



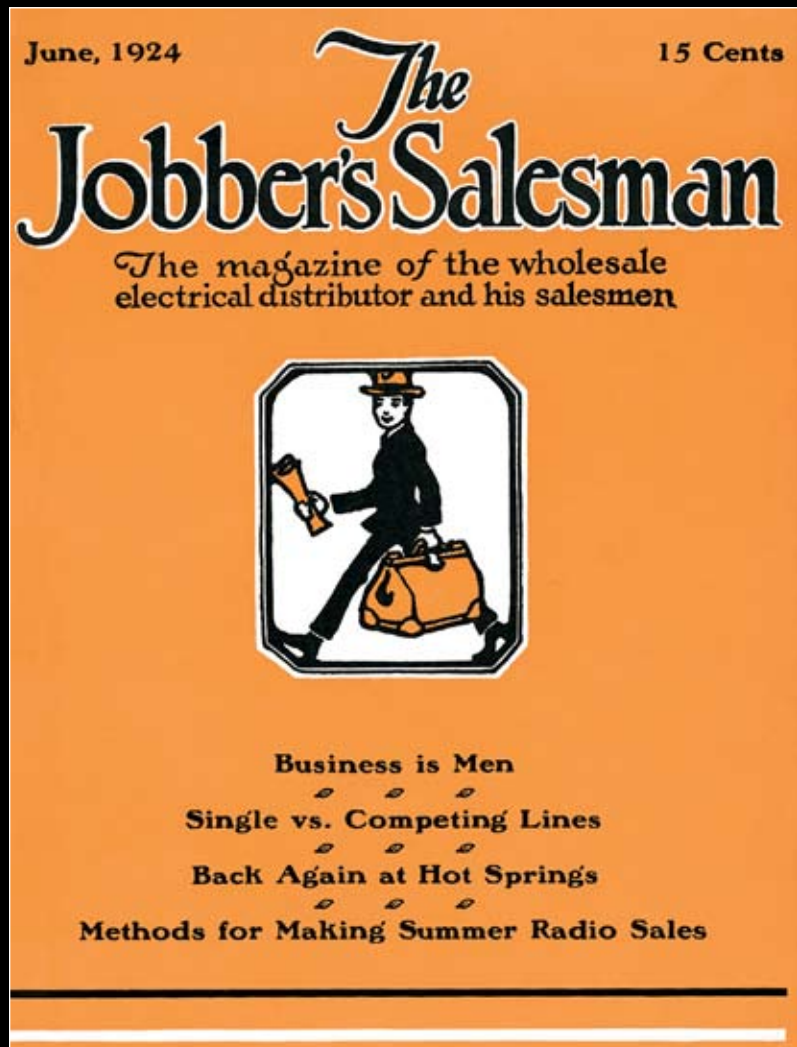
10 Trends that Changed the Electrical Market

Here are our picks for the trends that have had the most impact on the electrical wholesaling industry.

As *Electrical Wholesaling's* editors looked through the magazine's dusty bound volumes in preparation for this 90th Anniversary issue, the electrical market's rich history came to life. Black-and-white photos of founders of many of today's best-known distributors and manufacturers. Sales tips from the 1920s that would still work today. The impact World War II had on the electrical industry. Dozens of case studies on how electrical distributors solved various management, marketing and sales challenges. Rankings of the largest distributors since the late 1970s and sales forecasts for the industry going all the way back to the 1920s.

To give *EW's* readers some insight into the history of this great industry, we have chosen the 10 trends and ideas that we believe have had the most impact on the electrical wholesaling industry. Have we missed anything, or overstated the importance of some things? Let us know. Send Jim Lucy an e-mail at jim.lucy@penton.com, and we will consider your picks for the "10 Ideas that Changed the Electrical Market" for publication.

By Jim Lucy, Chief Editor





Graybar Electric Co., St. Louis, was one of the first electrical distributors to open branches to supply power companies with electrical products as they built the U.S. electrical grid.

The electrification of the U.S. creates demand for electrical products.

The electrical wholesaling industry played an important role in the electrification of the United States by offering electric utilities a local source for electrical products as they expanded their power lines from cities and other more densely populated areas to rural America. While some cities had power systems since the 1880s (beginning with Thomas Edison's Edison Illuminating Co., the predecessor of New York's Con Ed), in 1925 only 205,000 of the 6.3 million farms in the United States were receiving centralized electrical services according to Wikipedia. Large swaths of the United States didn't have any centralized electrical systems until the 1930s, when the Rural Electrification Act brought electricity to the more remote reaches of the country. As the nation's electrical grid expanded, some of the earliest electrical distributors, including Graybar Electric Co., St. Louis, began building branch networks to supply power companies with electrical products.

2. Acquisitions shape the industry. Over the past 20 years, Consolidated Electrical Distributors (CED), Rexel, Sonepar and WESCO have made the most acquisitions, buying dozens of family-owned electrical supply houses to expand their branch networks. But no one in the electrical market made acquisitions with as much flair as Ron Kinney, founder of All-Phase Electric Supply, Benton Harbor, Mich. With his enormous energy and the marketing savvy of a Madison Avenue advertising executive, Kinney managed the growth of the company from its humble 1959 beginning in a



All-Phase Electric Supply's Ron Kinney started out in a renovated A&P store in 1959 but became one of the nation's largest distributors with a combination of acquisitions and start-ups.




Allen-Bradley's legendary Les Watson.

The T & B Plan

Forty years of experience have convinced us that Wholesaler Distribution reduces the Manufacturer's selling cost and thereby reduces the selling price of electrical supply material to the user. Therefore, our policy has been to distribute our products through the Electrical Wholesaler.

We have now evolved a Plan, the objective of which is to strengthen the T & B Distributor's position with the users of electrical construction material, because anything we can do to help him, helps us.

To accomplish the objective of this Plan, we intend to advertise to the User the value of the many services performed by the T & B Distributor. Through Trade Papers and other media, we intend to broadcast our policies and demonstrate the underlying economic reasons for those policies.



THE THOMAS & BETTS CO., Inc.
36 BUTLER ST., ELIZABETH, N. J.
ELECTRICAL FITTINGS SPECIALISTS SINCE 1899

The T&B Plan

converted A&P supermarket to its 1999 status as a super-regional distributor with more than 90 branches. All-Phase was acquired by CED, Westlake Village, Calif., in 1999. Kinney did it all with unique style. His indoor swimming pool on the bluffs overlooking Lake Michigan included an enormous All-Phase logo set in tile. Kinney once hired a shoe-shine man for the All-Phase booth at a NAED regional, and with a bullhorn he barked invitations for a shine to favored vendors who were passing by. And it's impossible to estimate how many pocketknives with the All-Phase logo he gave to industry associates.

Ron Kinney took enormous pride in the growth of his company, and was delighted with the February 1973 *Electrical Wholesaling* cover story that showed him surrounded by 14 telephones, one for each branch he owned at the time. Nine years later he was on the cover of *EW* again — with 62 telephones. He made the cover in 1989, too, but with 95 branches in 17 states at that time, we felt a similar cover shot with nearly 100 telephones would get a bit unwieldy. Kinney is the only electrical distributor to make *EW*'s cover three times.

3. Distributor policy: How Thomas & Betts and Allen-Bradley set the tone in the early years. Sure, manufacturers take some jobs direct. And they created quite a stir when their products first started appearing on the shelves of home centers. But you don't think about distributor policy all that much these days, as the majority of electrical manufacturers rely on electrical distributors for the vast majority of their electrical products sales.

It wasn't always that way in the electrical market, because in its earliest days it was more common for some manufacturers to sell their products directly to end users. But as the electrical channel matured, some manufacturers moved boldly to commit to electrical distributors. The most famous of these initiatives was called "The T&B Plan" developed by Nestor MacDonald, Thomas & Betts' president and CEO and his management team. In 1937, they issued a public declaration of support for T&B electrical distributors in the T&B Plan. That plan served as the model for future distribution policies of Thomas & Betts, as well as for the policies of other electrical manufacturers. It said:

"Forty years of experience have convinced us that wholesale distribution reduces the manufacturer's selling cost and thereby reduces the selling price of electrical supply material to the user. Therefore, our policy has been to distribute our products through the electrical wholesaler. We have now evolved a

plan, the objective of which is to strengthen the T&B distributor's position with the users of electrical construction material, because anything we can do to help him, helps us.

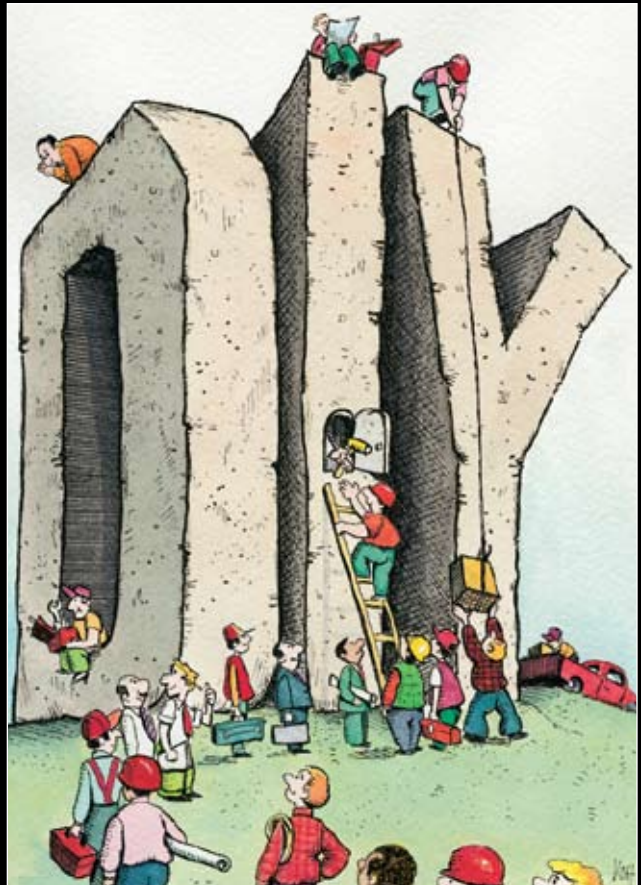
"To accomplish the objective of this plan, we intend to advertise to the end user the value of the many services performed by the T&B distributor. Through trade papers and other media, we intend to broadcast our policies and demonstrate the underlying economic reasons for those policies."

Another legendary manufacturing executive, Les Watson of Allen-Bradley (now Rockwell Automation), made a similar impact with his distribution policy. He was hired by Allen-Bradley in 1948 to put together the company's first distribution policy. Up to that time, almost all Allen-Bradley motor controls were sold direct. Old-timers in the business who either worked for Allen-Bradley or sold the company's products as a distributor always have plenty of Les Watson stories. He was a tough character, but was highly respected by Allen-Bradley distributors because of how he looked out for their best interests at the company's Milwaukee headquarters. In the 20 years Watson worked for Allen-Bradley, the company's percentage of sales through distributors grew from 13 percent to more than 80 percent. Many of the distributors he enlisted are still Allen-Bradley/Rockwell Automation distributors today.

4. Electrical distributors learn from the masters and incorporate professional merchandising into their counter areas.

Electrical distributors used to be terrified home centers would put them out of business. Through the 1980s and into the mid 1990s, *EW's* pages were filled with articles about how to effectively compete with what was then called the do-it-yourself (DIY) market. In some of these articles the late JoLynn Rogers of Ideal Industries, Sycamore, Ill., taught *EW* readers to tear down their brown pegboard walls and upgrade their counter areas with the latest in retail merchandising strategies.

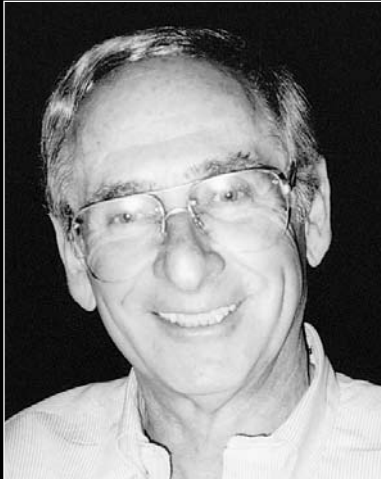
Manufacturers wanted to get the word out on what they could do to help in the merchandising revolution, and in *EW's* October 1995 "Masters of Merchandising" advertising supplement, 20 electrical manufacturers ran two-page spread ads promoting their promotional displays for electrical distributors. Although Home Depot and Lowe's have torn away a big chunk of the electrical business for themselves, they haven't put any electrical distributors out of business. In fact, the smart distributors learned from these masters of merchandising and promotions, refining their own marketing strategies to grow and prosper.



Electrical distributors learned to beat home centers at their own game with creative merchandising and promotional strategies.



Today's Blackberries may be packed with more computing power than this early computer system.



A-D's David Weisberg



IMARK's Chuck Steiner



Equity's Dick Noel

5. The industry really did exist before computerization. Forget the Blackberries, two-way pagers, cell phones, bar coding, ERP (enterprise resource planning) systems, the industry data warehouse (IDW) and fax machines. Before any of these tools existed, the electrical distribution business somehow got along just fine — and occasionally even at higher gross margins. Alas, as you can see in the photo from the 1970s on the previous page, computers were starting to become part of the business. As you will learn in the article, “Some Things Never Grow Old,” (page 32), while these tools of electronic business communications have sped-up the sales process and offer immediate access to critical pricing and product information, at times they take salespeople away from what they do best — selling electrical products. While it’s easy to poke fun at computers and other tools of e-business, the net margins that some companies can produce by using them to eliminate waste from their business practices are no joke.

6. Buying/marketing groups survive and thrive. On paper, it’s a simple concept: Help smaller companies band together and pool their purchasing power so they can get some of the same volume discounts that regional and national chains enjoy, and provide a forum where these non-competing independent distributors can learn best business practices from each other. But back in the 1980s when Affiliated Distributors, IMARK’s predecessors (TIED, MAED, SIED and WIED) and Equity Electrical Associates (now a part of IMARK) were in their formative years, buying groups were a radical idea that drew the ire of many manufacturers. At that time, the pages of *Electrical Wholesaling* voiced concerns about buying groups, too. George Ganzenmuller, long-time chief editor of the magazine, took on buying groups on a number of occasions in his “Times and Trends”

editorial, because he didn’t believe another industry entity should get between the distributor-manufacturer business relationship.

But the founders of the groups, including A-D’s David Weisberg, Chuck Steiner of IMARK, the late Luis Zabala of WIED and Dick Noel of Equity Associates, persevered. They built their groups distributor-by-distributor and vendor-by-vendor and made an indelible mark on the industry. Buying/marketing groups have withstood the test of time and have proved their worth for independent electrical distributors and their vendor-members.

7. The rep revival. Independent manufacturers’ reps didn’t always enjoy the same prominence and respect they now have. In the industry’s earliest years, they were dismissed as itinerant peddlers and viewed with suspicion. Manufacturers didn’t know if they were dependable enough to represent their product lines and electrical distributors were suspicious that reps were doing an end-run around them and selling directly to customers.

Enter the National Electrical Manufacturers Representatives Association (NEMRA), Portsmouth, N.H. Founded in 1969, NEMRA fought long and hard to help reps build more professional selling organizations and provide a public forum for them each year at the annual conference where they can meet with their vendors and learn from each other. NEMRA wouldn’t have gotten too far if it weren’t for people like Dick Noel, the association’s founding president; the first 32 reps who worked with Noel to get the fledgling association off the ground; Tom Preston, NEMRA’s first executive director; Hank Bergson, who recently retired as the association’s president. Today, Ken Hooper leads NEMRA, its 400-plus rep members and approximately 250 electrical manufacturers as it moves into the next chapter of its colorful history.

8. The industry learns to blend clicks with bricks.

It doesn't seem all that long ago that distributors were wondering if they could be replaced by online companies with names like *www.equalfooting.com*, *www.purchasingcenter.com*, *smartelectrical.com*; and *www.electricalweb.com*. These dot-coms flamed out because distributors' customers didn't have any real motivation or interest in changing their purchasing habits, or relying on a bunch of web-based companies with brainy executives but little or no electrical smarts. When their venture capital ran out, so did the potential threat they posed to the electrical market.

However, the role online purchasing will play in the future of the electrical marketplace still remains very much open to debate. To date, electrical contractors, the largest single customer group for mainstream electrical distributors, haven't pushed for online purchasing. As a result the total percentage of industry sales done online is probably not much more than 10 percent. That will grow in time. You don't have to look much further than W.W. Grainger Inc., Lake Forest, Ill., and the millions it has invested in a fully functioning online storefront to see that online purchasing is a reality in the distribution world.

Online purchasing may be lagging other Web-based initiatives in the electrical market right now. But to get a reading of the role online purchasing will play in the future, watch the progress of the IDW and IDEA's other e-business tools, ElectricSmarts' NetPricer system; and Trade Service's Supplier Xchange. NetPricer and Supplier Xchange link contractors' estimating software packages to selected distributors, so they can use their preferred distributors' pricing while developing their bids.

Over the past decade, the web has become integrated into day-to-day business with processes such as email, text messaging and other communications; product look-up and research; and GPS navigation systems. But the next chap-



The dot-coms crashed because their contrived solutions for online purchasing did not meet real-world customer needs.

ter in the assimilation of the internet into the industry's business processes could very well be more widespread adoption of online purchasing.

9. The flow of new products helps distributor's customers work faster, safer and more profitably.

With all the new product development in LEDs and other energy-efficient electrical products, it's interesting to reflect back on the development of some key electrical products. The electrical market has a rich history of product innovation. Flipping through decades of issues of *Electrical Wholesaling* offers a glimpse into the steady march of new products onto the shelves of electrical distributors. Distributors have been stocking some products for more than 100 years, like the incandescent bulb, which Thomas Edison invented in 1879, and many products invented by Harvey Hubbell, founder of Hubbell Inc., including the duplex receptacles and the pull-chain lamp socket. According to information at *www.hubbell.com*, Hubbell was granted 45 patents on a wide variety of electrical products between 1896 and 1909. Not long after, Ideal's Wire Nut came on the scene in 1916. Rome Cable came out with Romex wire in 1922 and the

first fluorescent lamp was sold in 1938. Interestingly, most of these products met early resistance in the market, as customers were uncomfortable trying something new. Sound familiar?

10. The power of the entrepreneur.

More than any other single idea or trend, the one thing that defines the electrical wholesaling industry is the impact an individual can have on a company, co-workers, customers, a market area or an entire industry. Sure, the electrical industry has plenty of publicly owned, billion-dollar companies, and these behemoths have a huge amount of clout. But when you get right down to it, it's the individuals behind these companies, whether they be big businesses or family-owned companies. Thomas Edison, George Westinghouse and Harvey Hubbell launched massive companies that still survive today. Nothing can match the passion of the individual for an idea they really believe in. The electrical industry survives and thrives because of the entrepreneurs constantly starting up companies, inventing products and reinventing their existing businesses. It's been a formula for success in the past and will continue to power the electrical business in the future. ■