Congratulations!

The following NAHAD Listed Members have successfully passed a Hose Assembly Guidelines Specification or Design and Fabrication Exam from May 13 to July 12, 2010.

**Corrugated Metal Hose (Specification)**
- Lance Fibranz, Twin City Hose, Inc.
- Steve Lloyd, Twin City Hose, Inc.
- Lee Fabiano, Twin City Hose, Inc.
- Paul Martinson, Twin City Hose, Inc.
- Dane Strickland, Lewis Goetz & Company, Inc.

**Industrial Hose (Specification)**
- Matt Thomas, IR-G
- Jeff Quelle, Netherland Rubber Company
- Scott Moss, Moss Rubber & Equipment Corp.
- Tom Davis, Cumberland Valve, Inc.
- Phil Simmons, Netherland Rubber Company
- Scott Kimball, Progressive Hydraulics, Inc.
- Kelly Broussard, GHX Industrial, LLC
- Josh Woodward, Netherland Rubber Company
- Fausto Medina, Western Hose & Gasket Co./Division of Westflex Ind
- Kevin Hoaglin, TCH Industries, Inc.
- Chris Smith, GHX Industrial, LLC
- Tommy Parker, GHX Industrial, LLC

**Composite Hose (Specification)**
- Joe Ostrowski, Lewis Goetz & Company, Inc.

**Hydraulic Hose (Specification)**
- Kevin Kautzman, Summers Rubber Company
- Mike Hausler, Hydraquip Distribution, Inc.
- Rene Fremin, Hydraquip Distribution
- Jim Seitz, Hydraquip Distribution
- Dale Bisson, Omni Services, Inc.
- Sissy Booth, GHX Industrial, LLC

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**Profit Improvement Report**

**Saying Goodbye to Willy Loman**

*By Dr. Albert D. Bates*

*President, Profit Planning Group*

Most distribution businesses operate exceptionally efficient warehouse, trucking and backroom operations. At the same time, there tend to be some serious inefficiencies in the sales side of the operation. This is not because the sales force is riddled with individuals afflicted with apathy or sloth.

Rather, the problem is a lack of understanding of exactly how severely sales force ineffectiveness penalizes the firm and, in turn, causes marginal results to be tolerated. This misunderstanding is frequently expressed as “He is on commission only, so he is not hurting us.” The reality is that the pain is significant; it is simply unknown.

This report will examine the impact of poor sales force performance on industry profit levels. It will do so by addressing two key issues:

- **Sales Force Economics** – An examination of how inadequate salesperson performance decreases profitability.
- **Rejuvenating Sales Force Results** – A discussion of the alternative approaches available to management to drive enhanced performance.

**Sales Force Economics**

For several years the Profit Planning Group has been reviewing sales force performance in a wide range of industries. That research suggests that the sales force composition follows a “1/2/5/2” model. Namely out of ten salespeople:

- One is a super star and probably a prima donna to boot
- Two are very strong, disciplined salespeople
- Five are good soldiers
- Two are inadequate performers

The key to management of this disparate group is to be able to stroke the ego of the super star, help the disciplined stay content, build the soldiers into something better and...
Dear NAHAD Members,

I am writing to you in the heat of mid-summer, surrounded by all of those summer activities that will be familiar to many of you. As company principals, you may be busy with fulfilling orders, shipping, counting inventories and conducting audits at the same time you are covering for folks who are on vacation. Even if the activity comes in fits and starts, the "Lazy Days of Summer" are not usually the case for a hose distribution company. The same is true for our association office, so I have a number of activities that I would like to bring to your attention.

The Standards Committee is hard at work revising and updating the Hose Assembly Guidelines for industrial hose (NAHAD 500), and looking at potential updates for the rest of the hose groups as well. We will be sending out proposed revisions to the Listed membership for comment. In addition, we will be conducting an extensive strategic planning session hosted by Veyance in Cleveland, Ohio in August, working to determine directions and priorities for NAHAD’s Listed program.

As you may be aware, the Rubber Manufacturers Association (RMA) has recently split into two organizations in order to recognize the importance of the non-tire portion of RMA’s work. That group, previously the Elastomer Products Group, will now be the American Association of Rubber Manufacturers (AARM), which becomes independent of the RMA Oct. 1. The NAHAD Standards Committee is staying closely linked to developments to ensure our Hose Assembly Guidelines reflect the latest information.

If you are a distributor, I would like to draw your attention to the brief article on page 9. One of the most valuable products that NAHAD offers to distribution companies is the opportunity to participate in the PAR reports. Through an agreement with Dr. Al Bates (see his article on page 1), NAHAD gives you the tools to benchmark your company’s performance against others in the hose industry. My company routinely participates in this program and we have found it to be an invaluable tool, both to gather data and to use the Profit Toolkit Online spreadsheet to assist with our financial planning. Do not delay – visit www.nahad.org, on the top right side of the home page, you will find the link to start filling out the survey. Ask your accounting manager or CFO to fill it out for you. The survey is confidential – it MUST be completed by August 16 for you to benefit in 2010.

Also in this issue, you will find information on the upcoming 2010 Hose Assembly Guidelines Road Show (see page 10). This will be the first time NAHAD has taken the Road Show to the west coast – so I particularly urge each west coast company to send at least one employee to San Diego in September to learn about all the tools and benefits that are available to you through the NAHAD Listed member program. Our meeting happens to coincide with this season’s last home games of the San Diego Padres. We have purchased a block of tickets for the Wednesday evening game (arrival day for the Road Show). It should be a lively night of networking while enjoying a picnic supper and beer. Sign up for the meeting (including your sleeping room and a ticket for the ball game, if you would like) on the NAHAD web site.

At the conclusion of the Road Show, NAHAD’s Board of Directors will gather in San Diego for our three-year Strategic Planning session. This is where we will use our knowledge of the industry and trends for the future to set the goals for 2011-2013. It is an exciting process. We will be sending out a survey to gather your thoughts and feedback. Please respond with your candid opinion and feel free to call me or anyone else on the Board (see the list of members on this page), if you would like to discuss an idea in depth.

Finally, as you are reading this letter, the 2010-2011 Membership Directory will be arriving at your location. On behalf of the Board, I would like to thank our advertisers for their continued support of this valuable membership benefit. I know that this publication is THE reference to find a supplier or a distributor. I hope your copy will get plenty of use over the next year, when you reach out to the best-in-class in the hose industry for all of your company’s day to day needs.

Sincerely,

Alex McGill
President
Federal Contractors and Subcontractors Required to Post Employee Notice of Labor Law Rights, Effective June 21, 2010

Jade West, Senior Vice President-Government Relations, National Association of Wholesaler-Distributors (NAW)

The Labor Department has issued its final rule requiring certain federal contractors and their subcontractors to post a notice informing employees of their rights as employees under the National Labor Relations Act to join a union. (75 Fed.Reg. 28368, May 20, 2010). The final rule may be viewed at http://edocket.access.gpo.gov/2010/pdf/2010-11639.pdf (“Rule”). Wholesaler-distributors who are Federal contractors or subcontractors are covered by this Rule. The “employee notice” may be viewed at: http://www.dol.gov/olms/regs/compliance/EmployeeRightsPoster2page_Final.pdf

The Rule went into effect on June 21, 2010.

The Rule implements Executive Order 13496 signed by the President on January 30, 2009, which included sanctions, penalties (including debarment) and remedies that can be imposed if a covered Federal contractor or subcontractor fails to comply with the employee notice requirements.

In September 2009, NAW and numerous other organizations provided comments to the Labor Department that criticized the proposed employee notice as an inaccurate and incomplete overview of employee rights under Federal labor laws, and for suggesting that such laws favor a collective bargaining environment. For the most part, public comments did not alter the tone or content of the final version of the Rule, reflecting the strong union bias of the Administration.

Prime Contractors and Subcontractors Subject to the Rule

The Rule applies to any prime contractor with a Federal government contract of $100,000 or more. A contract for an indefinite quantity is covered unless the contractor or the contracting agency reasonably believes that total amount in any year will be below the $100,000 threshold. The dollar threshold set by the Rule is the simplified acquisition threshold set in the Office of Federal Procurement Policy Act—which is currently $100,000.

The Rule also applies to any subcontractor (at any tier) to a covered prime contractor with a subcontract value of more than $10,000. The Rule does not apply to any contract resulting from solicitations issued before June 21, 2010. Every covered contract must include a contract clause requiring that the contractor post the employee notice during the term of the contract in accordance with the requirements in the Rule. The contracting agency is responsible for including the contract clause in the contract with the prime contractor. The prime contractor is responsible for including the contract clause in its contract with a covered subcontractor. The clause may be incorporated into a contract by reference to 29 CFR Part 471, Appendix A to Subpart A.

Contractors and Subcontractors Required to Post Employee Notice

Physical Posting – A contractor or subcontractor that posts notices to employees physically in the workplace must also post the employee notice physically. Where a significant portion of the workforce fulfilling the contract is not proficient in English, the employee notice must be provided in the language employees speak. The employee notice must be placed in conspicuous places in the workplace so the notice is readily seen by the employees engaged in activities relating to the performance of the contract.

Electronic Posting – A contractor or subcontractor that customarily posts notices to employees electronically must also post the employee notice electronically. The contractor may use a link to the Labor Department website that contains the full text of the notice, provided the link reads in the employees’ spoken language: “Important Notice about Employee Rights to Organize and Bargain Collectively with Their Employers.” The Labor Department website provides translation of the notice text.

Enforcement of the Rule

The Labor Department’s Office of Federal Contract Compliance Programs is authorized to conduct compliance reviews to determine if a contractor or subcontractor is in compliance with the Rule or other laws, Executive Orders or regulations enforced by the Labor Department. Employees may also file complaints claiming that the contractor or subcontractor has not complied with the Rule. In case of a violation, conciliation and administrative enforcement proceedings will follow. Sanctions for a violation include cancellation of the contract, or debarment of the contractor with one, several, or all Federal agencies.
Gates has engineered a line of grade 316 stainless steel hydraulic couplings that offer maximum protection and resistance to corrosion in severe operating conditions.

The stainless steel couplings are recommended for marine applications to resist salt spray, for agricultural applications to withstand caustic chemical sprays, and for food and beverage plants to handle frequent washdowns. Because the couplings contain at least 2% molybdenum, in addition to chromium and nickel, they provide excellent resistance to salt corrosion.

Grade 316 "B" series stainless steel couplings are available for Gates wire-braid hoses with up to 6,000 psi working pressure. These two-piece couplings are rated at two times the SAE impulse cycle specification.

Gates new “S” series 316 couplings are designed for spiral wire hoses and exceed SAE 100R12 through 100R15 specifications. For information go to www.gates.com/hydraulics.

Dixon Sanitary is pleased to announce the recent promotion of James Rowley to the position of Northeast Sales Manager. James assumed this brand new position with the company after covering the same region for eight years as a territory manager with Dixon.

James lives in Connecticut with his wife and son. Please join Dixon Sanitary in congratulating Jim on his promotion!

Deetag is pleased to announce the opening of their new facility in Conover, North Carolina on March 1, 2010. This new facility will service OEM accounts for their Hydraulic assembly and accessory requirements. The operations manager of this facility is Matt Neff who joins Deetag with 20 years industry experience. This facility is an Authorized Manuli OEM Alliance partner. Deetag Conover joins the Deetag Group of companies that consist of Deetag London, Mississauga, Windsor, all in Ontario Canada and now Deetag Conover in NC U.S.A.

Goodyear Rubber Products is a valuable supplier to the Power Generation Industry. From the conveyor belts that bring coal into the plant or the Petroleum Dock hoses where Fuel Oil is unloaded to the Stainless Steel Metal Hoses that feed oil burners, the Flexitallic Metal Gaskets that seal the turbine cross-overs, the Mechanical Seals that seal the boiler feed pumps, the packing sets that seal the Soot Blowers or the Flue Duct Expansions Joints that prevent Flue gases from escaping the duct work, Goodyear is there with the products and technical expertise to help.

Florida is unique in that the greatest demand on power generation is in the Summer. "Planned" outages for planned maintenance in the Fall and Spring are certainly the goal of every power producer; but the unexpected can and will happen. And when it does, Goodyear is there with the support to get the unit back on line, producing electricity during this demanding season.

Hose Master is pleased to announce the advancement of Rick Foster to Director of Marketing & Sales and Jeff Tennant to Vice President of Marketing and Sales.

Rick has led the Hose Master sales effort for the past 20 years and will continue to cover the Southeast region. His responsibilities include supporting Jeff in his new role and leading strategic corporate projects.

Jeff joined Hose Master in 2007 after serving as President of Europower, Inc. and a Director of the former Titan Industries. He is responsible for Hose Master’s overall sales and marketing effort.

For more information about Hose Master and its products, please contact Cathy Musgrave at 1-800-221-2319, or email her at musgraveca@hosemaster.com.

TIPCO Technologies, is pleased to announce the opening of their seventh and newest branch in Chester, Virginia. Headquartered in Owings Mills, Maryland, TIPCO is a family-owned business that has been in the Mid-Atlantic region for more than 120 years.

"With locations in and around Baltimore and Washington, DC, our newest branch in Chester gives us a complete template of the State of Virginia outside of the beltway," said Robert Lyons, Jr, President of TIPCO Technologies.

"We look forward to servicing the entire State of Virginia for our premier suppliers, including Eaton Aeroquip and Goodyear."

The new TIPCO Technologies branch is located at 1511 West Hundred Road in Chester and can be reached at 804-706-6671. The regional manager of the Chester branch is Morris Murphy, who has more than 18 years in the hose and fittings industry.

"In a time when many businesses are leaving areas, TIPCO is thrilled to have bought into the tri-cities market," said Lyons. "We look forward to being an asset to the local business climate of Chester, Richmond, Petersburg and Hopewell, as well as the community." To learn more about TIPCO Technologies, please visit their new website at www.tipcotech.com.
Brennan Industries Inc. has introduced a new line of Gap Gages. The gages are designed to assure that instrumentation tube fittings have been sufficiently pulled up. The gages are especially useful for tightening fittings in hard-to-reach locations. They are also ideal for systems where insufficient make-up could result in dangerous or expensive consequences.

After installation of an instrumentation tube fitting and prior to pressurization of the system, the Gap Gage is inserted between the fitting nut and the body hex. If the gage will not fit in at any point of the gap, the nut has been properly made up and no additional tightening is necessary. If the gage can be placed in between the fitting nut and body hex, the assembly procedure must be repeated.

Brennan Gap Gages have both “Go” and “No Go” ends and should only be used in initial make-up situations. They are not intended for use in remake assemblies. The new NGG Series carbon steel gages are available from stock in 5/8-inch through 2-inch sizes. Series carbon steel gages are available from for use in remake assemblies. The new NGG Go” ends and should only be used in initial make-up could result in dangerous or expensive consequences. If the gage can be placed in between the gap, the nut has been sufficiently pulled up.

For more information on this product line or any other hose produced by IVG, please contact Paolo Valente at 1-888-IVG-HOSE, email: paolo.valente@ivgusa.com.

Unaflex is pleased to announce the appointment of The Factory Connection as their Far West Market area representatives. Factory Connection will represent the entire line of Unaflex products, including Rubber & Metal Expansion Joints, Metal Bellows, Metal Hose, Hi Temp Flue Ducts, Industrial Hose and Sheet Rubber. They will cover the following states: AK, AZ, CA, OR, NV, and WA. Mike and Dave Shannon are long time industry specialists. Contact Mike Shannon at 1-925-719-0069 or factoryco@prodigy.net.

Also, the company is happy to announce the hiring of long time industry hose specialist Pete Livengood. Pete comes to Unaflex with years of experience in Industrial and Hand Built Hose, starting his career at the old Carolina Rubber Company before moving on to a very successful career at Kern Rubber, Salem-Republic, and most recently, Novaflex. Pete will be based in North Carolina and cover the Mid-Atlantic and Southeast Market Areas. Pete can be reached at 1-954-415-1558 or plivengood@unaflex.com.
This formula has paid off. Today, NewAge is a modern lean operation with a tenured workforce known for its innovation, commitment and agility. This firm has consistently been profitable throughout its 56-year history with its share price steadily increasing.”

Ken Baker, NewAge’s CEO, says “It’s an honor to be selected as a finalist again in this competition. It helps validate our approach to superior customer service, treating employees well, and continually striving for improvement.”

**SPIR STAR, Ltd.,** the exclusive distributor for SAMI Instruments High Pressure Valves, is proud to announce that SAMI Instruments has expanded their product line once again by adding NPT and Medium Pressure Ball Valves.

These new ball valves are designed for liquid and gas flow control and are available in various connection sizes to satisfy different requirements. The ball valves quarter turn feature allows for a quick open and close operation. In addition, having a blowout-proof stem and ball design allows for higher safety assurance. For further information, contact SPIR STAR at 1-800-890-7827.

**PIRTEK** announces that it has added abrasion resistant cover to hoses. To assist customers in the selection process as well as existing customers who have equipment or machinery working in these aggressive environments PIRTEK has introduced an abrasion resistant cover for hydraulic hoses, the PIRTEKTOR.

The PIRTEKTOX cover hoses were tested to ISO6945 which is the international standard that specifies the method for determining the abrasion resistance of the outer cover of rubber hoses. Under test conditions the new PIRTEKTOX cover showed a much higher level of abrasion resistance when compared against hoses made with both standard and specialized rubber coverings.

In some very aggressive applications when equipment is working in demolition, excavating, landfill sites and metal recycling facilities another consideration is the adding of an external sleeve or a protective wire to the hose assembly. For more information on hose sleeve products or other products and services, visit the PIRTEK website at www.pirtekusa.com.

**Masterduct, Inc.**, of Houston, TX introduces Master Pur STEP, a very durable transport hose with all-polyurethane hose wall and a tubular helix for crush-proof performance. Applications include wood dust collection, cable protection, and general dust collection. Soft, lightweight and flexible, the product’s food grade capabilities include conveyance of dry food stuffs and pharmaceutical powders. STEP hose returns to original shape when stepped on or driven over by equipment. For more information, visit www.masterduct.com.

**Kuriyama of America, Inc.** is pleased to announce the addition of the following new products to their product line to provide more “Kuriyama Value” to their valued distributors.

**New! Piranhaflex™ 100R8 Hydraulic Hoses:** Piranhaflex™ 100R8 hydraulic hoses are ideal for high pressure hydraulic applications involving hydraulic tools, lubrication lines and man lifts. Series PF628 has a seamless polyester inner tube and a black abrasion resistant polyurethane pin-pricked cover. Series PF628NC has a seamless polyester inner tube and an orange non-conductive, non-pin pricked abrasion resistant polyurethane cover.

**New! Dura-Jack™ 300 PSI Jackhammer Hose Assemblies:** Dura-Jack™ 300 PSI Jackhammer Hose Assemblies are made with a durable, quality EPDM hose, to resist ozone, heat and cracking while serving in rugged jackhammer applications.

**New! KuriKrimp™ Crimping Sleeves:** KuriKrimp™ Crimping Sleeves for industrial hoses are available in plated steel and 304 stainless steel versions.

**New! Alfagomma® T631AA - 300 PSI Hot Tar & Asphalt Hose:** Alfagomma’s T631AA hose is rated at 300 psi for use as a hot tar and asphalt applicator delivery hose. This 1” ID hose has a black NBR hot tar and asphalt resistant tube, reinforced with high tensile steel wire braids and has a hydrocarbon and fire resistant cover. For more information, call 1-847-755-0360 or visit their web site at: www.kuriyama.com.
Summer Rodman, President

Summer is the president of a hose and fittings distribution company that has been family owned since 1919. From its original base in Chicago, the business grew to include expanded service and product distribution at locations in Miami and Tampa during the 1940s and early ’50s. Surviving World War II, Amazon Hose & Rubber emerged with a broad range of hoses and tubing made of quality synthetic materials. Each location continues in the tradition of quality service and products — “an inch or a mile.” In 1981, Amazon Hose & Rubber opened its Orlando location serving the growing Central Florida area with walk-in service.

In 2010, Summer found herself grappling with two business challenges. First, the company has a very experienced management team that grew up within the company culture— which is both a good and a not so good thing. Amazon felt that it was time to bring in some “new blood” to take a fresh look at how the company is functioning. The second challenge was product delivery. Auto insurance costs had been skyrocketing and company drivers experienced due to a series of random accidents which compounded both the problem and costs incurred.

In tackling the first challenge, Summer decided to create a new position for the company—a Chief Operating Officer (COO). Rather than replacing any individual or functions in the current management team, the new position will encompass many new responsibilities, including taking a look at Amazon’s product mix and customer base with an eye towards possible expansion. To fill this new position, Summer hired an HR consultant rather than use a head hunter. She also decided to run an advertisement in CareerBuilder.com and used her contacts in LinkedIn to put the word out. Although Amazon has not yet filled the position, she is optimistic that the right person will be found to bring new energy and ideas to this 91 year old company.

With an eye to managing delivery routes and costs, Summer decided to research fleet tracking systems for Amazon. She eventually looked at about eight different provider companies, including a phone service. Although such systems can be expensive, GPS Vehicle Tracking can increase productivity, reduce expenses such as fuel and overtime, and at the same time, improve customer satisfaction through better response times and more accurate ETAs. After receiving an incredible demonstration, she narrowed her selection down to SageQuest. The deciding factors were: quarterly updates to the software, solid company with a good track record, integration with Garman (a groundbreaker in the field) and the fact that the system is scalable as the fleet grows. Amazon will have their new system up and running in August.

This is the first in a series profiling NAHAD Member Companies who are pursuing excellence in the hose industry through innovative business practices, cost-savings methods or new products.

To contact the NAHAD Innovator for August:

Summer Rodman, President

AMAZON HOSE & RUBBER COMPANY
1625 W Princeton St., Orlando, FL 32804
summer@amazonhose.com
www.amazonhose.com

Change Your Corporate Culture To Enable Change?

By: D. Bruce Merrifield, Jr.

"Innovate or die" is not news. But, innovation requires companies to change, and unfortunately, most can not do much more than fine tune their past. At companies where too many top-down change initiatives have fizzled, employees can even become cynical about new change efforts and ignore them. If our company is struggling to escape its past ways in a changing world, what then is our credible, going-forward, “growth story” (vision) that we need to attract and keep better than average employees who will, in turn, help make those changes happen?

How do we change how we have been trying to change? Here’s a theory; besides top-down vision and will to change, what if we have to also have a “corporate culture” that “enables” change to happen? Will our corporate culture allow the management team, for example, to even think about how we think about change? How could we test this corporate culture hypothesis quickly and cheaply?

The “fail forward faster” guideline suggests that we should try some necessarily imperfect experiments to learn as much as we can in the shortest time for the lowest total cost. Because thought experiments are especially fast and cheap, what if we: 1) wrote down a lot of questions that we 2) deliberately choose to live with instead of offering instant, action-oriented answers or universal stops like “we tried that already”; or, “we are already doing that”. These two steps would be true experiments for most companies!

Below are some questions to seed the effort, perhaps they will trigger more related questions which together will create a “question map” about this tweak-our-culture theory.

• What are the specific, corporate antibodies that have killed past change initiatives?

• What if we could: name those specific, anti-change rules and behaviors; explore the unspoken, dysfunctional assumptions (and motives) behind them; and then, re-engineer them to create a climate that enables innovation and change?

• When was the last time we did a quick, informal “corporate culture audit” that surveyed a cross-section of employees with a promise of anonymity to find out how things really “get done or not done around here”?

To expand on the last point above, why, when, and how might we take a next step and use an hour or two of an outsider’s help (remember don’t spend a lot; test cheaply) just in case we might have some management, groupthink, blind spots or dated clutter. Most gardens need to be weeded, spend a lot; test cheaply) just in case we might have some management, groupthink, blind spots or dated clutter. Most gardens need to be weeded, and most plants in the garden need to be pruned to grow better. Why should all of the ideas that make up our corporate culture be any different?

With a promise of anonymous cover, an outsider should also be able to coax some extra information out of the bottom 80% of the payroll concerning what really happens in the minds and hearts of the front-liners when change edicts are handed down. And, best of all, if the outsider should deliver honest feedback that is critical about how top management is a big part of the problem, we can fire them at a small investment loss and choose to accept only the amount of reality we can handle. (Question: Do ego needs, denial and even moderate delusions come in all degrees from the individual level to the collective team level? True or false?)

For more food for thought on the topic of “corporate culture audit”, check out these sources on the net:

• Go to www.wikipedia.org and read the entries on “corporate culture” and “memes” (rhymes with genes).

• Google “how to do a corporate culture audit” and do some cheap, fast reading.

Continued on page 8
A Managerial Sidebar: Three Financially-Based Sales Goals

Monitoring sales performance is the purview of the sales management team. However, in answering the age-old question of “how am I doing” there are three financial goals that should be given some consideration:

- **Direct Costs** – As a minimum, every salesperson must cover the direct costs associated with working the territory. In addition to direct sales compensation this must also include travel expenses, technical support such as computers and cell phones and other costs that can be traced directly to the territory. Except for new hires, this is the absolute minimum level of performance that should be accepted. It is also the level, in the short run, at which the firm can limp along because at least the direct costs are covered. Interestingly, in many firms at least one salesperson falls below this minimum level of performance.

- **Profitable Territory** – More realistically, all of the costs of the firm plus some reasonable profit expectation should be assigned to every territory. In the long term every salesperson should be expected to meet this level.

- **Maximum Potential** – This is simply the level of gross margin that would be generated if the firm controlled 100.0% of the potential sales volume in a specific territory. Obviously, no salesperson will ever get close to this number. However, comparison of actual results against this number provides some great insights into separating the strong performers from the laggards.

Profit Improvement Report: Saying Goodbye to Willy Loman

continued from page 1

tolerate inadequacy only in the short run. Most management teams are willing to take all of the actions except the last one.

Ignoring the unpleasantness associated with terminating employees, there are two key issues that drive a high tolerance for inefficiency. The first is that the cost of replacing an employee is considerable. It is also relatively visible. The second is that the on-going cost of inefficiency is not easily determined.

Exhibit 1 presents financial information for a typical NAHAD member based upon the latest results from the IPR Report. As can be seen in the first column of numbers, the typical firm generates $7,500,000 in sales, operates on a gross margin percentage of 38.0% of sales and produces $187,500 in profit or 2.5% of sales on a pre-tax basis.

Like every firm in every industry, this typical NAHAD member has both fixed expenses and variable expenses. Fixed expenses are overhead expenses that tend to be difficult to shed as sales fall. The base salary for the sales force, if any, is included here.

Variable expenses have been broken into two groups. Commissions are assumed to be 10.0% of the gross margin generated. Other variable expenses such as interest on accounts receivable, bad debts and overtime are estimated to be 3.0% of sales. According to the IPR Report, these figures are reasonably close to most NAHAD members.

In the next column of numbers, sales have been decreased by 20.0%. While this analysis is at the total firm level, it mirrors the profit impact in the territory of a single salesperson who is only 80.0% as productive as the typical salesperson. It indicates the firm’s results if every salesperson was an 80.0% performer.

Exhibit 1: The Impact of Poor Sales Performance For a Typical NAHAD Member

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Current</th>
<th>20.0%</th>
<th>1.0%</th>
<th>Both</th>
</tr>
</thead>
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<td>Net Sales</td>
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<td>$6,000,000</td>
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<td>$5,904,762</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
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<td>3,720,000</td>
<td>4,650,000</td>
<td>3,720,000</td>
</tr>
<tr>
<td>Gross Margin</td>
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<td>2,280,000</td>
<td>2,730,952</td>
<td>2,184,762</td>
</tr>
<tr>
<td>Fixed Expenses</td>
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<td>1,795,500</td>
<td>2,152,500</td>
<td>1,795,500</td>
</tr>
<tr>
<td>Commissions (10% of Gross Margin)</td>
<td>285,000</td>
<td>228,000</td>
<td>273,095</td>
<td>217,486</td>
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<tr>
<td>Other Variable Expenses (3% of Sales)</td>
<td>225,000</td>
<td>180,000</td>
<td>221,429</td>
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<tr>
<td>Total Expenses</td>
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<td>2,280,000</td>
<td>2,647,024</td>
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</tr>
<tr>
<td>Profit Before Taxes</td>
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<td>$389,500</td>
<td>$363,676</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percent of Sales</th>
<th>Current</th>
<th>20.0%</th>
<th>1.0%</th>
<th>Both</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>62.0%</td>
<td>62.0%</td>
<td>63.0%</td>
<td>63.0%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>38.0%</td>
<td>38.0%</td>
<td>37.0%</td>
<td>37.0%</td>
</tr>
<tr>
<td>Fixed Expenses</td>
<td>28.7%</td>
<td>35.9%</td>
<td>29.2%</td>
<td>36.5%</td>
</tr>
<tr>
<td>Commissions (10% of Gross Margin)</td>
<td>3.8%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Other Variable Expenses (3% of Sales)</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>35.5%</td>
<td>42.7%</td>
<td>35.9%</td>
<td>43.2%</td>
</tr>
<tr>
<td>Profit Before Taxes</td>
<td>2.5%</td>
<td>-4.7%</td>
<td>1.1%</td>
<td>-6.2%</td>
</tr>
</tbody>
</table>

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The impact on profits is significant. With a 20.0% sales decrease, commissions and other variable expenses also decline by 20.0%. However, fixed expenses remain constant and profit falls from $187,500 to a $280,500 loss. This clearly demonstrates the sales sensitivity for the total firm, something which everybody knows and accepts. However, it also reflects the sales sensitivity in a territory. An 80.0% performer reduces potential profits in a way that is never seen.

The second column of numbers indicates the impact of a 1.0 percentage point decline in gross margin. Notice that Cost of Goods Sold remains the same as it was originally, but prices are reduced enough that the gross margin falls from 38.0% to 37.0% of sales. This also is indicative of the impact that a problem salespeople inevitably have. Once again, profit is severely impacted.

The final column of numbers looks at the impact of a sales problems being simultaneously compounded by a gross margin problem. This column indicates that if every salesperson operated at this level, a $187,500 profit becomes a $363,357 loss. This model probably understates the problem as the lowest producers in the “1/2/5/2” model often perform very poorly on both sales and gross margin. It seems apparent that the temptation to keep on truckin’ with the lowest producers must be avoided. With the proper people in the field and with the proper level of support, the profit improvement opportunities are huge.

Rejuvenating Sales Force Results

A complete discussion of sales force productivity is a topic best left to the sales professionals. From a financial perspective, though, the issue is one of controlling the Three M’s – measurement, motivation and management.

- **Measurement** – Distributors do a fine job of setting goals and measuring the performance of salespeople against those goals. The financial problem is that too often the goals do not adequately reflect the true sales and margin potential in the territory. Instead, they are inexorably tied to percentage increases. While growth (or minimizing declines) is important, measurement against the actual market is an essential addendum.

- **Motivation** – The very first requirement of a compensation system is that it is understandable. Most systems pass muster on this essential goal. What is overwhelmingly the case, though, is that compensation system underpays superstars and overpay poor performers because it is difficult to measure and explain profitability in a territory. Despite that challenge, compensation in relation to the profit generated is essential.

- **Management** – The reality is that poor performers must be replaced. They should be trained, cajoled, and encouraged first, of course. Ultimately, though, if they do not respond, they must be replaced. The only individuals who enjoy this process carry nicknames like Chainsaw Al and Neutron Jack. However, when the profit penalties are as massive as they are with poor performers, doing nothing is not an option. The cost of inaction far outweighs the cost of replacement.

Moving Forward

The challenges of sales and margin generation have been exacerbated by brutal economic conditions. As the economy slowly improves there is an inevitable feeling that as long as sales are increasing everything will be fine once again. Indeed, as sales rise profit should also. The question is whether it will rise to anywhere near its full potential. That will happen only when every salesperson is operating close to 100.0%. It is essential to measure actual sales and gross margin. It is equally important to measure missed sales and margin.

About the Author:

Dr. Albert D. Bates is founder and president of Profit Planning Group, a distribution research firm headquartered in Boulder, Colorado.

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2010 NAHAD Distributor Profit Report

The era of automatic profits has come to a sudden halt. The industry has moved from trying to keep up with demand to battling sales, pricing, expense control and every other aspect of operations.

In turbulent times, financial benchmarking information is more important than ever before and the best source of financial benchmarks for the industry is the NAHAD Distributor Profit Report. In short, this report presents a wealth of financial and operating guidelines. In addition, it provides direct comparisons between your firm and other participating firms. This valuable information is, however, only available to firms that participate in the study.

In return for your participation, you’ll receive:

- **The Industry Performance Report** - A financial and operating profile of the entire industry
- **Performance Analysis Report** - A confidential report sent directly to you comparing your firm with similar participating firms. Many firms take the report to the bank to discuss loans and lines of credit.
- **Profit Toolkit Online** - A Microsoft® Excel spreadsheet to assist your financial planning.

Access instructions are included with your Performance Analysis Report.

The detailed benchmarking information in the Industry Performance Report and in your Performance Analysis Report is available to you for only $100. This is a great bargain. The fee will be billed to you once the survey has been submitted.

Profit Planning Group keeps your proprietary company data strictly confidential. Only the necessary staff of Profit Planning Group ever sees your data. Reports present only aggregated results. Strict masking procedures are used to protect individual firm data. All survey forms are destroyed after processing. In over 20 years of conducting benchmarking studies, Profit Planning Group has an unblemished record of maintaining confidentiality.

Please call if you need to know more about this program and its benefits to your firm.

- Do not delay filling out the survey.
- Surveys due to Profit Planning Group by August 16, 2010.
- Reports will be mailed out by September 15, 2010
NAHAD will be hosting the fourth in a series of Hose Assembly Guidelines Road Shows in San Diego this Fall. Mark your calendars now for a great opportunity to hear the latest updates on the Guidelines, and on programs and resources designed to support your marketing efforts with your customers. These Road Shows are an opportunity to network with your peers, sharing ideas for effective marketing techniques, quality programs, sales tools, and other applications of these Guidelines to improve your daily business.

The agenda will include time for both formal updates from various Standards Committee members and NAHAD staff, as well as round-table discussion opportunities. The round-table discussions will include workshops on optimizing the new Listed location pages on the hoseguidelines.com website, and a preview of new capabilities on the regular NAHAD website currently under reconstruction. This is also a great opportunity to provide feedback to both the Standards Committee and NAHAD staff regarding what tools and capabilities would be most beneficial to you, the Listed Members, as we continue to develop and drive these programs.

### Agenda

**September 29:**
- Arrivals all day
- Welcome reception 4:30 – 6:00 PM
- Dinner on your own in San Diego’s exciting Gas Lamp District (walking distance from the hotel) or walk across the street and enjoy the San Diego Padres in PETCO Park (home game against the Chicago Cubs)

**September 30:**

**Networking Breakfast**
- Welcome and introductions 8:30 AM
- Listed program – review of key elements, highlight what’s new
- New NAHAD website
- Guidelines Center
- Blog
- Updating the Guidelines
  - History/process/timelines
  - Content changes
  - Format options
- Workshop on what formats or delivery options would be most useful and practical, along with associated tools such as posters, wall charts, or other resources

**Networking Luncheon**
- Audits – current status; what to expect and plan for
- Marketing
- Hoseguidelines.com
- Materials/deliverables
- Outreach – who, how
- Panel discussion: best practices, case studies
- Workshop best practices for both hoseguidelines.com and marketing deliverables; other deliverables that should be considered for development

**Closing and adjournment 4:00 PM**

Return home or stay over for baseball San Diego Padres vs. Chicago Cubs at PETCO Park

Register online at [www.nahad.org](http://www.nahad.org)

### Hotel Information

San Diego Marriott Hotel & Marina
333 West Harbor Drive
San Diego, California 92101 USA

Register for the Road Show, the baseball game and reserve your sleeping room online at [www.nahad.org](http://www.nahad.org).
Established in 1979, Green Leaf Incorporated is an ISO 9001 and Q 9001 certified company with a scope of designing and manufacturing injection molded products. Offering over 750 products, this on-site manufacturer produces complete lines of nylon and polypropylene fittings, polypropylene valves, tank fittings, sprayer accessories and Gator Lock® cam lever couplings. Additionally, Green Leaf, Inc® has the capability to custom mold high tolerance products to customer’s specifications. Green Leaf®’s manufactured products will handle a wide range of liquids. Their products provide innovative solutions for agriculture, chemical, water management and general purpose liquid handling applications.

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“The cross-section of our product line truly represents the depth of Green Leaf, Inc® as well as where we are headed in the future” says Pete Goda, president of Green Leaf Inc®.

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Congratulations Exam Passers! Continued from page 1

Fluoropolymer Hose (Specification)
• Kasey Dovaston, Hose Supplies New Zealand Ltd.
• Tom Davis, Cumberland Valve, Inc.
• Joe Ostrowski, Lewis Goetz & Company, Inc.
• Cameron Fitzanko, Lewis Goetz & Company, Inc.
• Chris Smith, GHX Industrial, LLC

Corrugated Metal Hose (Design and Fabrication)
• Jessica Byers, Motion Industries
• Jeff Glosch, Motion Industries
• Dane Strickland, Lewis Goetz & Company, Inc.

Industrial Hose (Design and Fabrication)
• Tim Easton, Summers Rubber Company
• Lamar Crane, Motion Industries
• Richard Harmon, Netherland Rubber Company
• Dennis Owens, Summers Rubber Company
• Gene Mayo, Summers rubber Company
• Mel Shipley, Summers rubber Company
• Michael Summers, Summers Rubber Company
• Al Hoeferer, Summers rubber Company
• James Tolley, Summers rubber Company
• Bill Vaughn, Summers rubber Company
• Scott Moss, Moss rubber & Equipment Corp.
• Lauren Witter, Omni Services, Inc.

Hydraulic Hose (Design and Fabrication)
• Lamar Crane, Motion Industries
• Jeff Elwell, Omni Services, Inc.
• Richard Harmon, Netherland Rubber Company
• Tom Looby, Superior Industrial Supply
• Mark Bosch, Bosch Hydraulic Connections Ltd.

Fluoropolymer Hose (Design and Fabrication)
• Brad Merkel, Rubber & Accessories, Inc.
• Patrick Ghee, IR-G

Join NAHAD at the Ball Park!
PETCO Park is located just a short walk away from the San Diego Marriott. On Wednesday, September 29, the San Diego Padres will play the Chicago Cubs at one of the last home games of the season. The Padres are enjoying a very competitive season and their rivalry with the Cubs is long-standing, so it should be a great game.

Located just beyond the left field wall and directly above the Padres bullpen, NAHAD has purchased San Diego Padres tickets in a Picnic Terrace. The Terrace is reserved as a private party facility and includes a complete food and beverage package. Each member of the NAHAD group also receives a Padres cap to commemorate the game.

Register for the Road Show, the baseball game and reserve your sleeping room online at www.nahad.org.
The Association for Hose and Accessories Distribution  
105 Eastern Ave., Suite 104 • Annapolis, MD 21403-3300 • TEL: 410-263-1014  FAX: 410-263-1659

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**NAHAD News Production Schedule**

<table>
<thead>
<tr>
<th>Newsletter Issue</th>
<th>Material Due to NAHAD</th>
<th>Mailing Date</th>
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<tbody>
<tr>
<td>December</td>
<td>12/3/10</td>
<td>12/10/09</td>
</tr>
<tr>
<td>October</td>
<td>10/4/10</td>
<td>10/1/10</td>
</tr>
<tr>
<td>August</td>
<td>8/2/10</td>
<td>7/10/10</td>
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<tr>
<td>June</td>
<td>6/2/10</td>
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</tr>
<tr>
<td>March</td>
<td>3/5/10</td>
<td>2/10/10</td>
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<tr>
<td>January</td>
<td>1/4/10</td>
<td>12/10/09</td>
</tr>
</tbody>
</table>

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**Member-to-Member**

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By email to kthompson@nahad.org. Pull NAHAD on your P/R list and your company logo will publish connections upon request. Incorrect or deleted information but no refund. NAHAD assumes no liability for omissions or mistakes. NAHAD reserves the right to edit any material submitted, including but not limited to: titles, subtitles, promotion plans, etc. Articles submitted must be proofread. Articles exceeding 60 words and 5 sentences will be edited. Submit your articles in complete sentences, and limit them to 60 words, including paragraph breaks.

Nahad News. Please write your articles in complete sentences, and limit them to 60 words, including paragraph breaks. Nahad News articles are invited to submit brief news items for inclusion in the "Member-to-Member" section of the "Connections Form." NAHAD News articles are invited to submit brief news items for inclusion in the "Member-to-Member" section of the "Connections Form."