



MOVERS & SHAKERS

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Movers and Shakers Interview

Safety Networks (SMG)

Mike Smeaton, CEO

March 2018



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Interviewed by Sanjiv Bhaskar, on March 12, 2018

Introduction

Chief Executive Officer

Michael “Mike” Smeaton serves as President of the SafetyNetwork.me (Powered by The Safety Marketing Group) Mike has over 41 years of experience in the industrial safety marketplace. Prior to becoming SMG President, Mike worked in American Optical’s Safety Division as a Regional Sales Manager until he acquired a portion of Quad City Safety, Inc. In 1989, Mike purchased the remaining portion of Quad City Safety and, over the next decade, turned it into one of the leading independent safety distributors in the United States.

Mike’s passion has always been about helping the Independently Owned Safety Equipment Distributor become more relevant to the end-user customer and help improve their profitability.

Mike attended both The University of Iowa and St. Ambrose University. He has two children: Mike, Jr. and Melissa. Mike is married to Deborah Smeaton.

Mike is also very involved at his local Church (Idlewild Baptist Church) and serves on several Not-For-Profit Boards including: Hope Street of Tampa Bay, Mission Increase Foundation of Tampa Bay, Tampa Muslim Outreach of Tampa Bay and This Day Ministries.

Sanjiv Bhaskar (SB): Would like to hear from you about the history of SMG/Safety Networks?

Mike Smeaton (MS): Well, it all started February of 2016. We had strategic planning sessions with our board of directors and our supplier advisory council and rounded it out with our top 10 distributors and top 10 suppliers. We do this every four or five years, but this one was totally different. Why, I'm not sure. Usually, it was about how we would be more relevant to the suppliers, to the distributors. This time it was how we would be more relevant to the end user. So that basically made us think about changing our name because we felt end users wouldn't like the name "marketing" being in our name. So several things came out of that February meeting of 2016. There were the development of strong industry partnerships, developing a safety Wiki Web site, expansion of our education offerings, an insurance initiative that would cover health, property, and casualty, branding a new name, and that was basically the top five things that they really wanted us to work on for the next two to three years. So we've been doing that.

For industry partnerships, we've developed some really good partnerships with the American Society of Safety Engineers and the National Safety Council. For the Wikipedia site, we've developed a partnership with a company called Safeopedia, which is basically a safety wiki. So we've developed a great partnership there. The only access to safety equipment distributors is our members and our suppliers. So we have a great partnership there. We've expanded our education; we've moved into a new building in February of last year, with a training center. So now we are offering classes, anywhere from inventory stratification, customer stratification, solution-based selling, and inside sales and marketing, all right here in Tampa. We're moving on very well on our initiatives and all of them are; the insurance not so much driven to the end user, but the rest really are.

The education piece, which gets into how we separate ourselves from everybody else on PPE; we started an education program called SEE (Safety Equipment Expert), and it's a 50-hour certification, 100-hour certification, and 150-hour certification. We figured it would take two-to-three years to get everyone on track. Some of it was supplier-led education; some of it was online, where we would have safety equipment expert 101 online, OSHA 1910—general industry, OSHA 1926—construction, and we would keep track of it all with our learning management software. And then, of course, there are the classes we have in Tampa.

S.B.: So it seems the major difference is that what you are attempting to do is to make your distributors or their people experts in what they are selling. Is that a fair statement?

M.S.: That's exactly it.

S.B.: That makes you stand out from the MROs (Maintenance, Repair, and Operations) because MROs are generalists, right?

M.S.: That is correct. They don't care what they put in the box, but we do.

S.B.: Why would independent distributors continue to join a group such as yours in the future?

M.S.: Well, of course, we've always been a buying group. Today, we're a little bit more than just a buying group. We're really providing education for our 1000 feet on the street, our distributors. We've got a great partnership with our suppliers. Most new distributors that become members—after a year, when I ask what was the biggest benefit—they always say, "Well, you can see that we cashed every rebate check that you sent". But really, the biggest benefit is the improved relationship with the suppliers and really the interactions with the rest of the distributors." So there's a lot of benchmarking opportunities.

S.B.: Would you call Safety Networks a success story? Has it achieved what you envisioned?

M.S.: Most definitely. We went from when I took over the group in 2003. We had 60 million going through the group, and last year, we had 300 million. So we've improved the purchases going through the group. I feel we have stronger distributors because of some of the initiatives that we have tackled over the years.

S.B.: How many members are in the group now?

M.S.: 56.

S.B.: How do you define leadership from a CEO's perspective?

M.S.: Well, it's often been compared to herding cats. Because we're a cooperative, we're member-owned. So basically, I have 56 bosses that all have strong opinions. But when I took over in '03, it was like herding cats, but since then, I think that they understand that I get up every morning with the passion of an independently owned safety equipment distributor. I used to be one, and they know that. What I do is all focused on how to help them succeed and become more profitable.

S.B.: And the distribution landscape is changing very drastically. A lot of mergers and acquisitions are taking place. In that environment, if you can help the safety distributors stay independent, then probably you're doing a great job, right?

M.S.: That is our biggest challenge. Our distributor members that sell out to publically held companies, because we can only have independently owned safety equipment distributors. So that is a threat, and we try to make them stronger. We have had several members in the group that have been acquiring our own members, which is okay. Later on, you ask about Ritz Safety, they're a member and they've been on an acquisition spree. Northern Safety was on an acquisition spree, and they are also a member. Some of our members are being purchased by other members, and some people are being purchased by publically held companies, and they can no longer be in the group.

S.B.: How is digitization in every part of B2B commerce impacting your industry? What are the distributors doing to cope with this challenge?

M.S.: That's a great question. Right before your call, we had a conference call with a company that specializes in digital asset management. So like a lot of industries, we recognize the impact of digitization, and we are using it as a growth lever instead of an obstacle. Many of our initiatives are centered around digital capability and improvements. Our membership is world class at customer service, supply chain management, sales, and the classic approaches to business, which makes adding in digital capabilities really a lot easier. So that's the way we're approaching it.

S.B.: Entry of eCommerce has been challenging the typical brick and mortar stores. Has it prompted changes to the business models of your members? If yes, then in what way?

M.S.: It sure has. All of our members have an eCommerce-enabled Web presence which is transaction capable. However, we really view the end users' draw to the Internet as an opportunity to not only sell but to educate. So that's where we bring in the whole Safeopedia idea; that's where we bring in our own safety equipment expert with 150 hours [certification]. Our fundamental goal is making work environments safer, and the Internet is allowing us to reach more people in an efficient way to really spread our message. Selling products is really a secondary benefit but not really our primary goal. It's more to educate the end user.

S.B.: When you say each member has an eCommerce capability, is it a central umbrella, or does everyone have their own digital capability?

M.S.: Yeah, they're all on their own, but they've been working on these initiatives for quite a few years. So I'm proud to say they've all done it, they're all a little bit different. Some of them are basic, and some are quite nice in comparison to an Amazon or a Grainger.

S.B.: What major challenges do you see in the coming year for PPE distributors? What will be your strategy to address these challenges?

M.S.: I think, in a word, it would be "loyalty." Historically, our members offer a service, really hoping that end users develop a safety culture, in preventing workplace accidents. They get paid for this service through the purchase of PPE. With the onset of "me too" generalists out there, our members are still looked to for the knowledge but are not always getting awarded with the PPE orders. This is the challenge that we face every day. We take our education to the end user, and many of the end users that have a safety culture. They believe in us, and they buy from us. If it's just a price situation and they don't really have a safety culture in place, it goes out for bidding, and we may not get that business.

S.B.: Then, in your opinion, which industry segments have the best safety culture?

M.S.: Our two main market segments are general industry and construction. Both have some great companies with great safety cultures. Actually, contractors are becoming more and more focused on safety culture. Just because of the cost of insurance and all of that. So you CAN make safety profitable.

S.B.: How are your members coping with the pressure of operating in an environment replete with large, national, multi-industry distributors?

M.S.: That's a great question too, and every distributor is a bit different. There's the distributorship that I used to own—that I ended up selling to my kids—we were focused on a certain geography and worked really hard with our end users. And we were not going to be anything more than a regional distributor. But there are some companies, like Northern Safety, Stauffer Glove, Magid Safety, Ritz Safety, and DiVal, Safety that have locations throughout the country and are really able to ship to anywhere in the country. And that's Safety Network's goal and many others. I guess that's the interesting part about our business. It's a generational business. We have some distributors that are on their

seventh generation. It's unbelievable when you really think about it. They could be operating out of a city for seven generations as compared to another distributor that has more of a national footprint. But the mindset is very similar. We call it a DNA match. When we look for new distributors, we look for similar DNA and that DNA is education: educating the end user; and having a real safety culture; and helping that end user with their safety culture.

S.B.: How do safety specialist distributors retain a competitive edge in PPE supply, over the larger MROs and industry-specific distributors?

M.S.: We fight that battle every day. And that's what gets me up in the morning. It's all about the value proposition that our distributors have. All of our independently owned distributors are safety focused. They're not focused on soap, dope, and rope. It's all about safety. It goes back to the education, back to Safeopedia, back to being able to provide solutions to the end user/customer.

S.B.: What is the role of industry specialty distributors in the PPE industry? Is this a growing segment of distribution channels?

M.S.: I guess. I don't pay very close attention to some of those. Oil and gas is a big category for us, but HVAC and others, I don't pay a lot of attention to. I know that there are a lot of independent distributors in those segments, but I don't pay close attention to them.

S.B.: Its common to see a construction material company to say that since they are selling construction materials, they might as well stock some of the corresponding safety equipment as well. We have seen in Europe, a lot of office supply companies are also becoming PPE distributors. So how does that work?

M.S.: Well, we see it every day. I was talking to our bank a month or so ago, and I accused them of probably someday selling safety equipment. Everybody else does. It's just true. I blame the suppliers for that. It's not the way it was but it is the way it is today. And again, we just have to fight for our share. And I've got to say that we're winning because our growth has been higher than the national average on safety. So I feel like our message is resonating with the end user.

S.B.: Distribution industry has seen its own consolidation activity with companies like Bunzl, Mallory, GPC, Ritz acquiring companies in North America and Europe. What impact is this likely to have on the Distribution landscape? On your organization?

M.S.: It's been bothersome. We've had wins and we've had losses. Like Bunzl, they've purchased several of our suppliers. They're not selling direct here, but they do sell direct in other countries. I'm bothered by that. They do have a couple of divisions in the US that do sell direct but not PPE. Mallory, they've been on an acquisition, in fact, one of my distributors just last week told me they were being purchased by Mallory. Ritz has been acquiring. They're a member. We've been lucky there, we actually won many of those. So it's been wins and losses across the board with consolidation. Most of the consolidation, I wish didn't happen but I have no control over that.

S.B.: True. For example, Bunzl acquired Tillman which was making welding gloves. They also acquired Cordova Safety which was also one of your suppliers.

M.S.: Yeah, they bought them. Cordova was one of the first ones that affected. Cordova was a great supplier in the group. And they bought Tillman and they bought Revco. Tillman and Revco were almost the same type of company, which surprised me that they did that. But they did. And Revco has been a supplier for us for three years. And they are a great welding category supplier. And so far, there really hasn't been any real management changes on the Bunzl acquisitions. Cordova is basically the same people that were there before the acquisition...and they shouldn't [change].

S.B.: Safety Networks offers a unique network of distributors of PPE SOLUTIONS in the market today. From your perspective which are the key end-user industries that your members are focusing on?

M.S.: General industry, construction, oil and gas would be the three main industries. I would consider chemical to be in general industry. But that would be the focus.

S.B.: How were these industry segments impacted by the policies of the current administration?

M.S.: I just think there's more confidence in making investment into the business. So the level of confidence, I think, is huge.

S.B.: Which industry segments are expected to experience faster growth in your opinion?

M.S.: I think construction would lead the way. I would hope it'd be general industry, and maybe it will, if we get our steel mills and foundries working again. But me personally, I love the dirty industry. That's where they chew up PPE like crazy. I don't like the clean manufacturing, because they don't use much PPE.

S.B.: How do you keep in touch with your members? How do they get their needs addressed?

M.S.: That's a good question. We send out a lot of bulletins. This morning I was going over a survey that we just sent out that was to our distributors and was just, "What suppliers should we be looking at?". And really some great comments and actionable items came out of it. We do surveys; we do email blasts of newsletters of what we've been working on; we have a lot of committees. One interesting thing that we started last year was we started a development board of directors, made up of next-generation individuals that were coming up through their companies. It has worked out really good. We bounce everything off of our development board. They've been just awesome to work with. We've got a lot of ideas. We hold a lot of different summits here in Tampa. We had one late last year. It was a marketing summit, and we had forty people there, suppliers, and distributors. We came out of that meeting with so many great ideas on how to move forward and to help them develop good marketing campaigns. So that's how we communicate.

S.B.: Most major PPE players are either already vendors for your members or are interested to be vendors for Safety Networks. Is it a partnership where the vendors use your inputs to improve or develop new products to meet the needs of the customers? How do you help your vendors in product development?

M.S.: That's a good question. We do what we call a PCR, a product category reporting. Our distributors report to us, of course, all of the purchases through our group and outside of our group. And they make suggestions for new product development and all of that type of things. We have a lot of interaction between our members and our suppliers. So they often times go directly to a manufacturing site [with] "I have an end user that really has this problem, what solutions can you provide?"

S.B.: And they do help. Have there been any examples where your members have requested**product development, and it has helped vendors to gain market share in the industry?**

M.S.: Most definitely. All kinds of examples. But that's the one thing that separates us, since we're really doing solution-based selling to our end users. Our competitors, the generalists, they're just taking orders. So they don't know enough about the product to provide a complicated solution to a problem. We're the ones that do that.

S.B.: What is the role of Private Label/Generic Products in the PPE industry? Do you think that groups like yours have a role to play with respect to Private Labels in PPE?

M.S.: Well, we constantly discuss that at board meetings. Currently, we're not—as a group—doing anything in private labels. Our distributors are doing some things: some in a big way; some in a small way; some not at all. So it's all over the board, which means what we're doing, I'd be going into competition with our suppliers, and they pay all our bills. I just can't do that.

S.B.: Agreed. But isn't that happening with Grainger and other major players? From what I've heard, companies like Grainger have an unwritten understanding that "X" percentage of their revenue should come from their own private label brands. Have you heard of that?

M.S.: For sure. And that percentage is growing each year. And I use that to our advantage. I go to our manufacturers and say, "Ok, some of our distributors do private labels. But we're not that big in private labels. So don't you think Grainger is not only a big customer to you but also a competitor? So why don't you work closer with the distributors that have your back, that promote your brand?" This will be harder and harder. I've read articles about Amazon that, 10 years from now, they're going to commoditize everyone's brand from their online ordering. If you want a 3M 8210 respirator, they're going to pop up an Amazon XYZ that is comparable, and they're going to show it at 20% less. And Grainger is doing the same thing. They have their own brand called CONDOR. They're trying to move whatever that percentage is—15%, 20%—to their own label. They're going to be destroying the manufacturers' brand names. And that's intense.

S.B.: How do you see the future of big brands in the face of competition from distributor's private labels?

M.S.: It depends on what the manufacturers end up doing. Currently, the manufacturers are supporting Amazon. They're supporting Grainger even though they're putting their private labels in front of the manufacturers' brands. If they would stop selling to Amazon and Grainger, that might change the landscape, but they're not going to do that.

S.B.: No, they will not. I can almost guarantee you, no manufacturer is going to challenge them.

M.S.: They're going to wait until they lose all brand identification. How long that will take? I don't know. Our distributors are going to still talk about the major brands. That's what we do. While everyone else around us is not.

S.B.: So basically, it would be in the manufacturers' interests to promote their relationship with organizations like yours. Correct?

M.S.: That's the hammer I keep throwing. It's what I keep telling the manufacturers. And they agree. We are [at] less risk of having our distributors cross-reference another product. We don't need as much sales help because we know the product. We're a lower cost distribution point for their product.

S.B.: Almost every large PPE player is looking at Smart and Wearable products or trying to offer Connected Worker solutions. What is the future of this move? How will these offerings impact the PPE distribution industry?

M.S.: I wish I could figure that out. Right now, I think it's so disjointed. So Honeywell has got a solution. 3M is working on a solution. All these different companies... but I think they're approaching it wrong. 3M really thinks that an end-user customer is only going to use 3M product? It's just not going to work that way. With Honeywell, the same thing. So I've talked to some of these manufacturers that are working on these wearable devices, and I think it's great. And I've brought two of them to our partnership conference just to educate our distributors on this because this is going to be the future. How it'll play out? I don't know.

S.B.: What do you see as the future of Safety Networks? Do you plan to grow your footprint in other parts of the world, now that you have established yourself very well in the US market?

M.S.: We sure talked about it. We haven't acted on it. I have not completed a detailed search. I have not run across a buying group in safety anywhere in the world except here in the US, so I don't know how difficult it will be. I've talked to our manufacturers, our supplier advisory council, and the people I have relationships with are basically in North America, and they don't have any clout in other countries. So I'd think it'd be tough. I've often thought that we have a framework that we know works, and it'd be great to be able to do it, but I'm afraid I'm too old to start that. I don't know enough about these other markets and countries.

S.B.: How different is it to be a CEO of a membership-based organization as compared to a corporate entity?

M.S.: Well, it is different. Like I've said before, I've got 56 bosses. I work for a board of directors. I treat the company like I own it, and everything I do, I treat it like I own it, for the good of the membership. It is different than when I was in safety distribution, when I worked at a safety manufacturer. I've been in the industry for, 41 years. So I've seen it all. This is different, but it boils down to respect. When I started this job in '03, I said, "I'm going to run this like a business. It used to be like a good ol' boys club. I'm not going to do it to look for new friends. I already have enough. I don't care if you like me. I just want you to respect me." And to get respect, you have to do the right things.

S.B.: What is unique about your leadership style? What skills do you believe are key to being a successful CEO in the PPE distribution industry?

M.S.: So, I'm on the tail end of my journey of working. I was going to retire at the end of last year. My contract was up. The board asked me to stay on for as long as I wanted, which was great. So really, what I'm concentrating on now is really talent development. I feel that I'm halfway decent at looking at things strategically. I want to provide value to the members. And that is going to be educating our distributors to become better marketing organizations instead of selling organizations, development of strong inside sales teams, talent development. I've been very fortunate to bring on some great talent that has a lot of drive and a lot of passion, and I'm just helping them develop. I tell them almost weekly. I kid with them that in the Bible, John the Baptist said, "I need to decrease, so Jesus can increase". So I say, "Mike Smeaton needs to decrease, so that this team can increase." And that's been what I've been trying to do. I've been trying to take not so much the visual role that I

had in the past, trying to bring up the talent that I have. So that way, people won't miss me.

S.B.: What do you want to accomplish in the next 5 years? How do you want to be remembered as a CEO of Safety Networks? What long-term impact do you expect to have on the company?

M.S.: That I had a passion for the safety industry, especially the independent. When I started my own business in '82, I believed the book that gets published every 3 or 4 years, "Facing the Forces of Change." It was the first year, maybe 1984, when that book came out, and it said that if you were a small specialty distributor, you were going to go out of business. And I'd go, "Great. Maybe I chose the wrong career path." So I proved the book wrong, but it still is looming. They're still not saying that, but in a way they are. If you look at the safety industry at a 30,000-foot view, you would say, it's a horrible business to be in because everyone sells it today. And they do. But we have to have a better value proposition so that we can continue to grow. And that's what we've been doing, plan to continue doing!

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