

2016



NATIONAL ASSOCIATION OF
ELECTRICAL DISTRIBUTORS

Selling Services Benchmarking Survey

Results reveal how and why
a growing number of
electrical distributors charge
for value-added services

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About This Report

The NAED's Eastern Region Council initially developed this biannual survey to create a benchmark of the value-added services electrical distributors offer. This survey is intended to expand the conversation of “value” to your customer, your employees and to the channel as a whole, allowing individual electrical distributors to evaluate where they are today and develop a road map to offer and be paid for new services in the future.

The first survey was conducted in 2014; those results are available at naed.org. The survey results and analysis in this report are from a 2016 online survey of 194 NAED members, as well as interviews with distributors to gather additional insights. View the demographics of survey-takers at the end of this report, including role and company revenue size.

For more information, please contact NAED Membership Director Brian Peters at bpeters@naed.org.

KEY FINDINGS

- Service-related revenue continues to grow for electrical distributors, with 67 percent reporting such revenue was up from a year ago.
- Since the Great Recession, customers have been asking distributors to provide more services, a key driver of distributors' desire to expand their service offerings.
- Distributors are also responding to online, big-box and non-traditional competition, aiming to shift the conversation away from price.
- Most distributors in the survey offer services, and more than half charge for at least one.
- The ability to charge may depend on the end-market and the type of service offered. Distributors are less likely to charge for transactional services such as delivery, for example, and more likely to charge for services that require on-staff expertise or custom work, such as engineering.
- The top two reasons distributors don't charge for services are “very competitive price pressures” and “local market conditions.”
- Survey respondents with experience in selling services recommend developing a long-term strategy around selling services with an eye on costs, internal requirements, training and customer needs.

Survey graphics can be found starting on page 8 of this report.

ABOUT THE AUTHOR

This report was written for the National Association of Electrical Distributors by Lindsay Konzak, president of 3 Aspens Media (lindsay@3aspensmedia.com), a B-to-B content strategy and production firm working with businesses and organizations to develop marketing and research-driven content aligned with their strategies. Konzak was editor of Modern Distribution Management from 2005-2014. Report and graphic design by Jackie McCaffrey Bradley.



Pressures continue to stack up against electrical distributors, including:

- Competition from alternate sources, big-box stores and non-traditional distributors
- Manufacturers selling direct
- Product technology shifts
- The need to keep up with technology internally, including e-commerce
- Training the next generation of leaders
- Customers that want distributors to do more for less

Together these challenges, outlined by NAED distributor members in the 2016 Selling Services Benchmarking Survey, indicate a pace of change that is eating away at traditional distributor margins. As one distributor put it: “The advantage we used to have of being able to serve the customer very efficiently and get a little more for the product is going away because folks like Amazon are very good at moving boxes.”

Distributors know they need to respond. In the survey, most said they are working to lower costs through operational efficiencies internally, as well as working with suppliers and customers to improve supply chain processes. Recognizing that improving efficiencies won't be enough however to compete effectively long-term, many distributors also named offering and getting paid for value-added services as an opportunity to differentiate in an increasingly crowded market.

One distributor wrote: “There is not one product on any of our shelves that our customers cannot buy somewhere else for probably less money. This is turning into a service industry (those who have viewed it that way for a while are having the most success) so we need to reap the

benefits of the services we provide.”

Service-related revenue is in fact on the rise among survey respondents, with 67 percent of the distributors reporting service-related revenue increased in the past year. The remaining third reported revenue stayed the same year-over-year.

THE DIFFERENTIATION CHALLENGE

The need to stand out in a competitive landscape, where price often wins, was well-summarized by one survey-taker: “We are racing to become a commodity by not differentiating. The independent cannot survive if this is the case.” Another said: “If I try to go toe-to-toe with some of these bigger guys on price, I will eventually lose.”

Services on the other hand take the customer relationship to another level. “The price of the product is not nearly as important as it used to be because you are far more important to your customer, and they need to have you

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in their business,” said one. “You certainly want to get paid for these services, and that's a replacement for margin, which is very important.”

This shift is not without obstacles. Many distributors have become “exceptional at giving those services away,” according to one member. Another said: “I would like to strangle the first distributor in my market that did not



charge for delivery because that was the beginning of our industry's marginalization. If we don't value ourselves by charging for services, our customers will continue to undervalue us, as well."

The impetus to change is growing. Outside pricing pressures such as online and alternate competition will continue to play a role. But pressure is building inside the channel, as well. For example:

- In some markets, certain services have always been wrapped into the price of products. But due to fast-changing technology, the price of those products has fallen, squeezing margins. And the cost of providing those often labor-intensive services – such as engineering – has gone up. As a result, some distributors in these markets are struggling to reap a profit through a bundled approach. One distributor decided it was time to "get out of it or start charging," opening a new line of business for the company.
- Lighting was once the most profitable part of many electrical distributors' businesses, but it is now a shrinking market, replaced by solutions that do not always go through the traditional electrical distribution channel. As a result, distributors are losing a high-margin, high-volume product, and those dollars must be replaced in the long-term.

The industry must evolve to thrive, according to survey respondents. One said: "I think the market around us is

changing faster than we're changing, and that's a death spiral. We have to learn to change faster. This whole idea of finding services that your customers are willing to pay for creates innovation, which will help us change faster."

WHAT DISTRIBUTORS OFFER

Developing services customers are willing to pay for widens margins and increases the stickiness of customer relationships. The hurdles to doing this successfully differ by end-market; industrial end-users have been paying separately for services much longer than the contractor end-market, and therefore may be more open to the strategy, according to some survey-takers. That said, commercial contractors do ask for services more frequently than any other customer end-market, even if they are less likely to pay for them. Twelve percent of respondents said that commercial contractors "always" request value-added services and 53 percent said they "very often" ask for value-added services.

Industrial/OEM customers were next in frequency, with 12 percent of survey-takers reporting these customers are "always" asking, and 43 percent saying they ask for services "very often." About half of survey respondents said that each of the remaining customer end-markets request services "occasionally."

Distributors' willingness to charge for these services depends on the type of service offered, as well – one distributor framed it as transactional vs. client services. Most distributors don't want to go the way of the airlines and suddenly start charging for bags, which would be



"I think the market around us is changing faster than we're changing, and that's a death spiral. We have to learn to change faster."

considered a transactional service. In other words, most distributors are not likely to start charging for standard delivery (transactional), but some have been able to charge for engineering/design services or training (client).

In general, most distributors in the survey are offering services, but many are still not charging or are bundling the cost into other products and services.

According to the survey, lighting layout and design remains the most common service offered by electrical distributors (73 percent, down from 85 percent in the 2014 Selling Services Survey), but 56 percent of distributors don't charge for it. Seventy-two percent offer wire and cable cutting and stripping (down from 80 percent in 2014), with 42 percent not charging and another 22 percent bundling the price with other products and services. About 71 percent offer sequencing of orders to a customer's schedule, but nearly two-thirds don't charge. Nearly 60 percent offer kitting or assembly services, most often bundling the cost with other services or products.

While the number of distributors offering engineering, motor repair, drive start-up, and pulling heads services is relatively low, they are more likely to charge a specific fee for these services than for any other service in the survey.

Energy audits are offered by a little more than half of respondents, down from the 2014 survey, with 56 percent of those not charging. About half of distributors also offer customized packing or pallet configurations, a slight decrease from the 2014 survey.

On the inventory management front, nearly every respondent in the survey offered job-site delivery (92 percent), emergency delivery (88 percent) and early morning delivery

“Someone’s going to have to pay for this, and either we lessen our service, which we don’t want to do, or we convince them that there’s value in it.”

(85 percent). Most distributors (84 percent) also stage orders that would otherwise go direct to customers. Of these, distributors are most likely to charge a specific fee for emergency delivery, with 29 percent of those offering it charging for it – a relatively low number. A third don't charge at all for emergency delivery, and another 9 percent bundle the price. These figures are the same as in the 2014 survey.

Vendor Managed Inventory (VMI) is offered by 58 percent of those in the survey, but just 2 percent charge a specific fee for the service. More than a third of respondents provide VMI at no additional charge (down from about 45 percent in 2014); 42 percent bundle the price of VMI with other products and services.

About three-quarters of respondents offer training and education on products to their customers (down from about 90 percent in 2014); 58 percent of those don't charge. Of the 60 percent that offer consulting services or technical support, 43 percent don't charge (down from about 50 percent in 2014).

WHAT CUSTOMERS WANT

Since the end of the Great Recession, customers have been asking electrical distributors to do more. With this come opportunities – and challenges. Distributors noted that some customers expect services to be free. One distributor said: “(Thanks to online/big-box), they expect the absolute lowest price they can find, but insist on the value-added services.”



Another said: “The customers are demanding more from wholesale distribution. At the same time, they’re beating us down on price. Someone’s going to have to pay for this, and either we lessen our service, which we don’t want to do, or we convince them that there’s value in it.”

Contractors in particular are demanding more from their distributors, in part because their industry associations are teaching them to outsource work that may not be core to their businesses. They recognize that handing material handling tasks to a distributor is a more cost-effective approach to business, rather than having, for example, a high-priced electrician waiting for and transporting supplies.

And just as many distributors are facing the retirement of skilled workers, contractors too are losing talented workers to retirement, and replacements need training. One distributor is training those replacements where it can, or doing the work they would have done as a service to help its customers when they get busy. That saves the customer the cost of a full-time employee. Some contractors are willing to pay for services like these that save them time and money – including some transactional services such as delivery to the point of use in a building.

Expectations from manufacturers are also growing, driving the demand for service. One distributor recounted a conversation with a manufacturer that sells direct online, as well as through distribution. This manufacturer expected the distributor to support any sales in its geographic area at no fee, regardless of whether the distributor sold the product or not. Separately, some distributors have started service groups for paid contract work for lines they don’t sell, with varying success.

Distributors said they recognize that providing value-added services in the channel may protect important vendor relationships: “If we just become the warehousing and finance arm for them, then they won’t need us and all we’ll get are the low-margin products. We won’t get the support we need from them, and eventually they’ll find a way to replace us because we just become a cost in the middle.”

FEAR BEHIND RELUCTANCE TO CHARGE

The top two reasons selected in the survey for not charging for value-added services include “very competitive price pressures” and “local market conditions at present dictate we cannot start charging.” Fear seems to drive some of the reluctance to charge, as many are afraid they will lose the business if they tack on a fee.

Some distributors perceive that the competition doesn’t charge for services – and therefore they can’t either. But the survey results show that this perception may not be true as most distributors say they are charging for at least one service.

According to the survey, 58 percent of respondents currently charge for value-added services as part of their strategies to stay competitive. Another 18 percent are planning to charge for value-added services in the future. For those that want to or already do offer services for a fee, creating a model that allows for a separate and profitable revenue stream remains a challenge. One distributor called charging for services a “moving target.”

Indeed, many distributors in the survey reported bundling a service fee into the products and services they are already offering. That said, distributors interviewed for this report said the extra cost they wrap into the price



is sometimes arbitrary, and it's not always clear whether they are profiting or merely covering part or all of the cost of providing the service.

It's not easy to change a business model. To make that shift, a distributor has to find something different from what is already being supplied to a customer. According to one respondent: "It's not easy to make the change and even the biggest and best are just eking along at it. They haven't figured out everything." What's more, if a valuable service is identified, it typically requires additional cost for the distributor, such as hiring a specialist. Realizing a return on that does not happen immediately.

THE SALES SKILLS GAP

To sell services, distributors may need to train their existing staff to approach customers differently. Distributors are also looking to hire new talent with skillsets tailored to a services-oriented sales model.

The shift required is from selling a product to selling a solution. And, sometimes, "it's a need (customers) don't even know they have," which requires a different level of engagement with customers.

As one distributor wrote in the survey: "Selling value-added services is a great margin-maker. It is the difference between order-takers and order-makers. Order-makers have the ability to communicate to their customers that the services are of value and should be charged for."

Distributors are tackling the selling challenge in different

"Selling value-added services is a great margin-maker. It is the difference between order-takers and order-makers."

ways. One distributor has told its salespeople to never give away certain services or discount them without management approval; instead if a discount is necessary, set it on the products themselves so as not to devalue the service the distributor is providing.

Educating salespeople and others in the company on how much it costs to provide a service is also a common strategy. That includes tracking profitability to ensure the company is not selling its products and services at or below cost.

Management must support and consistently enforce this shift, and incentives should be designed around selling services. That said, even with all the right incentives and buy-in in place, the move to sell services likely won't be a success overnight. It can take years to embed the idea of selling a service in the company culture. A long-term strategy is required.

Another critical part of making this shift is ongoing communication with customers after the sale. About 22 percent of distributors said they meet monthly with customers to review service offerings, and another 24 percent sit down quarterly with key customers. About a third meet with customers annually.

A quarter said they usually don't meet with customers to discuss service offerings. While many of the latter said that they thought regularly meeting with customers was a good idea, they were either unsure of how to go about doing so or wanted a solid process in place first.

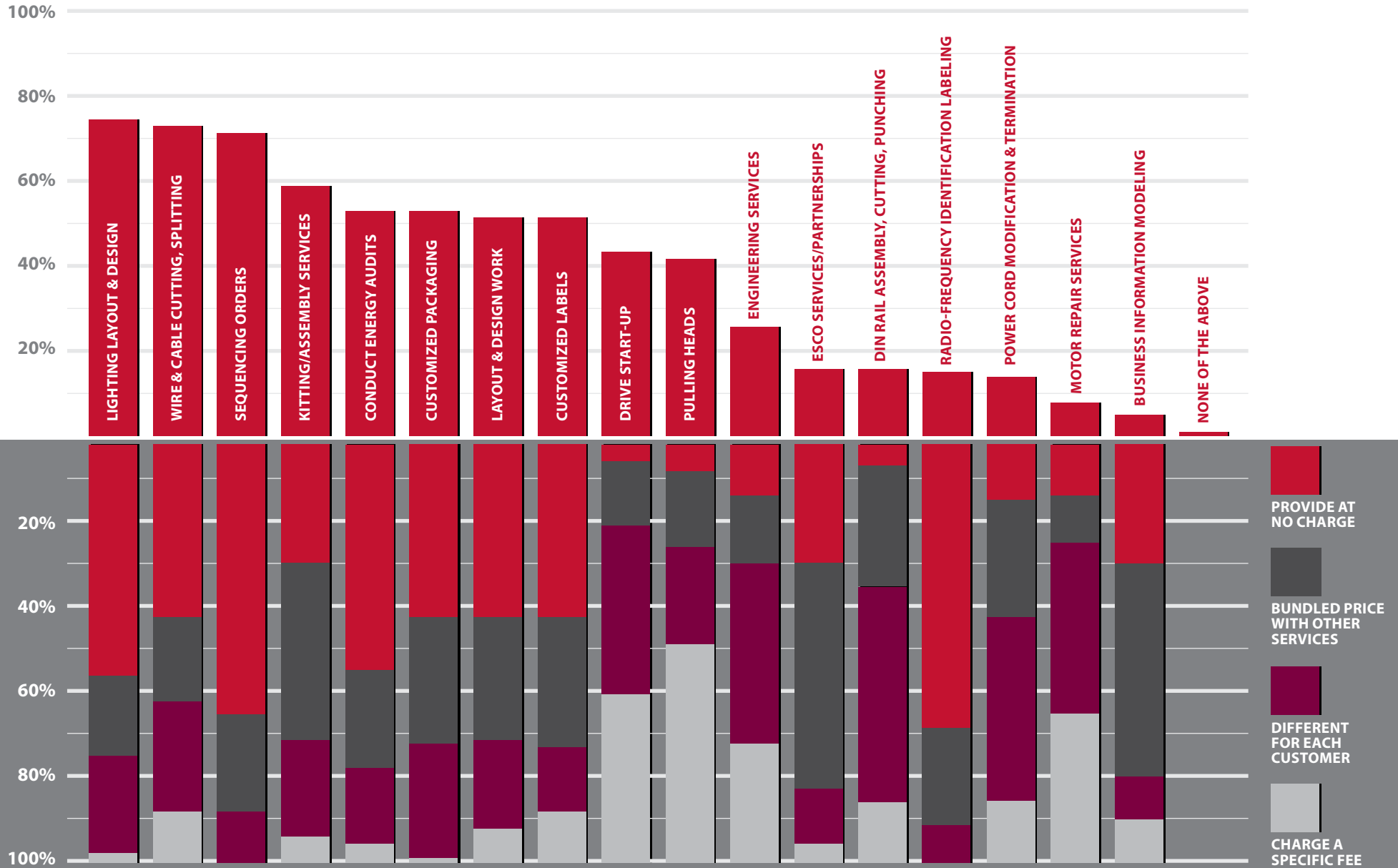


TIPS FOR SELLING SERVICES

Distributors offered advice based on their own experiences selling services:

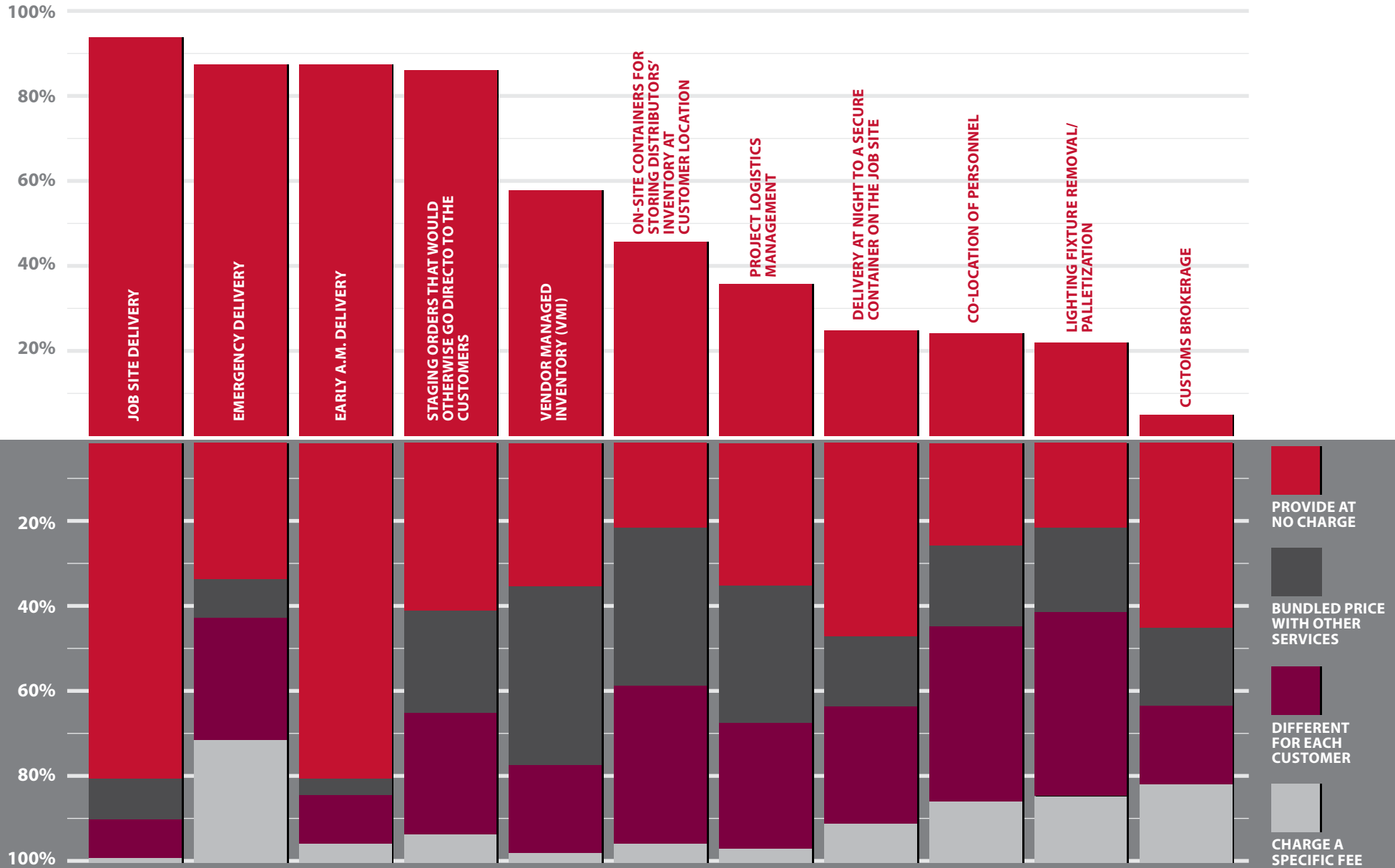
- Stop giving stuff away to get an edge. “If you have a service that is valued and needed, customers will pay for it. We need to keep in mind that ‘value-added’ is determined by each customer.”
- Add a line item for service, but expect pushback as most customers aren’t used to seeing a cost. “If you hold fast, you’ll get it, because there is a need for service out here.”
- Training your existing sales force to sell differently may not be as successful as bringing in new sales-people. Consider developing new selling roles.
- Don’t enter selling services with the expectation you’ll get an immediate return on your investment. This requires building a new business model. Think long-term.
- Consider risk management. One distributor said offering new services may require insurance to cover liability, depending on the service offered. You may also need to implement new safety protocols, as well as updated customer terms and conditions.
- Address the additional cost of the service when a customer asks for it; pay close attention to what the customer wants in its RFQ to avoid being surprised with service demands later in a project. Make sure you’re not giving anything away.
- Track the true costs of what you’re providing. Make sure you understand the right price and time to market for each service. Can you bundle the cost, offer the service for low or no cost, or do you need to charge a line item fee for it?
- If you don’t charge for a service, let the customer know you’re providing a service at no charge. Put the value of that service as a line item on the invoice so that customer knows what you are bringing to the table and saving them. Tracking that allows you to demonstrate your value to the customer on an ongoing basis.
- Review your service offerings with your customers on a regular basis, demonstrating the value you bring. About 30 percent of survey respondents said they sit down with key customers annually to do so; 24 percent sit down with them quarterly; and another 22 percent do so monthly.
- When negotiating services, never negotiate the price. If a customer doesn’t want to pay what you’re asking for a portfolio of services, offer fewer services for less.
- Find and concentrate on customers that embrace services and are willing to pay for them. ●

Which services do you offer?



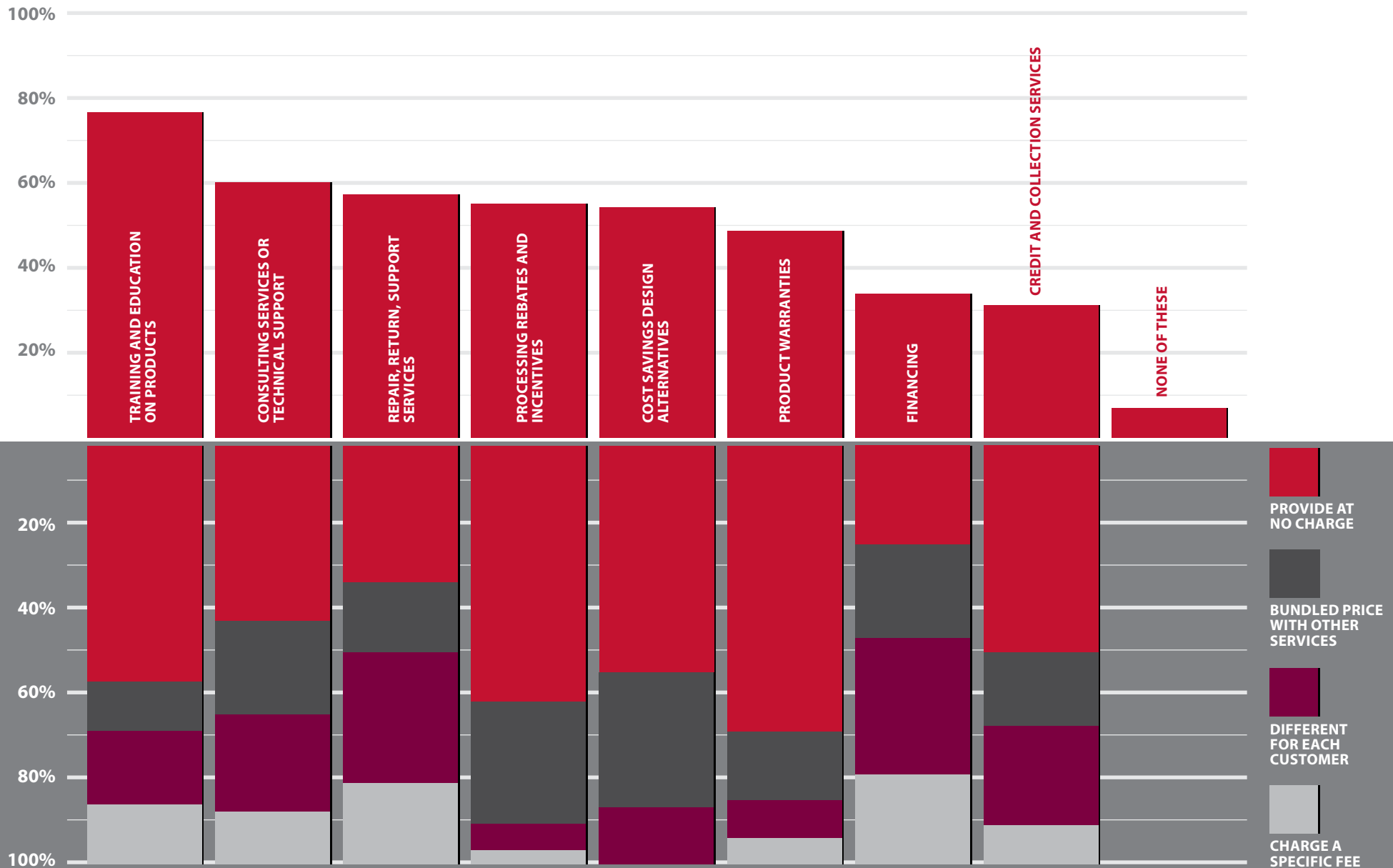
How do you charge for these services?

Which of the following inventory management services do you offer?



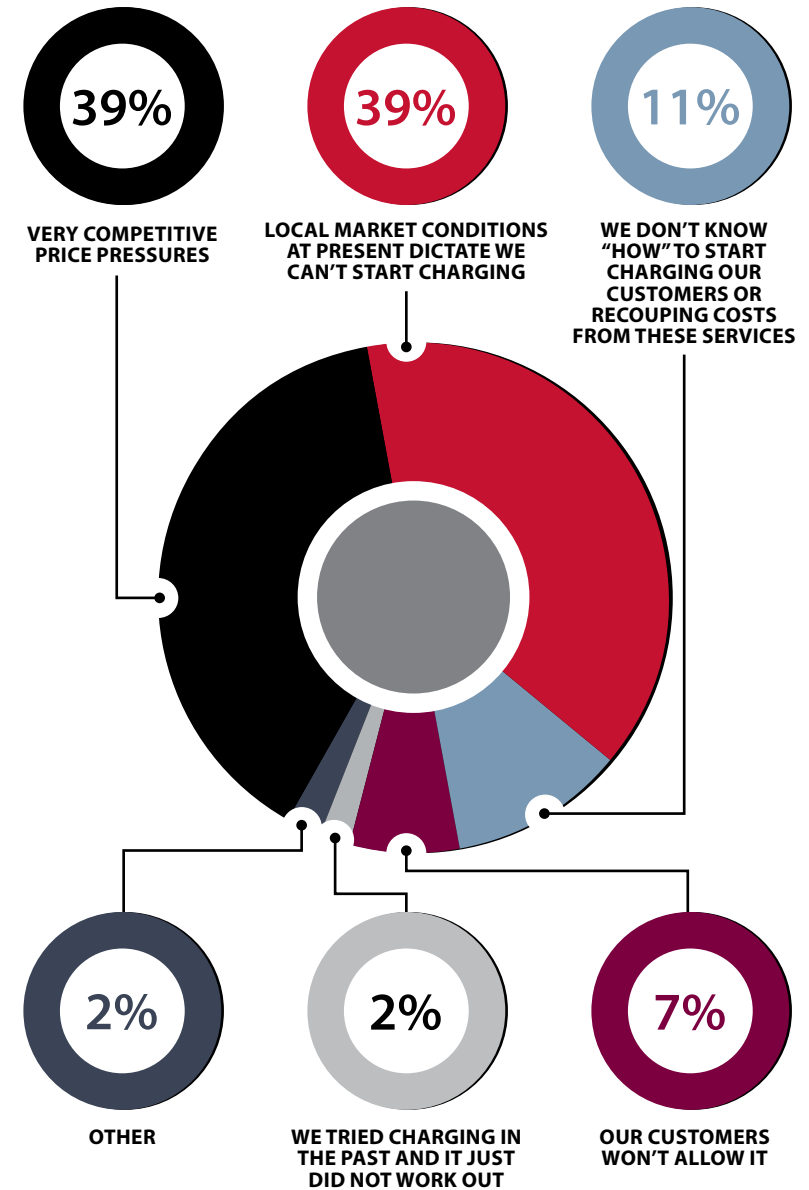
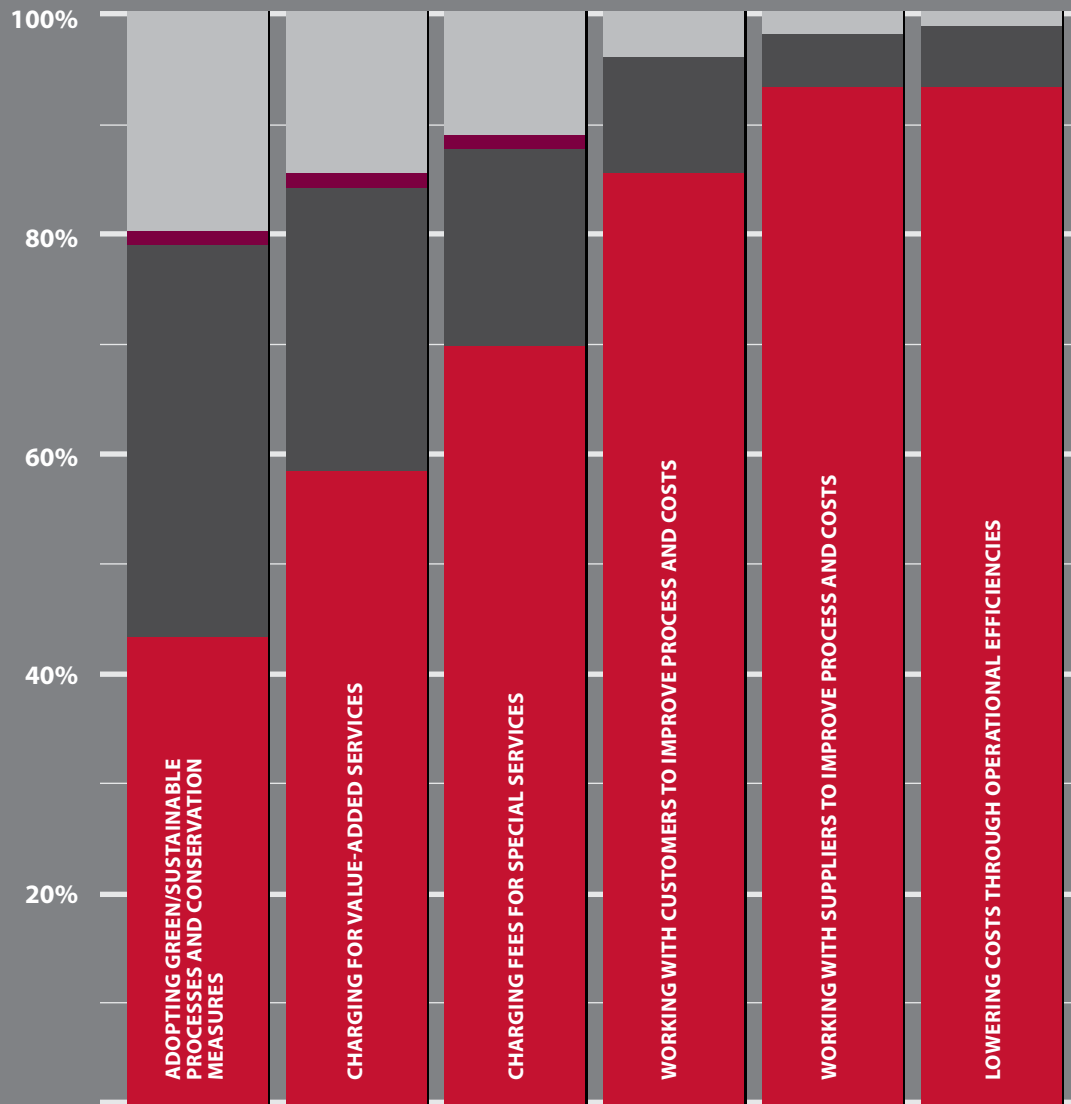
How do you charge for these services?

Which of the following financial & educational services do you offer?



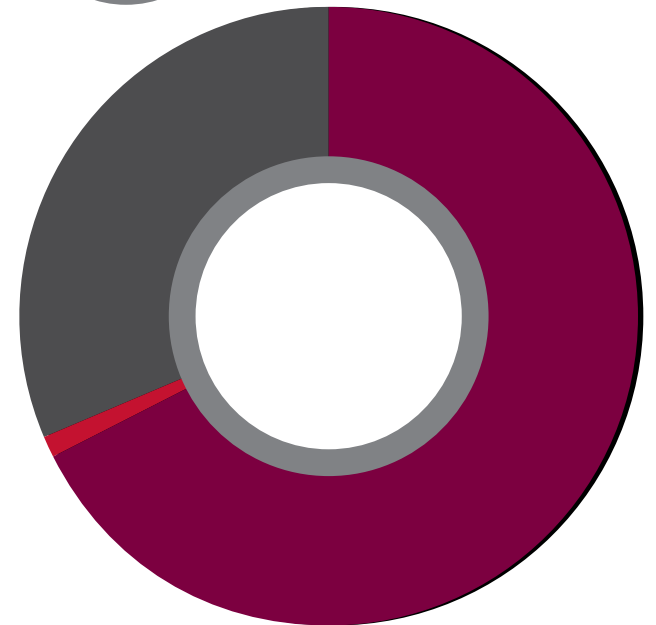
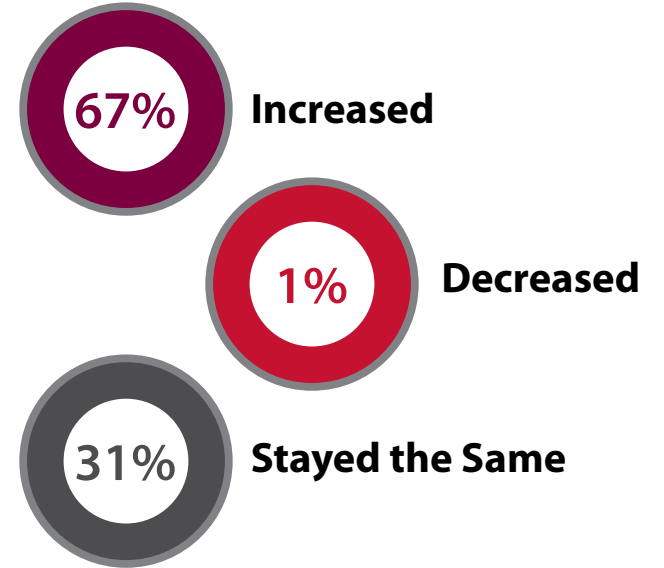
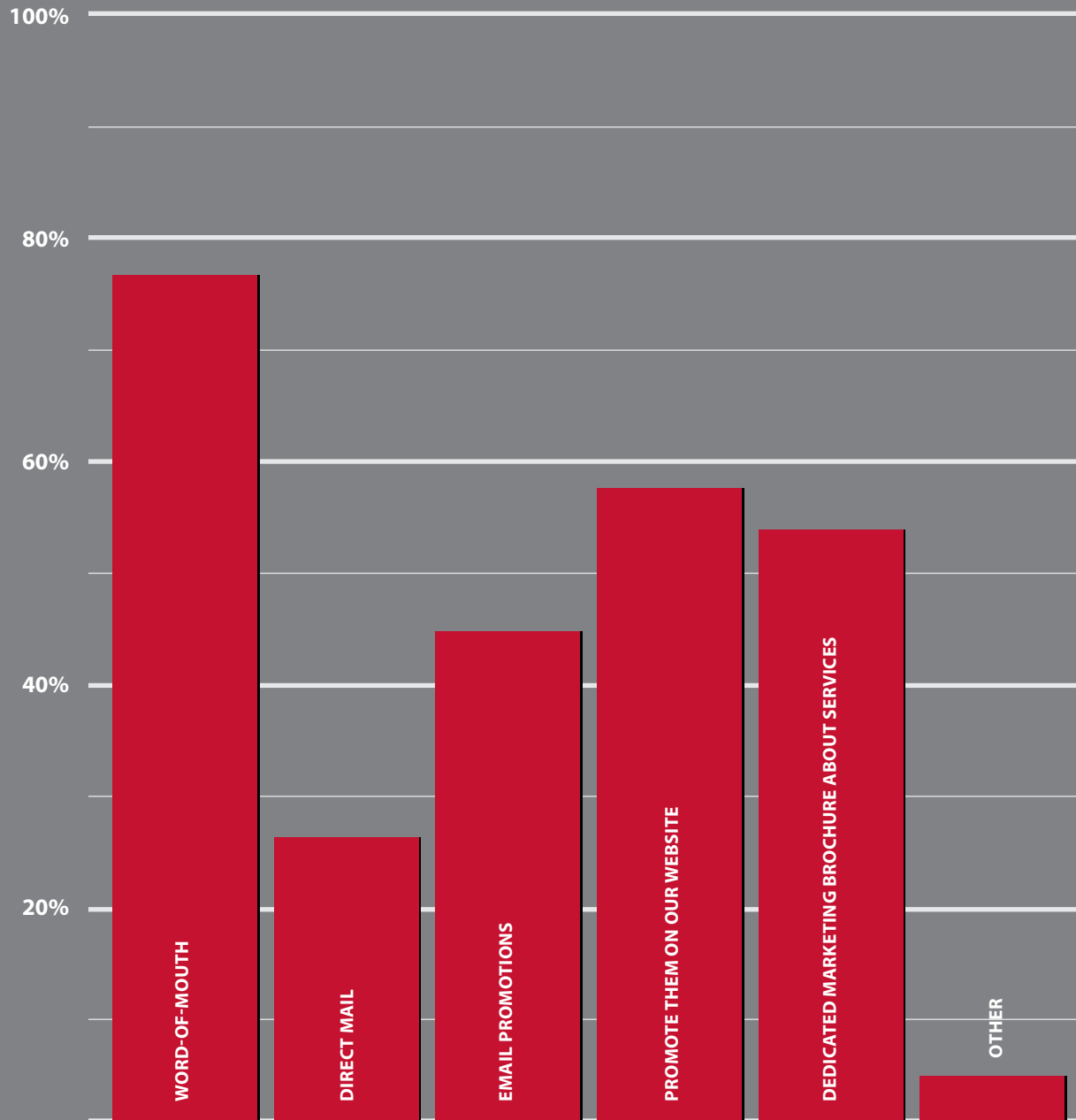
How do you charge for these services?

Which of the following strategies do you currently use to stay competitive?



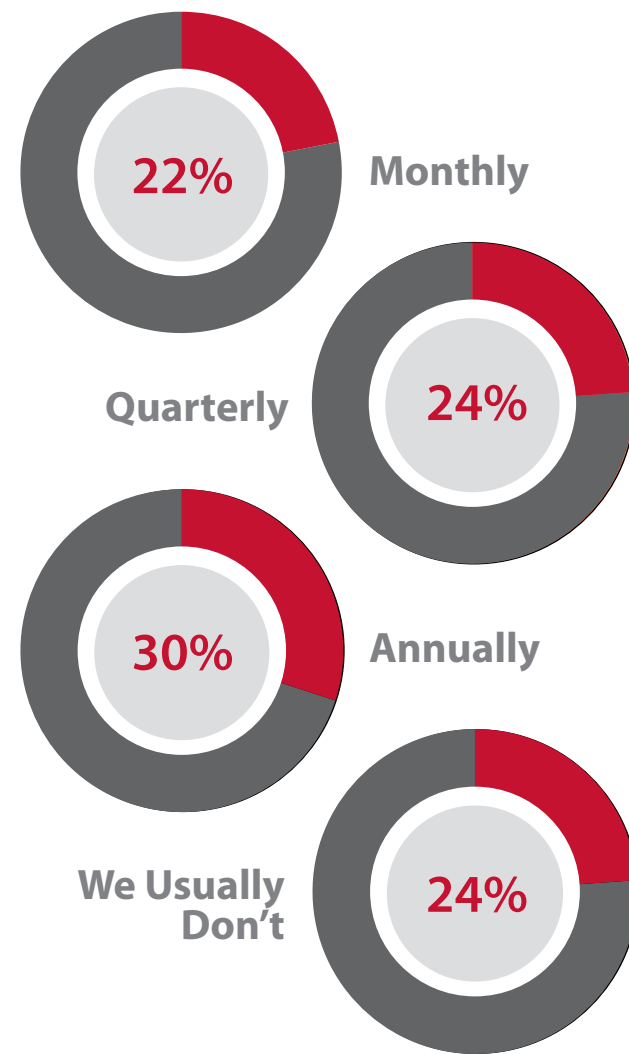
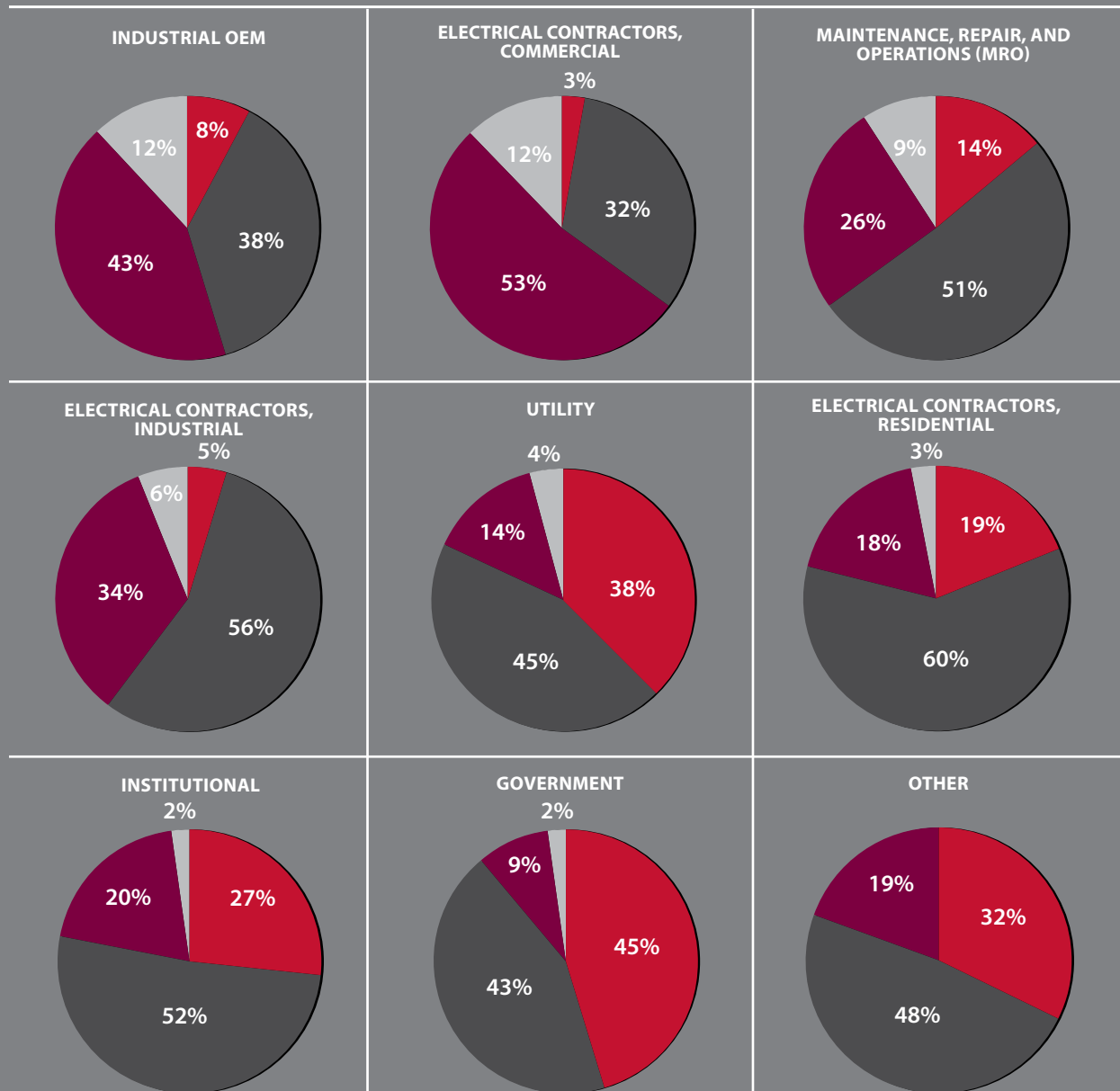
What is your reason for not charging for value-added services?

How does your company actively market the services you sell or offer?



Over the past year, our service-related revenue has...

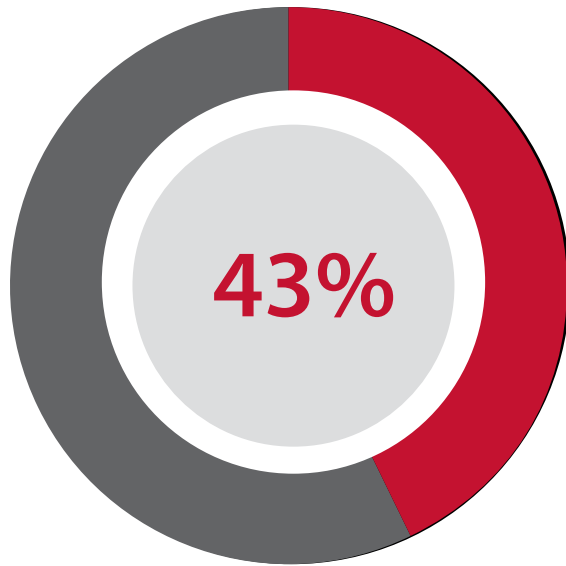
Rate how frequently the following customers request value-added services.



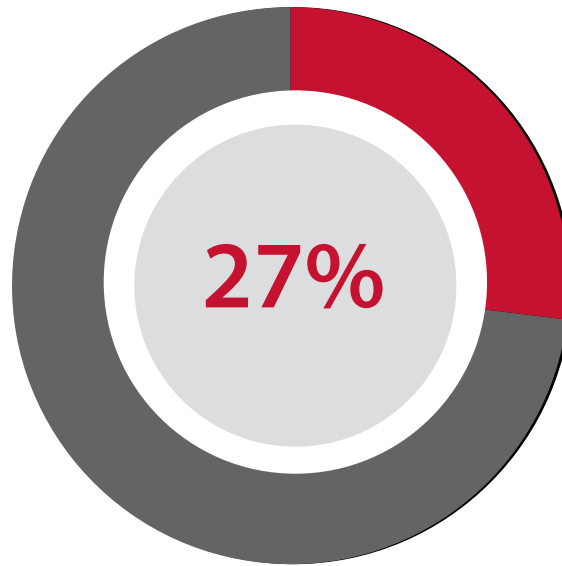
How often do you sit down and review your service offerings with your key customers?

Who manages your value-added services?

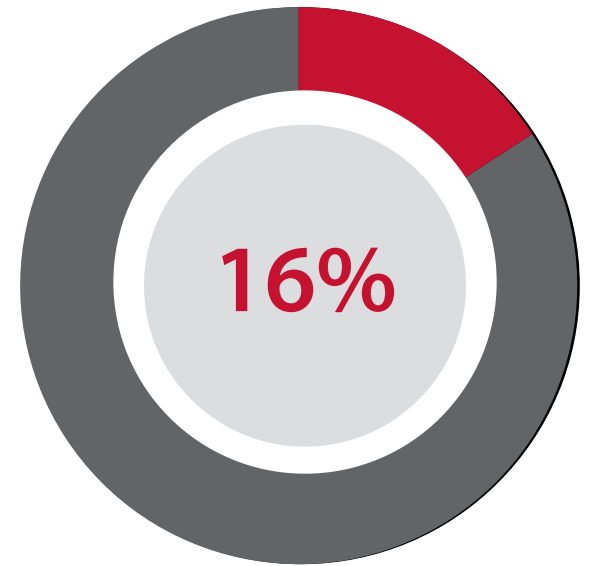
Sales Staff



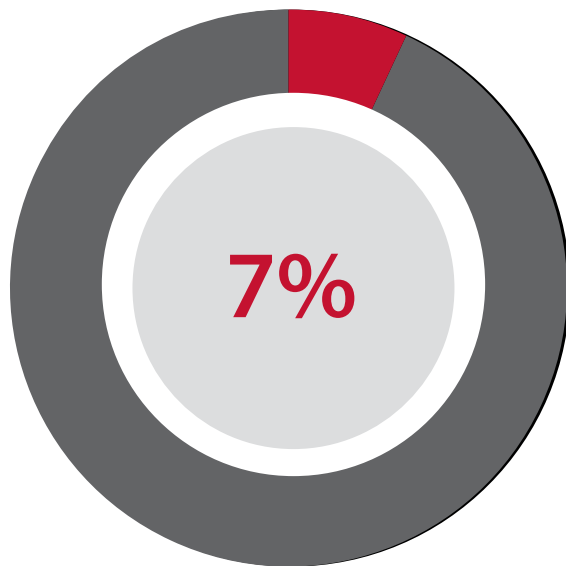
A Dedicated Team



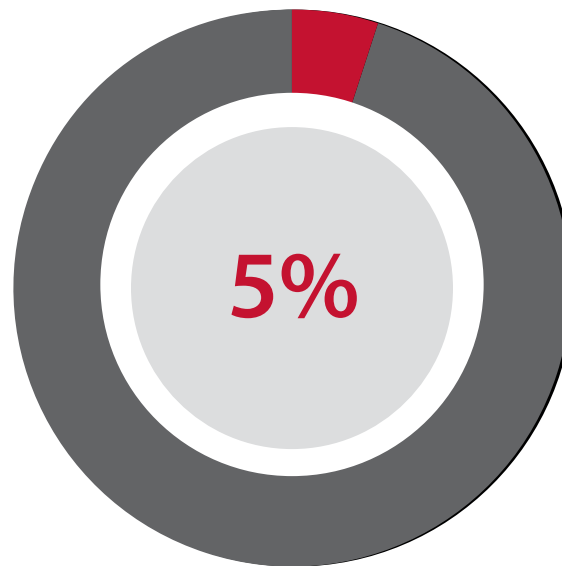
A Dedicated Manager



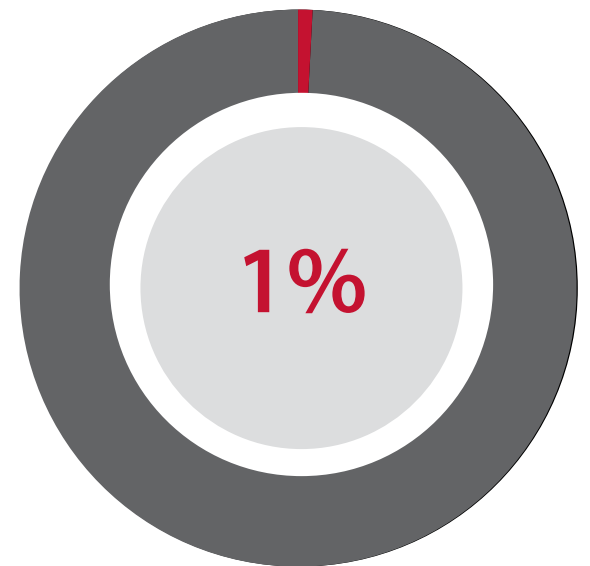
Other



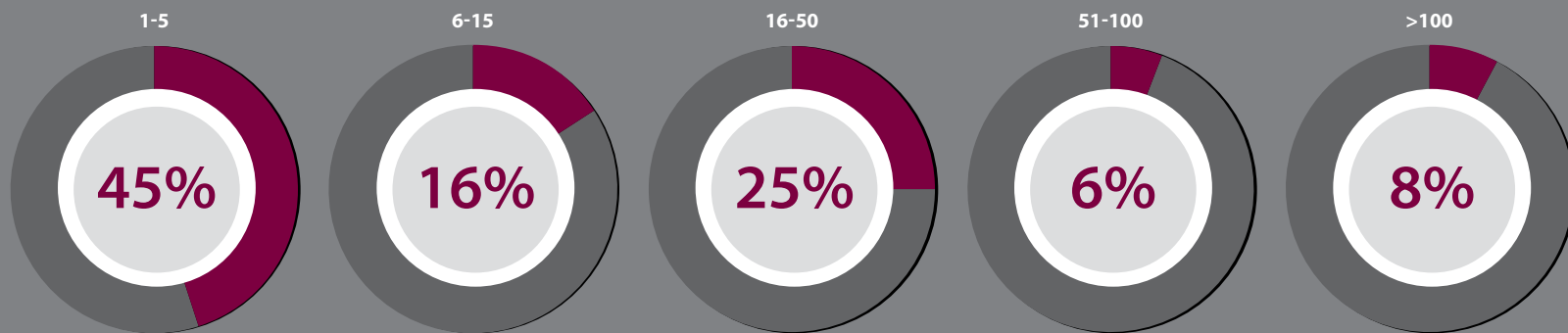
Pricing Department



Engineers

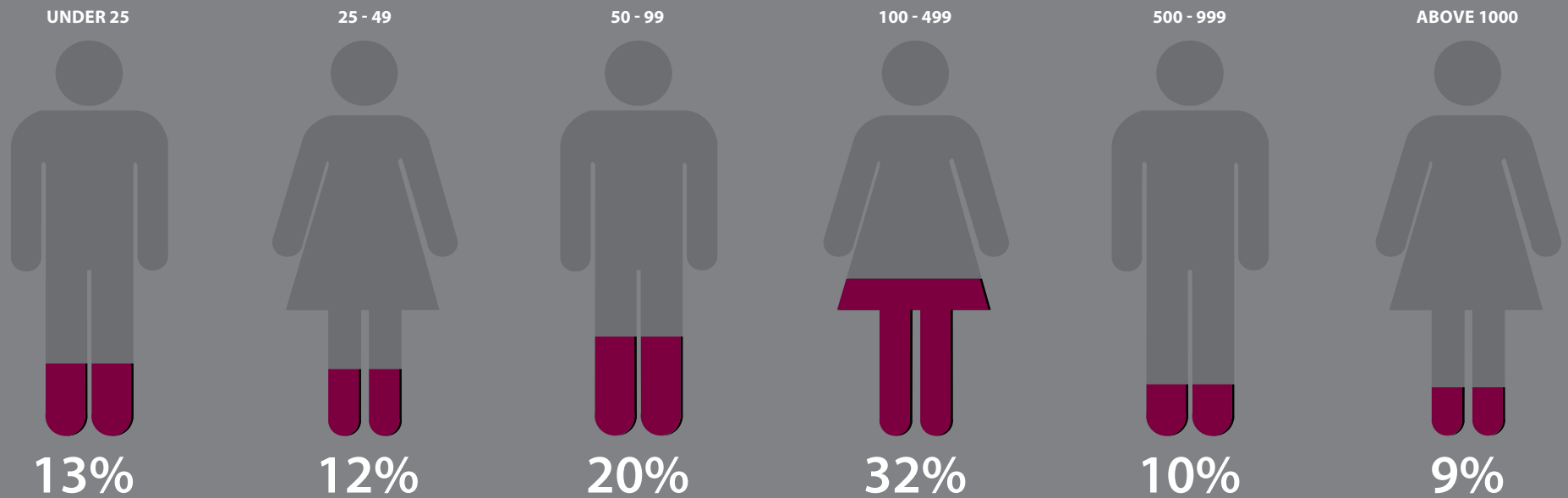


What is your current occupation?



What is the approximate number of branches in your company?

What is your company's approximate annual revenue?



What is the approximate number of employees in your company?

Our Mission / Copyright



As the only organization in the electrical distribution industry that focuses on making the channel more successful, NAED represents companies in wide spectrum of sizes—from small and mid-sized independents to large regional and national chains.

We help our members tell their story by providing the tools and resources necessary for them to succeed. NAED is the resource for education, networking, advocacy, education, defined standards and research.

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