

At Scherer Bros., Business is Relative

This family-owned company has survived—and thrived—through three generations.

BY CHERYL DANGEL CULLEN

Imagine working every day with your father, uncles, cousins, and siblings. If that sounds like a challenge, you may want to take a lesson from Scherer Bros. Lumber. Operating now for 77 years, this business is 15% employee-owned and 85% family-owned—by second and third generations.

All in the Family

It could be a recipe for a lot of dysfunctional family holidays, but in this case, the Scherers take their multi-generation business all in stride, partly because the family has strict rules about how they do business. For example, family members are

only invited to work in the organization after they have worked three to four years for someone else. When they return, they must bring both a desire and talent to the organization.

Today third-generation brothers hold the top three positions at Scherer Bros.,

and range in age from 39 to 44. Pete, formerly a banker, is president and CEO; Mark, with a sales and legal background, is the chief operating officer; and Kristopher, an accountant, is the company's chief financial officer and head of purchasing.

"I don't know if we chose the roles or the roles chose us with respect to our strengths," says Mark, reflecting on the family's rules for employment. "Being a family member doesn't mean you're a shoe-in to work here."

"Our roles have evolved based on our strengths and personalities, versus finding a slot or any kind of defined hierarchy," echoes Pete. "We have a family employment policy that lays out our belief statement as to how family members are considered for the business. We have cousins and siblings who are proud of the business, but have no interest working in it. Others, like us, have sawdust in their veins and grew up with it. But in addition to wanting to work here, you also have to be invited in. It's a dual gate."

Any business that is passed down from parent to child or siblings can be complicated enough, but in this case, the layers are much more complicated.

"It's true, we're unique. We've succeeded into the third generation, which statistics will tell you is fairly rare," says Pete. "We've always had very harmonious family relationships with active and inac-



The third generation of Scherers: From left, brothers Peter Scherer, president and CEO; Kristopher Scherer, chief financial officer and head of purchasing, and Mark Scherer, chief operating officer.



Scherer Brothers' Allegiance Millwork Division manufactures a variety of custom millwork items for inside and outside the home.

tive shareholders. Our father and uncles ran the business for the sake of the business and not the family members employed by the business. Our priorities are the customers, employees, and shareholders. Working here does not give us the key to the castle," he adds.

"To put it in a nutshell, the family is not here to serve the business, nor is the business here to serve the family," Mark adds. "We maintain that distinction very well."

A Rich History

The business began humbly enough, founded by Clarence Scherer and his brother, Munn, both contract farmers on the west side of Minneapolis.

During the late 1800s, northern Minnesota had a thriving timber industry and logs routinely floated down the Mississippi River for processing. Forestry stopped in the early 1900s and by the 1930s, life on the Mississippi had become a scavenger hunt.

Having no success farming at the outset of the Depression, the Scherers hired themselves out to a sawmill on the Mississippi as deadheaders, who probed the muddy bottom of the Mississippi for sunken logs that had slipped off the barges. By reclaiming them, they could be sawed and sold. Subsequently, Munn and Clarence decided to buy half-interest in a lumber mill for \$240. One month later,

at the height of the Great Depression, they bought out their partner by giving him half of the deadhead lumber as payment in full. From the 1930 to 1940's, deadhead logging on the stretch of the Mississippi River, between Minneapolis and Lake Mille Lacs, produced some 22 million board feet of lumber. Of this amount, Scherer Bros. probably sawed about 15 million board feet.

The business grew and as the years progressed, the second generation assumed leadership for the company. Now retired, they remain active on its board of directors.

Navigating Rough Waters

Today, the company has grown to 475 employees, 40 of whom are outside salespeople, driving annual revenues of \$175 million at five retail lumberyards and several manufacturing locations located throughout the Twin Cities area. Management says ~~says~~ 98% of the business is contractor-based, a mix of new construction residential builders, remodelers, and light commercial builders who focus on residential properties such as apartments.

In a down market, the Scherer Bros. say they are off only 20% as compared to the reported area-wide 30-35% measured by housing starts. "We're doing better than the market and our remodeling base has somewhat helped stabilize or offset the new home decrease," reports Pete.

Seventy-plus years of experience and a strong financial base are also helping the company weather the economic downturn.

Where other companies cannot afford to carry much inventory, Scherer Bros. offers both quality and variety. They also have the means to help customers financially through the tough times.

"You'll see other folks that can't afford to carry the kind of inventory in support of their customers that we do. In addition, this market requires a fair amount of customer financing. That's been a strong area for us too, in terms of how we can support builders in slower times," says Pete.

"Given our ages, we were employed when times were good. This down market is a new deal for all of us," says Mark. "Recalibrating how we go to market and how we do things has been a challenge. The interesting thing is, we've also been investing significantly in the business. We are not cutting into the muscle. We're putting new systems in place and investing in training so that when the market turns—and it will—we'll be in a good position."

Recalibrating for Success

Mark says that a 2x4 is a 2x4, so the company strives to do something else to set itself apart from its competition. "What differentiates us is that we're very good at establishing and creating long-term, endur-

ing relationships with our customers—even in a down market cycle. We don't lose customers in a down cycle; they are just doing less," he says.

"The values of this company have remained consistent for 77 years," Mark continues. "The way we do things is different. We stay on the cutting-edge and use technology to service customers, but I think the key competitive advantage is who we are. We have relationships."

"Successful customers grow," adds Pete, "So our focus is on supporting our customers with products and services so that they become successful."

Making successful customers begins with continuous improvement at the root of the business. "We've implemented a plan to better ourselves throughout the organization in all facets of what we do. It isn't that we just deliver a 2x4; we want to do it faster and more efficiently so that our customers acknowledge that we are doing it better to serve them better," Pete says. "The internal efficiency is an ongoing effort to cut waste, not service."

Building on their Strengths

For Scherer Bros., recalibrating also means examining what they do really well and building on their strengths. That meant

dropping their window manufacturing business after 50 years to throw the company's full support behind its primary brands; Marvin, Andersen, Silverline, and Hayfield.

"As painful as it was to back away from something we did for 50 years, it was the right thing to do. It was the right time," says Mark.

The company has also become more retail-oriented, a direction which necessitated revamping and upgrading its Hopkins showroom. "We have showrooms at our other locations, but Hopkins was just the right place to do it," explains Mark, noting its central location in an area that's become recognized as a hotbed of remodeling.

Continuous Improvement

Rather than hire outside consultants to point out areas of improvement, the Scherers get everyone in the company involved and ask employees for feedback.

"We have people who have been doing their jobs for 20 to 25 years, and they feel that they are being listened to and they are giving us phenomenal ideas. Because we are using their ideas, we have that immediate buy-in from employees. It's been a real exciting process to see it develop and I'm anxious to see what comes out of the process as we continue down this path," says Mark.

Some of the new ideas center around reducing lead times, improving material handling, and systemizing processes like order entry. Global positioning satellite (GPS) systems are being installed in delivery trucks so drivers can send e-mails indicating that loads have been delivered and customers have online access to their accounts so that they can track their orders on the Web. "While we can't compare ourselves to high-tech industries, with regards to the building materials industry, we stay pretty close to leading edge, solely for purpose of making our customers successful," says Pete.

Changing Times, Changing Directions

The down market is providing plenty of opportunities for Scherer Bros., too. The company is having newfound success prospecting. They are working at cross-selling and are finding that customers have the time now to shop around for a stable provider.

Directing more attention to how they deal with commercial and national builders, as well as remodelers, is part of a renewed emphasis to diversify the company's customer base. "The needs of the remodeler are very different than new construction, so we sat down and asked them



Top Left and Right: Cabinet and closet displays at Scherer Bros.' recently renovated showroom in Hopkins, Minn. that spotlight the company's manufactured red custom cabinets, Essex, as well as other lines Scherer Bros. distributes.

Bottom Left: The Andersen Windows display at the Hopkins showroom.



Scherer Bros. manufactures its own high-end branded closet system called Harmony Melamine Creations.

what they needed,” Mark says. As a result, the company added a specialized sales force for their remodeling business and invested in new equipment, including smaller delivery trucks, and piggy-back forklifts. “They [remodelers] don’t do the volume big guys do, but they are very loyal and still need that consideration and specialized attention,” Mark adds.

The company developed a web site, www.remoodsquad.com, to meet the needs of both consumers and remodelers by linking them up. Homeowners are asked a series of questions to qualify their needs and then, based on their profile, they are referred to different remodelers in the marketplace. Scherer Bros. doesn’t require its remodelers to be listed, but those who are interested are invited to build their own profile and start collecting leads.

Marketing for One and All

For Scherer Bros., success for the company and its customers is also about marketing, in addition to delivering quality products and service.

The company has its own in-house marketing department with a staff of four that not only focuses on branding the company, but helping brand its customers. They direct leads to customers, help them build their identity, and provide education to consumers and remodelers. The department helps customers produce

brochures, develop marketing plans, and it also consults with them on objectives such as wholesale-type pricing.

As for Scherer Bros., the company advertises primarily in trade magazines and also spends significant time on its annual Customer Expo, a branded customer trade show that the company has sponsored for 37 years.

Company-wide Education

Education is ongoing at this family enterprise. “We’re constantly investing in the knowledge of our employees. We can’t invest too much in our employees. If they go someplace and take that knowledge with them, so be it. We’re still a better company for it and we’ll continue to do it going forward,” says Pete.

Leadership development is another area of training. It is Mark’s belief that management exists to support the folks closest to the customers. To further their education, the brothers make use of books, seminars, and group discussions. “We haven’t come up with a hard and fast curriculum, but it is something we will continue to pursue. If a manager or supervisor is not interested in developing their leadership skills, they won’t make it here,” Mark says.

“As a result, we have an incredible leadership team here who are independent, free thinking, non-family individuals who are very committed to the com-

pany and tighter with the checkbook than we are. Without those individuals, we would not be half the company that we are,” he says.

The Next Generation

The third generation has no plans on retiring, yet they are focusing on leaving an even bigger and better company to the fourth generation of Scherers. If and when expansion comes, it will focus on the Twin Cities and perhaps western Wisconsin, and will likely include acquisition, which they have successfully done in the past, as well as starting a new location from scratch. “The fit and opportunity will dictate how we go forward from here,” says Kristopher.

Presently, in addition to the five retail lumber yards it operates, the company also has a truss and cabinet manufacturing plant. They also manufacture and distribute their own branded high-end closet line, as well as specialty millwork that includes an online patterns library with more than 1,000 custom mouldings.

“We’re always keeping our eyes open for other services that are complementary to our customer base,” says Kristopher. “We don’t jump into something outside our knowledge base.” ■

With more than 20 years covering the LBM industry, **CHERYL DANGEL CULLEN** is a writer based in Chicago.