

THE GAME: SOUTHWEST TRANE'S REWARDS TO SUCCESS

**MICHAEL E. VALDEZ,
ELAINE LABACH
GARY TREAT**
Fort Lewis College

At a senior seminar, business undergraduates had a rare opportunity to be mentored by Gary Treat, a Trane Corporation franchisee owner whose company, under his tenure, raised revenue from \$2 million/year to just under \$30 million/year. To start the seminar, a student asked Mr. Treat why he thought his business had been so successful. Mr. Treat, having recently evaluated his company's performance, took a deep breath and began to explain.

History

Southwest Comfort Sales and Service, Inc., dba Southwest Trane, was formed by Gary Treat as an S-Corporation in September 1989. (See Appendix for a bio of Mr. Treat.) At that time, Gary Treat had purchased the assets of a previous Trane franchise holder, and entered into a Trane Sales Representation Agreement and Trane Service Agreement. Trane was a subsidiary of Ingersoll Rand, a global firm specializing in air conditioning and heating systems and services.

Southwest Trane's first full year in operation as a Trane franchise was fiscal year 1990. Initially, there were 21 employees with the main office in Albuquerque, New Mexico and a small sub-office in El Paso, Texas. The Albuquerque office served northern and central New Mexico. The El Paso office served southern New Mexico and the area around El Paso in Texas.

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor's manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 3, 2017, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright © 2017 by Michael Valdez, Elaine Labach and Gary Treat. Contact: Michael Valdez, Fort Lewis College, 1000 Rim Drive, Durango, CO 81301, (970) 247-7436, mevaldez@fortlewis.edu

Southwest Trane also conducted business in the state of Chihuahua in Mexico. From 1990 to 2007, Southwest Trane grew to 121 employees and moved to larger facilities in Albuquerque and El Paso. Building Automation Systems (BAS) became a separate unit in 1993. New System Sales (NSS) was handled in both offices.

In 2007, Gary Treat sold Southwest Trane to the Trane Corporation.

Mission, Organizational Structure, and Firm Performance: 1990 – 2007

Southwest Trane's mission in the 1990 to 2007 period was:

"The mission of Southwest Trane is to be our customers' preferred supplier of comfort system equipment and controls, technical service and replacement parts. We will do this while we earn a fair income and contribute to the communities in which we work. Our number one priority is our customers' needs. We meet these needs by knowing our job requirements, meeting them every time and supporting each other to accomplish the mission."

Southwest Trane was engaged in four businesses in each of its two locations, all related to commercial air conditioning:

- **Service** of commercial comfort systems. A large part of Service was covering service agreements on mechanical systems. These agreements resulted in a large amount of pull-through service and contracting.
- **New Systems Sales (NSS)** furnished commercial air conditioning equipment to owners and contractors. Trane equipment was augmented with ancillary products as appropriate.
- **Building Automation Systems (BAS)** subcontracted control installations in both new construction and retrofit markets.
- **Parts Centers** furnished parts wholesale to contractors and self-servicing owners.

Exhibit 1. Trane Commercial Heating and Air Conditioning System

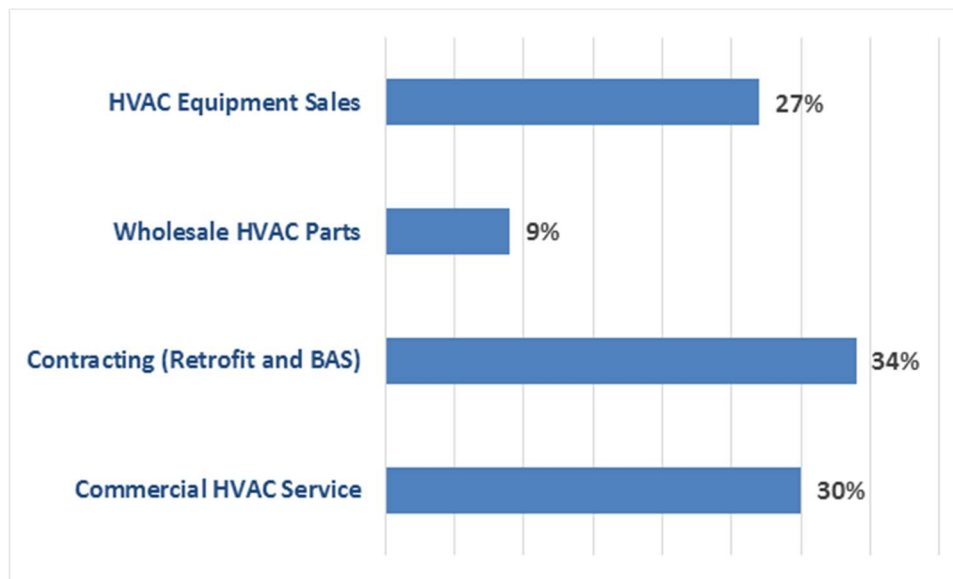
Photos by Michael E. Valdez



Southwest Trane had nine departments and four revenue streams (see Exhibit 2). In addition, to a consolidated income statement, each department had its own monthly income statement.

- Albuquerque (ABQ) Service
- El Paso (ELP) Service
- ABQ New Systems Sales
- ELP New Systems Sales
- ABQ Building Automation Systems
- ELP Building Automation Systems
- ABQ Parts
- ELP Parts
- Consolidated

Exhibit 2. Southwest Trane's Revenue per Product Line



Markets

The markets for Southwest Trane's products and services included government institutions and private industry. The little overlap between these markets allowed for steady revenue growth. In Albuquerque, the company focused on opportunities in government, education, and health care. In El Paso, the company focused on education and government.

Holloman Air Force base, Kirtland Air Force Base, White Sands Missile Range and Ft. Bliss had all benefited from the federal Base Realignment and Closure Commission (BRAC) program. The U.S. federal government had moved operations from other bases to Southwest Trane's area of operation. Ft. Bliss received \$2 billion in construction funds. Driven by Homeland Security issues, Los Alamos and Sandia National Labs also had vigorous building programs.

Intel had built what was at the time the world's largest chip manufacturing facility in Albuquerque. Intel had then attracted ancillary companies to New Mexico. For example, Eclipse Aviation had ramped up to build its line of small commercial jets. New Mexico had been

offering incentives to the movie industry. Culver Studios opened a 550,000 square foot studio complex. The maquiladora (twin plants) program between Mexico and the United States had also contributed to El Paso's manufacturing base. In both Albuquerque and El Paso, the school markets were strong in the 1990 to 2007 period. These markets had experienced growth due to people moving to the area to take advantage of the climate, favorable cost of living, and public and private job growth.

Southwest Trane's growth trend was steady and manageable as illustrated Exhibits 3 and 4.

Exhibit 3. Southwest Trane's Consolidated Revenue (1990 – 2007)

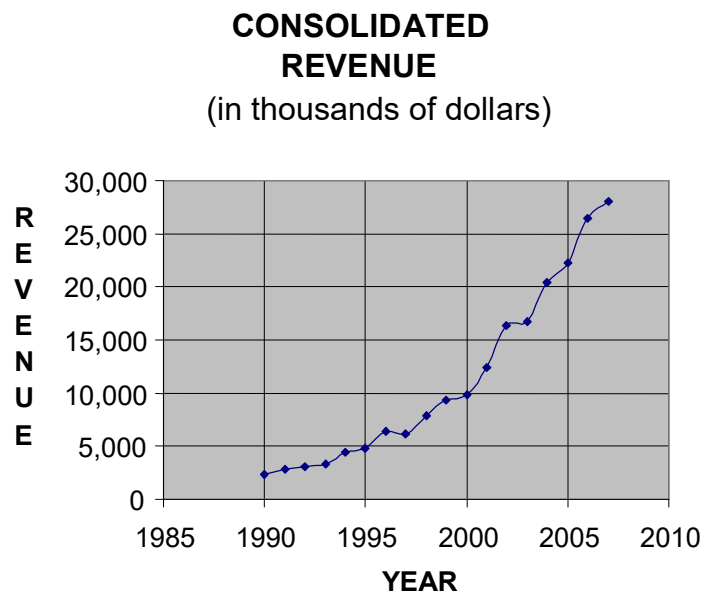
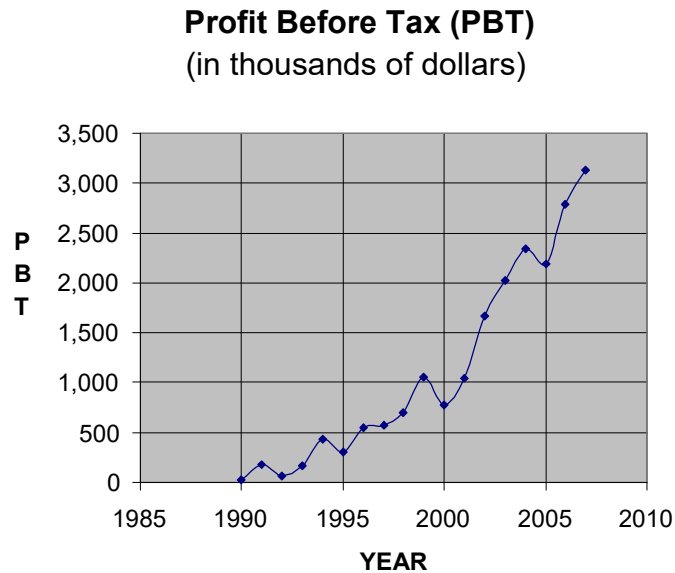


Exhibit 4. Southwest Trane's Profit before Tax (1990 – 2007)



Shared Values

In 1998, Southwest Trane ran a yearlong process in which the employees developed the company's business values based on core people values. All employees participated. The people values revolved around truth, trust, honesty, and mentoring. The Southwest Trane business values developed by the employees were:

- Stay in school.
- Work together (for the benefit of the customer and success of the company)
- Perform like you own the company.
- Take pride in adding value.
- Build lasting relationships by satisfying customers.

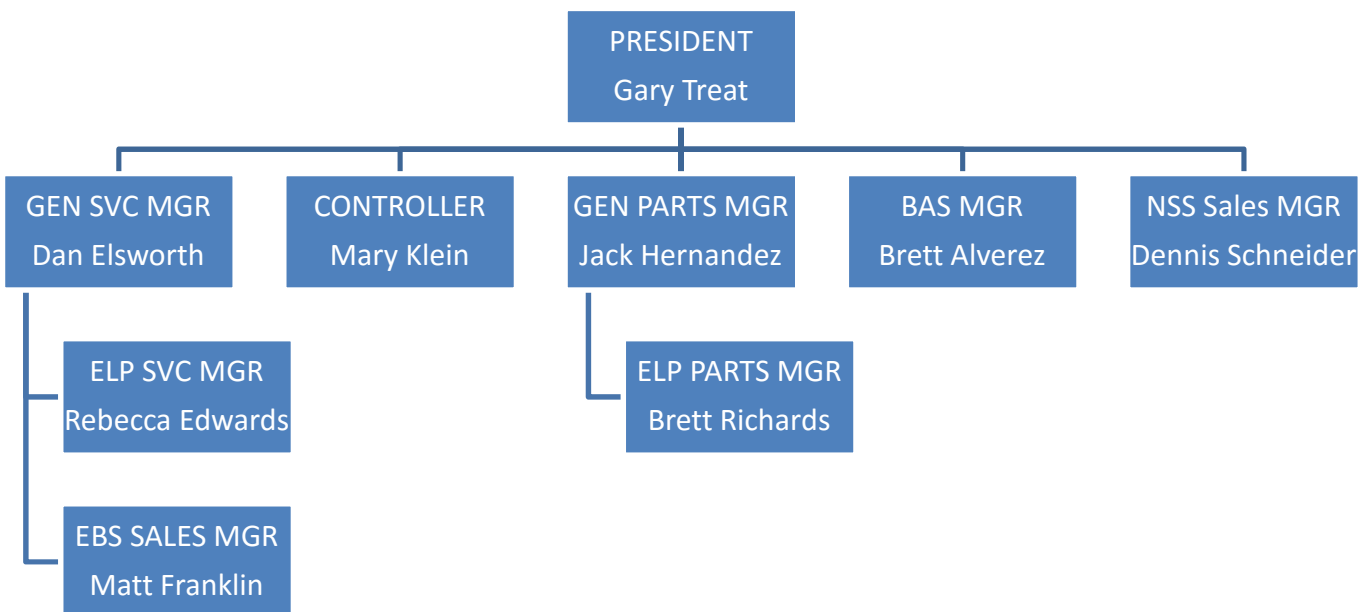
The shared values were kept alive through application meetings during the year and training of new associates.

Leadership Team

The leadership team consisted of the CEO, heads of each department, two sales managers, and a controller.

Exhibit 5. Southwest Trane's Leadership Team

(September 26, 2006)



The leadership team met two times each month. There was a financial meeting early each month and a strategic meeting near the end of the month. Team members rotated establishing the agenda and chairing these meetings.

At financial meetings, reviews consisted of actual verses budget year-to-date revenue and profit by department, operating plan completion, action items from previous meetings and other financial subjects as determined by the chair for that meeting.

At strategic meetings, each person discussed *“What is going well,” “What is not going as well”* and *“I could use help with this.”* These meetings created an atmosphere of mutual problem solving and teamwork. The *“I could use help with this”* question was especially powerful in fostering teamwork. Silos between departments were minimized. A spirit of cooperation permeated Southwest Trane.

Near the end of the fiscal year, longer meetings were held to identify issues and opportunities and develop the next year’s operating plan.

Mr. Treat took was actively responsible for continual learning. He attended workshops, read management books, joined external organizations (e.g., Trane CEO Roundtable and The Executive Committee) and attempted to integrate best practices into Southwest Trane’s operations. He found that participation in outside groups, as well as getting ideas and advice outside of Southwest Trane, was an especially personal motivational tool and allowed Southwest Trane to compare its results with peers. Opportunities to compare results were very motivational to all parties. *“Everyone’s boat rose. Nobody wants to have their peers see them fail,”* he concluded.

Southwest Trane’s Rewards

Mr. Treat used reward systems as a chief motivational tool for his employees, including incentive plans, win-win opportunities, the *“Great Game,”* and the monthly pool contests.

Incentive Plans

Mr. Treat felt there were six keys to making incentive plans successful. First, management needed to develop a compensation program that was in line with the organization’s strategic plan and general organizational objectives.

Second, incentives needed to be simple and clear.

Third, management must never purposely set up any punishments. The setting up of punishments would destroy a leader's credibility.

Fourth, measurement of key success factors was critical. Mr. Treat's experience showed him that if metrics were visible to everyone, performance against those metrics would go up. The metrics covered safety, revenue, gross profit, profit before taxes, number of sales calls, etc. For example, the Southwest Trane's El Paso office had a service revenue problem. In order to address the problem, it implemented a program to measure the number of quotes and sales calls, and it began weekly meetings to review the data. Within a few months, service revenue rose.

Fifth, motivation did not come exclusively from financial opportunity. Mr. Treat felt that most people wanted to contribute. Showing people why their jobs were important to customers, the community, and the company improved performance.

Finally - and most importantly - regular training needed to be integrated into the incentive plan. Training could be used not only to acculturate new employees and keep them abreast of new technology, but also to inform current employees of how resources, tools and strategies were driving the success of the company. For example, a service engineer might not understand the need for completing mandatory paperwork. Therefore, during the trainings, he might ask, "Why are we doing this?" Upon understanding the larger purpose of the forms, he could understand how work helped the company succeed.

Establishing Win-Win Opportunities

Mr. Treat noted the *"importance of setting up the compensation for sales people such that when they do well, Southwest Trane does well. This means not only more financial gain for both, but that the long term goals for Southwest Trane were incented."*

An example of a win-win environment was Southwest Trane realizing that having a service agreement was of high value to the company and also good for customers. With a service agreement, Southwest Trane would get regular income, smooth out seasonality, and most importantly, generate follow-up work. Southwest Trane's sales people were paid much more for a new service agreement than for another type of sale. They were also paid for renewals with the same customer. In addition, sales representatives were paid for time and material work that spun-off the service contract. A service agreement could be viewed as an annuity for the sales people as well as for the company. The system was set up so that both the sales person and Southwest Trane would benefit.

Another example of a win-win environment was Southwest Trane's focus on building automation work. If Southwest Trane sold an automation system, it was likely to get a service agreement, as well as follow-up work. A sales compensation system was established to make it attractive for the sales people to focus on automation, even though it complicated their sales cycle. Mr. Treat remarked:

"Too many companies try to keep too large a piece of the pie. Therefore, the sales do not come in and both the company and the sales people lose. These companies may think they are giving too much away or are fearful that the sales person might earn too much. There can be management ego issues involved. If the system is set up properly, when the sales person earns a lot, the company also gains. We had some high earning sales people, but the company also did much better."

Mr. Treat provided a contrast to his preferred approach to establishing a sales structure from a business trip to Shanghai for a Trane Asian countries meeting. He had been asked to attend the meeting because Southwest Trane had been successful selling systems in Mexico. Asian Trane companies were having challenges selling automation systems. While meeting with sales executives, Mr. Treat learned that sales representatives in the various Asian countries were reluctant to incorporate ongoing service with automation sales because the representatives felt the exposure risk (e.g., potential for something to go wrong) greatly outweighed the rewards.

The Asian companies paid very low commission rates for automation systems, despite the increased exposure and work required of the sales representatives.

The “Great Game”

As a part his continuous improvement, Mr. Treat became an active member in The Executive Committee, an organization that provided training, coaching, workshops, and networking opportunities for executives (now Vistage - <http://www.vistage.com/>). During one of The Executive Committee meetings, he was introduced to the book ***The Great Game of Business*** by Jack Stack. The book described an incentive tool called the “Great Game” where the employees had a stake in the outcome if the company’s performance (revenue and profit) were above average. The “Great Game” seemed to be aligned with Mr. Treat’s fundamental leadership philosophy: share company success with employees. He decided to implement the “Game” at Southwest Trane. Mr. Treat stated,

“If you do more than is expected, the right thing for a business owner, executive, and manager to do is share with those who make it happen.”

Prior to the rollout of the incentive program at Southwest Trane, Mr. Treat worked for nine months with stakeholders to design a Southwestern Trane version of the “Great Game,” including management buy-in, materials and a scorecard. Southwest Trane became a “Great Game” company in 2002. A chief metric for the “Great Game” was profit after tax (PAT). The company “won” the “Game” each year from 2002 to 2007. During the 6 years of the “Game” was implemented, the average bottom-line profit was 64% higher than the average of the previous 12 years.

Southwest Trane’s “Game” incentive program had six basic rules:

- (1) A 5.6% profit after tax target was established;
- (2) A specific revenue target was created at the beginning of the fiscal year;
- (3) Customer satisfaction had to be maintained;
- (4) An employee needed to be eligible to participate at the beginning of the fiscal year;

- (5) An employee needed to be employed at Southwest Trane when the annual financials were released;
- (6) Employees must pass a test.

If the PAT goal and the previous year's revenue were exceeded, each eligible employee received a \$500 bonus. If the PAT goal and budget revenue were exceeded, each eligible employee received a \$1,000 bonus. After that, profit dollars above the target were put into a pool and 25% of the pool was split among the employees, proportional to salary. Exhibit 6 indicates Southwest Trane's Profit after Tax percentage in the 1990-2007 period.

Exhibit 7 provides an example of the potential bonuses awarded for different levels of performance in the "Game."

Exhibit 6. Southwest Trane's Profit after Tax (1990-2007)

YEAR	PROFIT AFTER TAX
1990	0.60%
1991	3.40%
1992	2.10%
1993	2.70%
1994	5.50%
1995	3.50%
1996	4.80%
1997	5.20%
1998	4.90%
1999	6.30%
2000	4.40%
2001	4.60%
2002	6.00%
2003	7.10%
2004	6.80%
2005	5.70%
2006	6.40%
2007	6.20%

Exhibit 7. Southwest Trane's Bonus Schedule for "Game" Results

"WHAT IS IN IT FOR ME"					
Profit After Tax	5.59%	5.60%	5.60%	7%	7%
Revenue	Budgeted Revenue	Same As Previous Year	Budgeted Revenue	Budgeted Revenue	1.14% of Budgeted Revenue
\$/PER	0	\$500	\$1,000	\$2,100	\$2,871

When calculating the bonus derived from the "Game," the sales' team and department managers' were not included. The practice of not including the sales personnel and managers in the "Game" was counter to recommendations. However, Mr. Treat felt that it did not make sense to give more money to those already making more (i.e., sales staff received commissions and managers received bonuses). He felt that it would be better to give more money to those employees making less. In addition, he felt that many of the lower paid employees had a closer connection to customers. Mr. Treat wanted to drive money (incentives) to those closest to the customers. Sales people and managers realized that if Southwest Trane did better, their income would increase. They had no issues with this approach to the "Game."

Even temporary employees were invited to participate in the "Game." For example, one temporary employee in El Paso had an administrative position and was responsible for overseeing office supplies. The temporary employee (like other employees) was given access to invoices and budgets. She found a way to buy office supplies at a reduced price. Within one year's time, her proactiveness saved the company \$15,000.

Participation was voluntary. Employees were ensured that there was no "downside" or risk to them through their participation. For example, participation would not affect their compensation package and/or annual review.

The "Game" offered no guarantee to participants. Mr. Treat would tell his employees that the incentive program was at his discretion. That is, if he felt that any programs were not effective (i.e., customer service was declining or other areas of the business was suffering), the "Game"

could be cancelled at any time. He told employees “*not go out and buy a car counting on any money from the Game.*”

In order to participate in the “Game,” Southwest Trane employees underwent training and had to pass a test at the training’s conclusion. The training was for all employees (i.e., full-time, part-time, temporary, etc.). All employees were educated on profit and loss statements (P&Ls) and income statements (e.g., revenue, cost of sales, and overhead). Another part of the training was fielding questions about how employees could make a difference.

At the beginning of the training sessions, Mr. Treat would ask employees how much profit they thought Southwest Trane made annually as a percentage of total revenue as well as how much money he “took home” every year. The employees’ estimates ranged from 20 to 80% profit margins with most employees assuming Mr. Treat was making millions of dollars annually. At this point, Southwest Trane’s actual financial statements would be presented to the employees. Employees realized that profits were being reinvested into Southwest Trane and that Mr. Treat’s annual income was considerably less than they had assumed. Employees were able to request financial records at any time. Employees came to recognize how much employees really cost well as the role they played in helping Southwest Trane become more efficient.

At the conclusion of training, employees were required to take the test. They were given a scenario and asked to assemble a P&L statement. In addition, employees were asked three questions concerning their personal role in the effectiveness and efficiency of Southwest Trane. Specifically, employees were asked:

- (1) How can **you** help increase revenue?
- (2) How can **you** help decrease cost of goods sold?
- (3) How can **you** help decrease overhead?

The central reason for the test was to get Southwest Trane’s employees engaged. Mr. Treat admitted that it was “*sort of by accident*” that 100’s of ideas were generated on how to

improve Southwest Trane. For example, a receptionist, when answering how she could improve revenue wrote that answering phone calls promptly and professionally was how she could add revenue. An administrative assistant in El Paso, believed that it “was not her job” to assist the sales staff. After the introduction of the “Game” and the employee training, her perception changed. She realized that assisting the sales staff would contribute to winning. The “Game” made employees think of why they did what they did every day. For example, Southwest Trane’s technicians did not like clearing air conditioning units of bird waste. The sessions provided clarity on the advantages (value) to customers of this less-than-attractive part of the technicians’ job.

Employees bought into the “Game” because they saw how they could personally benefit from their participation. Over the six years, every eligible employee had successfully passed the test and participated in the program.

The “Game” aligned with Mr. Treat’s philosophy that people naturally wanted to do well and win. The “Game” was a tool to teach people how to win the game of business, and along the way, receive a personal reward for doing so. The most important component of the “Game” was the training workshops where employees and management discussed how to win.

Revenue and P.A.T. Monthly Pool

Mr. Treat also instituted a type of pool akin to college basketball “March madness” pools. Employees were asked to pick a square on a grid that had Profit after Tax (PAT) on one axis and Revenue (REV) on the other. (See Exhibit 8.) The idea was for this to be fun and to keep the “Game” alive. If an employee correctly guessed the month’s PAT and revenue, he/she would win \$150. When the winning guess included one metric above the target and the other metric below, he/she would win \$100. If the winning guess was that both metrics would be below the target metrics, the employee would win \$50. Results were posted on a board in only percentages because customers and competitors were walking around.

Exhibit 8. Southwest Trane’s Monthly Revenue and Profit after Tax Pool

		Profit After Tax									
		8.0%	7.2%	6.7%	6.4%	6.1%	5.9%	5.6%	5.3%	4.8%	4.0%
Revenue	59.0%	Richard Osborne									
	57.0%										
	56.0%			Anthony Hernandez	Sofia Cronk	Samuel Johnson	Carlos Herrera	Emily Willis			
	55.5%				Daniela Vasquez	Carlos Gomez	Juliana Reyes				
	55.1%			Robert Salazar	Eduardo Diaz	John Clay	Olivia Rennick				
	54.9%					Bill Wilder					
	54.5%				Saranda Ortiz						
	54.0%					Alyson Sabatini					
	53.0%				Matthew Torres						
	51.0%			Mark Sanchez							

Game Committee

A committee of employees from every level of the organization was established to monitor the rules and metrics of the “Game.” The cross-sectional committee was responsible for the posting of monthly success charts as well as maintaining the “Game” bulletin (with success stories, pictures of employees, and recommendations and/or benefits for Southwest Trane). In addition, the committee was tasked with entering participating employees into a regular drawing for a dinner for two. The committee was not found to be effective, and was abandoned.

Winning Advances

Halfway through the first year that the “Game” was conducted at Southwest Trane, Mr. Treat felt that Southwest Trane was heading in the right direction. The numbers were well above expectations. Prior to an all-employee meeting, he walked to a local bank and withdrew 67 \$100 bills. At the meeting, Mr. Treat told his employees that he strongly believed they were going to “win” and wanted to give them an advance. This turned any naysayers into believers.

Keys to Success

The Trane Corporation had been contacting privately owned Trane dealers, distributors, and sales offices in order to bring franchises under ownership of the Trane Corporation; in 2006, Southwest Trane was one of the last privately owned dealerships. Mr. Treat agreed, and the purchase was completed in 2007.

As Gary Treat reflected on the organization he had created and run from 1990 to 2007, he thought about the strategy, structure, shared values, and rewards he had put in place, and whether they would continue under the new management. He wanted Southwest Trane - and all of its employees - to continue to win in the “Great Game” of business.



Michael E. Valdez is an Associate Professor at Fort Lewis College's School of Business Administration where he teaches courses in international management, organizational behavior, and strategy. Dr. Valdez's research interests center on international management, cross-cultural management, entrepreneurial success factors (micro and macro), and organizational reputation. His research has appeared in *Entrepreneurship Theory & Practice*, *Academy of Management Review*, *Journal of Asia Business Studies*, and *Transportation Journal*. Dr. Valdez has presented his research in various conferences in the United States and abroad. He is a member of the Academy of Management and the Academy of International Business.



Elaine Labach is an Associate Professor of Management and the Associate Dean in the School of Business Administration at Fort Lewis College. She joined the college in 2008. Dr. Labach has led students on Study Abroad programs to Spain and Costa Rica. Prior to joining Fort Lewis, Dr. Labach has had a previous career in the insurance and pharmaceutical industries, working for Eli Lilly and Company, Progressive Insurance and Cardinal Health in operations and sales management. Dr. Labach is ex-officio President of the Western Casewriters Association.



Gary Treat's biography is found in on the next page.

Appendix
Short Biography of Gary Treat – Southwest Trane Owner and CEO

Gary Treat received his B.S. in Mechanical Engineering from Washington State University. Following graduation in 1964, he attended a graduate training program at The Trane Company in La Crosse, Wisconsin for 6 months. After attending the Trane program, he was a Trane sales engineer in San Francisco, CA for 4 years. Following San Francisco, Mr. Treat went on a two-year working holiday that included extended stays in Australia and South Africa working for Trane as an application engineer. Upon returning to the United States in 1971, Mr. Treat was a Sales Engineer/Account Executive with Trane in San Diego and San Francisco and, in 1983, moved to San Francisco to become a Sales Manager. In 1989, he purchased the Trane franchise that would become Southwest Trane and remained the CEO until 2007 when he sold the franchise to the Trane Corporation.

Mr. Treat was very active in the community. In 2001, he started a goal program (“Choose Your Future”) at a poorly performing middle school in Albuquerque, New Mexico. The purpose of the program was to improve learning and decrease the dropout rate by helping students realize the importance of school to their long-term success and happiness. This program expanded to Durango, Colorado in 2009. In addition, Mr. Treat lectures frequently at Fort Lewis College in Durango on strategy, employee incentives and motivation as well as a mentor to senior business students.