

connections



water and sewer distributors of america

WINTER 2004

Bringing together all elements of the waterworks and sewer distribution industry for the purpose of promoting, educating and representing its participants.

WASDA Celebrates 25 Years of Excellence and Partnership

25th Annual Meeting and Partnership Forum
March 28 – 31, 2004
The Registry Resort & Club
Naples, Florida



A new partnership for excellence in distribution, product development, training and support

Business and networking opportunities will abound as WASDA celebrates 25 years in style, March 28 – 31 at the fabulous Registry Resort in Naples, Florida.

This groundbreaking event will combine WASDA's two premier events – the Annual Meeting, always held in February/March, and the Partnership Forum, which was previously held as a standalone event in the summer.

Addressing Distributor and Manufacturer Issues

This year's event will feature programs designed to meet the specific needs of both distributors and manufacturers. On Monday, March 29, distributors will convene for business and roundtable discussions, followed by a group lunch. This is a unique opportunity for distributors to exchange views and share experience on critical business topics:

- Sharing/learning best practices with fellow distributors
- A voice for WASDA in Washington, DC
- Technology Roadmap exchange
- Human resources issues
- Benefit Packages/Sales Compensation
- Small Distributor Forum
- WASDA Marketing

Also on Monday, Manufacturers will gather for their own forum on "The New WASDA of the 21st Century: What does Associate Membership Mean to You?" This will allow manufacturers to learn the value that membership in WASDA would bring to them as Associate Members.

Time for Partnership

Of course, in the true spirit of partnership, the program will feature ample time for distributors and manufacturers to come together to discuss business relationships, share thoughts on WASDA and the waterworks industry and make some new contacts.

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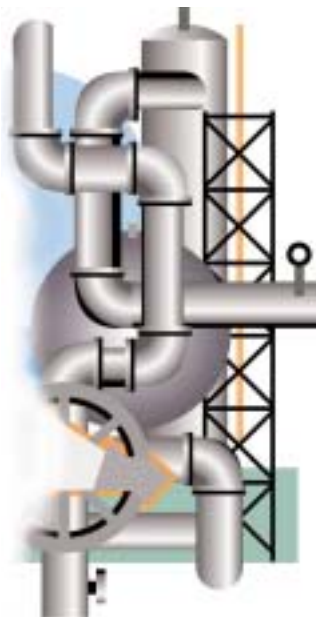
In This Issue...

Annual Meeting & Partnership Forum	1-2
Board of Director Nominations	3
Calendar of Upcoming Events	8
Letter from the President	3
NAW News	7-8
Profit Report	4-5
Scholarship News	6

Annual Meeting and Partnership Forum

continued from previous page

The highly valuable contact table program will take place all day Tuesday and again on Wednesday morning. This is the most cost effective and efficient way to meet with all of your key contacts, or hot prospects, in the waterworks industry. Distributors will host the tables and appointments will be 20 minutes each. **NOTE:** Appointments should be pre-scheduled. Visit the website at www.wasda.com for an updated list of registrants. Contact your colleagues in advance of the meeting, to set up meetings. **IMPORTANT:** Contact your colleagues who aren't on the list, as well, to encourage them to attend.



Networking and Fun

Evening events for all attendees will include receptions on Monday and Wednesday evenings and a gala dinner/dance on Tuesday night, to celebrate WASDA's 25th anniversary! To kick off this special evening, WASDA will present a performance by the famed Capitol Steps, the Washington, DC comedy troupe that attempts to be even funnier than Congress!

Spouses and companions also have much to gain at this year's meeting. Activities will include a meet and greet breakfast orientation, with information on things to do in the Naples area, and a companion program featuring a chocolate demonstration by the hotel's Executive Pastry Chef.

Taking advantage of the spectacular South Florida setting, open golf play times are available throughout the meeting. The WASDA 1st Annual Karl Neupert Memorial Golf Tournament will take place on Wednesday at the Naples Grand Golf Club.

Make Your Plans to Attend!

Complete registration information is on the website at www.wasda.com. March 8th is the meeting registration deadline for inclusion in the onsite printed program. March 8th is also the deadline for securing room reservations at the Registry Resort. Call the hotel directly at 239/597-3232 and be sure to specify that you are with the WASDA meeting.

See you there! Come celebrate with WASDA!



Connections is a publication of the Water and Sewer Distributors of America.

Terry Dotson	President
Greg Strayer	President-Elect
Mike Dooley	Treasurer
Holly C. Chapman	Executive Director
Suzanne C. Pine	Management Liaison

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Letter from the President

The time has come:

As we gather in Naples for this, the 25th anniversary of WASDA it is important to note that we are definitely on the move. These past two years have just flown by. Our association has taken on a new look and feel.

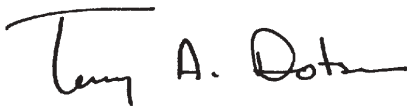
With the advent of new committees, Associate Membership and a Partnership Forum WASDA is certainly looking to the future. The past two years have been exciting as well as rewarding for our organization. Many more members have been involved in a variety of forums, planning sessions as well as board involvement.

It has been a pleasure serving as your president. This is a great industry association that will continue to flourish as time goes on. Yes there will continue to be changes as we go forward. That's life. Sometimes you are in position to grab the brass ring and sometimes it just slips out of your fingers. You need to make sure you are always in position to know when it is coming around.

Greg and Mike are on the top of their game and look forward to positioning WASDA as the Association of Choice for all Manufacturers and Distributors of Water and Sewer products in North America.

I am reminded of a quote from Robert Strauss – Success is a little like wrestling a gorilla. You don't quit when you're tired – you quit when the gorilla is tired.

Keep Wrestling



Terry Dotson

WASDA Board Elections

The Leadership Committee, which consists of the following members: Brad Kendall, Kendall Supply, Inc.; Wayne Johnson, Dana Kepner Company, Inc.; Sam Soroko, Water Works Supply Company, Inc.; and Ed Morrison, CI Thornburg Co., Inc, has submitted the following nominees for the position on the 2004 – 2005 WASDA Board of Directors:

John A. Stegeman, Ferguson Enterprises, Inc.

Sam Peirce, H.R. Prescott & Sons, Inc.

Deron Johnson, Dana Kepner Company, Inc..

Complete candidate profiles were included in the Fall 2003 edition of the WASDA Connections Newsletter.

Note that in accordance with section 5.04 of the bylaws, *“Additional candidates for elections as Directors may be nominated by a petition with the signatures of ten (10) voting representatives of Regular Members of the Association in good standing submitted to the Nominating Committee not less than thirty (30) days before the “Annual Meeting.” If you would like to submit other candidate names, you may do so by sending a letter and petition directly to WASDA headquarters.”*



Profit Improvement Report

*Prepared for WASDA By Dr. Albert D. Bates,
The Profit Planning Group*

WATCHING YOUR PROFITS SLIP AWAY

WASDA members have made significant strides in recent years in terms of management sophistication. They are using new technology, employing more creative management techniques and analyzing their businesses in more precise ways than ever before. Even so, profits continue to lag.

Part of the problem can be attributed to an economic environment that until recently was not particularly friendly. However, to a great extent the economic conditions have hidden an important management issue. Despite the advances at the top of the organization, decisions continue to be made at the bottom that systematically erode profits.

The problem stems from the massive number of sales transactions the typical WASDA member must process each year. Each transaction, or order, represents several individual line items. There is simply no way every component of every transaction can be monitored by top management.

This article explores the issue of how profit continues to slip away, usually without even being noticed. It does so by looking at two specific issues:

- **Determining the Magnitude of the Profit Reductions** - Many of the profit losses are unseen, so it is only possible to develop an appreciation for how profit is undermined. In doing so, the focus will be on the sales force. This is not intended to single out the sales force as a problem area. The intent is to use sales generation as an example of the larger problem.
- **Eliminating Profit Erosion** - Realistically, the problem of profits slipping away will never be entirely resolved as there will continue to be a massive number of transactions. However, both employee education and better sales tracking can go a long way in reducing the problem.

DETERMINING THE MAGNITUDE OF THE PROFIT REDUCTIONS

There is no line item on the income statement that measures how much profit is lost by ineffective decisions. By their very nature, the losses are invisible, almost defying management to do something about them. Addressing the issue requires that a more detailed analysis of profit be generated within the firm.

Based upon the latest numbers available, the typical WASDA firm has the following key operating characteristics. Both the average transaction size and line value are illustrative as these numbers are not tracked:

Net Sales	\$14,000,000
Average Transaction	\$500

Number of Transactions	\$28,000
Average Line Value	\$100
Number of Line Items	\$140,000

The thought of simply processing 28,000 orders and 140,000 order lines is daunting enough. The thought of doing so with 100% accuracy in every aspect of the transaction moves beyond daunting to impossible.

Clearly, many of the mistakes that can be made in the transaction process are obvious, particularly in areas such as warehouse operations. For example, if the wrong item is picked and shipped to the customer, the customer complains. The wrong item has to be retrieved and the correct item delivered. Tracking such problems is relatively easy.

However, there is another category of errors that is not quite so apparent. They represent the loss of sales and gross margin when an individual transaction is not handled in an optimal manner.

Exhibit 1 looks at the nature of the unseen slippages by focusing on sales force activity. The first column simply reflects a typical order for a WASDA member. The numbers reflect the results identified above. To be able to analyze results, two important assumptions were made:

Commissions - These represent 10.0% of gross margin. Commissions are frequently paid based upon margin, but the exact rate depends upon whether or not there is also a base salary and several other issues. The 10.0% figure is being used simply for the ease of computation.

Other Variable Expenses - These include the cost of financing the transaction, potential bad debts and incremental handling costs. For ease of calculation they are set at 1.7% of sales.

As can be seen at the bottom of the first column, the typical transaction produces a meager profit of only \$13.50, which represents the profit margin for the typical WASDA member of 2.7% of sales.

The second column of numbers looks at what happens when the rep does not generate as many items on each order as possible. Specifically, it involves just one less line item per invoice. The impact on profitability of this action is often grossly underestimated. In fact, one less item produces a loss of \$4.33 on the entire order.

The final column examines what happens when a three percent price is granted to secure the order. This reflects the fact that price is continually under attack. However, once again the impact on profit is large, with a profit of only \$0.25.

Both of these are real-world situations. With diligence, it is probably possible to pick up most of the major price reductions. However, the vast majority of the minor ones slip by unnoticed. In contrast, the failure to generate as

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Profit Improvement Report

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large an order as possible is virtually impossible to control in any situation.

ELIMINATING PROFIT EROSION

It will never be possible to completely capture all of the potential profit on every order. There simply continues to be too many transactions to monitor closely. However, there are two significant steps that management can take that should help alleviate the problem.

- **Profitability Education** - The vast majority of operating employees, as well as much of lower and middle management, has a very poor understanding of how profitability is generated or undermined in the firm. For example, when asked about the impact of one less line on an order, most employees would suggest that the transactions profit will fall 5 to 10 percent, not that it will be destroyed. Such differences are critical. No firm wants to turn all of its employees into accountants. However, a more thorough understanding is essential to profit success.
- **Better Monitoring Systems** - Traditional accounting systems do little to help firms control the issues identified in Exhibit 1. However, new database

programs do provide a relatively easy means to make such comparisons. It is essential to begin to track key profit drivers, such as lines per order, by salesperson over time. Without measurement, there is no basis for improvement.

MOVING FORWARD

Most firms experience on-going reductions in profitability without even being aware of it. Such slippages are not limited to the sales area. They occur throughout the business. In order to achieve truly high-profit performance, the typical WASDA member must be educated its employees on the nature of profit relationships. In addition, it needs to have a tight control system that regularly tracks each of the key profit drivers in the firm.

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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A Managerial Sidebar on The Losses from Profit Slippages

Many of the factors that erode profits, such as fewer lines per order, are hidden. As a result, they cannot be measured with absolute accuracy. However, some estimates of their impact on the firm can be made based upon a few wide-ranging assumptions.

For the typical WASDA member with \$14,000,000 in sales and 28,000 transactions, the impact of not generating a complete transaction would depend upon the frequency with which this event occurs. The following suggests that for most firms it is probably a significant factor and that the lost profit dollars could equal anywhere between 1.3% to 5.3% of current profits.

Frequency	Dollar Profit Loss	Percentage Profit Loss
One in One Hundred Transactions	\$4,992	1.3%
One in Fifty Transactions	\$9,985	2.6%
One in Twenty Five Transactions	\$19,970	5.3%

The impact of price cutting is much the same:

Frequency	Dollar Profit Loss	Percentage Profit Loss
One in One Hundred Transactions	\$3,709	1.0%
One in Fifty Transactions	\$7,417	2.0%
One in Twenty Five Transactions	\$14,834	3.9%

These analyses are based upon one less line per order and a three percent price reduction.

Larger reductions in performance would have a much greater impact on the bottom line.

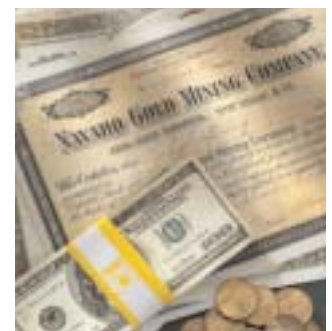


Exhibit 1

The Impact on Profitability per Order from Producing One Less Line or by Lowering Price 3%

	Typical	One Less Line	3% Price Reduction
Lines per Order	5.0	4.0	5.0
Average Line Value	\$100.00	\$100.00	\$97.00
Average Order Value	\$500.00	\$400.00	\$485.00
Net Sales	\$500.00	\$400.00	\$485.00
Cost of Goods Sold	391.50	313.20	391.50
Gross Margin	108.50	86.80	93.50
Commissions (10% of Gross Margin)	10.85	8.68	9.35
Other Variable Expenses	8.50	6.80	8.25
Fixed Expenses	75.65	75.65	75.65
Total Expenses	95.00	91.13	93.25
Profit Before Taxes	\$13.50	-\$4.33	\$0.25
Profit Margin	2.7%	-1.1%	0.1%

The 2004-2005 Matt Stager Memorial Scholarship

Student Application Deadline – April 1st

The Matt Stager Memorial Scholarship Fund was established to honor Mr. Stager, one of WASDA's past presidents, by assisting children of employees of WASDA-member companies in achieving their higher education goals. The family of Matt, along with the Directors of WASDA, wants to continue his legacy by awarding outstanding, diligent, industrious, intellectual individuals with annual college scholarships in his honor.

Eligibility Requirements: The scholarship program is open to those students who have completed their junior year in high school and are children of employees of member companies of WASDA. Candidates must be outstanding in character, integrity and leadership. These qualities may be proven by participation in extracurricular, civic or community activities.

Evaluation Criteria: The applicants will be evaluated on objective standards such as past academic performance, performance on tests designed to measure ability and aptitude for higher education, and the candidate's rank in school. Recommendations by instructors or other persons

unrelated to the candidate, extra-curricular activities and leadership contributions will also be considered.

Applications: Applications may be obtained by calling the Water and Sewer Distributors of America (WASDA) at (215) 564-3484. Candidates must make certain that a transcript of their high school grades is sent to the Scholarship Selection Committee along with their letters of recommendation and Counselor's Report.

Deadline: All applications must be submitted no later than April 1, 2004. The award winners will be notified no later than June 1, 2004.

For an application or to make a contribution to the scholarship fund, contact:

The Matt Stager Memorial Scholarship Fund
c/o WASDA
1900 Arch Street
Philadelphia, PA 19103-1498
Phone 215-564-3484 Fax 215-963-9785
E-mail: wasda@fernley.com
Website: www.wasda.com

Thank you to Our Directory Advertisers

Thank you to all industry suppliers and WASDA members who chose to advertise in this year's directory. You helped make this a successful year! (List as of 2/18/04)

NOTE: The WASDA 2004- 2005 Directory will be available at the Annual Meeting and Partnership Forum, March 28 – 31, 2004. Copies will also be mailed out after the meeting.

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New Federal Anti-Spam Law Applies to Senders of Commercial Email Messages, Including Associations

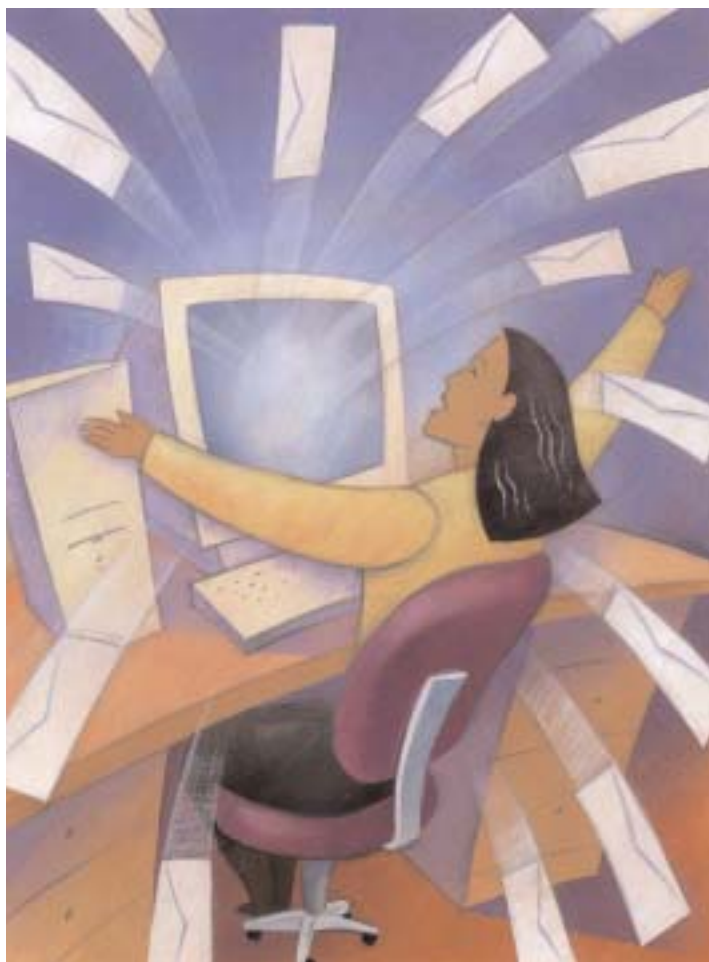
On December 16, 2003, the President signed the CAN-SPAM Act of 2003 (S.877, Pub. Law 108-187) into law, to go into effect on January 1, 2004. The law sets rules for senders of "commercial electronic mail messages." This Federal law preempts all existing state laws expressly regulating the use of email to send commercial messages, including the new California law scheduled to go into effect in 2004. A general summary of the Act's civil provisions applicable to commercial email messages is provided below. The entire Act may be viewed at: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_bills&docid=f:s877enr.txt.pdf

There is no express provision in the Act to exempt its application to a trade association when sending an email to its members or others. FTC regulations to be issued in 2004 may provide clarification or guidance on this question. However, note that some emails sent by a company or a trade association, depending on the content of the message, may not fall within the Act's definition of a commercial electronic mail message.

A commercial electronic mail message is defined as any electronic mail message whose primary purpose is the commercial advertisement or promotion of a commercial product or service and specifically includes email that promotes content on an Internet website operated for a commercial purpose. The reference in a message to a commercial entity or a link to the website of a commercial entity does not, by itself, cause the message to fall under the definition of a commercial electronic email message if the contents indicate a primary purpose other than an advertisement or promotion of a product or service. The Act provides that the Federal Trade Commission (FTC) shall issue regulations defining criteria that would determine "primary purpose."

The definition of commercial electronic email message goes on to state that the term does not include a **transactional or relationship message**, which is defined as a message whose primary purpose is to (a) facilitate, complete or confirm a commercial transaction that the recipient has previously agreed to enter into with the sender; (b) provide warranty, product recall or safety information with respect to a commercial product or service used or purchased by the recipient; (c) provide notification concerning a change with respect to a subscription, membership, account or comparable

ongoing commercial relationship; (d) provide information directly related to an employment relationship or related benefit plan in which the recipient is currently involved; or (e) deliver goods or services, including product updates or upgrades, that the recipient is entitled to receive under the terms of a transaction that the recipient has previously agreed to enter into with the sender. The FTC may by regulation expand or contract the definition of transactional or relationship messages.



Content of a Commercial Email Message

The Act requires that a commercial email message include a functioning return email address, clearly displayed, so that a recipient may submit a reply requesting not to receive future commercial emails. This email address must remain capable of receiving opt-out messages for at

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least 30 days after transmission of the original message. The sender must then, within 10 days of receipt of the opt-out message, cease transmission to that recipient of any commercial email messages covered by the opt-out request. Thereafter, the recipient may affirmatively consent to resume receipt of such messages from the sender.

Also, all commercial email messages must include:

- a clear and conspicuous identification that the message is an advertisement or a solicitation (this is not required if the recipient has given prior affirmative consent to receipt of the message);
- a clear and conspicuous notice of the opportunity to “opt-out” electronically from future commercial messages;

and

- a valid postal address of the sender.

The law does not specify any required location or format (e.g., type size) for the above information in the email message.

Enforcement and Civil Penalties

The FTC may enforce the Act as if a violation were an unfair or deceptive trade practice proscribed under the FTC Act. State attorneys general also may enforce the Act’s civil provisions and recover statutory damages from the email sender of up to \$250 per illegal message, not to exceed \$2.0 million. These damages may be tripled for an aggravated violation and a state may also recover its attorneys’ fees for a successful action.

An internet service provider adversely affected by unlawful emails may also recover statutory damages from the sender of up to \$100 per illegal message, not to exceed \$1.0 million. These damages may be tripled for an aggravated violation and the court may award attorneys fees and costs to any party to the action. The Act also contains criminal provisions and penalties (fines and up to 5 years imprisonment) for specific fraudulent email activity.

There is no private right of action granted to a recipient of an illegal email.

Coming Soon!

The all-new edition of the leading wholesale distribution industry report Facing the Forces of Change: The Road to Opportunity, will be available March 1. This report provides strategic insights into key trends impacting the wholesale distribution supply chain through 2008.



For more information on this and all NAW publications, or to place an order:

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Send an e-mail to pubs@nawd.org with the name and phone number of the person you’d like NAW to call.
Go to <http://www.naw.org/orderform.htm> for a faxable form

WASDA Calendar of Events

**WASDA Annual Meeting
and Partnership Forum
(25th Anniversary!)**
March 28 – 31, 2004
The Registry Resort
Naples, Florida



WASDA Fall Meeting
October 22 – 24, 2004
Fairmont Kansas City
Kansas City, Missouri