I would recommend to any business owner today that you have to tell people how you make money. How else can they help you? Some of our best ideas to lower costs or

FE&S: When you say the company out grew some of its people, what do you mean?

AK: Changing out the company's management had the biggest impact on our ability to grow. We also had people from non-management roles leave because of the pressure being created. A good company creates a healthy tension. And the last thing a good company wants is deadweight. We had a higher percentage of that in 1997 than we do today. Some people self-selected themselves out of the company. Others we had to let go. The alternative was to live with something that was not in the best interest of the employee owners and was not driving shareholder value.

FE&S: Can you discuss how your management team has evolved?

AK: In 2005 we began to change out the company's management team. Today our management structure consists of a corporate management team, an operational management team that runs design/build/construction and part of the business, and a group that runs the smallwares side of the company. The majority of this team has been with our company for six years or less.

FE&S: So how has updating the dealership's management team benefited the company?

AK: I have been here 34 years and it's the best management team I have been around. It is a dramatic improvement. When you bring people in from the outside they help educate you about what you don't know and help bring your expertise level higher. For example, Jay Kruger, our chief financial officer, has helped change our business model so we do less things that cost us money and more of the things that make us money. And later this summer we will launch a new e-commerce platform.

In June 2008, our company came to the realization that we had more design/build business on the books for 2009 than ever before. Basically, it was more than we could support at the time. As a result we brought in AI Thomas, our vice president/general manager of design-build. We knew he was a professional manager who could get the team built in relatively short order so the company could support those customers.

increase sales came from our people on the front line.

The greatest secret in our industry are the rebates dealers get from manufacturers. We tell our people what percentage of our sales come from rebates and what comes from gross margin on the sale of the product. They have to know that so they know how to approach their customers and what to sell.

FE&S: Still, there has to be a few sensitive areas that the entire company can't know, right?

AK: We did not share what we paid for the company and employee salaries. They know everything else. They know our credit line with the bank. They know if we are writing off bad debt. Clearly, over the past three years, many companies had to self-select out and improve their customer base.

FE&S: So how does R.W. Smith differentiate itself from other dealers?

AK: In distribution, the only difference you have is your people. They all have the same products we do and can buy it the same way. So in order to differentiate ourselves, you better have a sound business model and the ability to execute in a way that will make the customer want to buy from you.

What we do adds value and it is a very important part of the supply chain. And if we are not adding value we will no longer be a part of the chain. If the manufacturer is paying us a rebate, they become a customer. And if we are not doing something for the customer they will find someone else to buy from.

FE&S: How have foodservice equipment and supplies dealers changed over the years?

AK: Today dealers rely more on the manufacturers for sales stability. The foodservice equipment dealer should be the one closest to the customer specifying the product. The manufacturers have filled that void because the dealers have left that open for the factories to do that.

If the factory is helping the operator specify new projects and all you are doing is delivering boxes off the back of your truck, that's a treacherous path for a dealer to follow. We have less competition from dealers than we had 34 years ago. In most marketplaces our competition is not another dealer but a manufacturers' rep. There are still some good dealers out there specifying product but as a whole our group has dropped the ball.



Evelyn Roberts, Contract Coordinator

Years with R.W. Smith: 13

In my opinion, the ESOP culture shapes the company in three distinct ways. It raises the bar for all of us to achieve superior customer service when working both with team members and customers. The information the company gives us is empowering and allows us to make decisions that help the company achieve its goals. We all work for a living and some day we hope to retire, so the success of the company will help shape my retirement. You know exactly what you are working for here. In previous companies, I felt like just an employee. Now I feel like I am really part of the company and as a result you feel proud, empowered and want to work harder.

FE&S: So what are some ways that you are adding value to your factory and operator relationships?

That's why building information modeling and Revit came along. We can add value there. And we want to be the expert that can help with design issues.

FE&S: The issue of who owns the relationship with the operator has long been debated. How do you draw clear lines of delineation with your factory partners?

AK: We have many manufacturers that we collaborate with. In those cases, the relationship is crystal clear and both parties know the rules of engagement as to what role our employees will play and what role their employees will play.

We follow a philosophy of build, fix or terminate. It is something we learned from a book by the same title published by the National Association of Wholesale Distributors (NAW). Basically, the NAW book says you will have to get rid of some relationships because they are not profitable and can't be fixed. Our intention is to build and fix our relationships with our manufacturers to build a relationship that works for both of us. We have also chosen to terminate some relationships with manufacturers because we did not feel our relationships could be fixed. And we have terminated some customers because we were not making money with them.

You have to get rid of the people that are costing you money and stick with those that are making you money. That applies to most any business. We have defined our niche. We know what customer we want and have become a heat seeking missile. If we try to be all things to all people we will dilute our business.

We kicked out one vendor and did not do business with them for 23 years. We lived quite nicely during that time and so did they. Today we work with them because our organizations now have a relationship that is mutually beneficial.

FE&S: The past few years, dealer buying groups have gone through considerable transition. Do you think this was an example of dealers becoming more selective and choosing partners that will help form win-win relationships?

AK: I wish that was true but don't believe the buying group restructuring was a value of that. There is a value the buying group brings and that's on the buy side. We all still have to go out and create value for the products. The restructuring, in my view, is a reflection of the fact that the big dealers are getting bigger and the small dealers are getting smaller.

When buying groups first started, the dealers were all the same size. Now the cream has risen to the top. The customers are choosing people who have more size and structure and are more sophisticated. It used to be a mom and pop business where the customers wanted to come into the showroom to kick the tires on our products. Today, corporate America runs our customers' business more. The cheese for the dealer distributor has gotten moved in the past few years.

FE&S: What traits does the ideal R.W. Smith employee have?

AK: We all need empathy. They need to have a feeling for and understand what the customer is going through. And when I say customer, I mean both internal and external customers. You need to be able to understand their plight. The second piece is persistence. As we enter new markets — geographically and customer-oriented — people are not saying "hooray R.W. Smith is here." Many of these operators are happy with their current suppliers. So we need to earn their business and set out doing it with the understanding

that it might not happen right away.

Because this is a hospitality business our associates need to like people and being around them. If you have a relationship with your customers you can work through almost anything. If you can't talk with them, it can become an obstacle to growth.

FE&S: Other than the ability to empathize with the customer and build relationships, what else do you look for in a potential R.W. Smith associate?

AK: In our construction business we want people who have experience because it takes so long to develop the knowledge needed to run this side of the business. On the smallwares side of the business, we tend to hire people who are two or three years out of college and want to be in a relationship business. We need customers day after day, week after week and building relationships can help facilitate that.

In some of our functional areas, such as warehouse, accounting, etc., you can use training to develop the proper skill levels. So what we look for most in these areas are people who have the right attitude.



Jane Skeel, Receptionist

Years with R.W. Smith: 35

The ESOP culture shapes how we work together and how we feel about working with one another. The fact that we are all owners factors into our decisions about working with one another and servicing the customer. The company has always been very strong, which is why I stayed so long. It has good values and vision and that's why it has been so successful. We have been able to convey that to our customers and the ESOP has only added to that. As a result, we have great teams and great customers. It is why I feel fortunate to be here.

products. It has been very successful in building relationships with our manufacturers.

And it is important to have a relationship with the factories. We work well with a number of independent manufacturers' reps, but from time to time the goals of the distributor, rep and factory do not all fall into line. So as a result of this training, our sales reps have a relationship with someone from the factory who can help resolve any significant issues.

FE&S: Tabletop is an important area for R.W. Smith. How do your sales reps stay sharp in this area?

AK: We hold a Tabletop of the Year competition. During this contest our salespeople get to present their best tabletop installation from the past year to their peers. In doing so, they get to tell the entire story about how they came to sell this particular installation, including the sales process, who they were competing against and any other factors. It can be very fascinating. Then the salespeople rate each presentation. As part of this process, the salespeople earn points toward a trip to Europe where they learn more about tabletop and trends in foodservice. So a lot of the products and trends that we wind up selling in the coming years comes from one of our people that has seen it previously in Europe.

FE&S: Is there more to your training?

AK: We also have College Days, which is a training day where associates can sign up to take a class that addresses a specific topical area such as how to better use AutoQuotes or other computer programs, selling tabletop items and more.

The associates sign up to get training in the areas where they feel they need it and afterwards they give us feedback from their perspective so we can see what is working.

Our sales managers also play a role in training. Each month, for one hour, our sales managers put together a product-driven class based on an area where they feel their team needs to improve. This educational plan must be written well in advance and be approved by management. We want all of our training to be done in a first class manner so our people get the most from their involvement.

FE&S: That's a pretty significant chunk of time dedicated to sales training. How do your DSRs react to this?

AK: It is important that what you give them is first class. If they go to something that provides real takeaway value then they are excited about going, particularly if they have an interest in the business. You have to have top quality people present information in a way that the people enjoy. And you have to make it fun.



Ken Foster, Director of National Accounts

Years with R.W. Smith: 27

Attention to detail and specifying the right solution that addresses the customer's individual problems is what allows us to be successful. By taking care of our clients' needs we allow them to focus on their customers. From heavy equipment to smallwares we solve their operational challenges on an individual basis. We are able to do so timely and efficiently with solutions that are real. We've always been customer service oriented but now each department is looking for the best way to serve our customers to maintain our profitability while maintaining our client base. This goes from purchasing to the warehouse to credit and everywhere else. As employees owners we do more than just collect a paycheck. We are now engaged in the growth and success of the company. The company's entrepreneurial spirit has really evolved and it keeps becoming stronger and stronger in each of us as we see the company prosper.



R.W. Smith and Company's management team is a mix of veterans who climbed the corporate ranks and some individuals who have brought new ideas and expertise to the dealership. The blending of these perspectives and skills have helped shape the company's continued growth and success. Left to Right: Patrice Hagan, a 27-year veteran of the dealership, is vice president of sales on the distribution side of the business. Managing the construction side of the business is Al Thomas, who joined R.W. Smith two years ago, and Art Manni, who has been with the company for 33 years. Allan Keck, who joined the company in 1977, worked his way through the ranks on the distribution side of the business and is the company's president. Not pictured here, CFO Jay Kruger is a CPA by trade and had been in various leadership roles for other companies before joining R.W. Smith in 2008 and used

Our training tends to be pretty interactive and visual learning is important in this industry. If you just open a book and start flipping pages you are done.

And the younger generations want a connection that's larger than the company.

FE&S: R.W. Smith is also known for having a very loyal customer base, one that does not turnover. To what do you attribute that?

AK: That started even before I came to the company with R.W. Smith himself. He believed that when executing an order you are marketing yourself for the next order. People will start buying on price when they are not getting the value they expect from their current provider. So we better be offering something to the end user that is worth more than the cost of the product they are receiving.

If you meet their expectations, why would they change? If you are satisfied with a supplier you won't leave them because someone else can provide the same service for ten cents less. But if you are unhappy you will leave someone because of a penny's difference in price.

Plus, most people will not leave you because you have a problem. They will leave you based on how you respond to the problem. We always want to under promise and over deliver. Some of our competitors do the opposite.

FE&S: How does the company empower the employees to properly service customers?

AK: If you believe it is in the best long-term interest of the customer, then whatever you do is the best marketing we can have. When you approach resolving challenges from that perspective, customers have a confidence level that when something goes wrong you will fix it.

FE&S: So when it comes to customers your perspective is a little different from other companies who want to maximize the amount of money made on each transaction.

AK: We are not a transaction based company. We're not built that way. Rather, we look at it from whether we made money with a customer over the course of a year, not on transaction basis. And we've fired some customers when we see them as unprofitable. With customers we see as profitable, we look at ways to get more involved with them. Our goal is to have a laser-focused company that makes money with the customers we have and gets rid of the ones who don't.

FE&S: You mentioned earlier that younger associates want to have a stronger connection to the company. How do you go about facilitating that?

AK: As part of our 75th anniversary celebration this past January, we brought in two customers and asked them to discuss why they do business with R.W. Smith. We did the same with a couple of factories. When someone from outside the company tells you why they do business with you, that approach carries more meaning.

We also made donations to a pair of San Diego charities as part of our anniversary celebration. Employee owners got to nominate the charity of their choice and then the organizations got to tell us why they needed our help. We narrowed the field down to two charities: Father Joe's Villages in San Diego and Serenity House.

Father Joe's is a rather well-known San Diego charity that feeds 2,000 to 3,000 people daily. Serenity House is home to 120 women battling drug and alcohol abuse and their children. After visiting each charity we decided to help both but needed to do so in a way that would not necessarily break the bank. So we partnered with our manufacturers to deliver what each of these charities needed.

That was a gratifying moment for our employee owners. People who are in the programs came to speak to our employees to tell them how their donations will help. Now we have ongoing relationships with the charities where our employees can donate their time.

In addition, when the earthquake and tsunami devastated Japan, we began taking up a collection among our employees to donate to charity that's helping support the relief efforts. And, just as we did when taking similar steps during Hurricane Katrina, the company is matching our employees' donations dollar for dollar.

FE&S: Would R.W. Smith recognize the dealership today?

AK: He would recognize the service model because that is what he believed in. He would not recognize the size and scope of what we are doing.

FE&S: What makes R.W. Smith a sustainable business?

AK: We had good people in front of us who built this business. We have been able to create a start-up mentality. You are always investing money and looking for growth. It has been the fun part of growing the business.

that experience to help the dealer's business practices evolve.

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