

HWYACR

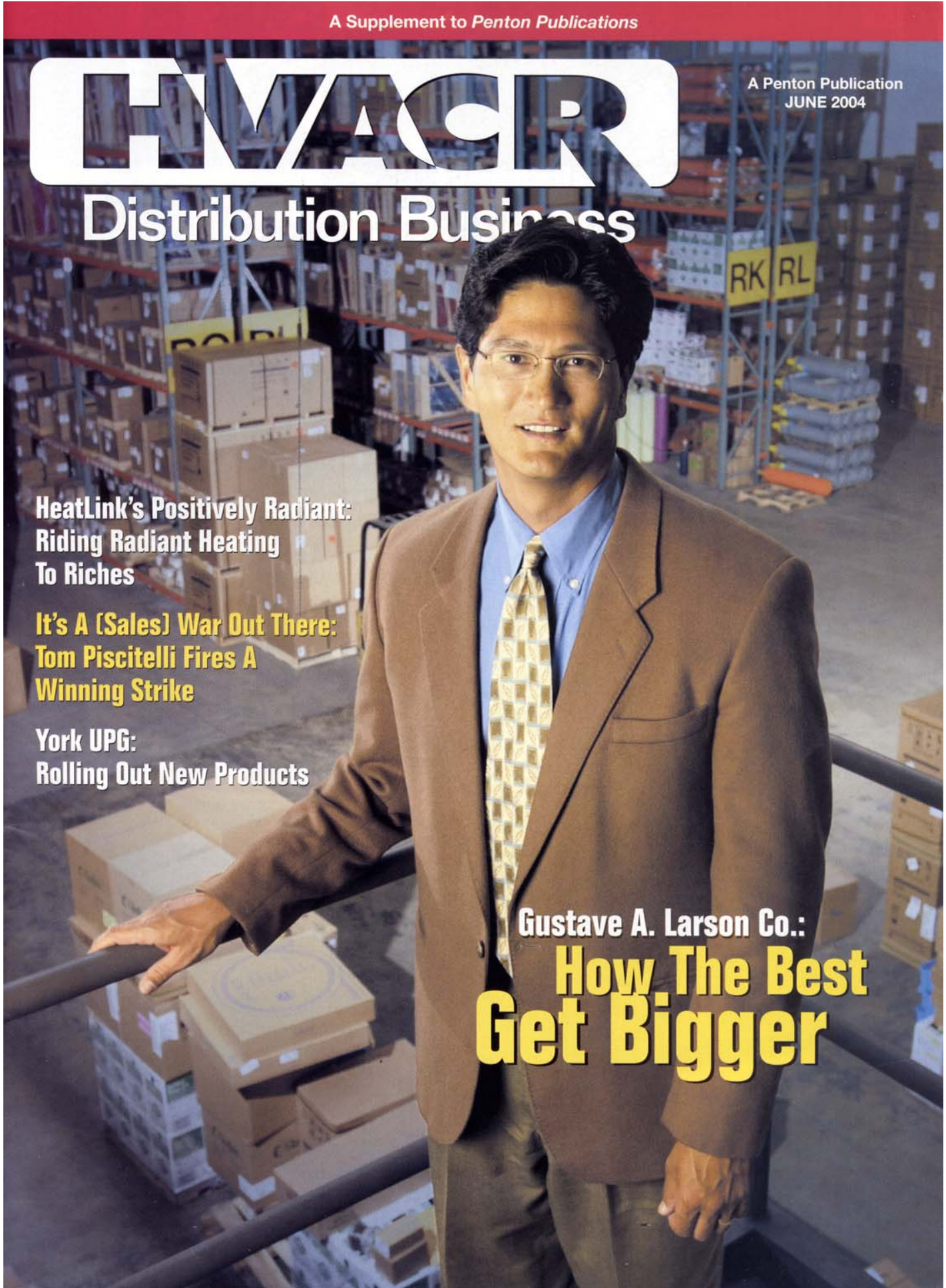
Distribution Business

**HeatLink's Positively Radiant:
Riding Radiant Heating
To Riches**

**It's A (Sales) War Out There:
Tom Piscitelli Fires A
Winning Strike**

**York UPG:
Rolling Out New Products**

**Gustave A. Larson Co.:
How The Best
Get Bigger**



All businesses talk about delivering quality customer service. But scratch the surface and you will find that it's mostly just talk. At the Gustave A. Larson Co., customer service is firmly embedded throughout all levels of the company—from its corporate office outside of Milwaukee to its farthest branch location in southwestern Utah and from the top of the organization to the bottom.

At the top of the Gustave A. Larson Co. is Andrew Larson, 39, who in 1998 became president of the company started by his grandfather in 1936. While it was a large, regional wholesale distributor when Andrew first joined the business in 1994, he has added 18 locations and increased revenues by 85 percent since taking over as president. Larson's focus on its contractor customers and its success as a company are not unrelated. In fact, Larson says, they go together. "It goes back to our philosophy that we don't think we sell anything. It's our customers that do," Larson says. "Our job is to help our customers to be as successful as they can be, and when they're successful, we'll be successful."

Based in Pewaukee, Wis., the Gustave A. Larson Co. is now a super-regional wholesale distributor of HVACR products, equipment, and accessories representing more than 500 companies. At the beginning of 2003, Larson had 25 locations, in Wisconsin, Minnesota, Indiana, Illinois, North and South Dakota, and Iowa. By May of that year, Larson had expanded to 43 locations in 11 states with the acquisition of two large distributors.

In March 2003, Larson acquired Jensen-Klich Supply Co., which had five branches in Nebraska and Iowa. Two months later, Larson acquired locations from The Pameco Corp., whose 18

Making it right for the customer. Every time.



Scott (left) and Andrew Larson

branches spanned seven states from North Dakota to Utah. “We made our next five years of acquisitions all in one year,” Larson says. While the Jensen-Klich negotiations took a year and a half, the Pameco opportunity came up quickly and took two months because that company was in the process of filing for Chapter 11. Larson saw both acquisitions as a natural fit and an opportunity to expand into new territories.

Larson notes with pride that the Pameco locations are now thriving under the Larson name. “We were very pleased because we bought all of these locations that were going into bankruptcy and not making any money. At the close of the first fiscal year the acquisitions were turning a profit,” Larson says. “It’s a big accomplishment.” Of the 18 Pameco locations, they consolidated four and added the employees and inventory to more central locations.

With 43 locations, Larson’s goal is to maintain that customer-focused philosophy, whether it’s at a branch in Chicago, IL, or Idaho Falls, ID. Larson says that his people, combined with sales and educational programs implemented at each location, keep contractor customers satisfied. “A lot of it comes back to the values,” he says. “We really believe it’s all about our people—a team doing everything it can to create a high-performing work environment.” While the company pays its employees well, it also encourages them to think creatively about solving customer problems. Larson maintains a set of policies and procedures that covers all areas of customer service but recognizes that the employees must sometimes make on-the-spot decisions to satisfy a customer.

“They’re on the front lines,” Larson says of his people. “We give our team members the ability to please our customers. If they feel there’s something they’ve got to do outside of our policies to make it right for the



Delivering product is another opportunity to showcase the Larson name.

customer, we give them that ability. Only they know that particular situation.” After resolving the problem, the manager will review the situation with the employee to determine whether they could have handled it differently.

Wherever a team member is working with a customer is where the Larson headquarters is, according to Larson. “We never call our Pewaukee corporate office our headquarters. Wherever we’re serving our customers is our headquarters. It all goes back to the philosophy of the customer coming first.” If you were to look at Larson’s

organizational chart, you’d see for yourself—the customer is on top.

Larson has several layers of highly competent, well-trained team members who work with customers to ensure that they get answers without waiting for service. At its 25 core locations, Larson mandates that its in-house sales representatives have a minimum of a two-year technical degree or three to five years of experience. “This gives them the ability to not just take orders from customers but to provide solutions, troubleshoot and offer suggestions that really add value over the counter,” he says.

Gustave A. Larson At A Glance

President & CEO	Andrew G. Larson
Chairman	Karl G. Larson
Vice President, Finance Vice President, Operations Vice President, Inventory Mgmt Vice President, Marketing Director of Distribution & Logistics Director of Human Resources	Scott K. Larson Frank Mirocha Sue Sinclair Gregg Turley Greg Toler Susie Klein
Corporate Offices	Pewaukee, WI 53072
Operations	43 locations in 11 states
Employees	350+
Breakdown of Sales & Business	40% Commercial Refrigeration, 45% Residential HVAC, 15% Commercial HVAC
Major Product Lines	Emerson Climate Technologies (Copeland Primesource, Emerson Motors, Flow Controls, White-Rodgers), Sporlan, DuPont, Bohn, Trane, American Standard, Armstrong Air, Tempstar, Comfortmaker, Heil, Mitsubishi, ADP, Honeywell, Research Products, Mueller Brass, Armacell, Hart & Cooley, Glasfloss, Johnson Controls, Manitowoc, Roth, Sterling
Annual Sales	More than \$135 million
Website	www.gal Larson.com; Customer online ordering site: www.e-fficiency.us

Larson's outside salespeople also bring strong sales and technical skills to their customers. These salespeople are supported by in-house account representatives who customers contact if the salesperson is unavailable. Larson calls this an extra layer so the customer always gets the necessary support. "They're there to support our customers, and they're always available, which is key," he says.

Skills are important, Larson says. But the company hires its employees based on attitude. Larson looks for people whose values match those of the company. He encourages ongoing employee training and education and every employee receives an annual personal development plan. Quarterly meetings serve as forums for employees to share what's on their mind. Here, they set goals and expectations to which employees are held accountable. They also receive a grade on their values. At the same time, employees evaluate managers. It's an ongoing process that brings managers a little closer to their team members, Larson says.

He references the company's Heroic Recovery Program. Mistakes will be made, Larson acknowledges, so it's how the company responds to those mistakes that makes the difference between keeping or losing a customer. The Heroic Recovery Program identifies the most common things that can go wrong at a branch and provides a blueprint on how to handle each situation. The first thing to do, Larson says, is to apologize.

To maintain a high level of consistency throughout its locations, Larson has developed a series of store standards. According to Larson, if Larson employees can be better at all the little things, then it really adds up to something big. "We want to make sure that we're doing things a certain way and that we have that same level of quality service across all the branches."

The Larson goal of making its customers more successful is visible in different ways at its branch locations. Each branch offers 24-hour emergency service, and its "on-the-spot" warranty credit allows Larson customers to receive their money at the time of return instead of waiting until the manufacturer pays the distributor, which is the far more common practice. "It's the no-hassle factor," he says.

Go to any of its 25 original showrooms and you'll see they were set up with the contractor in mind. There's something missing in front of the counters—the stools. This sends a message to the contractors/principals that Larson does not want the contractors' employees sitting around. "We want them back on the road as fast as possible, making money for you," Larson says. "It's another little story that backs up our philosophy."

Feedback from customers is an important measure for Larson. While Larson sales representatives and the in-house account reps stay in close touch with their customers, Larson also surveys those people who come to the service counters. Larson explains it this way: "We also do the traditional survey

that gets the principals. But we wanted to get over the counter to the service mechanics and technicians that we see on an everyday basis. It's about going the extra step."

Larson's sales consultants are just that. They are consultants who help Larson customers develop marketing tools and increase their profitability. Strategies To Optimize Profits (STOP), for example, is a 12-month program to build the business skills of Larson customers. It addresses everything from reading and understanding a financial statement and running a service department to selling more high-efficiency products per job. Larson recognizes that the HVACR business has changed, but many of its contractor customers have not. While the contractors may have become successful because of their technical skills, it takes business skills to remain competitive today.

The majority of Larson's original 25 branch locations have learning centers that it offers to customers. If the centers are



Larson distribution center: orderly and ready to ship.

BEST PRACTICE

not in use, a Larson customer can use it for its own training or conference. Customers save money on renting hotel conference rooms. "We'll offer it to our customers so they can get an extra value," Larson says. "If we're not using it that night, why not let them use it?" For select customers, Larson offers the services of its credit manager or human resources department.

Larson has kept pace with technology so that inventory keeps up with customer demands. Larson's computer system links its branches on a real-time basis so it can identify items and ship them if they are below minimum levels. At most of its 25 original locations, stock replenishment occurs every by 7 a.m. based on sales made during that day, Larson says. The newer branch locations are moving towards replenishing product twice a week. Its business-to-business Website (www.efficiency.us) allows customers access to all of its account information. Details of previous orders, invoices, current statements, inventory of local branches, product information, and ordering are available on the company's business-to-business Web site. The entire Larson catalog is also available at the business-to-business site and on a CD-ROM for customers.

Larson devotes so much to its contractor customers, but the company also works closely with its suppliers. Larson says it's important to keep an open line of communications with suppliers so that issues are resolved before they affect the contractor customers. Larson also wants to continually reinforce to the suppliers that it is the HVACR wholesale distributor that they should be doing business with.

Larson has a program to keep this communication ongoing. It's called the Partners in Excellence and Quality (PEAQ) program. This is a supplier evaluation program in which all of Larson's suppliers are graded and ranked annually based on an extensive set of criteria. "It's something that's been great for us," Larson says. "This allows us to talk to suppliers every year and, as a result, they may change their policies and procedures and terms to really help us." He cites improvement in such areas as product quality, lead times and electronic commerce capabilities because of the program.

While the Gustave A. Larson Co. focus is firmly on its customers, the company is also devoted to its employees and the communities in which it has branch locations. In October 2001, Larson received an award as one of the best Wisconsin companies to work for. It's unusual for a HVACR distributor to win such an award.

But Larson is proud to be an exception. It developed the Fun Committee to organize events throughout the year. An offshoot of the Fun Committee is the Sunshine Committee, which identifies employee birthdays and other important milestones. If an employee is injured or

Definition and Example: Developed a "Performance Management Process" to have a consistent, fair performance review system across the company that allows us to set individual goals, helps our team members understand what's expected of them, and enhances communication between managers and their team.

Significance: Creates a win-win situation that breed high performance throughout the organization!

Benefits:

- Sets clear expectations for performance with mutually established goals
- Improves communication and relationship between managers and their individual team members
- Creates accountability for results
- Helps develop our team members by setting a personal development plan for each individual
- Can discuss career goals and how they can be achieved
- Creates a consistent, fair performance evaluation across the company
- Helps our managers to be better leaders and coaches

Procedure:

- *Performance Goals.* Every employee's performance is measured against specific goals developed during performance planning meetings with their manager prior to the beginning of each calendar year. Results are reviewed after the end of the year.
- *Core Competencies.* Gustave A. Larson has identified core competencies critical to our success. Every employee's performance is measured and documented relative to each of these.
- *Critical Management Skills.* For managers, we also measure, document, and evaluate additional management skills.
- *360-Degree Evaluation.* Allows employees and peers to confidentially evaluate how their managers live and breathe the values of the organization.
- *Annual Personal Development Progress.* Performance against annual personal development goals are reviewed following the end of each calendar year. We develop these goals during personal development planning meetings between employees and their manager.

People Involved: Every manager and team member in the company is involved.

Timing:

- | | |
|------------------|---|
| Oct., Nov., Dec. | Schedule performance planning meeting and set goals |
| Nov. 1 | Send out 360-Degree evaluation |
| Dec. 20 | 360-Degree evaluation due to human resources department |
| Jan., Feb. | Schedule performance evaluation meeting |
| Feb. 28 | Performance evaluation due to human resources department |
| Mar. 1-14 | Schedule merit pay review meeting |
| Mar. 15 | Payroll Change Form due to human resources department |
| Apr. | (First Payroll) New merit pay wages effective |
| Apr. - Oct. | Schedule quarterly performance review meetings to discuss actual performance vs. the performance objectives |

Cost: Performance Management Process takes 8 hours per person for preparation and meeting time each year by each manager.

Other Considerations: If we truly believe our people are the foundation for quality customer service and that we can only be successful through our team of people, then this investment is truly worth it!

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The Larson think tank plot strategy. (left, standing) Scott Larson, Gregg Turley, Frank Mirocha, Andrew Larson, Sue Sinclair

there is a death in an employee's family, the Sunshine Committee makes sure the company recognizes this. "It's a way to show our team of people that we care," Larson says.

Then there's the HVACR program, only this has nothing to do with heating and cooling. The Helping, Volunteering And Caring Rewards Program allows employees to take time and volunteer in their community and receive their regular pay. "We're so spread out that we wanted to find a way to give back to each community," he says.

Larson's customer-focused approach and the employee programs that began under his watch come from his business background. While he grew up in the family business, he says it was something he did not expect to go into as an adult. After college, he deferred admission to medical school and went into investment banking, concentrating on mergers and acquisitions. From there, it was on to Northwestern's Kellogg School of Management and a product



management position for a San Francisco-based medical device company. He then traveled the world for six months with his wife, Amy.

All of these experiences, Larson says, shaped him into the person and the leader he is today. When he joined Larson in 1994, he had a broad view of the world and a better understanding of what it takes for a company to be successful. "It made a tremendous difference," he says. No matter the business, it's about satisfying the customer and creating an environment

for employees to want to do the right thing for them every time. It's not about words, but actions. Larson points to his company's mission statement. "To us, it's to contribute to our customer's success and deliver legendary customer service."

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