

# industrial DISTRIBUTION<sup>®</sup>

DISTRIBUTOR PROFILE

## Swimming against the current

Ken Jacobs, president of K.J. Electric, knows how to prosper during economic downturns.

K.J. ELECTRIC HAS BEEN MAKING HEADWAY  
EVEN IN ROUGH ECONOMIC WATERS

By Richard Trombly, Associate Editor

**W**hen K.J. Electric opened in 1981, the interest rates were 22 percent and the economy was entering a recession.

"Everyone said it was a bad time to get into the business," says president Ken Jacobs. "There is never a right time to open a business, just opportunities."

Jacobs wasn't new to the industry when he founded K.J. He opened the first W.W. Grainger location in New York in 1959.

"I developed a lot of knowledge during this time and realized that customer service is more than having a lot of inventory on the shelves," he says. "It is so important to have the technical expertise to help customers buy the correct item."

Jacobs opened several other New York locations during his 18 years at Grainger. He refused a promotion that would have required moving to Chicago. After a relatively short time with a manufacturing firm, Jacobs realized he wanted to return to distribution.

"I had the opportunity to see how distribution operates from both sides," he says. "I knew the aspects of distribution I wanted to enhance."

To do it the way he wanted to, at the level of quality he desired, Jacobs decided to purchase his own distributorship. He bought the facility from a firm that was in bankruptcy.

"Large corporations often have too many obstacles and politics," says Jacobs. "I feel it's important to keep



things simple, to remove the obstacles and deal openly with customers."

He says K.J. treats its customers the way he would want to be treated. This level of simplicity and freedom just wasn't possible in a large corporation, says Jacobs.

It also allows for greater agility than a larger company. The electric motor and power transmission distributor had \$25 million in 2001 sales.

"CFOs worry about 'turns and earns' and other accounting issues," says Jacobs. "I concern myself with having the right inventory and stocking lines of product, not just the fast moving items."

Sales are frequently lost when a distributor doesn't have an item in stock, he says. While any company could source an item, customers often need the part immediately.

"You must have it, to sell it," says Jacobs. "It is hard to put a number on the sales that are lost due to not having what's needed on hand."

Jacobs therefore remains aware of his customers' requirements so that K.J. can stock needed items while guarding against dead inventory in the warehouse. Managing inventory well can be one factor that allows a distributor to prosper in difficult conditions.

### The current economy

The economic slowdown has been difficult for many distributors. For most wholesale and distribution companies, reduced sales volume means layoffs to contain costs. While many others have been struggling through the rough economic waters, K.J. Electric has found the strength to go against the current.

"Anyone can manage a business in a good economy," says Jacobs. "Our success comes from having the right people in place. As important as inventory is, it is the employees that form the real strength of the organization."

And the employees are well rewarded for their efforts. K.J. devotes half of its annual profits to the employees' profit sharing plan.

Not only has this Syracuse, N.Y., firm avoided layoffs, but it has actual-

ly added to its work force by 18 employees and increased annual sales over the last year. This was accomplished in an environment that can be described as anemic, at best.

According to U.S. Dept. of Labor statistics, the Northeast has been hardest hit by layoffs in the manufacturing sector during this economic downturn. Reflecting the difficult climate, this is the first year that K.J. hasn't grown by double digits. It will come close, however, even in a market down over 30 percent, says Jacobs.

Jacobs says a slow economy can be a great opportunity for businesses to

## COMPANY SNAPSHOT

### K.J. Electric

**President:** Ken Jacobs

**Headquarters:** Syracuse, N.Y.

**Founded:** 1981

**2001 Sales:** \$25 million

**Employees:** 140

**Branches:** 6

**Primary Products:** Electric motors, drives, controls, motor parts, transmission products, industrial control panel fabrication and motor repair/remanufacturing services

**Territory:** Upstate N.Y.

**Web site:** [www.kjelectric.com](http://www.kjelectric.com)

gain market share. Rather than downsizing in personnel, maybe it is better to upsize in quality, he adds.

"To do that, it is essential to keep up service levels while other companies are cutting back," says Jacobs. "It certainly puts you on the top of the heap."

As distributors downsize, K.J. looks all the better due to the greater service it can offer its customers, says Jacobs. Since it was founded, K.J. has continually expanded.

When the economic recovery happens, K.J. will be ready to grow while other companies will need to restore themselves before they begin to expand, says Jacobs.

By 2001, the distributor had five locations across Upstate New York. The company added its sixth location in 2002 with the purchase of Grand Eagle Motor Repair in Utica, N.Y. This completed its territory across the state from Albany to Buffalo along the Interstate 90 corridor, the major East-West route in Upstate New York.

It may seem unusual for a company to make acquisitions in a climate where many are simply worried about survival, but Jacobs says there is never a right or wrong time for growth, just opportunities in markets both good and bad.

"I love a down market, it's a great time to expand," says Jacobs. "Just a few years ago, companies paid far too much for the companies they acquired."

Grand Eagle was in bankruptcy, so K.J. was able to acquire it at a fair price, says Jacobs. K.J. was also able to save the jobs of Grand Eagle's seven employees and added another 10 positions.

### Powering industry

"New York is a challenging area," says Jacobs. "We have lost a lot of companies from this area."

The New York economy lost a large part of its paper industry in the Northern part of the state during the last few years. Likewise, Utica is a region where many of the manufacturing jobs have disappeared.

"It is a difficult proposition to enter into a community where many businesses are leaving," says Jacobs. "We will service the ones that remain and make them more competitive."

Providing the service, expertise, savings, and employee training to make customers more profitable is part of the distributor's responsibilities, adds Jacobs.

"I have to look at avenues that haven't been tapped," says Jacobs. "We are pursuing the HVAC market to replace the manufacturing industries that have left the region."

Diagnostics, repair and rebuilding services are part of the distributor's added value. Utica's facilities will



increase the cost-reduction and services that K.J. can offer by allowing the company to repair larger motors — up to 25 tons. The site also offers a vacuum impregnation system tank for use in motor rebuilds. The company has just completed two major repair jobs at hydroelectric plants.

Another service K.J. offers is helping customers reduce energy costs, a major expense for many industries, by encouraging high-efficiency motors. K.J. has been a major supporter of the New York State Energy Research & Development Authority's program which advocates the use of energy efficient motors.

"K.J. latched onto the program and has used it effectively," says Chuck Dolinskas. "They have trained their staff in how to sell these products. They also go to their clients to hold customer workshops."

Dolinskas is senior programs coordinator for NYSEDA at Honeywell DMC in Syracuse, N.Y. He says K.J. has been essential in transforming the marketplace to understand that purchasing decisions should include energy-based considerations.

"K.J. has innovated the use of NYSEDA and Dept. of Energy resources to instruct its customers on the products that will save them the most money," says Dolinskas. "It is a part of K.J.'s overall drive for improved efficiency and quality."

### **Drive for quality**

General Electric is one of the companies that developed the six sigma philosophy of lean manufacturing. K.J.'s Mary Rodman is a GE-trained six sigma "black belt."

"With six sigma, you can't just improve one area, it transforms the whole business," says Rodman. "It requires learning what the customer views as quality and measuring our service to that standard."

David Busco is an industrial sales specialist for General Electric Industrial Sales Division. He says K.J.'s commitment to six sigma quality is an extension of the way GE goes to market.

"K.J. is committed to supporting our products through technical expertise," says Busco. "With six sigma quality, we both bring more value to the table than just high quality products."

Busco says K.J. also represents its vendors by offering expertise to end-customers' engineers to design new products.

"Of course, K.J. carries many lines and recommends the best product for the application," says Busco. "Unfortunately, it isn't always our product, but K.J. effectively represents our products."

Rochester-based Lightnin is an OEM manufacturer of industrial mixing equipment. Director of supply chain management Steven Oakes says K.J. helps the company maintain lean flow manufacturing.

"We share the same philosophy," says Oakes. "We don't want to keep inventory. K.J. maintains our stock and delivers it daily."

Beyond its contribution to supply chain management, K.J. is unique in the level of technical support it provides the company, says Oakes. The distributor provides measurements of its performance as well as technical expertise such as tailoring a motor to meet Lightnin's requirements.

### **Positive spin**

Jacobs is a stickler for details. His quest for excellence predated the introduction of the six sigma program at K.J.

He says six sigma doesn't just solve problems as they occur, but gets to the root cause so they don't happen again. For instance, the distributor has two employees that are designated expeditors to assure there are no errors in its deliveries.

"Performance dashboards let our manufacturers, employees and customers know how we are doing," says Rodman. "That helps us justify our value across the supply chain."

She says six sigma quality reports help plant engineers justify their choice of K.J. to executives through objective measurements.

"That is one of the reasons that we go with K.J. instead of the distributor serving Cargill Salt with a national contract," says Cargill's plant electrician William Smagner. "We broke from the contract because of the quality K.J. provides. I even convinced another location to go with K.J."

Cargill's Watkins Glen, N.Y., location relies on K.J. for its MRO needs. The Minneapolis-based company uses a centrifuge to dry the salt it produces.

"When the production line goes down for service, it can cost thousands of dollars per hour," says Smagner. "During a production run, the centrifuge motor kept failing."

Since Cargill couldn't stop the process to diagnose the problem, it relied on K.J. to provide and replace motors until the equipment could be taken down for maintenance, says Smagner. In another instance, K.J. replaced a 200 horse power motor it provided because, although it met manufacturer standards, it was not up to Cargill's stringent requirements.

K.J. is growing its business through such superior service, inventory and expertise. Jacobs says since the Grand Eagle purchase, he has received offers from distributors interested in being acquired.

The company is looking for opportunities for new acquisitions, says Jacobs. Through good economy or bad, Jacobs plans to keep expanding the business and supporting manufacturing in Upstate N.Y. While many businesses in the region are headed for financial troubles, K.J. will continue to go against the current. ■