



NATIONAL ASSOCIATION OF
ELECTRICAL DISTRIBUTORS

DIRECT

November 2005

SMART TOOLS FOR SMART DISTRIBUTIONSM

Assessing the value in value-added services

An interview with researcher Scott Benfield



The following interview took place with researcher Scott Benfield at the conclusion of the NAED study, *Value-Added: Assessing the Service Offerings of Electrical Distributors*. The study examined the effectiveness and profitability of the value-added services currently offered by distributors.

Benfield, principal of Benfield Consulting, has 25 years of experience in industrial markets involving distributors and independent sales representatives. He is the author of several books on distribution and industrial marketing. His newest book, *Restruc-*

turing the Distributor Sales Effort, will be published this fall.

Q. Explain the scope of the Value-Added Service study.

A. The NAED Education & Research Foundation's Channel Advantage Partnership (CAP) Council commissioned the project, which reviewed services provided by electrical distributors. The study is divided into three parts: Basic Service Research, Service Cost Benchmarking, and New Services for Electrical Distributors' Customers.

The first part essentially reviewed the importance of 16 basic services that are necessary to compete in electrical distribution. The second part reviewed operational statistics to measure service efficiency, and the third part reviewed new services for customers.

Parts one and three were conducted with an online questionnaire, which was completed by distribution customers, and part two was a benchmarking survey completed by NAED members. For the purpose of the re-

search, customers were divided into the following segments: commercial contractors, residential contractors, residential remodel contractors, institutional MRO, and industrial OEM/MRO.

Q. What were some of the unexpected insights you gained from the research?

A. Before I answer that, I want to encourage members to read the original research so they can find their own insights, because my perception of unexpected insights may not fit a particular business or strategy. Having said this, the first part, which reviewed the importance of various services, pointed to several areas of waste...and opportunities for distributors regarding service investment.

For instance, sales promotion, which is the "buy this, get that" type of marketing activity frequently done by distributors and their key manufacturers, was deemed of less importance and had low satis-

faction in four of the five segments. The take-away is that distributors should carefully review sales promotion expenditures since the majority of customers may not value them.

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Secondly, when we measured both product knowledge and problem solving, customers scored inside sales as being as valued and important as outside sales. The paradox is that inside sales earns substantially less than outside sales and there is, to some degree, duplication of effort in both positions.

So, the question becomes, Can electrical distributors expand inside sales, which costs less, to perform some duties of outside sales and also reduce the duplication of effort between the two positions? In short, inside sales costs may rise slightly but outside sales costs will come down as they are scaled back and redeployed doing more unique work that is not redundant with inside sales.

Lastly, from the Basic Service Research, pricing consistency and warranties and returns were rated as important as sales services and order fill rates. I don't know

many distributors who consider these as areas where investment in process quality can influence customers. Not many distributors have broken apart the processes, diagrammed them, and made them operate more smoothly with less error. I do a fair amount of pricing consulting and the need for consistent pricing processes and qualified pricing management is immense.

Q. What were the key findings from parts two and three, Service Cost Benchmarking and New Services?

A. Service Cost Benchmarking, part two of the study, was fascinating to me as we found several key areas for improvement. First, 57% of outside sales work is assigned to accounts that buy \$10,000 or less a year. There's no way that you can profitably assign 57% of the account base to accounts that generate limited margin dollars and high transactions. It's a huge waste of sales talent and a huge waste

of return on sales investment.

Second, the freight gap, which is the difference between freight purchased and freight billed, is 40%. Essentially, if a distributor spends \$500,000 on freight and has a gap of 40%, it is missing \$200,000 in cost recovery. Distributors need better billing and tracking processes to eliminate this gap.

Finally, distributors' margins by transaction are topsy-turvy—there's no consistency with their costs. We found non-stock transactions fetch, on average, lower margins than stock transactions, and house accounts on credit fetch higher margins than cash sales.

What's wrong with this picture? Why would walk-up customers be paying less than house accounts? And why would the margins on special orders be roughly the same as in-stock items, when the transaction costs are 5% to 7% more?

The study provides over 50 metrics for comparison. Distributors should study the metrics and use those that are specific to their needs. I recently sat down with two large distributors and went over the metrics. They were going to start using them to measure branch performance.

In part three, New Services, we found that delivery services, including early a.m. delivery, overnight delivery, and emergency delivery, topped the list of new offerings. We also found that immediate credit on warranties and returns was a valued service. Customers also value new product training and personal account managers.

Q. Thanks for your time. Is there anything else you'd like to add?

A. Not unless you want to spend the next several days talking about wholesaling and industrial channels. I do this for a living, and I get excited about the changes afoot. I'm absolutely convinced we will see some significant changes in distribution in the next decade or so. There's just not sufficient financial return from doing things the way they've always been done. Distribution is one industry where, if you do what you've always done, you have a good chance of getting less than you traditionally got.

The other thing to remember is that research is not personal consulting. Researchers can review a situation and find new insight and, perhaps, offer ways to improve current practice. But those who expect research to provide in-depth insight and custom solutions are likely to be disappointed. But those who take the research findings, compare them to their current practice, and come up with their own conclusions will benefit most from the study.

The complete results of Benfield's research for the NAED Education & Research Foundation will be available later this winter. A copy of the study, *Value-Added: Assessing Service Offerings of Electrical Distributors*, will be sent to all NAED members at no additional charge. For more information about this study or other NAED-sponsored research projects, contact NAED Customer Service at 888-791-2512 or customer.service@naed.org. ■■■



Researcher Scott Benfield provides insight on value-added services.



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The word on the street

What members are saying about NAED's value-added services research

BY AMY ZIMMERMAN

The NAED Education & Research Foundation's Channel Advantage Partnership (CAP) Council commissioned Scott Benfield of Benfield Consulting to delve into the effectiveness and profitability of the services currently offered by distributors. By compiling a "best practices" list for the industry, this research study provides NAED members with benchmarks to evaluate current services and help them develop new offerings that are most valuable to customers.

"What Scott worked on for distributors really brings together a collective sum of valuable data that we couldn't have gotten one on one. It will certainly help distributors drive their own strategy when looking at new service areas and point them in the right direction when it comes to reviewing internal processes for efficiency," said Pam Kovacevich, vice president of operational services at Springfield Electric Supply in Springfield, Ill.

"This research provides a road map and helps distributors determine where they should apply

investments as far as services currently provided to customers or future services that might or might not be valued by the customer. Some findings were expected, but some were surprising. Some of our presumptions may be wrong as to what customers really value. Sometimes we think we know what our customers want, but that isn't always the case," said Gene Bruni, president of United Electric Supply in Wilmington, Del.

"Many distributors feel that we have a good handle on what

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NAED News

The Industry Data Exchange Association has released the *Product Catalog Descriptive Field Guidelines* in an effort to continue efficient and cost-cutting standards based on business practices in the electrical industry.



The NAED Education & Research Foundation kicked off its Annual Contribution Campaign last month with the goal of raising \$150,000 for industry education and training. All NAED members received the Foundation's Annual Report, detailing its many activities planned this year, which include launching its online training and development center, introducing courses such as *Distributor Operations for Manufacturers*, and producing new research on assessing value-added services and managing customer profitability. In the last campaign, more than 175 companies invested in the future of the industry.



The 2006 AdVenture Electrical Sales and Marketing Conference will be held Aug. 13 to 15 at the Hyatt Regency Chicago. It will be sponsored by NAED and *TED Magazine*, along with the Electro-Federation of Canada (EFC), National Electrical Manufacturers Association (NEMA), and National Electrical Manufacturers' Representatives Association (NEMRA).

Member spotlight

Evergreen Supply Company www.evergreensupplyco.com

Patricia Gallagher, president of Evergreen Supply Company, started the business in her basement in 1986 with only two product lines: Bussmann Fuses and Eveready Batteries. Today the Chicago-based company still supports those two manufacturers—as well as 500 more. With one mainhouse location in Chicago, Evergreen has grown to 40 employees.



Patricia Gallagher

Q. Why did you join NAED? "Evergreen Supply joined NAED to further relations between us and manufacturers. We also joined to expand our knowledge of the industry. The organization is a great resource for meeting other electrical distributors and networking and brainstorming with them."

Q. How do you plan to get the most out of membership? "Evergreen Supply is committed to getting involved in NAED—joining without really getting involved is a waste of money. We're committed to getting on committees, along with attending meetings and conventions."

Q. What are your plans/hopes for the company in the near future? "Plans for Evergreen Supply in the near future center around

being more effective and efficient. One area that we are targeting is the efficiency in the actual distribution of products. We are currently installing RouteView software to improve our committed delivery to the end user."

Q. In the long-term? "Long-term plans are in the growth area. There is a great deal of untapped business that we have the ability to capture."

Q. Why do you think you're unique in your market? "We not only stock more than \$1 million in material, have a fleet of eight delivery trucks, and have a will-call counter, but we also are certified as a WBE/DBE with the City of Chicago, State of Illinois, and Illinois Department of Transportation."

Q. What's your biggest challenge personally with your business? "Our biggest asset is also our biggest challenge. Being certified as a WBE/DBE has a stigma that you have no value. Contractors feel that they can dictate your markup on product. Once a contractor has an experience with us, they realize that we are truly an electrical supplier that not only has a quotation department for projects, but also inside sales, warehouse, and delivery vehicles."

Q. What do you think is the biggest challenge in the industry? "How competitive the market is right now. We used to quote a project to four or five contractors—now the list is nine or 10." ■■■

Did you know?... that 43% of NAED distributor membership has a sales volume of less than \$10 million?

Source: NAED Database, 2005

Lithograph winner

Marsha McBride (pictured) of the Don Blackburn Company, Livonia, Mich., and her husband, John, won a limited-edition lithograph painted by astronaut and moonwalker Alan Bean in a drawing held during the 2005 NAED Annual Meeting. The artwork is also autographed by 22 other NASA astronauts.

At the conference, Robroy presented participants with an opportunity to meet Captain Eugene Cernan, the last American astronaut to walk on the face of the moon. ■■■





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services our customers see as valuable. In some cases, the study solidifies those beliefs, but some results are surprising," said Billy Elliott, vice president of Elliott Electric Supply in Nacogdoches, Texas. "For example, inside sales knowledge is important to contractors, but sales promotions don't really affect where a customer does business outside of residential customers. So instead of doing a trip promotion, the money may be better spent somewhere else such as product knowledge for inside sales."

Many NAED members are already applying Benfield's research in their own companies.

"We're taking these findings, breaking them down into specific

areas such as delivery and services, and benchmarking to the industry standard set by the research to see where we are. We think this is a good yardstick for measuring our service levels," says Kovacevich.

Each year United Electric Supply gathers customers for a two-day customer advisory meeting. This year, Benfield will attend. "We've taken the survey used in the research and given it to our customers—not just those on our customer advisory team, but about 100 former members as well. We will gather their responses, tabulate, and compare them with what Benfield found on the national level. We may find our customers have different priorities and interests. We are going to evaluate those findings and use them

as we plan for the future," said Bruni.

This study is one of two research projects commissioned by the CAP Council that will be offered this year to NAED members. The council is composed of representatives from the distributor and manufacturer companies that invested in the NAED Education & Research Foundation CAP endowment fund.

"Distributors can use the research to adjust the services they offer to better fit customers," said Elliott.

"Any distributor can use this study. At the very least, seeing the results should encourage members to dig a little deeper with their own customers," says Bruni. ■■■

Zimmerman can be reached at 314-647-1728 or amyzim@swbell.net.



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