Growth Must Come From the Customer

(But Who is That?)

2004 was a good year for many in the industry. Top line revenues and bottom line profits grew. 2003 PAR reported net profit results improved slightly and everyone expects 2004 to continue the trend. Most are optimistic about 2005. Industrial growth continues; residential construction remains strong and commercial is making a comeback. Life is good.

But is it?

Depends Upon the Game You Are In

In talking to many manufacturers, their concern is that there is limited industry growth. Sounds surprising! When you dig into the numbers, you get a better appreciation for their concern. The electrical industry has been effectively stagnant. According to Herm Isenstein, DISC Corp., last year the industry's projected ***decrease*** is -.2%! He projects that industry growth was 5.9% and that inflation was 6.1%. Further, in looking at industry performance over the past five years, the industry has been flat if not slightly negative! (see sidebar)

"Can't be!" you say since you experienced differnt? Remember, these are national numbers and most companies participate in only a segment of the industry or, in the case of a distributor, in a local market. If you were up more, shouldn't someone else be down? Additionally, distributors play a market share game…trying to get their customer, a contractor or MRO, to buy more "stuff" from them. Few distributors try to "grow" the market (sell more "stuff" to someone to increase the electrical share of wallet).

Likewise, there are manufacturers who grew at a greater rate. Factor out price increases and acquisitions and organic growth is reduced. Further, for most manufacturers, revenue growth is a share game. More fittings are not installed unless more buildings are built or retrofitted.

Selling

Interesting word "sell". It infers that someone wants to purchase your product. And this depends upon who makes the buying decision, which depends upon the type of project and type of product. Identifying the "buyer" changes based upon project and product. Products can be grouped into three classifications:

- Utilitarian – "It is a required part of the project."
- Replacement – "I need to fix something." Replacement products and utilitarian products can be the same.
- Upgrade/Upsell – "Something else can do the same thing, but I want this product (due to brand, product features/benefits)", or, "This product/project has an ROI for my company."

The challenge is that industry growth can only come from the Upgrade/Upsell category. Revenue growth from the other categories comes from either more building (which the electrical industry can not impact) or equipment breaking or becoming obsolete (unless Code changes occur).

So What Do We Do

Parallels can be found by considering other industries:

Apparel – Clothing goes to market through distribution…they call them retailers. The retailer focuses on share (how much they sell) and the manufacturer is responsible for driving demand (end-user awareness by building their brand).

Food – Orange growers band together to promote the benefits of oranges and orange juice. Demand is created for supermarkets.

And need we mention the dairy industry? Who hasn't heard "Got Milk?"

Now you say, "But these are consumer industries. These ideas wouldn't work in the electrical industry."

Check out www.steelinstitute.com and you'll notice that the industry website is entitled www.metalbuilding.com. The site has plenty of tools for end-users, and through the industry association, the manufacturers have developed an end-user advertising campaign.

Or consider the plumbing industry. Look at any home building publication. Notice a few ads for plumbing products, and millwork? These manufacturers are going direct to the "buyer", creating demand, building their brand, providing value to their channels.

What can be done?

Distributors should continue to focus on market share. Many markets have too much distributor capacity and share is diffused. Opportunities abound. Further, most distributors are unwilling to make the necessary investments to pursue strategies to "grow the pie" in their local market.

Their customer is the contractor/MRO and their sales pitch is "how we can better serve you/why you should do business with us?" More progressive distributors can support manufacturer efforts to promote new and upgradeable products by developing strategies focused on the individuals who make buying decisions such as homeowners, builders, engineers and architects. These are the people who decide where money for a project gets invested. Manufacturers should support these efforts through effective planning with selected distributors and usage of coop/MDF funds.

Manufacturers, on the other hand, have a greater challenge as they need to review their product portfolio and consider which of their products are "utilitarian, replacement or upgrades." If the product is "utilitarian or replacement", it is a market share game. Do you have the right distribution strategy, the right pricing, brand awareness, distributor support? Contractors and MROs buy these products based upon various preferential attributes, and at times the definition of preference has nothing to do with the manufacturer. It could be distributor location, the salesperson, convenience or such. For many contractors/MROs, brands are interchangeable!

If your product is an "upgrade", a different strategy is needed, and few manufacturers do this well! You need to reach the decision maker…defined as the person who will "use" the product for an end-user benefit.

This means understanding the vertical markets where opportunities for your product exist and convince end-users that the features and benefits of your product will solve an issue for them (be it financial, emotional, aesthetic or other). In most instances, the "issue" is a non-electrical issue.

Fixture manufacturers do this best as lighting agents focus on calling on lighting engineers and other applicable end-users.

Getting to end-users requires investments, a la the plumbing industry.

Increasing "Share of Wallet"

Applicable manufacturers need to consider how to earn a greater share of the "consumer's" wallet. The first step is rethinking "customer" and reallocating marketing resources.

Should you advertise your products differently? A recent multi-month review of *Custom Home Builder*, *Commercial Building News* and *Buildings* revealed zero electrical industry ads! And the electrical industry (or manufacturers) has never advertised in publications like *CFO* to gain awareness of potential operational cost-savings.

Perhaps advertising dollars should be spent more strategically, or complementary manufacturers should consider cooperating?

How can the industry grow without being visible to the person that signs the specs or writes the check?

Other strategies to consider include:

- Attending the "right" tradeshows
- Investing in industry-specific literature and promoting the availability of the literature
- Ample usage of samples and an effective sampling strategy
- PR that reaches "consumers"
- Components of your website that address end-user markets
- An electrical industry website that highlights product applications and joint manufacturer efforts

Affording New Efforts

Some manufacturers have whispered that they should reallocate marketing funds and reduce co-op and rebates. And they should!

Why? Not all distributors effectively utilize their co-op funds and if manufacturers did a better job of managing this resource, they would either gain a greater ROI from these resources or spend less money, enabling funds to be reallocated.

Better management of co-op entails developing an agreed upon a performance-oriented plan, gaining commitment from all parties for execution and tracking performance. Some of this is required in the new Sarbanes-Oxley Act which is a requirement for publicly held companies. Manufacturers should further target their investments to distributors who are committed to them.

Reducing rebates is heresy…but do they drive growth? Years ago, yes, because there were opportunities for shifts in share amongst manufacturers. Nowadays, many distributors are single line and the opportunity for share change is reduced. Plus, how many distributors have changed lines strictly because of a 1-2% difference in rebate amounts. The only way rebate reduction becomes a problem for a manufacturer is if they significantly reduce their rebate (if they have one); they do not offer other barriers to entry (i.e. better support, better services, better marketing support) and their competition significantly increases theirs so that there is a significant spread (that is promoted!). Is there enough margin in your products for this to occur?

And perhaps a minimal reduction in rebate income, invested effectively, could generate a greater distributor return through increased sales and resulting margin.

Joint Efforts

Alternatively, groups of manufacturers could work together. Be they competing or complementary companies, other industries have shown that by coordinating efforts, manufacturers can affect change. Manufacturers could pool resources, based upon appropriate markets (education, public works, healthcare, retail, quick-service restaurants) or applications (i.e. energy management) and develop marketing strategies to gain visibility for the "product category". By growing the "pie", there is more for everyone.

Manufacturers Must Lead

The key is doing something. As an industry participant, do you want the pie to remain the same, or grow? Growing the pie requires a commitment to long-term strategies and cooperative marketing efforts. Historically catalysts for these initiatives are manufacturers working for their betterment, and the industry benefits.

Once you know the game you are in, understanding the "customer" is easier and developing a message to achieve your marketing objectives becomes clearer.

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