

SERVICE CENTERS

PERFORMANCE PLAN



Brothers Paul Totten, left, and Greg Totten represent the third generation to lead the family business and serve as co-presidents. »

Third-generation leaders achieve 30 percent growth in three years and they project a repeat of that success

In 2015, members of the third generation of family-owned Totten Tubes started talking about succession planning. That initial meeting—now referred to as the “hot tub meeting”—set the Azusa, California-based business on a steep growth trajectory. What started in a Los Angeles warehouse in 1955 by founder Marvin Totten has grown into a five-location, 125+ employee operation. Sales in 2021 topped out over \$100 million.

Today, brothers Paul and Greg Totten work as co-presidents, with Paul assuming the COO title and Greg serving as CEO. The business stocks square, round and rectangular tubing—including jumbos—and performs saw and laser cutting as well as other processes.

The duo and their leadership team— rounded out by a CFO and sales and marketing vice president —rely upon data to make fact-based business decisions.

“Data helps us clearly understand areas of profitability so we can focus our energies accordingly,” says Greg Totten. The information provides the leadership team with “a range of insights from our top five goals down to small data points. For example, we look at how fast we are tagging and inventorying material, and how much we are allocating at time of packaging versus time of billing. ROI reports look at which machine or process is most profitable and where we can expand our footprint,” Paul Totten says.

The data has also streamlined presentations and decision-making at the board level. The second-generation leadership (now retired) consists of Paul and Greg’s father, Dave Totten, and their two uncles— Jeff and Tracy Totten. These three serve on the company board of directors alongside three third-generation family members and one unrelated director.

“Armed with data to support an investment or expansion, it is easy to reach consensus among the board,” Paul Totten says. Having a leadership team focused on strategy, income sheets, and balance sheets is paying off. “It took us only three years to meet our five-year growth target of 30 percent. We are on track to meet our three-year goal of another 30 percent in just two years,” says Greg Totten.



TRANSITION

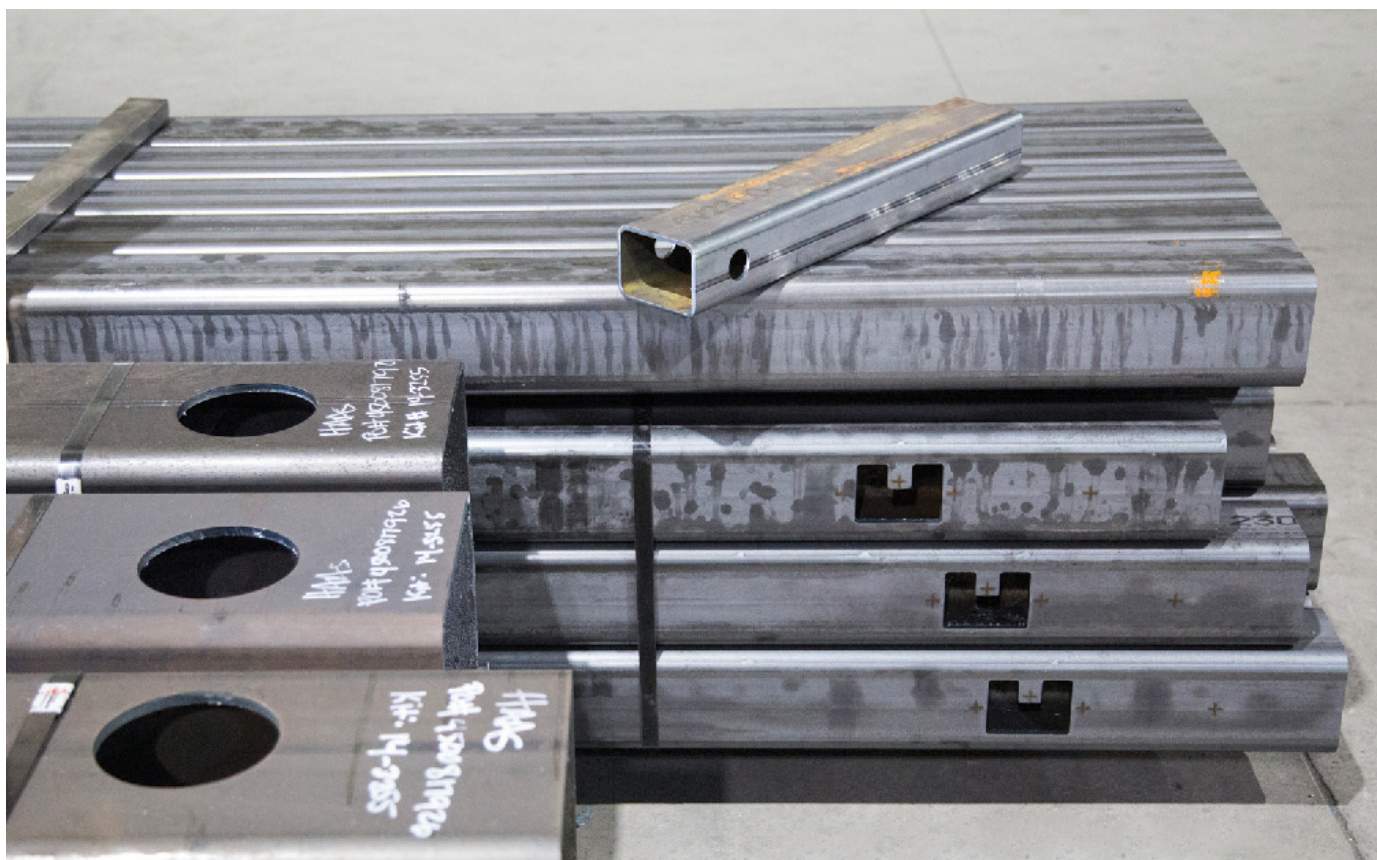
The official leadership transition occurred in 2016 after Paul and Greg Totten made a comprehensive presentation to the board, outlining their plans for the future of the company. "Part of the plan was to move toward a performance-based business. Service is part of this, but it's not everything. Performance is measured by data," Greg Totten explains.

One of the first moves the co-presidents made was hiring an ambitious outside sales executive. Enter Staci Griffin, sales and marketing vice president, who had held various sales and management positions within the steel industry for 27 years.

Griffin and Paul Totten met at the Strategic Metals Management Program offered by the Metals Service Center Institute. Griffin introduced Totten Tubes to the concept of data and dashboards to drive sales. She leads a sales team of 19 who work out of multiple locations.

"The sales team has become very goal-based," says Griffin. "We measure everything and leverage this data to measure the success of our employees." Data also drives a more objective incentive program that started at the executive level and will soon be implemented at the manager level. "The year-end bonus is now tied to performance on our top five to six goals," says Paul Totten.

The business relies upon a legacy ERP system supported by QlikView and Salesforce. Even the tube lasers are connected to the data matrix. Through membership in the North American Steel Alliance (NASA), the company also measures its performance against peers. "NASA's CoMetrics system has provided some good benchmarking for us. For example, we realized that we could improve our cash conversion metric," says CFO Scott Aldas.



Totten Tubes can laser cut about 90 percent of its inventory. »

Aldas joined Totten Tubes a year ago. One of the attractions is that “employees are high on [the leadership’s] radar.” Aldas comes from the food packaging industry, but had a previous brief experience in metals, too.

“We were looking for someone strong to help with mergers and acquisitions, and who had strong technical skills to transform the financial side of the business from general ledger to a very data-driven environment,” recalls Paul Totten.



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CAPITAL PROJECTS

Totten Tubes’ executive team also relies upon data to guide geographic and processing decisions. The data supported the 2019 opening of a Vancouver, Washington, location as well as the need for additional processing equipment at various branches.

“The profitability of the initial tube laser is showing us where to invest in additional equipment,” Griffin says. The team is considering the benefits of strategic geographic acquisitions—one reason Aldas is head of finance. “We will go where the numbers point us,” said Paul Totten. Acquisitions are a possible avenue of growth, he acknowledges.

Under the third generation's leadership, in-house laser processing capabilities were established with a Mazak 3D Fabri Gear 400II, Mazak 3D Fabri Gear 220, and BLM LT8.20. The investments were customer driven and data supported. "Our sales people kept reporting that customers were asking about our laser capabilities because they didn't want to invest in the equipment themselves. Initially, the profitability was hard to calculate. Once we engaged the sales team, the potential became clear. We saw the profitability increase to a point that we could not ignore," says Greg Totten.

The first tube laser came on line in 2017. "We saw immediate growth once we added the first laser. We followed the data and added two more," he continues. Totten Tubes can now laser cut about 90 percent of its standard inventory items. "We can offer long-run production on the equipment—and with short lead times—because we have everything in stock."

According to Griffin, "Customer retention is very strong in the laser processing segment," which is another argument in favor of having in-house laser-cutting services. Laser processing supports a variety of growth industries from agricultural equipment manufacturing to warehousing and fabrication. Its capabilities in responding to diverse fabrication, OEMs, processing and distribution customers "helps mitigate risk and improves our growth potential," she says.

Totten Tubes stocks a considerable amount of large-diameter, jumbo products, which is another way to support warehouse and stadium construction contractors. "We are a legacy supplier of jumbos, stocking squares and rectangles before they were popular," comments Greg Totten.

Originally used in seismic retrofitting along the West Coast, jumbos are now being specified for structures with long spans and extreme loads, where the functionality and aesthetics of a 20-inch diameter round or 1-inch-thick rectangular tube can deliver economies of scale. "We are uniquely suited to jumbos, because we are willing to stock a large depth and breadth of inventory," Greg Totten says.

SUPPORT SYSTEM

"Many businesses are raised on the idea that the customer is first. At Totten Tubes, we have always had a family culture of putting our employees first," Paul Totten says. This focus was put to the test in the early days of the COVID-19 pandemic.

"During COVID, we learned that we could lean too much on the metrics and lose sight of the concerns of our employees," he says. So managers made sure to check on employees' well being. The sales team started meeting virtually, allowing time for small talk to build camaraderie.

"One of the big takeaways from the pandemic was that we have a more connected workforce than we did before. This is helping us attract talent that was set adrift during the pandemic," says Griffin.

"We are proud of the impact a family business has on the national economy," Greg Totten says. "Family businesses are a driver of GDP and we like the accountability that goes along with that. We are looking forward to the opportunity to transition the business to the fourth generation," he says. But not too fast. Paul and Greg Totten have plenty of milestones to pursue during their stewardship of the company. And they have the data on hand to chart the course.

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