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The motion and control specialists: The Hope Group combines distribution, fabrication and engineering to reach new markets

The Hope Group's integrated approach to business combines distribution, fabrication and engineering to reach new markets in New England and beyond

By Victoria Fraza Kickham, Managing Editor -- Industrial Distribution, April 1, 2007

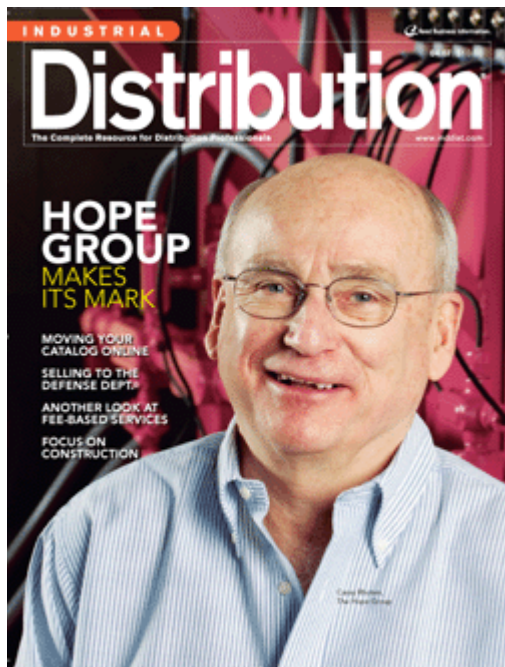
Times have changed, and so has The Hope Group.

As recently as 20 years ago, 40 percent of this fluid power distributor's business was in serving New England's machine tool and plastic injection molding industries. Today, The Hope Group does less than 2 percent of its business in those markets, turning instead to the various industries that have sprung up throughout the region to take their place—and adopting new capabilities that have opened doors around the world.

That could mean selling OEM components to a semi-conductor customer, or designing a motion control solution for a customer in the marine industry. It could mean developing an inventory management system for one of its medical industry customers, or setting up an integrated supply program for a specialty machine manufacturer.

It also could mean turning to one of its two sister companies to build business—the company's engineering division develops high-end control systems for the power generation, municipal and waste water industries, and its air compressor division specializes in serving plastic bottle manufacturers around the world. This integrated approach to the market has helped the more than 100-year-old company stay competitive and reach \$40 million in sales last year.

Few distributors sell just pieces and parts these days, as service has become the battle cry of companies large and small across all vertical segments of industrial distribution. But The Hope Group is blurring the lines even further, integrating traditional distribution, engineering, and manufacturing to keep itself relevant in an increasingly demanding and technological business world. Tony Cantone joined the The Hope Group in 1974 and has helped the company reinvent itself several times over.



“Our ability to adapt to the changing needs in New England is the reason we’ve survived,” says Cantone, who started as a salesman and today is president of The Hope Group LLC, the company’s motion and control distribution arm. “We’ve had to reinvent ourselves three or four times in the past 25 years.”

Three companies, one mission

Located 45 minutes west of Boston, in Northborough, Mass., The Hope Group was founded in the late 19th century and has evolved into THG Corp., an umbrella company comprised of three limited liability companies: The Hope Group, Sorensen Systems and Hope Air Systems.

The Hope Group maintains the fluid power/motion and control focus, with six locations from Maine to Rhode Island. Sorensen Systems, led by Mark Ferland, is THG’s engineering company, which designs and manufactures a wide range of motion and control systems. And Hope Air Systems, run by Peter Rhoten, sells and services air compressors and related components.

All three companies run independently, but work in concert, when appropriate, to serve customer needs, says THG Corp. president Carey Rhoten, who joined the company in 1961 and has orchestrated its development into a multi-dimensional, full-service distributorship. (Carey and Peter Rhoten are brothers; the Rhoten family has owned the company since 1933.) The key to the strategy is customer service and providing the right solution, Rhoten explains, noting that the three-legged stool approach is augmented by a host of other services designed to help customers reduce costs, produce better products and focus on their core competencies. Training, inventory management, integrated supply, engineering and fabrication all play a part in that goal.

“We want to become consultants, because that adds value to the relationship with the customer,” Rhoten explains. “Since 1960, our customer base has changed dramatically several times, and we’ve had to change with it.”

The engineering component

The change started with The Hope Group’s engineering capabilities. Mark Ferland was the first degreed engineer the company hired. (THG Corp. now employs seven engineers.) He came on board in 1988, the same year Sorensen Systems was spun off as its own company, working his way from engineer to technical sales consultant to president. Today, Sorensen handles the company’s engineering requirements, doing projects for motion and control and air compressor customers, as well as marketing itself direct to customers with its Sorensen Governor brand of electro-hydraulic governors and gate operating systems.

On a recent day at the company’s Northborough facility, Sorensen technicians were finishing a project for one of The Hope Group’s marine industry customers. They designed and built a joystick steering and control system to be used on the customer’s line of custom, luxury yachts. The marine

industry is a growing portion of The Hope Group's business, which is roughly a 65/35 split between OEM and MRO customers. Parts for the system were purchased from The Hope Group's inventory, another way the companies help support each other.

In another section of the fabrication area, Sorensen technicians were working on a project for Hope Air Systems, building a compressed air package that would go into a system for manufacturing Coca-Cola bottles. And in yet another area, they were putting the finishing touches on an electrical control system that will help bring potable water to the city of San Francisco. The latter is a Sorensen direct project—40 percent of Sorensen's sales are direct to cities, towns and municipalities; 40 percent are to The Hope Group's motion and control customers; and 20 percent are to Hope Air.

Sorensen's annual sales have grown from \$200,000 in 1988 to \$8 million today, and Ferland's goal is to take that even further. Growth will come from its direct business to cities and towns, and in developing more complex, high-level systems that customers no longer have the time or ability to construct in house.

"My goal in life is to grow our engineered and fabricated product offering," says Ferland. "And we're looking for more complicated, sophisticated projects. ... That's where we excel."

Fluid power and beyond

The Hope Group's goal is to provide customers with "system solutions," says Rhoten, emphasizing the company's roots in fluid power distribution, particularly its relationship with key supplier Parker Hannifin Corp. Hope sells Parker's full line of fluid connectors, seals, hydraulic components, filtration, automation and instrumentation products, all of which help provide motion and control in a range of applications. The company also operates five ParkerStores—retail-like outlets that provide fluid connector products for immediate maintenance and repair needs.

Delivering on that "solutions" promise has fueled the company's drive to add technology and services to its product mix.

In addition to its engineering capabilities through Sorensen, The Hope Group provides what Rhoten and Cantone describe as "customer service technologies." These include inventory management programs; integrated supply procurement through its iPower affiliation; inventory sharing initiatives through its new DistraNet program; customer training; and lean manufacturing initiatives that aim to improve the company's overall operations.

"The greatest change that has happened in the distribution industry is the amount of technology that a distributor has to develop in order to meet what his primary goal is, and that's customer service," Cantone explains. "Whether it's DistraNet, iPower, our systems capability or [lean manufacturing], they all really are designed to make us better at what we do—provide customer service."

Take iPower, for example. The Hope Group is a founding member of the distributor alliance, which consists of several regional groups. iPower New England has its own staff and is funded by six independent distributors that sell everything from bearings to office supplies. Its goal is to help customers reduce costs by automating the purchasing process and reducing the number of suppliers from whom the customer buys. For some customers, iPower has whittled down the vendor base from hundreds of companies to one.

Since its inception in 1991, iPower New England has grown to \$400 million in annual sales. That gives iPower distributors considerable leverage with large accounts, coming in as a first-tier supplier (meaning they can supply the majority of a customer's MRO or OEM needs) in many cases. And because each iPower member is a specialist in its field, the customer has direct access to technical assistance—another bonus in the competitive world of integrated supply, says Steve Atwater, iPower's vice president of solution sales.

"The resources of all the member companies bring a lot to bear," Atwater explains. "We're going in, looking at what the state of the union is at these companies, and then working with them to put in the best possible solution—and one that is consistently going to work."

Adds Rhoten: "It's a great concept. Frankly, we have matured the process considerably, so we're even more excited about it today than we were in the beginning. ... And it's a consulting relationship. It's a solution—the same as the technical capabilities we've talked about."

Roughly 50 percent of The Hope Group's business is systems related—meaning it comes from engineering and fabrication services or through iPower. The two work hand-in-hand to bring in business the company might otherwise not get, Rhoten says, pointing to a recent job in Worcester, Mass., as an example. Hope is providing the Worcester customer with a \$90,000 system solution, which requires an additional \$80,000 in components.

"If we weren't quoting the system, we might not be in a position to get the components that go with it," he explains. "When you bundle it together, it's a \$170,000 opportunity."

Innovative, progressive

DistraNet is another solution that spells opportunity for The Hope Group. Like iPower, the program was initiated by distributors and is taking on a life of its own, now consisting of 27 Parker Hannifin distributors nationwide that represent nearly \$100 million in inventory. The idea behind the program is to give non-competing Parker distributors greater access to inventory, especially in emergencies or stock-outs.

"We needed to have a broader and more significant inventory base for the right-now requirements of our customers," Rhoten explains. "And even though we have \$5 million or \$6 million worth of inventory, there is always a requirement for a part for a particular customer that we don't have."

DistraNet members list their inventory on a private Web site that is updated throughout the day (Rhoten says the system is not quite real-time, but almost). When a distributor places an order with another distributor, it's shipped directly to the customer, with the original distributor's part number and name on the packing slip. The shipping distributor then sends an electronic invoice to the original distributor, just as he would to an end user—though the price includes an agreed-upon premium.

In 2004, members made \$2.6 million in purchases through DistraNet, a figure that is growing. Last year, The Hope Group alone made \$156,000 in DistraNet purchases.

"The average transaction is \$30," Rhoten adds. "So, that's a lot of transactions to get people out of trouble."

Rhoten says DistraNet will add 10 new distributors in the next few months, bringing the group's inventory total to between \$130 million and \$140 million. Parker Hannifin is a big fan of the program as well.

"We look at that as a great enhancement to customer service," says Bill Eaton, Parker Hannifin's vice president for distribution, who has worked with Rhoten and his company for 25 years.

Eaton says he wasn't surprised that The Hope Group was an early advocate of DistraNet.

"I look at Hope as a very innovative and progressive distributor," he says. "There are three attributes I associate with them: Constantly enhancing the value proposition to the customer; focused on ways to improve their productivity and profitability; and always looking for ways to enhance the relationship with Parker.

"They're servicing a lot of different markets this way ... And that's what a distributor needs to do today."

New markets

One of Hope's newest focus areas is its air compressor business through Hope Air Systems. Though the company has sold air compressors since the 1960s, it wasn't a specialty until the early '80s. Peter Rhoten took over the business then, spinning it off into a separate company and building it to an \$8 million segment of THG Corp. The division sells Kaeser compressors and related parts, systems and services to manufacturing customers throughout New England. Its niche with plastic bottle manufacturers is focused on the food and beverage, pharmaceutical and personal care industries, and can take Hope Air around the world. Rhoten says he's working on projects in Mexico and Venezuela potentially worth \$1 million.

Like The Hope Group and Sorensen Systems, Hope Air's focus is customer service, with parts and service representing 40 percent of its business. Because compressors are a capital purchase, the sales cycle is long—it could be eight to 15 years before a customer needs a replacement, Peter Rhoten explains—so service is an important part of the mission.

“We want to be able to have the customer sign an agreement with us, so we take care of his compressors—then he doesn't have to make the call that something's broken,” he says.

Lately, Hope Air has focused its efforts on energy audits, in which salespeople analyze the customer's facility to find cost-saving opportunities. The process usually results in equipment upgrades.

It's one more example of the consultative selling strategy that has become so ingrained in the THG culture, and will be a key part of its growth going forward.

“As we've tried to be consultants in the relationships with our customers, we discovered that we needed the technology and capability that we have with [Sorensen Systems] ... We've allowed iPower to mature into a business that now involves several other companies ... And Hope Air was developed because there were compressed air solutions that require a separate expertise and service department,” Carey Rhoten explains. “We have a good distribution of talent across all the things that we're talking about. If we didn't, we couldn't do them.

“And I think we realize, sometimes reluctantly, that nothing is final. We need to continue to improve. We're constantly challenging ourselves.”

Parker Hannifin's senior vice president and operating officer Lee Banks agrees, pointing to The Hope Group's stamina in the New England market. In an area where many companies lament the loss of traditional manufacturing and complain about a lack of new opportunities, he says The Hope Group anticipates and embraces change.

“They seem to always migrate up the food chain—without forgetting where they came from,” Banks says. “Carey [Rhoten] has great leadership and vision, and he's brought really great people into the organization.

“They're very proactive, and they don't let the external drivers in the marketplace get in the way of growing the business.”

Company Snapshot

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THG Corp.

Carey Rhoten, president

Headquarters: Northborough, Mass.

Annual Sales: \$40 million

Employees: 120

Locations: 6

Primary Products: Fluid power/motion and control systems, air compressors, and related products and services

Territory: New England

Web sites: www.thehopegroup.com www.hopeair.com www.sorensensystems.com

Applying “lean manufacturing” to distribution

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Four years ago, Parker Hannifin Corp. undertook a long-term commitment to Lean Manufacturing or Kaizen, an approach to productivity improvement that aims to eliminate waste and streamline manufacturing processes. When Parker sought to extend the concept to its distributor network, The Hope Group of Northborough, Mass., embraced the opportunity.

“We’re smaller than Parker, so we do it on a somewhat smaller scale,” says Jon Mitton, warehouse facilities manager and Kaizen core team leader at Hope, which stocks Parker’s full line of motion and control products. “Essentially, our goal is to improve processes and bring them up to date.”

Mitton and six other employees from across the company meet regularly to discuss potential projects, evaluate processes and initiate changes. Those changes could be job specific—refining the order entry system, for example, or changing the way warehouse employees pick, pack and ship orders. Or they could tackle bigger issues, such as freight management or safety improvements.

“We’ve had some amazing results,” Mitton says, pointing to the company’s automated return system, which was created by the Kaizen process. Acting on a suggestion to improve the internal management of returned items, the Kaizen team created a system that allows employees to track and manage returns online, streamlining the inventory control process.

“What this has allowed us to do is really streamline jobs for what business is today,” Mitton says of Kaizen. “Hope changes all the time. We’re always reinventing ourselves—but sometimes you can get stagnant and jobs don’t change with it.

“My job is to push those changes and challenge people to take a chance and make a change.”

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