



ELECTRICAL DISTRIBUTION HEALTH CHECK

A playbook for building an
immunity to the digital threat

WHITEPAPER



ELECTRICAL DISTRIBUTION HEALTH CHECK

A Playbook for Building an
Immunity to the Digital Threat

TABLE OF CONTENTS

- I. A Changing Digital Landscape
- II. Market Dynamics that Stifle Growth
 - a. Cost Fluctuation
 - b. Online Competition
- III. How to Build an Immunity to the Digital Threat
 - a. Reimagine Pricing
 - b. Innovate Technologically
 - c. Go the Extra Mile with Services
- IV. Conclusion

I. A CHANGING DIGITAL LANDSCAPE

Getting ahead in the electrical distribution industry is only becoming more difficult. Already highly fragmented, [with abundant regional and niche players](#), new entrants like Amazon steadily chisel away at established distributors' market share. Many traditional distributors' growth strategy relies on mergers and acquisitions to reach new customers in new regions. This means that most large electrical distributors are made up of a jigsaw of acquired smaller distributors. From a systems perspective, many now deal with disparate data sources and a mishmash of pricing strategies.

This creates a problem on a couple fronts. First, the electrical industry is heavily impacted by the fluctuation of costs of raw materials like copper and aluminum. Without a true strategy to deal with these costs, distributors may be left scrambling and falling behind the pack when it comes to responding quickly and effectively to cost changes.

Second, with constant pressure from Amazon and other new online players who offer low prices and 24/7 ordering and support capabilities, traditional distributors can't afford inconsistent or misaligned market pricing. Customers will move on. As an electrical distribution leader [reported recently in TEDmag.com](#):

"We try very hard to promote the reputations of the brands that we know, but when someone walks in the door and says, 'Hey, I saw this product on the Internet and it's \$19.99 and it's 50,000 lumens,' there's not too much we can do about it...It's sad and scary, but distributors are beginning to have less and less value because of the Internet. I worry about that."

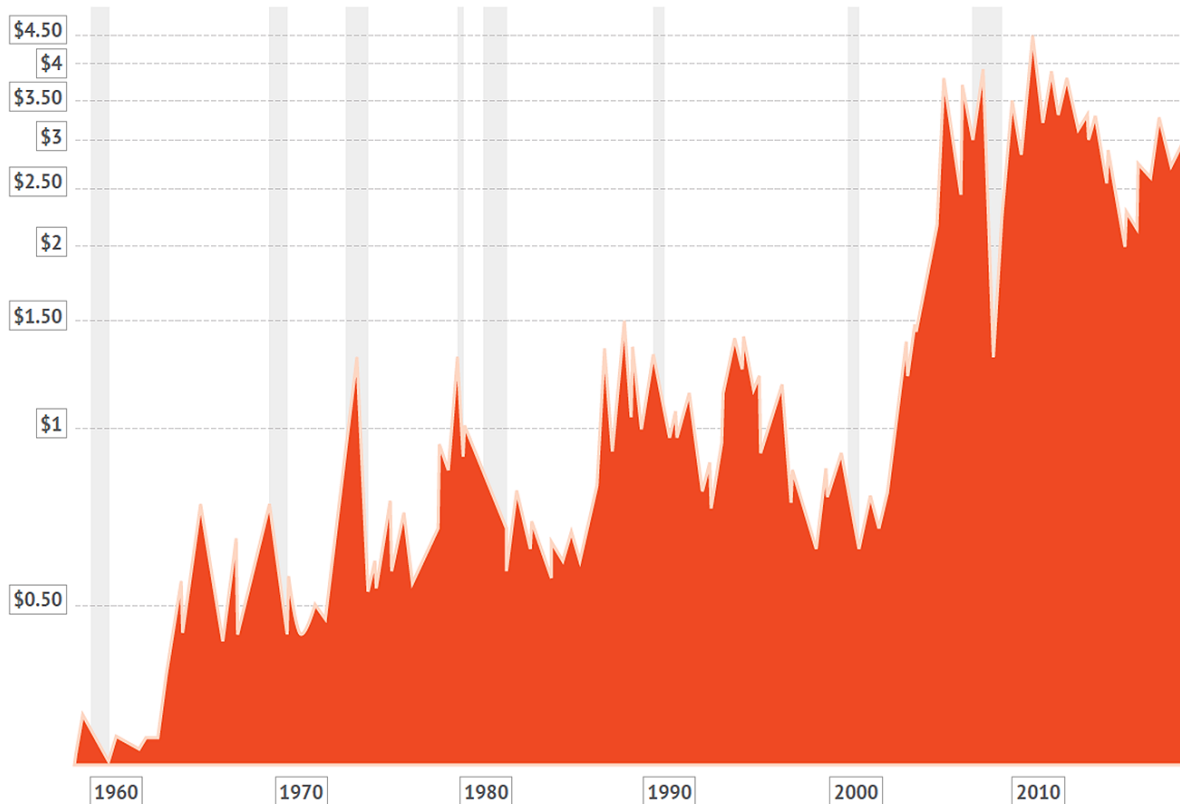
While there's ample reason for worry, there is also tremendous opportunity for forward-looking electrical distributors who embrace change while amplifying their value proposition.



II. MARKET DYNAMICS THAT STIFLE GROWTH

Cost Fluctuation

Most electrical distributors keep a keen eye on the copper and aluminum markets for their wire business, among other important raw materials. For a sense of the fluidity of these input costs, here is the [45-year historical chart of global copper prices](#).



Since the costs of copper and other essential commodities change daily, a distributor's prices must be dynamically updated to keep up. When they aren't, system prices fail to accurately reflect market prices. The result is electrical products distributors consistently leaking margin or pricing themselves out of deals.

Too often only 20 to 30% of a distributor's revenue is transacted at the system price level, with the remainder of the revenue occurring at a discounted customer-specific price level or as a one-time deviation or override based on rule-of-thumb discounting behaviors. Furthering the margin leakage, sales reps often lobby to assign nearly all of their customers to the most favorable available price tier or column in the system pricing structure. In other words, every customer gets the best possible system price, regardless of the customer's relationship with the company. This often leads to rampant misassignment and additional margin leakage. Compounding this is the difficulty presented by having thousands or even millions of customer-specific prices lurking in ERP systems. Companies often lack a proactive and scalable way to make updates to these, and communicate those updates to sales reps and customers, as costs and market conditions necessitate changes.

Online Players

[As McKinsey reported in a recent study of industrial distribution](#)

*“Professional buyers who shop on Amazon now expect digitally enabled services such as customized reporting, multichannel ordering, and full visibility into distributors’ inventory. Among customers who responded to our survey, 57 percent said omnichannel convenience was one of the top three improvements distributors should provide. Features they want include 24/7 customer service, a complete e-commerce website, order tracking, and real-time inventory management. Customers expect to make 30 percent more of their purchases from distributors via online means; those in the **electrical segment expect a 50 percent increase.**”*

Every traditional electrical distributor may want to look at itself in the mirror and ask, “What are we doing to meet this demand?” The message by now should be clear: get online or fight for the remaining scraps with other late- or non-adopters.

If you’re making the leap to eCommerce for the first time or bolstering an existing online presence to meet customer expectations, pricing cannot be an afterthought. In fact, in digital channels, pricing rigor, including effectively maintaining market-aligned customer-specific and system prices and setting up relevant price profiles, becomes even more important as pricing is more transparent to customers.

III. HOW TO BUILD AN IMMUNITY TO THE DIGITAL THREAT

There is a three-pronged approach to thriving in today’s digital economy as an electrical products distributor. Successful companies in the industry:

- A. Reimagine how they tackle pricing challenges
- B. Innovate technologically
- C. Go the extra mile with services

Reimagine Pricing

As we’ve covered above, you’re not going to win every deal – nor should you want to. If a company is willing to drastically undercut the market, that’s between them and their shaky bottom line. Fully understanding the price profiles in your markets, actively managing system and customer-specific prices and effectively responding to cost changes are the biggest levers to improve margins. Managed correctly, these may be the keys to weathering the uncertainty brought on by new digital entrants.

Consider these plays as you plan for 2020:

- Reimagine price setting and management. Take a closer look at how pricing software can produce market relevant system prices, intelligently assign customers and products to the right levels, and “smooth out” pricing within product groups (i.e. charge the same for every light switch in the same product group, regardless of color).
- Reimagine customer price management. Provide visibility and a simple way to mass update customer-specific pricing, or prompt sales reps to update their customer’s pricing outside of the ERP system.

- Reimagine how you respond to cost changes. Streamline and simplify the difficulty of updating prices when suppliers change your costs with price management tools. Strategically pass through cost changes, understand the impact to your business, and seamlessly publish prices back to your ERP, eCommerce or quoting system.
- Reimagine the online customer experience. Dynamically feed prices and cross-sell recommendations into your eCommerce platform so that every customer sees relevant prices based on their price profile or previously agreed upon customer price, as well as tailored recommendations based on what's in their cart.

Calling these plays – however seemingly complex – is possible. It just requires a reimagining of the legacy methods and systems that have left electrical products distribution companies behind the curve in a rapidly digitizing world. Between years of data and decades of expertise, most companies already have a vast wealth of knowledge within their four walls. This knowledge just needs to be unlocked, which leads us to technology.

Innovate Technologically

The average electrical products distributor will never match the tech prowess of Amazon. But forward-thinking firms can lead the charge among traditional distributors while providing their own value-added services that a company like Amazon can't match. Adopting best-of-breed technology partners for services like eCommerce, facilities management, business analytics and, yes, pricing, is a competitive differentiator.

When data science and software tools are designed to solve the problems unique to electrical products distribution, applied to relevant in-house or other data sources, and fine-tuned with the guidance of internal pricing and costing experts, the issues of scale and speed in responding to external forces are mitigated. The technology to achieve this and to take control of margin leakage exists today. Choose a partner that knows the electrical industry and can bring the right mix of insights to customer price profiles, and tools to manage system prices and streamline customer price management.

Go the Extra Mile with Services

If you attended Zilliant MindShare 2019 in May, you may recall Ian Heller of Modern Distribution Management referring to creating “moats,” the hard-to-copy services that differentiate your electrical distribution business from the digital players.

For instance, while Amazon and others can offer fast delivery or personalized recommendations, they can't (yet) deliver expert on-site training, assembly, cable-cutting, cable testing, tool repair, project management and a host of other highly in-demand services. Your customer relationships are your biggest asset now as they have always been. Double down on the value-add that you've built your reputation on. And when it comes to selling those services, be sure to apply the same pricing rigor that you would to your products.

IV. CONCLUSION

“Few people would have predicted five years ago that electrical distribution would look the way it does today,” writes [Jack Keough](#). “One can readily see there will be more substantial changes in the next few years, possibly more than what has occurred in the previous decade.”

The only constant is that everything continues to change. More and more electrical products will be bought and sold over the Internet in the years ahead. You can bet Amazon will aggressively add new service offerings and more SKUs, and provide even faster delivery. But it can't be stressed enough that electrical distributors cannot simply remain in a reactive role. Wait-and-see is a losing game in 2020 and beyond. Instead, distribution leaders should look to the plays above to harness the power of their in-house experts, serve customers the best market prices and value-added services, and reimagine the speed and scale at which they can respond and adapt to changing market conditions through price.

For more information, visit www.zilliant.com