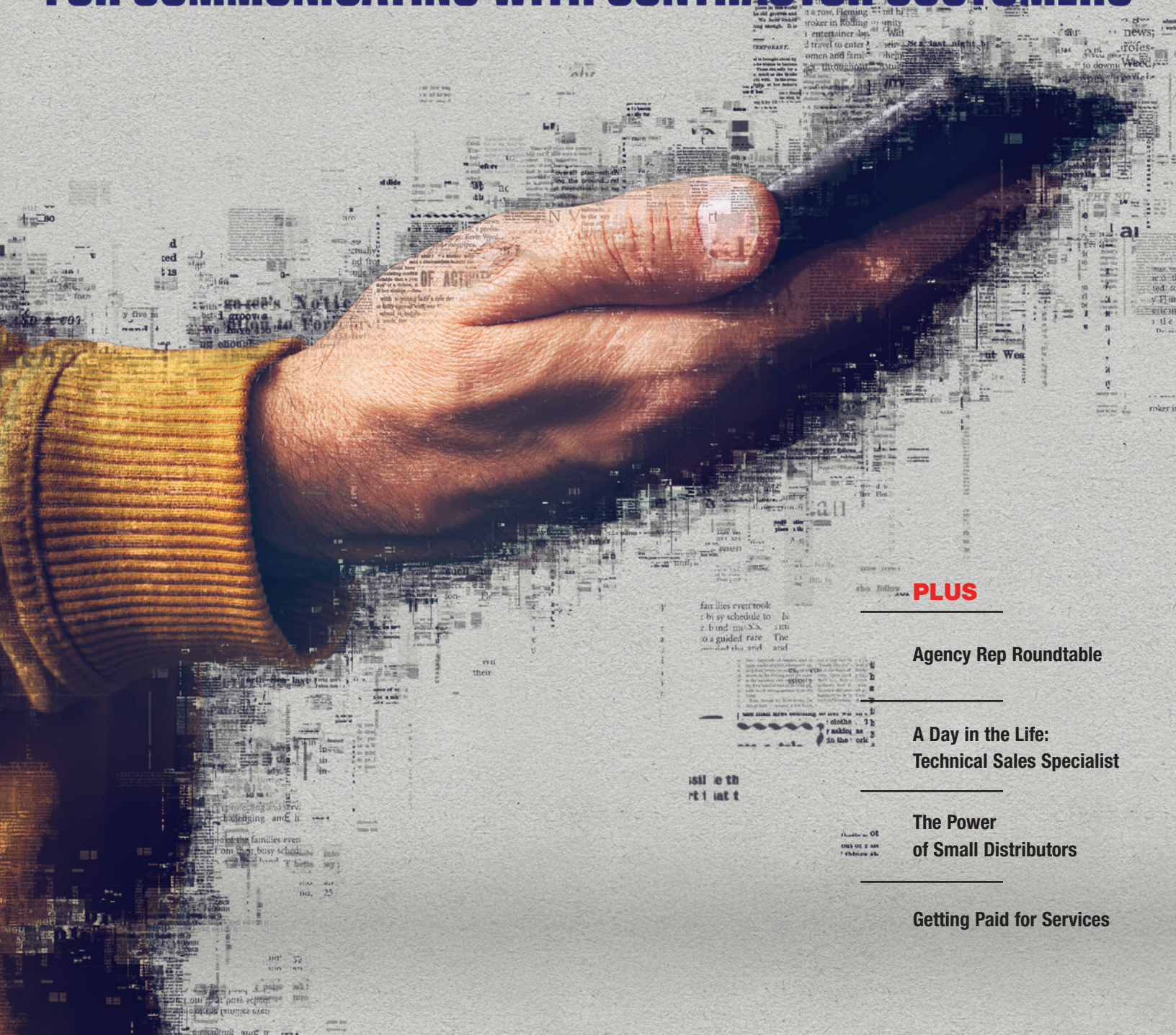


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THE 'NEW NORMAL' FOR COMMUNICATING WITH CONTRACTOR CUSTOMERS



PLUS

Agency Rep Roundtable

A Day in the Life:
Technical Sales Specialist

The Power
of Small Distributors

Getting Paid for Services

IF YOU DON'T PROVIDE SERVICES, WHO WILL?



One of the greatest fears distributor sales teams have centers on how customers will react to fee-based services. Many sellers also have deep-rooted fears of competitors, who offer these services for free, swooping in and grabbing their accounts. As with most fears, the related emotions are far more powerful than facts. When the facts are carefully considered, the emotional charge can be deflated and the fear is seen in a different light; perhaps eliminated or, at least, greatly diminished.

Let's explore the question, "If you don't provide services, who will?" We'll scan the landscape for others who are capable of providing services, whether it be manufacturers, contractors, other distributors or even customers developing these capabilities in-house.

Additional services are necessary

Let's start with an important premise: Your customer needs a service you provide. The customer has three choices:

1. The customer can decide to handle the task internally.
2. The customer can continue to use your service for a reasonable fee.
3. The customer can select another provider.

Many argue there is a fourth option—the customer can decide to completely discontinue the service. We basically disqualified this option when we said, "your customers need the service you provide," but let's dwell on this option for a moment.

If a customer is willing to discontinue a service you are currently providing, they place little or no value on the extra work you may currently be doing for free. This phenomenon occurs more often than one might imagine. Here's an example, the customer orders a part and, without asking management, the inside sales team decides to apply special handling. Rather than deliver the part on a regularly scheduled delivery route, the order is hustled through your system and delivered early the next morning. Since the customer didn't really need the part until the following week, these extra efforts and money were largely wasted.

If a customer isn't willing to continue a service with you or take it on internally or with someone else, why should you continue this exercise in futility? You are wasting time and resources.

Customers often look to outside providers for a service because they either lack the expertise to conduct the service or they have determined the cost of hiring others to perform the service is less costly than using their own employees to perform it.

Contractor customers, who operate in an organized labor/union environment, often find themselves at a cost disadvantage. Furthermore, labor agreements can complicate the execution of temporary services. When labor costs range into \$70 dollar per hour (based on published International Brotherhood of Electrical Workers reports), distributors are presented with opportunities on many fronts. For example, distributors can offer parts "kitting," which eliminates contractors' need for electricians to perform this work, at a far lower cost. In other parts of the country, distributors offer subassemblies and "prefab" wiring as fee-based services. If distributors eliminate these services, contractors would pay much more for this work.

End-users find themselves in similar straights. They not only face the high-burdened cost of labor, but also hiring freezes, corporate dictates and concerns about future economies that will not support hiring additional employees. This creates a situation where distributors join the relatively large number of independent contractors providing services outside the core competency of their customers.

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What's the real cost of providing technical services?

Historically, electrical distributors have provided a wide array of both technical and logistical services to their customer base, and their salespeople served as the gatekeepers for these services. Management oversight of the deployment of these services has ranged from “informal” to “talked about it in a sales meeting last year.”

Someone with an engineering degree or a great deal of prior experience or training performs the technical work. An investment in this type of person is high. For example, a newly-graduated engineer's salary is approximately \$60,000, not counting travel, training and benefit costs. Even when the cost of a technical service goes up, only a few distributors take the time to proactively track all of the related expenses on a per-customer basis.

If you don't provide the service, who will?

We went over the customers' options for securing additional services above, but let's get a little more specific:

1. Some customers could do the work internally, but might need additional staff. If they have the staff, they would have to invest more heavily in training to perform the additional work.
2. Systems Integrators (SIs) could handle the work, but some might need training. Some SIs, who are paid to do the job, wind up relying on their local distributor for assistance.

3. Engineering firms could do the work. While many believe professional engineers dwell at the top of the food chain in terms of training and skills, my experience dictates that is far from true and they would likely need training to provide the additional services.

4. Suppliers/manufacturers could provide the services. However, there would be a cost associated with the resources they would need to travel to the customer from their factory or headquarters.

The interesting conclusion is that all of these solutions would be fee-based. Furthermore, most of these potential providers do not seem as reliable as the local distributor.

Could customers do the work themselves?

Industry trends point to customers preferring to operate in a very lean environment. Most have consciously decided that maintaining large engineering departments and qualified technicians are not good uses of their budget. Furthermore, America's workforce demographics point to issues in finding, training and retaining the right folks needed for rare emergencies. This is highlighted in a recent *Plant Engineering Magazine* survey of North American manufacturers that points out the average plant outsources more than 20 percent of its maintenance work.

Could SIs provide the services?

The SI business model includes organizations that earn their living by providing engineering services in the manufacturing

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sector. Generally, they are called upon to assist customers who lack the sufficient internal resources for automation upgrades. Most specialize in control system design. My experience with SIs indicates that the majority of them prefer to work on larger turnkey projects versus providing short-duration onsite assistance. Some have candidly commented that they struggle to make money on projects billing anything below \$40,000 in labor.

Conversations with dozens of technical people who work in distribution reveal that SIs often struggle with newly-released technology. Furthermore, many SIs specialize in using the major automation equipment maker's products and require outside assistance from distributors when using anything besides those brands.

Could consulting engineering firms do the work?

Consulting engineers mirror the efforts of SIs with the exception that they typically provide a wider range of engineering-based services. However, industry experience indicates that the services of these folks are both more expensive than SIs and, again, favor larger projects.

Most of the major makers of automation equipment offer up some kind of technical service. There are three issues associated with acquiring services from these sources. First, their technical expertise tends to be centralized; often housed at their factory or headquarters. This translates into lost production time for the customer and travel expenses tied to the service. Second, the cost of labor at large supply-partner corporations is astronomically high (\$185-\$235 per hour). Finally, while the technicians are well trained and capable, they frequently lack experience with integrated systems that are made up of the best equipment from several suppliers.

All of these potential providers of services come with a price tag.

Can competitors provide the service?

The final option does cause a slight pause in our reasoning. Can a competitor really provide the service? The answer is maybe. However, there are a number of issues to consider with this solution. Let's explore:

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- The competitor may not know your customer's installations and applications as well as the employees in your company. This translates into a steep learning curve for the competition to provide the same services.
- The competitor may not have access to the same product lines. Again, this implies both a learning curve and a lessened quality of service.
- The competitor may not have the same quality of resources. This is very often the case with larger logistics-provider-types of distributors and remote outpost branches of larger chains. When downtime and productivity are involved, the customer knows the difference.

What are my final thoughts on fee-based services?

Thought No. 1: More than half of the average electrical wholesaler's customers do not contribute to the bottom line.

This means it costs you more to take care of them than you receive in gross-margin dollars from them. Let's call them the "wrong customers" as we proceed to my second thought.

Thought No. 2: Charging the "wrong customers" for the right services has two potential outcomes: these customers take their profit-draining business elsewhere or they become profitable customers for you when you start charging them for services.

About the Author: Straight talk, common sense and powerful interactions all describe Frank Hurtt. He speaks and consults on the new reality facing distribution. For more information or to order his book, *The Distributor's Fee-Based Services Manifesto*, visit Amazon.com. It's a license to make money. To contact him at River Heights Consulting, email frank@riverheightsconsulting.com or call 563-514-1104.