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Distribution & Supply magazine serves electrical distributors across Canada. It provides distribution personnel with the information they need to perform their jobs better and run their businesses more efficiently and profitably.

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“Call it a clan, call it a network, call it a tribe, call it a family. Whatever you call it, whoever you are, you need one.”
— Jane Howard

A family that beats with one heart

While in conversation over cocktails at a recent gathering of distributors and suppliers in Quebec City, a distributor from Northern Ontario asked me to look around the room at his assembled peers and said, with admiration and affection, “You see all these people? They all beat with one heart”.

Admittedly, my first thought at that utterance was, “Hmm, I wish I had *his* cocktail”, but then, as the IED annual general meeting unfolded, the truth of his words was confirmed. The gathering was attended by distributors both large and small, from the Atlantic to Western Canada and all points in between, and competitors and coworkers alike shared stories and meals. They asked each other about business, of course, but also about the other's family (quite sincerely, I might add).

The gathering in St. John's, Nfld., for the Supply & Distribution Council's annual conference was not unlike the previous gathering, where market competitors came together to learn strategies for advancement and business growth. Just the other day, the same folks came together for Electro-Federation Canada's annual Charity Cup Golf Tournament, in support of EFC's scholarship program.

They are a warm group, these electrical folks, and I am always grateful when I get the invitation to join them. Although I still consider myself a newbie in this industry (only five years), I cannot help but look upon our electrical professionals as my second family.

And I imagine most of you are like this, as well. We spend countless hours working in this industry and with its denizens; you cannot help but look upon them as your *other* family. And, like all families, there's the golden child, the black sheep, the weird uncle, the in-fighting, etc., but it all boils down to this: the electrical industry—with all of its participants—is a family.

For example, take the new 2009/2010 chairs of the Supply & Distribution council and CEMRA (Canadian Electrical Manufacturers Representatives Association)—Wayne Donaldson and Cindy Doherty—with whom D&S recently chatted.

Like all families, these two industry leaders have their share of mentors. Cindy notes her father, Dave Doherty, who taught her to be committed, proud

and ethical, but also adds her bosses—Ted Doherty and Murray Chamney—and Keith Maguire and Tom Brockway, who have always leant encouragement and support. “These men have all shared with me their industry knowledge and experiences, which has definitely made a positive impact on me,” she says.

Wayne lists several mentors, also starting with his father, “who demonstrated that hard work gets results, and that integrity is the only thing you carry with you all the time”. Jack Legros got Wayne started in a manufacturing career in GE, while Sam Magee hired and trained Wayne in his first sales and marketing roles. Last, but not least, Wayne recognizes “Ron Pelachuk, who hired me in Westburne Alberta and showed me how it all comes together to create a great business.”

(I have no doubt that, as time wears on, future S&D and CEMRA chairs will be listing Cindy and Wayne as *their* mentors.)

Wayne is Rexel Canada's vice-president of purchasing & marketing, and he's been in the wholesale side of the business for the last 15 years. He had a previous stint with Gescan for about six years in the late 1970s/early 1980s, and left GE Lamp in 1994 to join Westburne Alberta. For her part, Cindy started in the industry with her current employer, Intralec Electrical Products, back in 1987. She started in inside sales and, 22 years later, manages Intralec's Wire and Cable Dept.

I will have more on my chat with Wayne and Cindy in the Spring 2009 edition of D&S, including their view of the future, updates on S&D's annual conference in Kelowna, B.C., and more. Until then, I'll leave you with this last tidbit:

Cindy had intended to work in the travel industry after college but, after doing some part-time work at Intralec while looking for a job, she decided to stay. This is why I sometimes liken our electrical industry to The Eagles' Hotel California... you know, “You can checkout any time you like, But you can never leave!”. In the case of our industry, however, people—like Wayne, Cindy and even me—*choose* to stay. And I wouldn't have it any other way. ■



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The channel of choice holds its own

An economic overview: then, now and tomorrow

John Kerr

Don't get caught up in a euphoric dream in which you see sales doubling. They won't.

Though our economic troubles really started in late 2007, the doldrums of 2009 have taken their toll on businesses in the electrical distribution sector. But as we think we are starting to see the sprouting of green shoots, so to speak, we start to believe things are going to get better—even grow. Now is as good a time as any to take stock and build with the right perspective.

We've been through tough times like these before. When we look back to 2001-2003, we see the year-to-year numbers were underwhelming, to say the least. In 2001, the industry experienced sales volumes of \$5.9 billion across all channels, and 2002 and 2003 were virtually flat.

The big difference this time around, however, is the economic downturn was exacerbated by a reliance on Ontario's automotive and manufacturing sectors, in which the restructuring is well beyond that which any of us might have predicted. Combine that with crazy swings in currency and commodity pricing, and you have the recipe for a meltdown not previously experienced.

Next year will be another tough one, though not as tough as 2009. That said, don't expect to make up this year's loss in 2010; that kind of thinking is folly and wrought with pitfalls.

We're going to finish out 2009 at roughly 2004 levels. Back then, industry sales rose a whopping amount, hitting \$6.4 billion (looking back, we were all pretty happy). We expect the first part of 2010 to be flat, with the market strengthening later in the year—a nice bounce of about 3% to 4% for the final four months of 2010.

Looking back, looking forward

So what has 2009 brought us? Our field work for the year versus 2008 shows a decline of 22% across the board in electrical equipment sales. Price accounts for

some of this, as well as volume, but there are other, more insidious forces at work behind the decline: housing starts are down 24.6 percentage points; factory automation and networking spend has collapsed 50%; capital spend in oil and gas is down; and there are drops in employment. All these combine to account for a loss of \$700 million in electrical equipment sales—the largest segment and the largest margin loss anywhere.

Unlike our cousins to the south, the relative value in housing has held up in Canada, and ongoing and potential renovation values seem to be holding their own.

Remember that the electrical segment operates in a totally different fashion than the overall economy and, as such, typically lags the published numbers. This is important as we set expectations for next year. Economic stimulus packages here in Canada will have a nominal effect on our electrical equipment health in the short run, with the exception of the residential and energy management niches (where we actually see some growth—over 10%).

Focus on your mix

As I wrote in my last column, it is important to identify your market mix so you understand implicitly what is driving your business. The market mix tells it all: if you're heavily into manufacturing, you will see a larger drop than a competitor who's just in housing and construction.

So how do you qualify your market mix? Let's assume we're back in 2004 for a moment. By taking a profile of your trading market, you can easily determine the number of employees in any sector. In 2004, a manufacturing employee represented \$634 of electrical equipment that would have been bought relating to MRO electrical, while electrical contractor employees each represented \$34,563 of electrical equipment. So, imagine you have 1000 industrial employees in your trading market: that represents \$634,000 in MRO electrical sales. However, 1000 electrical contractors can be counted on for over \$34 million in electrical equipment sales.

Continued on page 22

John Kerr has been involved in the Canadian electrical market for over 25 years and has extensive knowledge of its distribution channel. He remains active in the electrical industry through his annual research, "Project Pathfinder", and through consulting to many leading electrical equipment manufacturers. You can reach him at jkerr@clbmedia.ca.

Gazing into our 'No-Guarantee' crystal ball, we see:

- 2009 will end just shy of where it began.
- 2009 will come in at about \$6.4 billion (including all channels to market).
- 2010 will start out relatively flat, then ramp up at year's end when housing starts regain previous volumes.
- The Prairies will continue to lead the market, while British Columbia and Alberta continue to outpace Ontario.
- Lighting and energy management products will show early gains in sales at a pace greater than the rest of the market as more distributors consider expanding into wind, solar, and expanded building automation systems.

9 Rules for Pricing Market Baskets

Roger Partington

Presenting one of the most intimidating sales challenges for a distributor, RFPs for long-term, single-source supply agreements are lengthy documents of legalese requesting a detailed account of your service capabilities and various company policies. Along with the document is the market basket: typically several thousand poorly described items to be priced firm for two years. Here are my “9 Rules for Pricing Market Baskets” to help you be competitive and end up with margins you can live with.

1 Get started right away

Too often, someone looks at the market basket and either puts it aside or e-mails it forward, and no one gets to it for several days. When you leave it to the end, you run out of time for the important strategic discussion of margins and competitive position. You won't produce a smart quote and it will handicap you later as you work through winning the RFP.

2 Start with strategy

Strategy begins with knowledge. Your sales rep needs to know the customer; not just his business needs and what he buys, but the reason for the RFP. Why now? Is the customer dissatisfied with his current suppliers? Who is driving the RFP? What is his process and who is involved? Where did they get the item list and usage data, and do they reflect prospective purchases? Who are the key incumbent distributors and what are the key manufacturer lines?

3 Advantage to incumbent

Incumbents usually look better on the market basket. First, they can identify most of the items and have ready access to system cost without going to manufacturers for pricing. Second, manufacturers support incumbent distributors wherever they have established special pricing arrangements (seldom do they extend these arrangements to other bidders).

Third, incumbents know the real usage, which is probably different than what's in the market basket, so they know where to be aggressive and where to play it cool.

4 Buyers are lazy

You'll notice that buyers tend to assemble an Excel file hastily, paying little attention to how they will evaluate each price response. What happens when several distributors send in 85%-complete market baskets? With so many unpriced items, you cannot just total everything. There will be problems with things like units of measure, zero-priced items, bad fields... you name it.

Also, distributors quote different freight, terms and rebates. While an analyst might help with the comparisons, the best way to cut through the work is to create a short-list (it's easier to compare two or three quotations than, say, six). Consequently, the market basket will only receive a serious review once the buyer has pared down the bidder list.

5 Beware of traps

Many market baskets do not reflect what is purchased. They may come from only one site; they may be an inventory file, not actual purchases. Or they may be so small as to reflect less than 10% of purchases. On these baskets, you will often be tempted to “go in at cost” so your competitive pricing carries you through the next stages of the RFP.

Sometimes this works and you can sort out most of the exposure when it finally comes time to implement. Sometimes, once you are short-listed, a more complete market basket comes out, and your low original pricing makes it difficult to maneuver.

6 Know your manufacturers

There are common practices among manufacturers as to how they price market baskets, but no hard-and-fast rules. The local rep has great influence in pricing, as he can make a case to HQ to support you—or

not. Within two to three days of receiving the RFP, you should review the major manufacturers. Look at the portion of the spend they take up, evaluate your competitiveness and determine whether to ask for pricing support. When you need quotes, remember Rule #1. Armed with good data, you can sometimes cut corners by using cost data from similar accounts. Know the product areas and manufacturers in which it is safe to substitute brands.

7 Power in the details

With a price file of several thousand items, it's not possible to just say, “Go in at 19% across the board”. You need to understand the costs you are using. Assess your competitive position on key manufacturers: were you to get the contract, could you convert the customer to a more favourable manufacturer? Be creative when picking your aggressive spots, and know where you can recover margin. Calculate the weighted average margin on the basket and fine-tune your strategy.

While they cannot review every item, senior managers must be heavily involved in the pricing strategy for key manufacturers.

8 Develop your expertise

Developing a centre of competency for RFPs and market basket pricing is essential. Skills that develop over time include product and manufacturer knowledge, an understanding of costing and special pricing arrangements, competence with spreadsheets and company data files, negotiation skills and supplier relationships. You need someone who can work with a team, organize complex tasks, meet deadlines, and share expertise to come up with the best strategy.

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Roger Partington is a management consultant specializing in distribution channels, channel relationships, and sales and marketing strategy for manufacturers and distributors. He can be reached at roger@coherentb2b.com.



Passing the torch: next generation leadership

Dr. Rick Johnson

Business needs come first. Focus on its long-term health and stability.

I don't have a lot of memories of my dad, as he passed away when I was just nine, but one particular memory—burned into my brain—sticks out after all these years. One day when I was five years old, my dad decided it was time I learned to swim. (We didn't have a swimming pool; in fact, we lived out in the woods in an abandoned trailer, three miles from Blue Lake.) We trekked to the lake, and my dad proceeded to uncover a small rowboat from the brush under which he had hidden it.

Up to that point, I had been really excited about going out on the lake with my dad; the reality of the situation hadn't quite yet set in. When I fully realized I was going to be floating over this huge, deep lake in a little rowboat, I started to worry a little, but not too much—after all, I was with my dad, and he was going to teach me to swim.

So he rowed that old boat out into the middle of the lake, put down the oars, looked me right in the eyes and said, "Are you ready? You can do this!"

I was flying through the air over the side of the boat as he said "You can do this"—he must have thrown me 15 feet! (Remember, I was only five.) It was sink or swim time. Since I'm still here, I obviously learned to swim—not without swallowing several mouthfuls of water and seeing angels dancing in the clouds, mind you, but I figured it out.

Preparing to pass the torch

So why do I start this article with a tale from my childhood? Well, if you're an owner with a son/daughter working in your business, ask yourself these questions: Are you teaching your son/

daughter how to run the business? Do you have an actual plan, or are you just going to throw them over the side of the boat?

If that's the plan, remember: the lake into which you're tossing them may be filled with alligators.

If your true desire is to keep the business in the family—passing it on to the next generation—then you have an obligation to yourself, the business, your employees and, yes, to your son/daughter to ensure you're doing everything you possibly can to help them prepare for the day they take over.

In many cases, most heirs apparent to the president or CEO position have been running the business for several years before taking total control, simply because it's very hard for dad/mom to let go completely. In some cases, parents try to evolve from being the boss to coach and, finally, to colleague or board advisor; but this is a difficult transition. Of course, the transition is much easier when the child demonstrates exceptional competence, wisdom and vision.

If you're a typical, old-school autocratic-type of leader who believes that sweating blood, showing strong work ethic without concern for work/life balance, and showing no interest in the emotions involved in a family succession, your children will have difficulty maintaining a clear sense of expectations. They will not eagerly address interpersonal family problems and may even shut down.

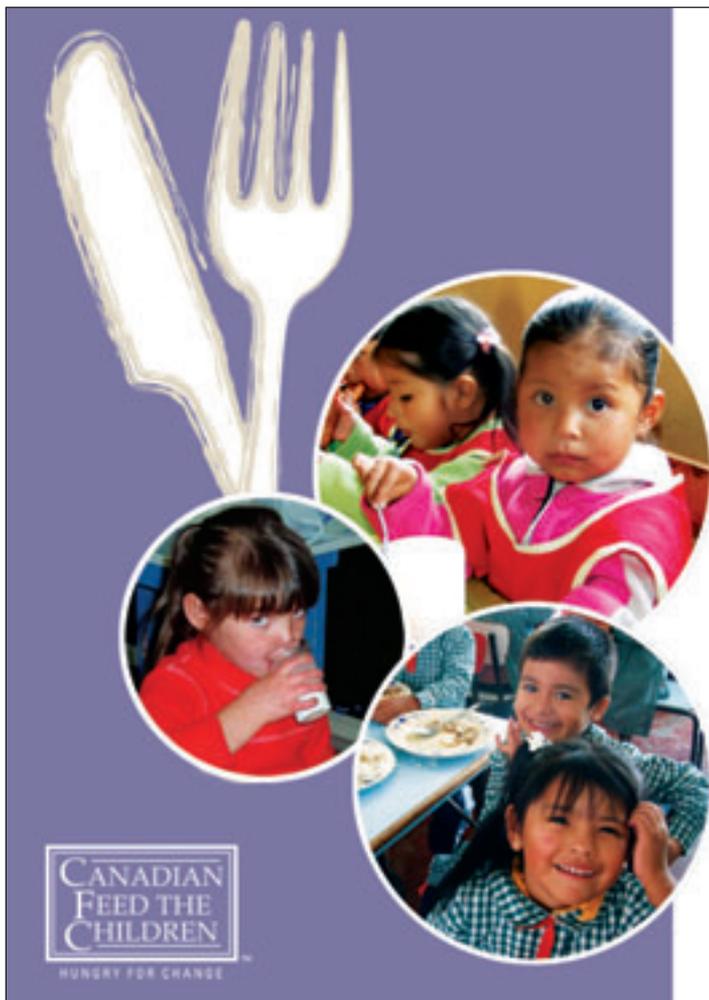
When that happens, the necessary skills development for taking over the business becomes exceptionally difficult. The result is essentially the same as throwing them over the side of a boat and hoping they learn to swim. I have discussed this situation with numerous first- and second-generation owners, and they all describe similar scenarios when the torch was passed to them.

And let's be honest: not all families work well together. Sibling rivalry often impairs development. Jealousy, personal agendas and parental weakness allow family cohesion to deteriorate in the face of pending succession, leaving some families completely

dysfunctional. That's not to say there aren't families that have handled succession seamlessly, where everything worked out just fine. Many have, and chances are they planned well in advance for the succession.

For families with both a son and daughter working in the business (or two sons, two daughters, etc.), another wrinkle is thrown into the equation—and new challenges arise—should both desire the top leadership position. This decision should be based on what is best for the business alongside individual qualifications and competency.

In the old days, this was never an issue: it was accepted as fact that the first son would take over the helm... plain and simple. That's no longer the case, as evidenced by the number of females running Fortune 500 companies. But while female talent is being paid greater attention these days, the brother of a CEO-candidate sister likely wouldn't see her talent. Or he may see it, but not acknowledge it—especially when his sister demonstrates a higher level



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of competency, desire and attitude for taking over the family business.

Consider the business culture

Privately held, family-owned businesses often develop a culture that's an extension of the family culture. Family roles are often emulated when multiple family members work in the business. This creates additional challenges, as every family has its own by-laws, sacred cows, cherished

beliefs, myths, rules and roles. Sometimes, unaddressed family sub-culture issues can blow up and impact the entire company. Any sub-culture issues must be cleared up if the company is to grow and prosper.

Keeping the torch lit

Passing the torch is not that complicated... it's the execution that's often difficult. Consider the following tips when setting up your succession plan; you will avoid many

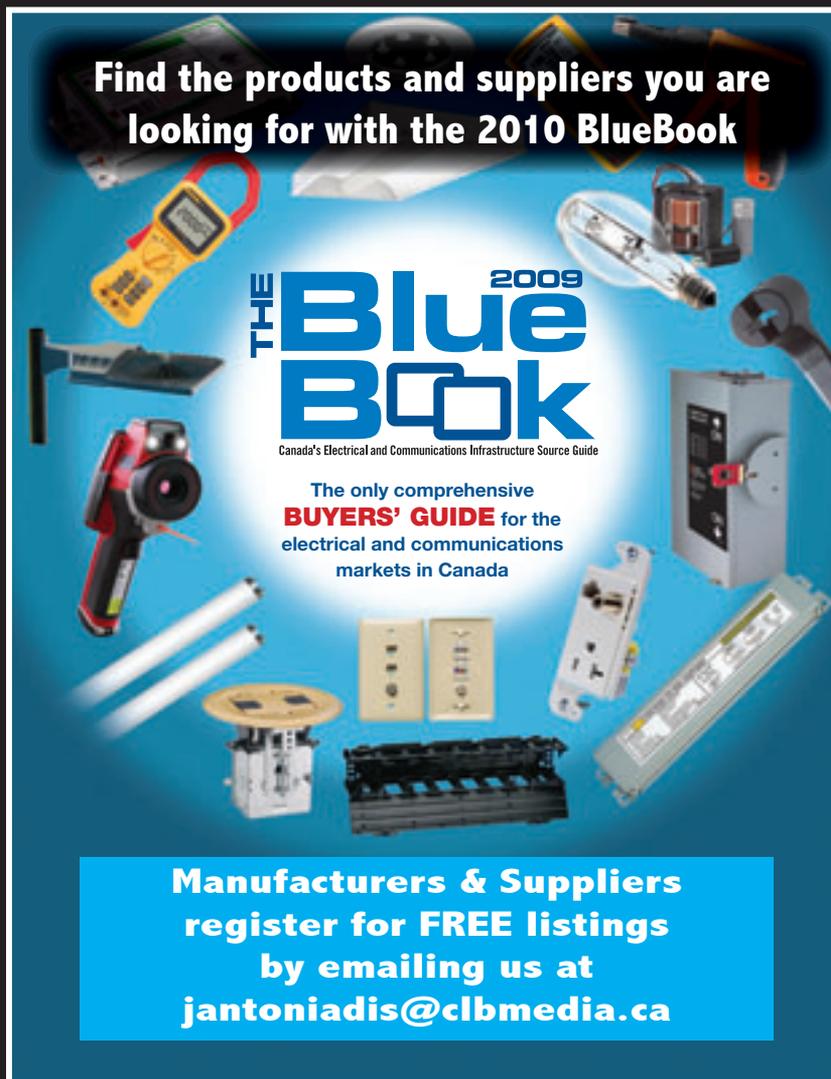
of the pitfalls, and your children won't be thrown over the side of the boat.

- Business needs come first. Focus on its long-term health and stability.
 - Get outside opinions on the leadership skills and development of your children. (You are too close to make unbiased judgements).
 - Develop a family legacy statement, a doctrine, and even a family code of conduct.
 - Establish succession requirements and qualifications (education, outside experience, leadership and other skills training, in-house internship, etc.).
 - Establish specific job descriptions and expectations upfront for family members. Make no exceptions with regard to performance.
 - Create advancement criteria upfront. Establish official compensation programs for family members based on position.
 - Establish accountability and structure upfront.
 - Establish a framework for dealing with family performance issues.
 - Create a board of directors that is not dominated by family members.
- Remember, even when you do everything right, there may come a time when you realize your son/daughter just isn't cut out for the top job. When that realization is confirmed by trusted board members or other executives—or even outside consultants—it's not the end of the world. There are other options, like bringing in an outside CEO, or selling the business.

A myriad of nuances need to be discussed and analyzed before you make that final decision, but don't sacrifice your relationship with your child or children, and don't be held hostage by DNA, either. However, when your child is ready to assume to control, back off and get out of the way. ■

Dr. Rick Johnson is the founder of CEO Strategist LLC, an experienced-based firm specializing in leadership development, strategic planning and sales effectiveness focusing on the creation of competitive advantage in wholesale distribution. With over 30 years in the wholesale distribution business, Johnson is a highly sought-after speaker and trainer. Visit www.ceostrategist.com to learn more, and e-mail rick@ceostrategist.com if you'd like a copy of "The Lead Wolf" model of leadership. You can also e-mail Johnson to receive a free guide entitled, "Leadership & Succession in the Family Business".

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Now's a great time to sell or seek investment capital

Private equity firms are looking to buy or invest in your company

Mark Borkowski

Private equity groups have not been hard-hit by the credit crunch or the past stock market decline. Instead, they have capital to invest, and are looking for business acquisitions or investments.

One of the major market shifts for the acquisition of privately held companies has been the growth in the number of private equity groups (PEGs) over the last decade. These organizations number in the thousands in both Canada and the United States. Private equity firms generally manage money for insurance funds, pension funds, charitable trusts and sophisticated investment groups. Despite the downturn in the economy, the buyout and investment market for Canadian companies remains hot. Even early-stage businesses are being sought out by these groups.

PEGs have become key players in business acquisitions. They offer flexibility as a liquidity source, giving entrepreneurs the ability to take some cash off the table, recapitalize their company or simply sell and move on. Private equity refers to buyout groups that seek to acquire or invest in ongoing, profitable businesses that demonstrate growth potential.

The private equity market had traditionally been restricted to acquiring or investing in larger companies. But increased competition for those larger operations, the greater growth potential of smaller firms, and an easier path for exiting the investment in smaller firms down the road have played a role in attracting PEGs to smaller companies. PEGs are typically organized as limited partnerships controlled and managed by the private equity firm that



acts as the general partner. The fund invests in privately held companies to generate above-market financial returns for investors.

The strategy and focus of these groups vary widely in investment philosophies and transaction structure preferences. Some PEGs prefer complete ownership, whereas others are happy with a majority or minority interest in acquired companies. Some limit themselves geographically while others have a global strategy. PEGs also tend to have certain things in common: they target companies with relatively stable product life cycles and a strategy for overcoming foreign competition. They avoid leading-edge technology (which is the playground for venture capitalists), and show preference for superior profit margins and unique business models with sustainable and defensible market niches and positions.

Other traits that appeal to PEGs are strong growth opportunities, a compelling track record, low customer concentrations, and a deep management team. Most prefer a qualified management team that will continue to run the day-to-day operations while the PEG's principals support them from the board of directors level.

Private equity buyouts or investments take many forms, including:

Outright sale: This is common when the owner wants to sell his ownership interest and retire. Either existing management will be elevated to run the company or management will be brought in. A transition period may be required to train replacement management and provide for a smooth transition of key relationships.

Employee buyout: PEGs can partner with key employees in the acquisition of a company in which they play a key role. These employees receive a generous equity stake in the conservatively capitalized company while retaining daily operating control.

Family succession: This type of transaction often involves backing certain members of family management in acquiring ownership from the senior generation. By working with a PEG in a family succession transaction, active family members secure operating control and significant equity ownership while gaining a financial partner for growth.

Recapitalization: This is an option for an owner who wants to sell a portion of the company for liquidity while retaining equity ownership to participate in the company's future upside potential. This structure allows the owner to achieve personal liquidity, retain significant operational input and responsibility while gaining a financial partner to help capitalize strategic expansion opportunities.

Growth capital: Expanding a business often strains cash flow and requires significant access to additional working capital. A growth capital investment permits management to focus on running the business without constantly having to be concerned with cash flow matters.

PEGs have become a major force in the acquisition and investment arena. They can also be thought of as strategic acquirers in certain instances, like when they own portfolio companies in your industry or a related area that addresses the same customer base. These buyers may be in a position to pay more than an industry or strategic buyer that does not have this financial backing. ■

Mark Borkowski is president of Toronto, Ont.-based Mercantile Mergers & Acquisitions Corp., which specializes in the sale of mid-market companies to strategic buyers or private equity firms. He can be contacted in confidence at mark@mercantilema.com or (416) 368-8466 ext. 232.



Clockwise, starting from top left:

Dan Mott, president, Mott Electric (British Columbia);

Jeff Horodyski, president, Bestway Electric (Toronto, Ont.);

Kerry Heid, president, Magna Electric Corp. (Regina, Saskatchewan);

Ron Bergeron, president, Bergeron Electric Ltd. (Cornwall, Ont.);

John Vickery, CEO, Vickery Electric (Whitby, Ont.).

These are your customers

Everything you wanted to know from your customers... but were afraid to ask

Jack Kohane

So, really, what do your customers think of you? Electrical distributors have heard it all from their customers: delayed/late deliveries, high prices and aggressive salespeople. Electrical contractors, meantime, have heard all the gripes about customers who pay their bills late—or not at all—and those who shop

prices for pennies from competitors.

The electrical contractor/distributor relationship is, in fact, symbiotic, wherein contractors rely on distributors for access to products, service and specialized expertise. For their part, distributors recognize that a successful business plan isn't just about carrying vast inventories of product and

charging less than the other guy, but about communicating with customers, making their services indispensable, and adding value to what they do.

Building a quality distributor/customer relationship was the quest behind a comprehensive survey conducted by Distribution & Supply Magazine with a group of electrical contractors. Our goal was simple: to discover where distributors are doing things right, and identify areas for improvement, with the hopes you will act on this knowledge to make any customer a *loyal* customer.

Respondents were asked a range of questions to determine how they are being served by distributors and their sales personnel. For the most part, respondents expressed satisfaction with their chosen distributor(s), though all believed this relationship could be strengthened. Almost all asserted they felt the need to convince their distributor that, in addition to selling product, his primary role is one of service (including level of manpower; number of trucks/branches, software and information technology, etc.) and know-how.

All agreed that working to redefine the relationship between distributor and electrical contractor can result in more opportunities for increased productivity—always an aim of a profitable business relationship—creating a win-win situation for everyone.

Product quality, condition, availability

Responding to questions about his distributors' product quality, condition and availability, John Vickery, CEO of Vickery Electric (a Whitby, Ont.-based construction and maintenance electrical contracting company), confirms that the quality of products supplied—from an electrical safety and consistent operational perspectives—is very good. "Although 24/7 service is not available, [our distributor] has come through in a real emergency," he says. "Online ordering is done through our office, but if you're not aware of product codes, it's difficult, and pricing through the branch directly is usually more cost effective."

According to Dan Mott, owner of British Columbia-based Mott Electric (which employs over 300 electricians and apprentices working on electrical installation projects for institutional facilities, commercial buildings, residential, and multi-million dollar transportation developments), the quality or condition of electrical products has not changed much over time. "You get what you pay for," he says. "If you buy cheap, don't complain when it fails. There's a cheaper alternative for everything, but it may not do the job you expect."

As for sufficient product availability from supply houses, Mott maintains it isn't what it used to be. "Suppliers are finding it too costly to store a lot of product in the hopes of moving it efficiently. So availability does become a problem if you have a fast-track

project," Mott asserts. "However, at the outset of your project, if you align yourself with a particular supply house and outline your expectations for product, it will go a long way in reducing your wait time. Thankfully, there are a number of nearby distributors who provide us with emergency after-hours service. It's not cheap, but it works."

Jeff Horodyski, president of Bestway Electric in Toronto, Ont., responded that his company promotes just a few lines of high-quality products. "We like to provide products that do the job right the first time and every time, which is really what the customer wants. And by specializing in high-quality products, we make the money we need in order to survive and prosper," says Horodyski.

Operating for 53 years, Bestway Electric is a service-oriented company providing electrical service for residential, commercial and industrial customers. "We do troubleshooting and repairs for buildings, design and installation of home automation, security lighting, and wiring for controls for all types of mechanical systems," Horodyski explains. From his perspective, it makes sense that most distributors don't stock items that don't move on a regular basis, but he adds, "That doesn't help us when we need something right away". A good example is convection heaters. One would think, "Who wants electric heat?", but Horodyski says they're a core product for him. "Unfortunately, there's only one place [in Toronto] that has our preferred manufacturer's products in stock," he points out.

In small-town Canada, the bond between electrical distributor and contractor is cemented by the personal touch. "Ours is a close-knit town... everybody knows your name," observes Ron Bergeron, professional engineer and master electrician, who runs Bergeron Electric in Cornwall, Ont., population 50,000. Bergeron Electric has over 60 years of experience in the industrial, commercial and residential fields, and a full compliment of drafting services.

"There have been a number of distributors that have come and gone, but there are a couple who've been constant," notes Bergeron. "We've developed relationships that work, otherwise we wouldn't do business with them. They know us and we know them—not only as companies but, more importantly, as individuals. I have no signed contracts with my customers. I believe in a person's word. I use the same approach with my distributors."

Due to the nature of his business—specializing in the industrial and commercial fields with a staff of 20 people and 13 service vehicles, offering 24/7 emergency and maintenance services to power substations, power distribution, motor controls, lighting, and fire alarms—Bergeron emphasizes that distributors should learn to appreciate the element of timing

... working to redefine the relationship between distributor and electrical contractor can result in more opportunities for increased productivity—always an aim of a profitable business relationship.

The perfect world of me having to carry no inventory and the distributor carrying it all simply does not exist.

confronting his electricians. Often a problem must be fixed quickly, he says. Bergeron cites one example: a 600V main breaker was stranded on a manufacturer's shipping dock in Toronto on a Friday afternoon. His distributor located it, had it picked up by taxi and delivered to Bergeron that very night. Thus, the plant was fully reenergized over the weekend and ready for production that Monday morning.

"Our local distributors stock many components that help us, but I'd like them to carry a greater level," Bergeron says. "We also service a lot of fire alarm systems, but I need to keep a spare panel in my own stock because none are available in town. I understand [distributors'] constraints, and I compensate for it by keeping a stock of special items specific to our needs. The perfect world of me having to carry no inventory and the distributor carrying it all simply does not exist."

Branch condition

Concerning the look, ease of navigation, hours of operation and customer service personnel's product knowledge, our respondents were divided in their views, ranging from positive to picky.

"Like most branches, they could use a makeover... appearance is important," observes Horodyski. "That said, I think a branch being inviting, professional and easy to navigate is lower on the priority scale than the branch having stock readily available and well-trained staff. We do have access to 24/7 service, although we've never used it and are able to order online from several distributors."

Rating the overall knowledge and expertise of distributors' counter staff, Horodyski responds it depends on where he shops. "Generally, this isn't a problem," he says, but when he feels he's dealing with someone who isn't experienced enough, "I will take the extra time that is required to make [the order] right, otherwise I will ask for someone else to order it through".

In terms of what his distributors are doing to bring Bestway up to speed on products, Horodyski is downbeat. "This support happens, but on a rare occasion—an unfortunate fact. The distributor probably has some staff that can do this well, but the percentages are low and, therefore—very sadly—it doesn't happen often enough. It's part of how life is."

To land project tenders and complete them efficiently, Bergeron credits the product knowledge of his distributor's sales team as an indispensable, value-added asset. "My firm is a service company, and our first priority is knowledge so that we can solve our customer's problems," he tells us. "We need concrete, proven information that is practical. For example, if we need a specific Widget A but it is not available, I need to hear from a distributor's sales people 'We have Widget B and, if you use it in the following manner, it will do the job'. I also need to hear: 'I do not know the

answer, but I will find someone who does'. I have my own inventory of knowledge providers. Distributors are one part of that inventory. I also source knowledge from engineers, manufacturers, ESA [Electrical Safety Authority] inspectors and technical advisors, other contractors and trade shows, as well as magazines like *Electrical Business*."

The assistance provided by sales staff in Vickery's area is good and always helpful, he states, but "with the constant display changes, branches are never easy to navigate. The branch staff is the key to a successful distributor".

Also remarking on the on-time delivery and accuracy of orders, Vickery points out, "We must always check [orders] because, routinely, there are errors. Deliveries coming in on time could and should be improved, although generally waiting for the order to come in has not caused us too much grief".

When an order for components comes to Mott Electric's receiving dock, doing due diligence is *de rigueur*. "You have to be pretty diligent when you receive an order onsite to make sure you got what you ordered," cautions Mott. "Short-shipped and back-orders can be a way of life unless you find a way to eliminate them. We have — for the most part."

At your disposal

Highlighting the 'green' movement, our survey asked electrical contractors about disposal issues, and whether distributors can help ensure components such as ballasts and fluorescent lights (containing minute amounts of mercury) do not end up in landfill.

Declaring they are already very environmentally conscious, most respondents are addressing the environmental issue of disposal on their own without depending on distributors and manufacturers. Vickery says he receives no waste disposal support from his distributors.

Horodyski notes that, although some vendors provide assistance in helping him dispose of hazardous materials, he adds the caveat: "We haven't really put them to the test."

Taking a different tack, Bergeron says, "Distributors have province-wide networks [of waste disposal], and they should use them. Our main distributor does some of this now by arranging the disposal of used fluorescent and HID lamps, ballasts and batteries. There is a fee for this, of course, but there have been no complaints from any of our customers when we charge for lamp disposal. I'd like all distributors to do the same".

Building better customer relations

Service, service and more service. The "customer first" credo takes top marks by all survey participants. Each one highlights exceptional customer

service as going beyond the special perks, rewards or points that distributors often offer their regular clientele.

"Our distributors' appreciation comes in many forms: sporting event tickets, golf tournaments, fishing trips, luncheons and barbecues," states Mott. "But service is the real key. Price and perks mean nothing if you can't get the product. When you sit down to negotiate a purchase order with a supplier, tell him right upfront: 'Don't put a number on the table that you can't live with in the hope that you're going to make it work'. That's a recipe for disaster! The supplier may have his own Terms and Conditions for acceptance of your purchase order. You have to read them very carefully because there's nothing in there for the contractor... [and] there are some suppliers who forget who the customer is."

Alluding to perks and rewards, Vickery acknowledges that they're available ("The sales staff 'kill us with kindness,'" he says) but, in his book, cost reductions would be the preferred perk. Asked what more his distributors

could do, he says, "Don't be scared to provide ... better and quicker service."

Echoing that view, Horodyski recommends that distributors nurture and bolster their customer relationship strategies. "Take every chance possible to go the extra mile for customers. I always say that people don't care how much you know until they know *how much you care.*"

When queried about his distributors adapting to changing times and technologies to improve service, Horodyski answers he's seen more commitment to investing in websites, making online ordering and pricing available, and communicating with customers electronically. "I am sure that most distributors try their best, but are faced with their share of problems," he concedes. "Inexperienced staff has a lot to do with not making progress on this point." On the whole, Horodyski expresses approval of the job done by distributors. "Sure, things could always be improved. That's true for my business, too. I believe things will continue to improve."

Taking more responsibility for electrical

safety is a major beef with Bergeron. "Electrical safety is now really being identified as a serious situation. Too many people are being hurt, and everyone has a part in seeing that something is done," he says, adding there are a number of areas involving safety that distributors must address, including not selling to the general public.

This includes not selling fire alarm components to individuals unless they can show their fire alarm technician licence. "There are many codes that apply regarding who does the fire alarm work, and there are serious fines in the fire code about this. Yet, for example, a motel owner can buy heat detectors with no questions asked," he asserts.

Giving over-the-counter advice to non-electrical professionals is another bone of contention with Bergeron: "That info only makes people smart enough to be dangerous".

Bergeron concedes there is nothing illegal in selling to, or advising, members of the general public, but "it shirks the responsibility for safety... and the safety of



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the general public should be paramount". It takes years of training for electricians to learn to do their work correctly and safely, adds Bergeron, which is why the mantra "If I don't sell it to them, someone else will", just doesn't cut it with him.

Probably the biggest thing that distinguishes distributors is their level of service, asserts Kerry Heid, president of Regina, Sask.-based Magna Electric Corp.,

which employs about 200 people working for the pipeline, mining and utilities sectors. In tackling the topic of customer relationships, he was clear about who gets his business: those who provide the best service. "Even small things like driving out a roll of rubber tape in the middle of the night goes a long way; this kind of service does not go unnoticed." He also appreciates it when distributors make the effort to

educate his staff on products and electrical problems/solutions. "They frequently come to our office and put on technical presentations, as well as bring along new technology to show us in information sessions. This way, we better understand our options and, ultimately, generate greater revenues."

A distributor's bricks-and-mortar site matters little to Heid. He notes that, while some distributorships are housed in state-of-the-art facilities and others in shabby, 50-year-old buildings, the physical location is of no real concern, as he usually orders parts and components over the phone. Only rarely does he go in person to the distributor's counter. "Product availability and service are of greater importance," he insists. "If we need a product in the middle of the night—or on a weekend—and our distributor gets it to us, that's big in our eyes."

Distributors who help price jobs herald a huge bonus for Heid. "When we send out a materials list—often numbering more than a hundred items—some [distributors] can get back to us with pricing in a couple of hours. That's great! For most of our customers—substations, power systems and high-voltage equipment—their electrical problems are often emergencies, and any downtime means money down the drain. If it's a motor control that's flashed over, or a mining sled has burned up, we need to get those issues turned around fast. In these situations, rock-bottom pricing isn't what's paramount, but what's critical is giving us the service we need as quickly as possible."

Lassoing Magna's loyalty isn't a magic formula, Heid affirms. He prefers to team with distributors who help solve problems, and whose salespeople live up to their word regarding on-time deliveries. "A first-class distributor always has the products you want, where and when you need them," he states. "Inventory control and management are crucial, too. Sophisticated distributors can tailor their services to meet the needs of specific customers, and help manage the order and delivery of products to ensure delivery times work to a contractor's advantage. Those distributors, manufacturers and their sales representatives who listen to what we say concerning our needs and expectations are the ones we select for the long term." ■

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Promoting LED adoption requires targeting distributors

David Gordon and George Bournazian

Despite the current economy, the LED lighting market continues to see strong growth, mainly driven by end users' desire for the cost savings inherent in the technology's energy efficiency and reduced maintenance requirements. While the initial investment can be higher than conventional lighting technologies, the long-term savings opportunities have made LED lighting a viable solution in the marketplace.

Still, many electrical and lighting distributors remain unsure of the LED opportunity and, up to this point, few LED fixture manufacturers have implemented strategies to encourage their support. Most manufacturers focus their marketing outreach on end users, employing a marketing message based on aesthetics or technological capabilities. By doing this, LED manufacturers are missing the mark—distribution plays a critical role in the adoption of LED lighting, and only when lighting manufacturers acknowledge this and act upon it will the widespread adoption of LED lighting become a reality.

Many manufacturers are convinced it is necessary to break out of traditional sales and marketing patterns to be successful in the LED market, and find new and innovative ways to reach end customers. A recent survey of electrical and lighting distributors conducted by Channel Marketing Group, however, reveals the distribution channel plays an even more significant role in choosing LED lighting over conventional industry products.

Suppliers overlook the channel for LED sales

While it's true that today's economy requires a new way of thinking about sales and marketing, it is also necessary to get back to basics to reach the true influencers in the solid-state (LED) lighting market. Survey results highlight the influence distributors possess in recommending and specifying LED lighting fixture products; to become their brand of choice, LED manufacturers should embrace face-to-face training and education, as well as programs that emphasize promotions, special pricing and the like.

While many electrical and lighting distributors recommend LED lighting to their customers, it is important to note that most do not carry just a single

brand or two, but work with an average of 10 suppliers. This indicates there is still a need for ongoing education to battle the misconceptions about LED technology, as well as to guide distributors in evaluating manufacturers, brands and individual products. If manufacturers cannot build a preference for—or loyalty to—their brand, they will be unable to gain significant market share in the industry.

Widespread LED lighting adoption is still hindered by perceived cost, quality and technology issues. While the end consumer does need to be educated about the energy and cost issues surrounding traditional lighting and the inherent, long-term benefits and savings of LED lighting, fixture manufacturers need to reach out to all elements of the channel to make residential and commercial adoption a reality—the distributors, contractors, architects and engineers that are designing the lighting systems into new construction, and who would be consulted in retrofitting existing structures with new systems.

In the survey of distributors, almost 90% of respondents learned about LED manufacturers and the available products through their relationship with reps, and more than half of respondents were additionally educated through distributor trade magazines; architects and contractors; and customer requests. Distributors are not learning about products and technology from the manufacturers that developed them because those manufacturers have not recognized the value of product recommendations through the distribution channel. Also, by avoiding contractors and distributors, manufacturers are risking the 'value-engineering' of their products due to the perceived high cost of LEDs.

As an LED manufacturer, gaining access to these markets can be challenging. End users may be interested, but what is the best channel for reaching these customers to grow business and gain market share? Distributors are an LED manufacturer's direct line to the customer, so investing in distributor relationships is just a way of expanding and re-purposing the marketing message (and budget) to reach the end user and increase the specification and adoption of LED products.

To achieve widespread adoption of LED lighting, LED component and fixture manufacturers need to develop comprehensive distributor programs to support sales.

When suppliers do not educate distributors, they risk limiting their sales growth. To ensure that distributors are recommending its products rather than those of its competitors, a lighting manufacturer must develop a focused program of outreach to the channel.

In the survey, nearly half of respondents identified limited distribution policy, customer acceptance and a return policy as the most important issues to be addressed by LED manufacturers. An overwhelming majority of respondents stressed the need for limited distribution policies, customer training, and product/sales training; meantime, more than half expressed interest in rebates and promotions.

As might be expected, nearly all felt customer acceptance was a key issue—distributors need educated end customers that believe in the benefits and payback of LED lighting, but before they will focus on reaching out to these customers, they want greater outreach and support from LED manufacturers.

Develop relationships in the channel

The first step for sales growth and technology adoption is for LED lighting suppliers to focus on developing distribution channel programs, especially when they compete with the established fixture lines who already understand the channel. Building successful relationships with distributors and contractors requires commitment and dedication to providing the right products, promotions, training, education and support. Combining this with end user initiatives, end customer relations can be accelerated.

First and foremost, distributors are looking for a quality product with documentation of payback and cost-effective pricing. Once that is established, however, distributors will distinguish one brand from another based on the channel programs manufacturers implement, including advertising/promotion efforts to end customers, selectivity or exclusivity in product/line representation, in-person product and sales training, and the availability of collateral and samples for customers to evaluate.

LED manufacturers need to demonstrate to distributors that a market for these products exists, and that its needs can be met through their sales channels. In short, they want traditional sales promotions and marketing techniques that will advance product and technology knowledge in the marketplace and drive demand.

Almost all of the distributors surveyed believe their LED sales will significantly increase over the next three years. Adoption of LED lighting is inevitable: the question is which companies will become the brands of choice for distributors and their customers, and how soon can they make that happen?

The distributors surveyed said the majority of their LED sales result from products being specified by the architect, engineer or contractor, or simply because the distributor himself recommended a specific LED product to a buyer. Therefore, the manufacturers who commit to training and supporting their distributors will gain the trust and support of the distributors and, thereby, reach end customers more directly.

To achieve widespread adoption of LED lighting, LED component and fixture manufacturers need to develop comprehensive distributor programs to support sales. Those that have documented plans that cover return policies, inventory commitment, sales/product training, pricing and marketing support will solidify their relationships with the electrical and lighting distributors and, in turn, will not only define the market, but own it. ■

David Gordon is principal of Channel Marketing Group while George Bournazian is vice-president, account services, for BtB Marketing Communications (www.channelmkt.com and www.btbtmarketing.com).



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The Rebound Effect and living in a smaller world

Rick McCarten

I am reminded of a saying that stems from the American electric utility industry: “Whatever the government initiative, the exact opposite will take place”.

A bold statement, to be sure, and not 100% accurate but, over the years, it has proved more right than wrong—especially when it comes to government energy efficiency programs. After reading the book, “Why Your World is About to Get a Whole Lot Smaller: Oil and the End of Globalization” by Jeff Rubin, this statement unmistakably rang true for me.

Rubin is the former chief economist at CIBC World Markets. In his book, he explains why government programs for energy efficiency often fail, referring to an economic effect known as The Rebound Effect, which occurs when improving efficiency. Rubin points to James Watt’s steam engine: every time Watt improved his engine, industry found more uses for its application. As the engine improved its use of coal, overall coal consumption increased; the less coal the engine used, the more society found ways of using more coal.

The same is true today with regard to energy efficiency. The more we improve our use of energy, the more applications we find for its use.

Take houses in Canada: over the years, our government has mandated numerous improvements to the places we call home. Compared to a house built 40 years ago, new homes save a lot of energy. However, houses are also being built and used differently today than they were 40 years ago. Today, fewer people share bigger dwellings and use more appliances. The overall result is more energy used per capita than before government mandates.

We all know our houses are bigger and use more energy, but we often fail to see the direct correlation between houses of today and the government’s energy efficiency initiatives.

Another example is the automobile: the efficiency of motors has greatly improved over the years, pushing our vehicles further and faster with fewer pollutants. However, we now drive bigger vehicles (like SUVs), and we drive them further and more frequently than we did 40 years ago. According to Rubin, there are now 130 million more drivers in the United States than in 1970.

Energy efficiency programs allow us to increase our energy usage—guilt-free.

Both government and industry have good intentions. Industry pushes technology to improve customer

benefits while governments push to improve the environment and economy; no one, however, is taking The Rebound Effect into consideration when discussing legislation.

When a government mandates the use of energy-efficient light bulbs, it considers one new light bulb sold as a direct replacement for an inefficient predecessor; utilities, meantime, count the number of changed light bulbs, multiply the sum by the savings on each bulb, and declare the program a success.

Unfortunately, homeowners with new, cost-saving light bulbs are less concerned about price and more concerned with appearance, functionality and ease of use. My two neighbours each have eight halogen lights on the fronts of their houses that burn all night. Prior to this, they each had just one incandescent bathing the fronts of their homes at night and, at some point in time, that one incandescent was considered sufficient.

(Going by this example, I would hazard a guess that new homes contain a lot more lighting fixtures than houses built in the 1970s.)

So while government initiatives are good for product sales, they are not the path toward energy conservation. Were we really serious about a program on energy efficiency, we would not measure results by the sales of new light bulbs or hybrid vehicles. No, such a program would have to measure our total energy consumption.

Were we serious about reducing our energy consumption, we would simply use less energy. We would, for example, take the train to work, bicycle to the store, dry our laundry on a clothesline, open our windows to let in a cool breeze, and live in smaller houses. Meantime, children could start walking to school again and, while I’m musing, maybe my neighbors could get by with just the one light in front of their houses again.

We need to downsize our use or, as Jeff Rubin puts it, make our world “a lot smaller”.

The only thing that could make that happen is higher prices for energy, which isn’t a very politically correct idea for anyone, but energy efficiency programs thus far have only served to increase usage—no different than James Watt’s steam engine. Perhaps government simply does not have an effective role to play in energy efficiency.

Of course, that, too, is not a very politically correct suggestion. ■

So while government initiatives are good for product sales, they are not the path toward energy conservation.



Rick McCarten is vice-president of the S&D Council of Electro-Federation Canada (EFC) and president of CEMRA (Canadian Electrical Manufacturers Representatives Association). Visit www.electrofed.com.

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David H. Green

A relationship built on trust that delivers true, measurable value to both parties is a win-win partnership...



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After reading through the articles in the inaugural edition of D&S (Spring 2009), it became clear there were some common themes demanding a closer look—issues of importance to both you and the industry at large.

Some of the words and phrases that jumped out (in no particular order) were: Partnering, Risk, Relationships, Trust, Leadership, Innovation, Creativity, Value, Growth, Communication, Brand Equity, Long-Term View, Defining Needs, Market Mix, Training, Order-Makers, Investment, Green, Energy, Emerging Markets.

What thoughts, images and ideas come to mind as you read those words? Can you and your sales & marketing team string them together into sentences to build a strategy, or develop a tactic, that will help your business? Let's take a couple of words from the list as a starting point.

Relationships and partnering

Ultimately, you need to build strong relationships to become true partners with a supplier or customer. A relationship built on trust that delivers true, measurable value to both parties is a win-win partnership; with a long-term view, it translates into more business. To get to this point, though, you have to know something about your potential partner. Let's start with the customer.

When focusing on a customer 'type', decide whether you want to focus on market and/or industry. (Of course, this depends on your firm's geographic and demographic reach, but let's assume there's bigger market potential for you.)

Your sales & marketing team should consider the industry in which the customer operates, with discussion points such as:

- Size and associated industries. Standard industry code (NAICS)
- Growing or stagnant? Issues and needs?
- Technology used now, and on the horizon.
- Productivity opportunities, cost savings.
- Standards and regulatory bodies, supply and quality chains.
- How does the customer buy? What are the supplier relationships across the market?

- Who are key industry people, and what is their vision?

Now broaden the discussion to include the market the industry serves:

- National, North American, global?
- Growth/stagnation, and needs?
- Technology used/planned?
- Standards and quality issues?
- How does it buy, and what are the supplier relationships?

And what do you know of your customer's company?

- Sales revenues and growth.
- Size: number of employees, square footage.
- Parent company and influence.
- Business style/management team.
- Company structure, buying process.
- Cross-company/parent buying agreements.
- Specifiers, technical/economic buyers and influencers.
- Individual and department users and job functions.

As the relationship develops, you'll need to have multiple touch points with different groups at the customer, like management, accounting, purchasing, operations and maintenance. Use all the resources at your disposal to cover as many fronts as possible.

Is the industry to which you are selling—or its customers—in an emerging market? Are they focused on a corporate green strategy, eco-friendliness, energy conservation, etc.? While it's always important to be mindful of the "fad factor", an understanding of the eco-mindset could help you expand your business as you facilitate the customer's green ambitions.

Also look for cross-sell and up-sell opportunities. This requires you to understand the applications for your products and the customer's broader needs, which may entail multiple suppliers in your product basket. You can often double or triple a sale with complimentary or supplementary products.

Continued on page 22



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CEMRA: relationship builders

Cindy Doherty

CEMRA (Canadian Electrical Manufacturers Representatives Association) was founded in the early 1980s by a small group of independent electrical manufacturer representatives, whose goal was to provide electrical manufacturers and distributors further advantages in developing sales and marketing within the industry. CEMRA has been able to achieve and maintain this goal through communication, education and business networking opportunities.

CEMRA understands that sales representatives must stay abreast of new products and the changing needs of their customers in a variety of ways. Therefore, to provide the extra edge needed, CEMRA offers education, marketing and training sessions—which are established to help reps increase their performance.

Successful people have the ability to develop relationships that last, and so one of the core teachings of CEMRA is relationship building. It is important to develop and nurture existing and potential relationships between the manufacturer and distributor so as to develop a win-win approach between the rep and their client.

The skills available to the CEMRA rep help the chain to strengthen,

grow and, ultimately, provide successful relationships and increased business for everyone involved.

Another common element of this chain is the relationship with Electro-Federation Canada (EFC), the national industry association that represents member companies that manufacture, distribute and service electrical, electronics and telecommunications products. With both the Supply & Distribution (S&D) council and CEMRA as members of EFC, the relationship that translates into value for CEMRA reps is greatly solidified. With information sharing, education and business networking opportunities, we can all gain knowledge, which helps push continuous improvement across all of our businesses. This process is creatively managed by Rick McCarten, vice-president of the S&D council and president of CEMRA.

CEMRA is a national association with representation in every region. Visit www.cemra.ca for more information.



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The channel of choice holds its own

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To really 'dial in', look at housing starts; each one (averaging 2000 sf) represents about \$3500 in electrical equipment sales. And don't forget to look at industry employment: every new job means increased electrical infrastructure spend.

So while the economy starts to gain traction, housing starts and construction will continue to prop up the lagging industrial employment numbers. Thankfully, these will be somewhat offset with increased government and infrastructure spend, but not by much. Don't get caught up in a euphoric dream in which you see sales doubling. They won't. ■

9 Rules for Pricing Market Baskets

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9 Getting the contract

Document your work along the way as you build the pricing so you can quickly and easily implement the quoted pricing when you get the contract. It should be straightforward to populate your system pricing with the new price points and to outline the methodology for pricing those items that weren't quoted. Provide pricing guidance to the order desk for special orders, and have your pricing analyst work closely with customer service personnel to ensure pricing is consistent and as painless as possible. ■

Forget order-taker... become an order-maker!

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This naturally leads into partnering with suppliers and manufacturers. The supplier can provide sales and technical training, and additional market knowledge, as well as brand identity and equity that can be leveraged for opening doors. The manufacturer can help by looking at your sales and market mix, and map them against comparable customers and markets to look for gaps in coverage (a.k.a. opportunities).

However, they'll only do this when there is trust—when they know how the information will be used. The best scenario, then, is to work the customer together—as 'buddies'.

When you have the required knowledge, suppliers may invest some marketing dollars or provide sales support. They can help you go after risky opportunities in emerging markets. Also, working with multiple manufacturers can help you cross-sell products across departments (i.e. electrical, mechanical, instrumentation and IT). As opportunities develop, so, too, do supplier relationships. They become win-win partnerships—hopefully for the long term.

Armed with knowledge and strong partnerships, you're in a position to stop taking orders and start *making* them. ■



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