

Franklin Electric: Pulling the Switch

Focus: New Way of Doing Business

By Rebecca Patrick

Nimbleness and vision are two traits that more than come in handy for any business. For Franklin Electric in Bluffton, they are what allowed the company to get off the ground 67 years ago. More recently, they are what allowed it to withstand a challenge that threatened its very existence.

In the beginning, Ed Schaefer had an idea to develop a submersible motor and the belief to get it done; he teamed with former General Electric colleague T.W. Kehoe to execute. The glitch: the U.S. was now entangled in World War II and it was not the time for their enterprising design to take off. So they switched course and developed a backpack generator for the troops. The government liked it and ordered its production. This allowed the company to survive and grow financially.

“For a few years, they were a machine shop and they sold what they could. And this backpack generator happened to be one of the early products. The company really didn’t start marketing submersible motors until the early ’50s,” describes Scott Trumbull, Franklin Electric’s current chairman of the board and CEO.

For decades, Franklin hummed right along making the motors – both for water systems (for clean water and water transfer) and later on for fueling systems at gas stations (with the water side comprising the vast majority of sales revenue).

Fast forward to 2004. Not too long after Trumbull took the job, the tables were turned on the company by its biggest customers – leaving Franklin’s back against the wall.

The threat

At the time, Franklin’s model of getting its submersible motor for water systems to market was selling to pump companies, which turned around and sold to distributors. Contractors, who bought from distributors, would install the product for a well owner, for example.

But two pump companies started rolling up the industry and buying other pump companies; these were Franklin’s core customers (80% of sales). At that point, they became large enough to make their own motors – putting Franklin in a precarious position.

“They said, ‘We’re going to go to China and it’s going to take us about five years to replace you, but we’re going to replace you. You can slow us down – maybe – by reducing your prices,’” Trumbull recalls.

“We had to decide what we were going to do. We had the option to play along and milk this motor business and take our cash and invest in something else – go into airplane parts or something and try to totally diversify away from this threat.

“But the conclusion was that we couldn’t move and redeploy fast enough. And probably that would result in us being acquired by somebody because our profitability (would be) declining and our stock price (would be) going down ... because we’ve gone into something we don’t understand. Parts of the company would be worth more than the whole, and we would get bought out,” he continues.

“That’s the way companies go away, but that’s not why I became CEO of the company – to let that happen.”

The power move

Instead, the decision was to cut deals with distributors directly and “go to war with companies that represented 80% of our sales,” Trumbull declares. “We decided that we would take that big risk.”

Co-founder Ed Schaefer examines a submersible motor prototype.



Dateline Franklin Electric:

1944: Founded by E.J. Schaefer and T.W. Kehoe.

WWII: Manufactured a backpack generator for the U.S. military.

1949: Patent filed for the first practical submersible motor using water as a lubricant.

1988: Founded FE Petro and introduced submersible pumps and motors for fueling system.

2004: Acquired JBD, Inc., a submersible water pump manufacturer (the first of several such purchases).

2004: Established Franklin Fueling Systems to consolidate fueling companies.

2011: Employs 3,800 globally; over 300 in Indiana – at Bluffton headquarters and Grant County plant.

August 2011: Announced headquarters move to neighboring Fort Wayne to take place in 2013.

He explains that more than half of the time all the pump companies were doing was buying the Franklin motor, marking it up 30% and selling it to a distributor. In turn, the distributor sold to the contractors who assembled the pump and motor in the field.

“We thought for half our sales we can go directly to the distributor and sell it to them for a 15% markup; the distributor is saving 15%. And we’re keeping the business at a higher price. For the part of the business (25%) where they would buy our motor and add a pump to it, we went out and acquired a pump company. So then we could go to distributors and offer them a full pump line.

“If we survived, we would have the advantage of selling the whole system to our customers. That meant we had a lot of these other adjacent products and technologies we could go into. We also would have a basis for globalizing the company,” he concludes.

One big advantage Franklin had in dealing with the distributors was the decades of reliability and customer approval of its motors. Still, an aggressive approach had to be taken to ensure the best distributors would work directly with the company.

“We basically said to them, ‘Look, if you want the Franklin motor line, you need to take our pump line and you need to make us your number one player – that means the bulk of your business. We want you to concentrate on selling Franklin. If you’re not prepared to make that commitment, that’s OK – we’ll just go to your competitor over here that may be prepared



Trumbull says the strategy is to continue with product line evolution and to focus on selling whole package systems instead of components.

to make it,’ ” Trumbull offers.

In the end, most of the best distributors chose to focus primarily on Franklin.

“This has reshaped the industry at the distributor level as well. Prior to this, distributors carried multiple lines of pumps; now they are primarily aligned with one line,” Trumbull notes.

As for those two pump companies that consolidated their industry: The immediate action was suing Franklin on anti-trust grounds in late 2004. The court settlement ordered Franklin to continue to supply them with motors for two years. (These companies were also actively seeking a long-term motor supplier.)

“We knew there would be very aggressive price competition during that time. We didn’t know how bad that would be or how long it would last. We knew it was going to happen and it did – and it affected our profitability, but fortunately it didn’t last longer than a year or year and a half,” Trumbull explains.

“Each time they would reduce the price, I would reduce the price. I wasn’t going to train them that they could win by cutting price. So the good news was that we were at least gaining market share through that. As our price was going down, our volume was going up. For them, they were losing share. They were losing volume and reducing price, so it was a little more painful for them.”

The end result

After the dust settled, Franklin Electric emerged not only victorious but in a position of strength.

When it became clear Franklin was not going to be put out of business and was, in fact, winning over distributors, the two pump companies at the center of the storm decided to change course and not slug it out with Franklin.

According to Trumbull, the outcome was better than he even hoped for.

“Our stock price has gone up rather dramatically between then and now; it’s more than doubled. Our market share in pumps has come way up; we are at record sales and profit levels now,” he begins. “When this whole thing hit, we were around \$320 million (in sales). Most of the analysts who follow our

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On the water system side, increasing Franklin’s presence in developing regions where people need water is a high priority.

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company anticipate that our sales will be well in excess of \$800 million this year.

“We still have competition, of course, and have to stay on our toes every day, but the strategic change has worked. And we’re continuing to diversify our product line and to expand internationally,” Trumbull surmises.

Indeed, Franklin has been very aggressively going global. About 60% of the company’s sales now are outside of the U.S., compared to about 80% U.S. sales before 2004.

“We’ve grown in places like Latin America (including Brazil), Africa, the Middle East and Asia. About 40% (of our global sales) are in developing regions, which are clearly more rapidly growing – from a primary demand for our products – than others,” Trumbull notes.

He also reports headway being made with the contractors who do the installations.

“There are a large body of contractors who are converting

to our pumps now because we’ve been in the market long enough (to earn their trust). So they are starting to come around; that’s been big for us.”

Reflecting back on how this chain of events began, Trumbull says the company and its workers were sorely underestimated.

“They absolutely did not believe it would be possible for us to become a pump company. While I was around and was part of the change, our people did a great job to pull this off. It’s an incredible story, and I give them all the credit,” he maintains.

“It was a big mistake for them to force us into a corner. But if we hadn’t been put in that position, we wouldn’t have done any of this (that followed). So now I can say I’m glad they did it!”