

A black suit jacket is shown from the chest down, layered over a white collared shirt. The right side of the image transitions into a vibrant green field of grass with small white and yellow flowers. The background is a clear, light blue sky.

# STRUCTURE FOR SUCCESS

*Electrical distributors suit up for greener, cleaner product sales.* **by Susan Bloom**

**DESPITE THE NATION'S TROUBLED ECONOMY**, continued 9% to 10% unemployment levels, and lingering contraction of the construction industry, there are many bright spots on the horizon for electrical distributors that engage in the sale of energy-efficient products, services, and practices. This first of a four-part series—which will appear in *tED GreenRoom* throughout 2011 and focus on how electrical distributors can become the channel of choice for energy efficiency and clean energy—will explore how some have successfully set up to sell energy efficiency and offer tips to help others position themselves to play in this lucrative area of the market.

“Distributors are in the business of satisfying demand,” said Bill Attardi, principal of Attardi Marketing (attardi.marketing.com). “So some distributors with customers who are not buying a lot of energy-efficient products will argue that they’re not justified in making investments into energy-efficiency sales because their customers won’t demand or support it.”

While this may be true, those distributors already in the game are quick to explain that an energy-efficient sale takes an entirely different approach.

“An MRO sale is a response to the customer’s need. The demand is there and price and delivery are the main focus,” said Bernie Erickson, northeast division manager of Austin, Texas-based Facility Solutions Group. “In the energy-efficient sale, however, the distributor needs to create the demand for the product or service, and when creating the opportunity, the sale becomes more complex, involving such financial motivators as ROI, payback, and avoided maintenance expense.”

Glenn Goedecke, executive vice president of sales and marketing for Mayer Electric Supply, Birmingham, Ala., believes that the justification for driving this kind of business is clear. “There are no financial incentives from manufacturers for promoting more energy-efficient technologies per se,”

he noted. “But if a distributor is the first in its area to understand the energy-efficient market and add value there, the margins will be what they are: potentially 25% or better.”

Erickson agreed: “The greatest thing about creating energy projects for both distributors and manufacturers is that you are creating new and discretionary business that neither the distributor nor the manufacturer would have seen otherwise. This adds tremendous value for the manufacturer in a shrinking market and allows both the manufacturer and distributor to sell premium products at better margins.”

According to Attardi, distributors are in an optimal position to maximize their participation in this business based on three attributes in their favor:

1. They have relationships with the manufacturers that produce the energy-efficient products.
2. They have access to the customers that need these products and have developed close relationships with them over many years.
3. They know what’s happening in their local markets as far as energy-efficient initiatives and can deliver this information to their customer bases.

“Because they have unique access to these three critical entities, distributors are ideally positioned to benefit from and drive these sales,” Attardi noted.

## Opportunities abound

Not convinced that energy efficiency is the future of electrical distribution? Consider the following:

- In a 2010 report, analyst firm Verdantix (verdantix.com) forecast that the U.S. sustainable business market—defined by more than 1,250 large American companies as investments that include spending on energy efficiency, carbon management, sustainability strategy, risk management, clean technology innovation, sustainable operations, human capital investments, and industrial emission reductions—will double over the next four years, increasing from \$28 billion in 2010 to \$60 billion in 2014.

- According to a recent survey of more than 350 facility decision makers and lighting designers conducted by OSRAM Sylvania, 84% of respondents reported that energy efficiency, operating costs, and maintenance were top considerations when making lighting decisions, and 81% of building and lighting professionals claim they are now focused on energy efficiency. The report also indicated that 71% of facility professionals claimed to have evaluated their commercial lighting in the past year.

- Based on the results of a July 2010 survey of more than 750 IT professionals by CDW, 75% of U.S. organizations report that they are working to reduce energy use in IT operations from the desktop to the data center. According to respondents, this will include im-

Goedecke added another very pressing reason for why distributors should want to get in the game: “In order to get a new product and new technologies promoted, some manufacturers and lighting agents are getting out there and doing it themselves—by quoting end-users direct or, in some cases, selling direct to them. Distribution at this point is simply providing product. The fact is, it’s imperative that we add value here. Distributors must take control of their business from manufacturers and agents or they will lose it.”

From an environmental perspective, distributors have experienced a varying receptiveness to the green aspect of the pitch by customers. “Owners tend to be green, but purchasing agents are not if it exceeds their budgets,” noted Frank Millard, president of the Energy Group at Linden, New Jersey-headquartered Turtle & Hughes.

“Environmental objectives are definitely good, but they’re not a major driver,” added Larry Stern, president of Standard Electric Supply in Milwaukee, noting that it’s about costs first for Standard’s customers, which are largely industrial, OEM, and MRO based.

For Erickson, however, end-users seem to be more receptive to energy-efficiency and green/environmental ideals than ever before.

“Whenever we’ve seen tough economic times, we see a renewed interest in saving energy to cut costs,” he noted. “But there’s now a consistent and sustained interest in being green that is being driven by both the political environment and shareholders as well as consumers.”

Once the desire to embrace energy-efficient sales has been expressed, Goedecke has seen distributors fall into a number of different categories. “On the spectrum of involvement, a C-level distributor will be one that sells energy-efficient lamps, fixtures, and other products to a contractor when asked and may have one or two employees on board dedicated to this function,” he explained. “They’re in the energy-efficient market but not in an advisory way. We estimate that about 60% of

all distributors fall in this category.

“A B-level distributor understands what the drivers of this market are—such as ROI and payback—and can get beyond basic products and into more sophisticated technologies like lighting controls as well as services like recycling, metering, and basic lighting design,” he continued. “This type of distributor might have two or three people in-house dedicated to supporting that business. Potentially 15% to 20% of all distributors operate at this level.”

Based on Goedecke’s experience, an A-level distributor in the energy-efficiency market (which he estimates to account for 5% to 10% of all distributors) possesses all the skills of both C- and B-level distributors, but can also offer complete turnkey services, partner with mechanical (HVAC) and electrical subcontractors, and approach any and all types of customers with products—ranging from simple transformers to high-efficiency motors, industrial drive applications, industrial capacitor systems, advanced lighting control technology, and complex building control systems.

Distributors in this category also offer financing packages, understand legislation and LEED certification, provide all design and layouts, and make all product selections, relying on manufacturers only for quotes. Sales associates at this level understand complete design beginning from the transformer and the electrical panel all the way to actual controls and related systems.

“In this scenario, distributor salespeople are dealing with presidents, CFOs, and controllers in addition to facility managers, and are trained to speak to all of them,” Goedecke said. He added that Mayer Electric, which has been proactively pursuing the energy-efficient market for several years and has a range of skills and offerings that place it into this A-level category, currently has 14 in-house employees dedicated to driving this business, with potentially three to four more to be hired to help expand the business and pursue sales of newer technologies like wind and solar. “Being in those diverse busi-

nesses, proving the energy efficiency of networking equipment such as routers, switches, and connected devices that power everything from the Internet to mobile technologies.

- Based on current activity, the Department of Energy projects that the value of the U.S. green building market could increase from \$71.1 billion in 2010 to \$173.5 billion in 2015, representing a compounded annual growth rate of nearly 20%. Commercial green building in particular is projected to grow by 18.1% annually during this time, escalating from \$35.6 billion in 2010 to \$81.8 billion by 2015.

- According to the Department of Energy, the nation’s consumption of renewable energy rose to more than 8% in 2009—a more than 20% increase from 2007—and is expected to increase steadily. Associated technologies involved with renewable energy sources such as wind, solar, and hydro-power are lucrative new markets for distributors, and this growth reflects an early openness to these alternatives by the marketplace.

- Energy costs continue to justify conservation. Though electricity costs as of late summer 2010 (the latest data available at press time) had edged down slightly relative to prior-year levels, the U.S. Energy Information Administration’s Annual Energy Outlook 2010 forecast that prices will soon begin climbing back up through 2035 in response to increasing demand and rising fuel costs. —S.B.

nesses is critical, as it can represent a 5% to 7% diversification against our total volume," he noted.

## MAKE IT IN THE MARKET

How can electrical distributors become more involved and structure themselves for success in this market? The experts interviewed for this article offer the following tips:

- **Know the difference.** Accept that the energy-efficient sale is different from MRO business. "Simply put, the sales process for MRO business is to satisfy demand, while the process for energy-efficient business is to create demand," said Attardi.

"You first need to be able to understand the financial sale and how to clearly define and explain the financial benefits to the customer," agreed Erickson. "In addition, this sale is often made to a different person from the one we may be accustomed to calling on. Instead of the plant engineer or maintenance supervisor, we are now looking to speak to the CFO or COO. Where we might be tempted to speak about product features and benefits, this customer will be more interested in the financial benefits for their company and, in fact, may not even understand or want to understand how the product works. The wrong sales approach will certainly diminish the chances of success."

- **See opportunity.** Don't think that there is limited opportunity for energy-efficient product sales just because you or your customers don't currently partake. "In our opinion, the opportunity is huge," said Goedecke. "There isn't a building or residence on any street in America that isn't a candidate for some kind of energy-efficient upgrade, and this represents a five- to eight-year window of opportunity for retrofits, new construction, and upgrading."

- **Make the investment.** Be prepared to invest in training or acquire skilled resources to drive this initiative. "To be successful, you need to invest in people and training to ensure success. It will not just happen on its own," said Erickson.

"Hire the specialists you need and

invest in training them," recommended Goedecke. "You can't just take a traditional sales guy and make him specialize in energy."

"There are customers out there that need these products but don't understand them, and we need to have the knowledgeable people in-house to close those sales," Stern confirmed. "It takes more than just telling your existing sales force to get it done; you really need to have a champion in the organization who understands and is committed to growing the sale of these products—someone to lead the sales group and deliver results."

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For Millard, this has meant going outside the company. "We felt unprepared for the changeover to LEDs and other cutting-edge products, so we recently hired a group of people from an ESCO to help strengthen our organization in this area," he said.

- **Investigate incentives.** Familiarize yourself with national, state, and local funds and resources available to help subsidize upgrades for customers. Experts agree that the legislative landscape has never been more favorable for energy efficiency.

For example, federal funds from such initiatives as the *American Recovery & Reinvestment Act (ARRA)* as well as the *2005 Energy Policy Act's* Commercial Building Tax Deduction have earmarked monies to help incentivize the nation's buildings to improve their energy efficiency as a means of making our nation more globally competitive and less dependent on foreign oil.

Utility rebates are also at some of their most active levels in many years. Leendert Enthoven, president of Brite-Switch ([briteswitch.com](http://briteswitch.com)), a company

dedicated to securing and managing rebates, tax incentives, and other financial rewards for clients, confirmed that "at the end of 2009, 60% of the United States was covered by a lighting rebate or incentive. As of late 2010, however, the availability of some form of rebate covering energy-efficient lighting in nonresidential applications increased by 30%, to the point that these rebates now encompass more than 77% of the United States."

- **Get involved.** Goedecke, who has been active on several NAED task forces for years and who is helping to bring standardized upgrade software to the

distributor community by early to mid-2011, recommends a proactive approach. "Understand the market, learn about current legislation, and make the necessary investments in inventory to do it right," he said.

The results can be eye opening and should absolutely pay back the investment in time and resources plus some if executed correctly. "I truly believe that there is a great potential opportunity for distributors in this market," said Stern. "We need to pay attention and invest in it to capture our share."

"Customers don't understand all of the energy-efficient product options available to them, and this confusion presents an opportunity for an upsell and for distributors to emphasize something other than price," added Steve Helle, president of Granite City Electric in Quincy, Mass. "We should all be seizing the moment." ■

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