



# THE KEYS TO OUR COLLECTIVE SUCCESS

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*The fundamentals of Winsupply:  
our philosophy, business model  
and key principles*

Rick Schwartz, Chairman of the Board, Winsupply Inc.

**“The Keys to Our Collective Success” is a speech delivered to  
Winsupply advisory and support services staff at  
the Winsupply Town Hall meeting on Sept. 28, 2018,  
at the Dayton Masonic Center in Dayton, Ohio**

*Introduction by Roland Gordon, President,  
Winsupply Inc. and Equity Group*

Today I have the honor of introducing Rick Schwartz, Winsupply’s chairman of the board.

A couple months ago, I asked Rick if he’d be willing to talk to us today about the history of Winsupply – how and why we were founded – at our September Town Hall meeting. Rick said yes, he’d be happy to help. But he wanted to talk about something a little different.

He wanted to share with you today what he believes are the Keys to Our Collective Success.

I’ve known Rick for almost 20 years now, and so of course, I said yes.

Rick’s perspective on how all of us can succeed – collectively – is an important one. And not only because he’s chairman of the board but also because Rick learned about collective success firsthand from our original investors and co-founders.

One of those was Dick Schiewetz – the president and guiding influence of this organization for 42 years.

Today, Rick’s going to share what all of us need to know and do every day to succeed at Winsupply.

In case you didn’t know, Rick started at our company back in 1972 to automate business systems so every local company could become more efficient. In 1998, he became president and CEO. And under his leadership, sales at Winsupply tripled.

Over the years, Rick kept Winsupply on pace with the latest and greatest technology for fast and efficient wholesale distribution, while never compromising on our company’s founding philosophy and business model.

Rick’s willingness to help me – and all of us – is always present, and his passion for Winsupply and what we stand for never ends.

Please join me in welcoming Rick Schwartz.

## The other day I was browsing the web and came upon an interesting article about the Wright Brothers and their inventions.

Most people say offhand, “The Wright Brothers invented the airplane!”

But in reality? That’s not quite true.

The Wright Brothers invented a flying machine they could *control* in the air.

Their invention was all about control.

They did it by figuring out the fundamentals of flight.

- They had to roll the wings right or left.
- They had to pitch the nose up or down.
- And they had to “yaw it” from side to side.

Once they mastered these three fundamentals, the Wrights flew in 1903.

And then they began to innovate.

They perfected their invention so they could fly longer, farther, higher, faster – even carry a passenger.

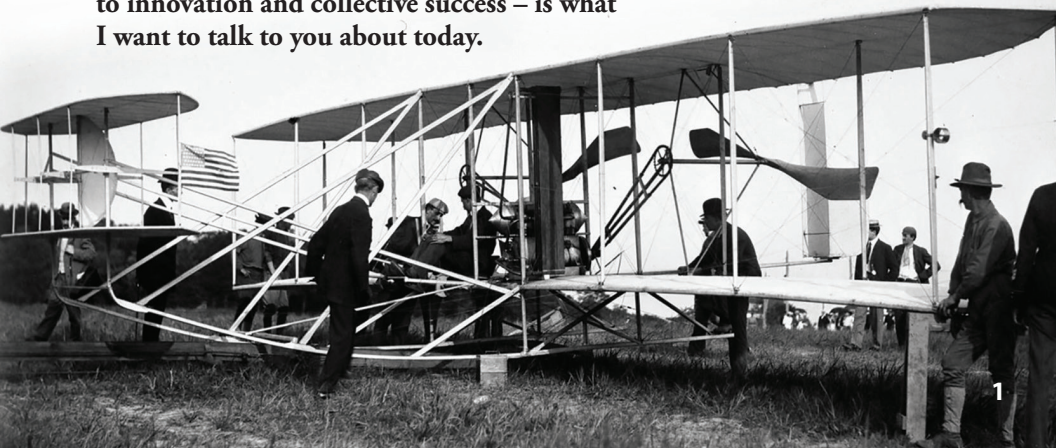
**These and many other innovations allowed the Wright Brothers to achieve collective success – for themselves and for the world.**

Think how the world changed after the Wrights applied the fundamentals of flight!

Suddenly, aviation became possible and practical!

Over time, the fundamentals of flight allowed us to operate space shuttles, navigate satellites, pilot the International Space Station, program robots ... even create 3D animations.

**This idea – that our ability to master a set of fundamentals leads to innovation and collective success – is what I want to talk to you about today.**



At Winsupply, our fundamentals are found in our philosophy, business model and key principles, which you see here.

## PHILOSOPHY

We eliminate obstacles and provide support to help courageous, capable, hardworking entrepreneurs succeed.

## BUSINESS MODEL



Equity Partnerships



Local Owners with Local Autonomy



High-Quality, Low-Cost, Centralized Support Services

## 5 KEY PRINCIPLES

1



Fair Balance of Interests

2



Timely and Accurate Financials

3



A Flat, Matrix Organization for Free and Open Communication

4



Rewards Based on Results

5



A Code of Conduct: Our Word is Our Bond

**These fundamentals – outlined in Procedure B-815 – are based on free enterprise capitalism, which has fueled our company's philosophy, our business model and our collective success.**

Since 1956, free enterprise capitalism has made it possible for hundreds of people to own a Winsupply location, create jobs and add value to our society.

Free enterprise capitalism sparked the Spirit of Opportunity.

## I believe this:

**That your ability to master the fundamentals at Winsupply will free you to innovate – and contribute to our collective success.**

It sounds easy – but the fundamentals here are unique and different.

You won't find them in any textbook on business or business management.

And – as the Wrights discovered – mastering the fundamentals of anything unique and different is hard work.

It took Wilbur and Orville more than *seven years* before they were able to discover and apply the fundamentals of flight!

## I remember my own experience trying to understand what our organization was all about.

I was just 23 years old – younger than most of you! – when I was hired here in 1972.

Back then, we had about 38 local companies, and we were adding more.

I'd been asked to help grow the group services companies. That way, our investment company Primus could scale and expand the number and size of our local companies.

Yes, I had rules to follow. But the reasons for those rules were neither clear nor explained to me. Often, they were downright confusing!

Since I'd just transitioned from the military after serving in the Air Force and the Reserves, hierarchy and top-down management were very familiar to me – although that was **not** the culture here.

Like anyone who's been in a top-down structure like the military or at a private company, I wanted to think of this organization like it was a big and growing wholesaler.

I wanted to believe that whatever we did for local companies would flow down and back up, just like in a normal company. Just like in a branch operation.

So I kept trying to “normalize” what I was hearing from Dick Schiewetz, our co-founder.

I made plenty of mistakes. I tried to do things that I was told later on wouldn't work – or that I couldn't do.



*1970s: Growing the group services companies*

**Dick used the Socratic method to teach young employees like me the fundamentals.**

We learned the hard way: by desperately trying to answer hundreds of Dick's questions – one right after the next!

His teaching method was slow and sometimes painful – but the learning stuck.

Over time, I began to appreciate *why* our fundamentals are so important. And exactly *how* they lead to innovation and collective success – the chance for all of us to pursue the Spirit of Opportunity and claim the American Dream.

## **The structure of Winsupply is no accident.**

You may not know it, but our company's founding purpose in 1956 was **not** wholesale distribution!

Instead, we started up for a different reason: **to eliminate obstacles and provide support to help courageous, capable, hardworking entrepreneurs succeed.**

Wholesaling just happened to be the first and best opportunity that excited our original investors!

## **PHILOSOPHY**

**We eliminate obstacles and provide support to help courageous, capable, hardworking entrepreneurs succeed.**

So we're in the business of helping entrepreneurs.

The business of growing people.

**This idea of helping people is our philosophy.**

**It's our purpose.**

**And it's the reason we exist.**

Because when we invest in courageous, capable, hardworking entrepreneurs, we help people *earn their own success*.

THIS is what we stand for!

And THIS is what differentiates us from every other competitor in our markets.



Supporting our philosophy is our business model with three pillars, which you see here.

## BUSINESS MODEL



Equity  
Partnerships



Local Owners with  
Local Autonomy



High-Quality, Low-Cost,  
Centralized  
Support Services

### The first pillar is equity partnerships.

The entrepreneurs we help are equity owners of their own wholesaling location, with Winsupply as the majority owner.

**So when I talk about equity partnerships, I'm really talking about shared ownership.**

Like our philosophy, it's something *else* that makes us unique and different.

Think about it:

We're not a franchise. We're not family-owned. And we're not a typical organization with a headquarters and branches that share little – if any! – equity or stock ownership.

Instead, almost every wholesaling location is a separate business with a local owner: the local company president.

Each location has a separate Profit & Loss statement, a separate balance sheet and a separate board of directors.

**Our local owners take pride in their local company because they own a substantial part of it.** And it all starts the day a new president buys stock to invest in their local company.

We invite a new president to own 30 to 40 percent of the equity in their company, while Winsupply invests in the remaining 60 to 70 percent.

- On that day, the president and sometimes a few key employees become minority shareholders.
- Our majority shareholders include people outside the organization as well as the Winsupply Inc. management team, area leaders and many of you in advisory and support services.



**All of us have the opportunity to be co-owners in this business – and many of you are.**

So as equity partners, our interests are common!

Because we share ownership, we share the risk, and we share the rewards.

Winsupply is always willing to enter into new equity partnerships.

We are always willing to offer new entrepreneurs the Spirit of Opportunity – whether they want to take over an existing local company or open a new one.

## **The second pillar of our business model gives local owners local autonomy.**

**That means we place maximum authority, flexibility and responsibility at the local company level.**

So there's a “local owner and decision maker under every roof.”

And that's big!

Because it reflects our trust in local owners and captures the spirit of free enterprise capitalism.

Again, it makes us unique and different.

We have two beliefs:

- That decisions to support and serve customers are best made by local owners
- And that local owners must control the major decisions that affect their company's success

Unlike branch managers in top-down organizations who take orders, local owners of local companies are free to make many decisions:

- They choose their markets, their vendors, their products and their customers.
- They choose their employees.
- And they choose the level of service they'll deliver to their customers.

They even get to choose which of our additional support services they want to use and pay for – like whether they want to buy products from our distribution centers or not.





**Local decision making empowers local owners.** And it lets them control their own destiny.

- As they make their own decisions, they get training on best practices to help them succeed. These are listed in the Procedure Manual.
- They also receive oversight, guidance and approvals from their local company board of directors – and not from Winsupply Inc.

Local owners are responsible for the outcomes of every decision they make. That's why it's so important for everyone to honor local autonomy.

Because unlike the top-down management and decision making you see every day at most companies, there *is* no alternative manager or decision maker at Winsupply to make the decisions we expect local owners to make.

**The third pillar of our business model describes how we deliver on our promise to eliminate obstacles and provide support to hardworking entrepreneurs.**

**And that's by providing high-quality, low-cost, centralized support services.**

These services exist for one reason: to help local companies succeed. It's one more thing that makes us unique and different.

Most everyone here today is involved in advisory and support services. So you know that local companies pay a small fee to Winsupply for things like accounting, marketing, training and IT.

This lets local companies spend more time making sales and serving their customers.

This idea to provide support came about in our earliest days.

After Dick and our other founders invested in their first local companies, they saw the entrepreneurial spirit alive and well!

So they wanted to protect that spirit by developing a support organization that was innovative and entrepreneurial.



- They wanted it to be a **profit center**, with the same ownership and bonus incentives as the local companies.
- They wanted to create **efficiencies**. That meant specializing and standardizing processes to help local companies.
- They also wanted to use “**pattern management**” to evaluate and compare how local companies were progressing.

## These same three aspects of support are still true today:

- While other wholesalers operate their support services as cost centers, we still run ours as **profit centers**.

If you work in a support services company, we expect your expenses to be less than your income.

- Since support services can't behave like "headquarters overhead," all of you have incentives to control costs, increase **efficiencies** and innovate.

You know very well that any investment you make in people or equipment – which increases your expense! – must make local companies more competitive and profitable.

That's because *your* income grows only when the *organization's* income grows.

You also know well that you have to entice local companies to buy or subscribe to anything new – just like an outside consulting company has to do.

- A minute ago I mentioned **pattern management**.

One early outcome of this was the managing ratio sheet, which our area leaders and local company board members still use today to provide coaching and counsel to local company presidents, and advice for continuous improvement.

**Without pillar three of our business model – this ability to offer high-quality, low-cost, centralized support services – we could not have achieved the efficiencies or applied the patterns needed to scale our philosophy and business model.**

We would not have been able to repeat our process – and infuse the Spirit of Opportunity in hundreds of entrepreneurs over 62 years.



Supporting our business model are five key principles, which you see here.

## 5 KEY PRINCIPLES

1



Fair Balance  
of Interests

2



Timely and Accurate  
Financials

3



A Flat, Matrix  
Organization for Free and  
Open Communication

4



Rewards  
Based on Results

5



A Code of Conduct:  
Our Word is Our Bond

**Our first key principle says that because we are equity owners in an equity partnership, we must maintain a fair balance of interests between the majority and minority shareholders at Winsupply.**

**That means the risks and rewards for both equity partners must remain in balance.**

If one equity partner takes on too much risk, then things get out of balance.

And when things get out of balance, sustaining our philosophy and our business model becomes a lot more difficult.

Our need to maintain a fair balance of interests makes us unique and different compared to other companies. That's because we have to make sure our local company presidents *and* our majority shareholders each feel rewarded for the level of risk they assume.

**First, we have to maintain a fair and balanced compensation structure for both equity owners.**

- Local company presidents are compensated through their modest base salary, growth in their equity investment and their unlimited bonus potential.
- Majority owners – which include most of you! – are compensated through growth in your equity investment and increases in your dividend income.

With this structure, local company presidents receive dividends based on *their* ownership level, and majority shareholders receive dividends based on *their* ownership level.

All this is fair balance.

And it's a fair deal:

Winsupply contributes most of the capital, and local companies put in the sweat equity.



**Second, to maintain fair balance, we have to protect local company decision making.**

That means Winsupply Inc. cannot make decisions that violate local company autonomy.

The minute this happens, fair balance is disrupted!

Any overreach by Winsupply would threaten the president's ability to run their own company like an independent entrepreneur.

The president would then become less responsive to local customers and the local marketplace.

Ultimately, that would threaten the local company's success.

**Third, to maintain fair balance, we have to pay attention to the quality and cost of our support services.**

Because if quality deteriorates or costs become too high, then fair balance is disrupted.

If this happens, the support services become a burden on the local companies instead of a benefit to them.

So we can't make mistakes here. We have to make sure we are *investing* in local companies – not *subsidizing* them.



We know from experience that any investment in support services that won't provide future returns shouldn't be made because it disrupts the fair balance of interests.

**Our second key principle says timely and accurate financial information must be available to all equity owners and employees.**

**These financials include balance sheets, Profit & Loss statements and comparative ratios for each local company.**

When we say “timely,” we mean that financial statements are ready in three or four days after month-end.

That’s unique and different since our competitors take 10 to 15 days or more to issue the same reports.

Getting the monthly financials out within a few days is a game-changer because local companies can respond faster – as trends emerge.

When we say “accurate,” we mean that financial statements show what happened last month – as precisely as possible. And we expect proper accounting that eliminates all year-end adjustments – as much as possible.

This way, local company presidents can trust the reports they receive, along with their company’s share price and profit-sharing calculations.

**Key principle three calls for a flat, matrix organization for free and open communication.**

**That means we allow and expect communication to go across, up or down the organization freely and openly.**

Instead of being a hierarchy with top-down reporting, Winsupply decided from the beginning to organize in a matrix.

It’s another example of how we are unique and different.

A matrix has horizontal structures and teams. “Chain of command” and “lines of authority” are all but discouraged. So instead of plowing through layers of bureaucracy, anyone here can go directly to the source to get whatever help they need.

Today, our matrix lets us deliver help, services and advice to 600 local companies.

We do it as trusted advisers – by providing the kind of help that entrepreneurs might get from their hometown CPA, financial manager, IT consultant or any other confidant.

And we do it by exercising influence – not authority. Because at Winsupply,



we can't use command and control to get things done!  
That would require another layer of management that we don't have.

The goal is to keep the organization as flat as possible and focus everyone on maximizing service and value to customers.

Flat organizations can move fast because they have fewer layers to manage. That reduces complexities and costs.

Monte Salsman, for example, has only one layer of management between himself and local company presidents.

Likewise, most local company presidents have no more than one layer between themselves and their customers. That empowers people on their team to make immediate decisions – and respond faster to customers.

**Key principle four says we will reward owners with generous compensation but only for results.**



Many organizations pay people for hard work, longevity, advanced degrees and titles.

But again, we're unique and different!

**From the beginning, Winsupply has *always* paid for results.**

**And we believe ownership *drives* results.**

As owners, local company presidents are responsible for their own company's Profit & Loss statement and balance sheet. So it doesn't matter how other local companies perform, or what the earnings of Winsupply Inc. are, because none of that affects a president's equity investment or bonus potential.

**As a result, local company presidents are free to achieve without limits!**

There's no cap on their compensation because they're rewarded for results.

The better their results, the more money they earn to reinvest or redistribute. And not just to themselves as owners – but also to their hardworking employees – in the form of profit-sharing checks.

**Key principle five says we follow a code of conduct based on honesty, trust and accountability.**

We also make this covenant:

**That our word is our bond to customers, fellow employees and shareholders.**

Quite simply – we do what we say we’re going to do.

**This overview of our fundamentals that I’ve shared with you today is really a 60,000-foot view.**

Right now I’m working on a book with the details behind our philosophy, business model and key principles – among other things.

Once I finish it, you’ll be the first to know!

But in the meantime, I have to tell you: **The fundamentals of this organization haven’t changed in 62 years.**

All you have to do is ask people who’ve been around here for a while – like Monte Salsman, Roland Gordon, John McKenzie or Vickie Johnson.

**And our fundamentals *shouldn’t* change.**

**Because they’ve kept us strong.**

They’ve allowed us to differentiate ourselves.

And they’ve led us to innovate:

- In the 1970s, we wrote custom accounting and other business software that worked with our unique and different business model.
- In the ’80s and ’90s, we developed and expanded WISE and opened distribution centers to help local companies accelerate their growth.
- In the 2000s, we launched our first online system for customers and built our first local company websites.
- And recently, we began offering new services – like Shared Office Solutions and Shared Purchasing Solutions – so local companies could offload more back-office work to focus even more on customers.





## Our fundamentals have allowed us to achieve collective success.

Since 1956, we've never had a year when we lost money.

But more importantly?

In six decades, we've applied our fundamentals to change the lives of nearly 1,000 entrepreneurs ... thousands of their employees ... and hundreds of people like you, in advisory and support services.

**I said it earlier:**

**That mastering our fundamentals will free you to innovate – and ultimately contribute to our collective success at Winsupply.**

Your ability to master these fundamentals will sustain the future of this organization.

Because staying true to these fundamentals is the only way to deliver the American Dream to a lot of people.

That includes everyone at our local companies – and all of you.

But first we have to acknowledge that building entrepreneurs is a complex business – a whole lot harder than the very simple and repeatable business of wholesaling.

**At Winsupply, we pride ourselves on building an “entrepreneurial machine”:** one that combines capital from our shareholders ... with sweat equity from our local companies ... and help from all of you in advisory and support services.

**YOU** are a big part of delivering value to local companies!

**YOU** are a big part of this entrepreneurial machine!

We could not do what we do without you.

We could not deliver services as systematically or as fast.

And we could not continue to scale this organization.



## Now and in the future, our collective success depends on how good we are at:

- **Embedding Winsupply's fundamentals into the fabric of this organization**
- **Keeping them intact**
- **And then passing them on to the next generation so more people like you can continue to innovate**

Because this organization will always need more good ideas to achieve even more efficiencies and more scale.

Like our local company presidents, you are entrepreneurs, too!

Because of the advantages you give to local companies, you help them become more competitive and more profitable.

And every time you do?

You contribute to our collective success.

### **Many of you are Winsupply Inc. shareholders.**

Every time you see growth in your equity investment and increases in your dividend income, you're getting a piece of the collective success you're helping to build.

That's the *only* reason we offer stock to Winsupply Inc. employees – because we want to share a piece of the American Dream with you.

We don't do it for the money because we'd do better financially if we simply borrowed from a bank!

We do it because we know the more people here who own stock – the more people here who have skin in the game – the more all of us share a common purpose and goal.

It's a way for you to *earn your own success*, just like our local company presidents do.

## Last month, we announced a restructuring of Winsupply.

One reason we did it was to reinforce this fundamental – the Winsupply philosophy! – that says we're in business for one reason:

**To eliminate obstacles and provide support to help courageous, capable, hardworking entrepreneurs succeed.**





## We're all in this together.

**When you help local companies succeed, you succeed – and indeed, we all succeed.**

That is what we mean by collective success.

I like this quote from Peter Drucker, the famous management consultant, who said:

*“The best way to predict your future is to create it.”*

As people in advisory and support services, that’s your job: to create the future at Winsupply by continuing to innovate.

But you can’t do that unless you master the fundamentals of our philosophy, our business model and our five key principles.

**In that article about the Wright Brothers that I found on the web, Darrel Collins of the U.S. Park Service said this:**

*“Before the Wright Brothers, no one working in aviation did anything fundamentally correct.*

*“Since the Wright Brothers, no one has done anything fundamentally different.”*



## Mastering the fundamentals makes all the difference.

If the Wright Brothers had not mastered the fundamentals of control, the airplane would have never been a safe or practical means of transportation – across the country and around the world.



And if the first and second generations at Winsupply had not mastered the fundamentals of our unique and different philosophy, business model and key principles – we would have never been able to create and sustain an organization where opportunity exists for everyone.

**This is the genius of our culture.**

**This is what we are here to do.**

**Because what we do at Winsupply changes lives – just like Wilbur and Orville changed people's lives with their flying machine back in 1903.**

Orville once said:

*"The desire to fly is an idea handed down to us by our ancestors who, in their grueling travels across trackless lands in prehistoric times, looked enviously on the birds soaring freely through."*

Likewise, I believe:

*The desire to build entrepreneurs is an idea handed down to us by our co-founders who, more than anything, wanted to help people earn their own success and claim the American Dream.*

**As our third and fourth generations take the reins at Winsupply, what happens next is in your hands.**

It's up to YOU to protect and defend this unique and different opportunity – the Spirit of Opportunity! – that's been handed down to you.

It's up to YOU to master the fundamentals.

It's up to YOU to continue to innovate.

It's up to YOU to work hard ... together, as equity partners! ... to build collective success – now and in the future.

Thank you.

