



interview with D. Beatty D'Alessandro

EVEN D. BEATTY D'ALESSANDRO ADMITS THAT THE PREVAILING VIEW IN boardrooms across America is that logistics just happens. But D'Alessandro, who is CFO of \$5 billion industrial distributor Graybar, knows better. Although he has never worked in logistics, he became intimately familiar with the workings of the company's supply chain a few years back while heading up a major IT initiative. Over a three-year period, D'Alessandro (who was then CIO) oversaw the company's transition from a hodgepodge of legacy systems to an enterprise-wide SAP platform. During one stage of the project, D'Alessandro and his team re-engineered the company's logistics planning and forecasting processes—an experience that left him with a whole new respect for the discipline.

Today, D'Alessandro is senior vice president and chief financial officer of Graybar, a Fortune 500 distributor of components, equipment and materials for the electrical and telecommunications industries. As CFO, he is responsible for the treasury, accounting, technology, tax and internal audit operations. During his two-year tenure as CFO, Graybar has increased its revenues by over 20 percent, cut its debt in half and nearly doubled its earnings, largely through use of technology.

D'Alessandro, who has a bachelor of science degree as well as an MBA from the University of South Florida in Tampa, is also a veteran of numerous executive education



training programs. Today, he serves not only on Graybar's board of directors but also on the boards of Junior Achievement's Mississippi Valley Chapter and the United Missouri Bank of St. Louis. He has served as chairman of the National

Association of Wholesalers' Large Distributor CIO Committee and as a member of the advisory boards for SAP and SBC. He has also published several articles on the role of technology in distribution.

D'Alessandro met recently with *DC VELOCITY* Editorial Director Mitch Mac Donald to offer his take on the logistics and supply chain operations at Graybar.

Q Tell us a little about Graybar.

A Graybar is a multi-billion dollar distributor of products that are used primarily by companies in the construction industry as well as by electrical and data communications contractors. These products end up installed in new construction and remodeled industrial plants and other types of facilities around the country. We are primarily a North American distributor. We have been in the business over 100 years and are one of the largest employee-owned companies in the United States.

Q You said billion with a "B," right?

A Yes. Five billion dollars. We should finish 2006 at just about five billion dollars in sales.

Q Are you one of the largest companies in your marketplace?

A We would be number one, two or three—certainly somewhere in the top three.

Q Tell us about your background. How did you come to be where you are today?

A Well, I'll tell you, it has been an interesting route. I started with Graybar over 20 years ago in their financial man-

ager training program down in Florida. I spent 10 years bouncing between the company's locations in Florida with essentially commercial credit functional responsibility—making sure that Graybar's interests were covered and that our sales

grew and grew profitably over time. Then about 13 years ago, I had the opportunity to come up to our corporate office in St. Louis, where I spent some time managing the company's national account and banking relationships, then went out and spent some time in one of our business units as the CFO for the Midwest division. I came back into the corporate office to run strategy in mergers and acquisitions. One of the projects I was very involved in dealt with our information technology systems. The systems we had in place were custom built back in the 1980s. The CEO and the board of directors wanted us to take the company to a much higher level in terms of IT.

Q This was roughly four years ago?

A It started in 2001. It was quite a project. The question seemed simple enough: "What should we do about systems?" We came up with a recommendation, and the board said, "You guys are so smart, why don't you go do it?" So I ended up running what was at the time the largest acknowledged project of its kind in the distributor marketplace, I think maybe globally, but certainly in North America.

Q How big was it?

A Well, we spent about \$100 million over a three-year period to totally reprocess and re-engineer the company, using software as the catalyst for that process. Ultimately after 1,375 days, we finished with our project on Oct. 11, 2004. Shortly after that, our CEO called to tell me that the CFO was planning to retire and asked me to assume that role. So today, technology reports through my office as does the treasury group, which

handles all of our lending and borrowing; the accounting group; the audit group; and the tax group.

Q Among logistics and supply chain professionals, a topic of endless speculation is how their function is viewed in the boardroom. Drawing on your perspective as a former CIO, a current CFO and a current member of the board, how do you see Graybar's logistics operation?

A I think it is a key and critical element of what we offer in the market. The ability to determine what products to stock, where and in what quantities, and how to get those products to those places so they land on the shelf just days before, or even seconds before, they're handed off to the customer—it's fundamental to what we do and who we are. In my mind, the guys who do logistics right are the winners. The ones who do it wrong are absolutely going to lose. They are not going to be able to grow their sales without controlling the tremendous capital requirements necessary in the holding of inventory. The two biggest assets a company can have are not things like factories, patents, distribution centers and power plants. They are receivables and inventory. If we don't manage those correctly, we are not going to win in our marketplace.

Q Do you see it as a competitive differentiator—at least in the sense that you endeavor to do it better than your competitors do?

A Three words: Absolutely. Absolutely. Absolutely.

Q How do you measure that?

A What we measure—on a monthly basis, and often on a daily basis—is the movement in our sales as compared to the movement in our inventory and other working capital assets, like our receivables. So as we see sales go up by 10 percent, we would be displeased to see that our inventory went up by 20 percent—that would indicate we were over-investing in inventory. The measurement is the relationship, in my mind, of the growth of the business with the growth of working capital assets. What we have been able to enjoy this year and last year, quite frankly, is significant growth in sales and a less than percent for percent increase in working capital assets and particularly in our inventory. I think it is because we have better tools deployed and better methods deployed, and because our folks have really absorbed and begun to understand and use those tools better than ever.

Q What is the title, if you know it, of the highest-ranking logistics or supply chain executive at Graybar?

A Well, I would hope I would know, because I am a peer. We have a senior vice president of operations, who is responsible for the inventory of the company, the placement of the inventory, and the placement of the facility that owns the inventory and all the transportation pieces of getting that product out to the customers.

Q Do you interact with that person on a regular basis?

A Daily, sometimes hourly. He's a great guy and he's got a very tough job.

Q How many distribution centers does Graybar operate?

A We have about 220 branch locations. We have, I think at last count, eight zoned mega-distribution centers. A typical branch is typically 30,000 to 40,000 square feet of warehouse with delivery capabilities, customer service capabilities, and a small business support office. On top of that, we have these national zones that are really for our "C" and "D" types of items that wouldn't make sense for us to stock at the local branches. With a product set like ours—wire and conduit and other electrical and networking types of products—your pounds-per-dollar

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costs are quite high. That is, you might have 20 pounds worth of product that costs four dollars, so it's key and critical that you flow the material as close to the customer as you can on the first pass. You can't do this all out of Omaha, Neb. You've got to do it in St. Petersburg, Fla., as well as Orlando, Fla., as well as Fresno, Calif. You've got to flow the products from the factory right down to almost the final spot of consumption so the weight-to-dollar ratio is not out of whack. If you don't do that, you end up with transportation costs that will totally negate your profitability on the orders. In our business, having local presences is totally critical. The backup piece, the national zone, is really for the oddball items, the items that are not demanded in large quantities or are not demanded very often. So the model really is a branch-based model with support from zones.

Q When you say "C" and "D" products, you mean what?

A Those would be products that sell once a month in a location or once every other month in a location or once every six months in a location vs. every day and every week, which would be your "As" and "Bs."

Q It sounds like you're shipping everything from heavy freight to small electrical parts. I assume you use a variety of transportation modes?

A Yes, we rely on a combination of transportation resources. For our inbound freight, the factories that we buy our products from—our suppliers—typically pick the mode of shipping to our locations, be they branches or zones. With very few exceptions, it is their decision as to

who they are going to use and how it comes in. It comes in by truckload, it comes in by LTL, and it comes in by parcel carrier in some cases, but that is their determination. Once the merchandise arrives at one of our locations, it goes back out the door in one of four ways: The customer can

come and pick it up from us. We can ship it out to the customer on our own truck. We can ship it to the customer by less-than-truckload carrier. Or we can ship it out by UPS, FedEx or one of the other expedited service providers. We base that decision on what the customer needs.

Q Let's talk a bit about technology. Can you point to any emerging technologies that you think might change the game as it relates to logistics and supply chain?

A We certainly think that RFID has had a significant and very beneficial effect on our business. I guess my overall comment would be that we see non-integrative planning and forecasting methodologies as technologies of the past, and fully integrative planning and forecasting systems as technologies of the future. We certainly went from a stand-alone forecasting module into a suddenly integrated world. We think it has paid dividends and continues to pay dividends. Ultimately, large successful distributors are going to make those kinds of investments. We believe this. And we put our money where our mouth is and did it.

Q A \$100 million investment certainly does say a lot.

A We spent a lot. We knew from the outset that technology was going to be the secret sauce.

Q Any closing thoughts to share with the logistics and supply chain professionals who read *DC VELOCITY*?

A They have one of the hardest jobs in America. I think that from the viewpoint of the executive suite and certainly from the financial suite, logistics just happens. When something's needed, these people make some decisions and the material arrives at the right place at the right time. There isn't much understanding there. I can tell you from my point of view, having had the opportunity to work as we built the logistics planning and forecasting mechanisms that this company runs, logistics doesn't just happen. There are a million decisions. There is a ton of hard work. Logistics is a lot of blood, sweat and tears, and when you get it wrong, it kills the company. □