

# Facing Our Issues

A clear-eyed assessment of the challenges facing the electrical market must begin with a look at the conflicts among the players within the channel.



In every channel there are bound to be challenges. When you consider that each member of the channel, be they a manufacturer, distributor or independent rep, is a profit-oriented entity, the conflicts are inevitable.

Each party has its own goals while they all have overlapping interests. The common interest is selling something to someone. Everything else should be incidental and ideally should be subordinated to this primary interest. But the real world gets involved. Whenever more than one person is party to a conversation or an issue, an opportunity exists for disagreement. So it is with interactions among channel partners.

As with all issues, they can represent opportunities for a few, challenges for many and topics of conversation for others. The economy is obviously a significant issue for everyone. The “go-go” days of the past three years are gone, and distributors, reps and manufacturers are faced

with slackening demand because of the credit crisis, energy crisis, rising labor costs, rising commodity costs and increased global competition. While these issues slow the market, electrical distribution is still a \$90 billion business and opportunities continue to abound.

Distribution is a market share game. With the size of the market contracting, you can take share and identify niches that represent growth opportunities. Historically, companies have viewed economic scenarios like the one we currently face as an opportunity to grow and “sell” out of a downturn by managing variable expenses such as labor, healthcare and fuel costs; adjusting their inventory; and investing in performance-oriented sales and marketing to capture market share and pursue niche markets.

Other companies, unfortunately, play the waiting game, hoping that events manage themselves (but unfortunately hope is not a strategy).

And other companies focus solely on expense management in an effort to retain bottom-line profitability for

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**By Allen Ray and David Gordon**

ownership. In the end, the company is a profitable smaller version of itself.

Throughout this, a number of channel challenges exist between electrical distributors, manufacturers, reps, contractors and end-users. These issues, when individually addressed by the interested parties, can represent unique opportunities to improve, and profitably grow, relationships. When allowed to continue to fester, they create conflict and erode profitability.

To identify a number of channel challenges, we surveyed manufacturers, distributors and reps on behalf of a group of clients late last year. Our 2008 ElectroIndustry Survey uncovered a number of industry issues that can inhibit sales and profit performance.

## DEFINING THE CHANNEL

Over the years, the industry has defined “the channel” as encompassing all manufacturers, distributors and reps (customers should also be part of this definition). The diversity of these entities and the fragmentation within each entity presents many challenges. Trying to get 3,000 distributors, or even about 450 members of the National Association of Electrical Distributors (NAED), St. Louis, to all do anything the same way is like trying to herd cats!

Instead of taking a macro-perspective of the electrical channel and thinking about broad industry challenges, try thinking about *your company's channel* and the relationships important to the success of your business and the companies that you deal with daily. By addressing challenges you face with them, and either eliminating the issues or converting them into strengths, you can achieve improved efficiency, productivity and profitability.

To help distributors, reps and manufacturers address the specific challenges that have the most impact on their own businesses, Allen Ray and Associates and Channel Marketing Group did an industry-wide survey of electrical firms. Over the past few months, we asked manufacturers, distributors, reps and customers about the following topics.

- Data synchronization, POS and EDI
- The effects of continued consolidation
- The drive to self-service via the web
- Expanding sales channels
- The importance and prioritization of training
- The need for marketplace pricing
- Where inventory belongs in the channel
- Determining enough marketplace distribution
- Effective product introductions
- Defining the customers and who should call on them

Following are some of the study's findings. In coming articles, we will drill deeper into many of these issues.

## INITIAL FINDINGS

**Top distributor challenges in 2008.** The key chal-

lenges distributors face apparently haven't changed too much over the years. Distributors told us people and margins were their two greatest challenges this year. Market share, expense management, sales and training were also mentioned.

Specific people-related challenges were evergreen issues such as hiring, motivating and keeping good employees; getting good sales talent; keeping employees excited and motivated in a slower economy; and making sure employees are focused on the biggest opportunities.

Profit-related concerns that respondents mentioned were age-old issues such as margin erosion, maintaining margins, price maintenance and pricing matrices. Market share surfaced again as a key concern, specifically maintaining customer loyalty; retaining existing customers; competition for customers; and limited line exclusivity. Distributors also were fighting internet sales and trying to increase sales productivity. Further down the distributors' list of concerns were operational issues such as gaining electronic efficiency, managing inventory and improving internal processes.

**Top manufacturer challenges in 2008.** With an estimated 80 percent of manufacturers going to market through independent reps, manufacturers are trying to manage privately owned sales organizations that have their own profit agendas. This can naturally lead to conflicts.

When asked which areas they wanted their internal sales organizations or rep networks to improve upon, the three most common responses were improving overall sales, end-user sales and training. Other common responses included new product introductions and expense management. (It's interesting that only one of these areas touches upon the profitability of their channel partner).

Manufacturers wanted their own field salespeople and independent reps to improve on cold calls, and do a better job of selling application-oriented products, and selecting and developing a limited number of distributor partners in local markets. They also wanted them to improve on how they sell their entire product mix, sell the “value” of their company and generate demand.

Manufacturers also wanted their salespeople and rep networks to do a better job of targeting and training end-users; cultivating contractor accounts; and improving on their understanding of customers needs. Other specific concerns that surfaced were application knowledge and project tracking.

**Top rep challenges for 2008.** Given that reps interact with manufacturers, distributors, customers and influencers, they face an array of competing interests similar to a direct sales force, but they are also responsible for their own profit generation. Few, if any, manufacturers' direct salespeople are paid 100 percent on commission.

We asked reps what their two biggest challenges were (aside from the economy) coming into 2008. Their input

contrasted significantly with manufacturers and tracked more closely with distributors. Their top concern was, not surprisingly, people, but the other most frequent responses were (in order) expense management, pricing, private

labeling, training and new products.

They had the same concerns as manufacturers and distributors about hiring, keeping and motivating employees, price erosion, and the need for better distributor and end-user training, but also were very concerned about controlling their cost of doing business relative to commissions, dealing with higher operating costs such as insurance, travel, property taxes and other operational expenses that, in conjunction with inflation, were exceeding revenue costs.

They also spoke out about distributors that were private labeling, Asian products and suppliers, and facing price competition from private-label products.

In the new product arena, reps had concerns about driving sales of value-added new products to end users who don't understand that their largest cost and most valuable resource is labor. Reps are apparently having trouble getting customers to look at new labor-saving products and working with manufacturers' new product introduction timetables.

We will delve deeper into many of these issues over the coming months and share some strategies companies are using to face and take control of channel issues and differentiate themselves. ■

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### DISCONNECTS BETWEEN CHANNEL PARTNERS

Respondents weren't afraid to speak about the problems they were having with their channel partners. Following are some interesting comments that surfaced.

#### REPS ARE WORRIED ABOUT ...

- Getting paid for value-add activities such as end-user training.
- Commodity prices causing changes in purchasing.
- Surviving "just-in-time" manufacturing that's not always on time.
- Manufacturers cutting back on their inside support staff, which causes shipping problems and extra time spent expediting existing orders rather than getting new ones.
- Getting face-time in front of specifiers.
- Keeping current market share versus imports and short-line competitors.
- Demands to penetrate non-traditional areas of the market.
- Motivating electrical distributors to think outside the box and sell into new vertical markets.
- Chasing down point-of-sale (POS) reports and receiving commission for those sales.
- Having less time to meet face-to-face with customers.
- A lack of support from manufacturers' upper management.
- Linking rebate programs to growth/earned incentives.

#### MANUFACTURER WANT REPS TO ...

- Get more updated market information.
- Be creative and make "out of the box" suggestions.
- Drive joint plans with distributor.
- Increase communication on local needs.
- Call on all levels of distribution.
- Focus their efforts on fewer distributors and manage territory pricing more efficiently.

#### DISTRIBUTORS ARE WORRIED ABOUT ...

- Improving communication internally.
- Getting salespeople to go after new accounts.
- Growth in level "B" and "C" accounts.
- Managing inventories and receivables.
- Differentiating themselves from competition.
- Keeping up with all the cost changes.
- Process improvement to reduce rework.
- Keeping up with the influx of import problems.
- Second-tier manufacturers with low-cost product.