

ELIMINATING WASTE

NEMRA's white paper on eliminating wasteful activities in the electrical market is loaded with ideas about how reps and manufacturers can work together to create a more mutually profitable channel.

Electrical manufacturers and independent manufacturers' representatives agree that much can and should be done to improve each other's performance and profitability in the marketplace. To pump up profits by eliminating waste in the channel, the National Electrical Manufacturers Representatives Association (NEMRA), Tarrytown, N.Y., and its affiliate, the NEMRA Manufacturers Group (NMG), worked with Thomas O'Connor, president, Farmington Consulting Group, Farmington, Conn., to identify best practices in the market and develop a plan that independent manufacturers' reps and manufacturers can use to eliminate waste and improve their performance.

O'Connor conducted the study, a white paper titled "Eliminating Wasteful Activities in the Representative and Manufacturer Sales and Marketing Channel," by visiting reps and manufacturers, conducting focus groups and surveying NEMRA members by telephone.

NEMRA and NMG believe the study will help the electrical industry and its channel participants become more productive and profitable by eliminating wasteful activities. Manufacturers and reps weren't shy with their suggestions about how each other could refine their operations, and they jointly identified more than 20 specific areas they felt must be improved. This article highlights many of these key findings. Contact NEMRA at (914) 524-8650 to get the entire study.

One of the key findings in O'Connor's research was widespread inefficiency in the exchange of data between manufacturers, manufacturers' representatives and electrical distributors. As a result, sales order-entry personnel, customer-service personnel and inside salespeople at both manufacturers and reps often

TOP WASTEFUL ACTIVITIES	
Manufacturers say ...	Reps say...
Communications (73%)	Sales activity reporting (65%)
Sales management (35%)	System integration (47%)
Selling skills & product training (16%)	Sales management (41%)
System integration (16%)	Communications (26%)
Sales & marketing activities (14%)	Sales & marketing activities (26%)
SOLUTIONS TO ELIMINATE WASTEFUL ACTIVITIES	
Manufacturers say ...	Reps say...
System integration (49%)	System integration (43%)
Sales management (12%)	Sales management (20%)
Selling skills & product training (14%)	Selling skills & product training (11%)
Sales activity reporting (12%)	Sales activity reporting (23%)
*% of times respondents mentioned wasteful activity.	

perform slow, redundant, labor-intensive, error-prone manual activities. These wasteful activities increase operating costs to all three channel partners and result in shipping errors, invoicing errors and returned goods.

KEY FINDINGS

Systems integration. Reps and manufacturers who participated in the study saw more effective systems integration as the most promising solution to eliminate wasteful activities in the channel. They said data is exchanged inefficiently between electrical distributors, reps and vendors and that order-entry personnel, customer-service personnel and inside salespeople at both reps and manufacturers too often perform slow, labor-intensive, error-prone manual activities.

The study also found that manufacturers and several larger reps have separate order-entry personnel and customer service/inside sales personnel to handle the "non-value" sales order-entry activities. Another finding was that reps' customer service/inside sales

personnel say they can't perform value-added "selling" functions because they are inundated with manually keyboarding sales orders, checking order status, expediting, and dealing with return goods authorizations (RGAs).

Sales order-entry processes. This area is laden with wasteful business practices, according to the study. For instance, the majority of electrical distributors' purchase orders are sent via fax from distributors to reps — who in turn often fax them to manufacturers for them to re-enter into their sales order-entry systems. Reps receive purchase orders from distributors via telephone, postal mail, e-mail and flat files. In some instances, the manufacturer directs their reps to enter the sales orders into their business system and fax the sales orders. Because sales orders must be re-keyed, this increases operating costs and often results in shipping errors, invoicing errors and returned goods.

EDI still not widespread. The study found that the electrical market has been very slow to adopt transactional

e-commerce activities and that, overall, few electrical distributors make efficient use of electronic data interchange (EDI) transactions. To make matters worse, many manufacturers and reps interviewed for the study do not fully understand how EDI can significantly reduce transaction costs for manufacturers, reps and distributors.

In many other industries—including the retail market with big-box stores—EDI is the preferred method of transacting business because it streamlines processes and reduces costs in the channel. If you consider the cost to transmit the data and the hardware, software and staff resources, the total cost to send an order has been reported as follows: EDI purchase orders are estimated at \$0.25 to \$1 dollar each, while faxing a purchase order costs approximately \$25. The most significant cost differential of any paper or text-based approach (mail, fax, e-mail, etc.) is the wasteful resource inefficiencies of delays and errors versus an integrated approach such as EDI that reduces document processing cycle time and costs.

The study suggested more electrical distributors should follow the lead of IMARK, Oxon Hill, Md., in utilizing EDI a cost-saving tool. The buying/marketing group has created a Technology and Channel Cost Reduction Committee; recently established E-Commerce Uniform Standards with three tiers of e-commerce capabilities; and offers its members financial incentives to use EDI. According to the study, EDI is not being effectively sold to electrical distributors by reps and manufacturers, and it suggested that NEMRA and NMG should consider taking a leadership position with EDI.

Widespread discontent with NEMRA's Independent Representative Information System (IRIS). IRIS, which NEMRA members use to manage their businesses, attracted many negative comments, and the study recommended that NEMRA explore these problems and determine why some manufacturers and manufacturers' representatives do not use IRIS. The complaints varied, but many focused on a need to update the IRIS software so it could keep pace with the ERP systems used by manufacturers, and a more user-friendly interface for reps.

Profitability of vendors' lines for reps. The study said manufacturers

BACKGROUND ON THE STUDY

The rep's world. An electrical manufacturers' representative is an independent business entity working under a contractual arrangement within a defined geographic territory, selling related but non-competing and complementary products for more than one manufacturer or principal. Typically, manufacturers' representatives "represent" about 15 different electrical manufacturers' products. More than 80 percent of all electrical manufacturing firms use independent representatives instead of company-employed salespeople to sell their products. Some manufacturers use independent representatives to cover at least some territories not served by their direct salespeople. Many manufacturers use independent representatives for all territories.

More than 3,000 manufacturers of electrical and electronic products market their lines through electrical distribution. Approximately 56 percent of the dollars sold through distribution are brought to the market through manufacturers' representatives.

NEMRA and NMG. Many of these reps are members of the National Electrical Manufacturers Representatives Association (NEMRA); many electrical manufacturers are members of NEMRA's affiliate, the NEMRA Manufacturers Group (NMG). NEMRA is a non-profit trade association dedicated to promoting the use of independent manufacturers' representatives as the most effective way to market products in the electrical industry. NEMRA has 550 manufacturers' representatives from the United States and Canada; NMG has 250 manufacturers.

Research methodology. To help the electrical industry become more productive and profitable by eliminating wasteful activities, NEMRA and NMG commissioned Tom O'Connor, president, Farmington Consulting Group, Farmington, Conn., to execute a research study encompassing telephone surveys, focus groups and on-site visits. O'Connor isn't a stranger to the challenges of the electrical market. He worked for Capitol Light & Supply, Hartford, Conn., in several executive posts before returning to his consulting business full-time, and has written for *Electrical Wholesaling* for 15 years.

The telephone research sample totaled 125 individuals, out of which 75 manufacturers' representatives and 50 manufacturers were chosen. Telephone surveys were conducted by Farmington Consulting Group during December 2005 and January 2006. 123 out of the 125-firm research sample completed their telephone survey for a 98.4 percent response rate. The purpose of the telephone research was to gather baseline data among representatives and manufacturers concerning wasteful activities in the sales and marketing channel. O'Connor presented the preliminary telephone research results at the NMG Forum during the 2006 Annual NEMRA Conference on Feb. 16, 2006 in Louisville, Ky.

need to acquire a better understanding of their line's profitability from the rep's perspective. Many independent manufacturers' representatives conduct a line-profitability analysis so they can relate a line's profitability to how much time the line demands per dollar earned, and how well it fits with the rest of their lines. Several manufacturers' representatives have automated their line-profitability analysis in Excel and conduct semi-annual reviews that they share with all employees.

Line-profitability analysis is taught in the Certified Professional Manufacturers Representatives (CPMR) course sponsored by Manufacturers' Representatives Educational Research Founda-

tion (MRERF), Arvada, Colo. The study said all reps should use line-profitability analysis and add specific process activities such as quotes, sales order-entry, checking order status, expediting and RGA to their analysis. The white paper also said more reps should share their line-profitability analysis with vendors. Said one reluctant rep, "We do the line-profitability analysis but are afraid of communicating it because it sets up a possible adversarial discussion and because we are afraid of losing lines."

To maximize profit opportunities, the study said manufacturers and reps need to conduct and share line-profitability analyses to become "partners in profit," not "adversaries in profit."

TAKING ACTION

As a result of the white paper, NEMRA and NMG formed three task forces to develop action plans in key areas: the Sales Order Entry Process Task Force; the CRM/Sales Reporting Exchange Task Force; and the Professional Development Training Task Force. Industry executives on these task forces are as follows:

Sales Order Entry Process Task Force. Ken Hooper, Ferraz Shawmut Inc., Newburyport, Mass.; Brian Chase, Lester Sales; Indianapolis, Ind.; and Tom Fredericks, American Polywater Corp., Stillwater, Minn.

CRM/Sales Reporting Exchange Task Force. Gary Norris, Ilasco; Cincinnati, Ohio; Kelly Boyd, ElectroRep, Sausalito, Calif; and Mike Winter, EGS/Easy Heat, New Carlisle, Ind.

Professional Development Training Task Force. Kathy Jo Van, Coleman Cable Co., Waukegan, Ill.; Jack Floyd, One Source Columbia, Md.; and John Hoffman, Wiremold Co., West Hartford, Conn.

Channel process specialists. To help improve the lines of communication between manufacturers and their channel partners, the study recommends more manufacturers follow Ferraz Shawmut in its development of a "channel process specialist" position responsible for improving all "critical to service" processes that exist between their company and their reps and distributors. This person recommends improvements in areas such as sales reporting; pricing management, including the Special Pricing Authorization (SPA) process; commission reporting, including Point-of-Sale (POS) and Point-of-Transfer (POT) reconciliation; marketing and sales communications to the sales team and external channel partners, including new product communications; Web-based customer self-service offerings; and electronic commerce communications/EDI.

Using Kaizen to eliminate waste. When it comes to eliminating wasteful activities, the study identified two reps as standouts: Brazil Brothers & Associates, Metuchen, N.J., and Nelson & Associates, Santa Fe Springs, Calif. Both companies passionately believe in the value of continuous improvement utilizing the Kaizen Continuous Productivity Improvement Process. A Kaizen is a team that achieves continuous, incremental improvement of a specific activity to eliminate waste. No matter what size of company, reps would be well-served to employ Kaizen teams focused on process improvement. The study said Wiremold was the first company in the electrical industry to adopt a "Lean" philosophy, and that the manufacturer introduced Brazil Brothers to the Kaizen Continuous

Productivity Improvement Process.

Nelson & Associates participated in its first Kaizen with Hoffman Enclosures, Anoka, Minn., in 2004 to improve its order-fulfillment process. The Kaizen team improved Nelson's customer will-call response time by 105 minutes and reduced the administrative and tracking time by 165 minutes a day.

Manufacturers' Web sites. Manufacturers and reps receive countless telephone inquiries from electrical distributors that should be easily addressed online. Apparently, great disparities exist between the user-friendliness and information availability among manufacturers' Web sites. Reps cited Pass & Seymour/Legrand, Syracuse, N.Y., as having a good Web site. Said one rep, "If every manufacturer did what P&S has done with their Web site, huge costs would be taken out of the distributor channel."

The top manufacturer sites allow users to check stock and pricing, obtain quote information, enter sales orders, check delivery tracking information, obtain product information and spec sheets, enter RGAs, request samples, request Material Safety Data Sheets (MSDS) and conduct training.

Reps' Web sites. There are also great disparities in the user-friendliness and information availability among reps' Web sites. The study recommends that all reps have high-speed, networked Internet access and Web sites with hyperlinks to their manufacturers' sites.

Customer-relationship management (CRM) programs. It appears unlikely that the industry will universally adopt a standardized CRM program for all

manufacturers and reps. The study encouraged NEMRA and NMG to partner with Industry Data Exchange Association (IDEA), Arlington, Va., to create CRM and sales reporting systems for the electrical market. The net result would be improved communications between reps and their manufacturers on activities in the field, new product rollouts, line conversion, quotation and lead updates, depending on the CRM system utilized.

Standardized sales-activity reporting. It also appears unlikely that the electrical wholesaling industry will adopt a standardized sales-activity reporting format. The study also suggests that NEMRA and NMG partner with IDEA to create a monthly report exchange. The efficiencies gained here would allow reps' field sales organizations to increase field selling time and increase the quality of information provided to manufacturers.

Performance metrics. The study called for the development of standardized performance measures to evaluate manufacturers and manufacturers' representatives. Expectations change from manufacturer to manufacturer as to performance metrics, and these performance drivers are often very poorly communicated to manufacturers' representatives. On the flip side, reps said they need standardized performance metrics to analyze their vendors.

Vendor understanding of the rep's inside-sales function. Reps' inside sales personnel universally complained that manufacturers' customer service personnel do not understand and therefore do not appreciate the demands of their workloads, which in part comes from working with so many vendors. The study said NEMRA should organize a task force of reps' customer service/inside sales personnel to create a Manufacturer's Customer Service Representative Training Program (MCSR) for manufacturers' customer service personnel.

Product champions. The white paper said reps should designate customer service/inside sales personnel to be "product champions" for specific product lines, and that manufacturers need to commit to quarterly training with the product champions. The product champions could then cross-train customer service/inside sales personnel so all distributor and/or end-user inquiries can be forwarded to anyone at the agency. □