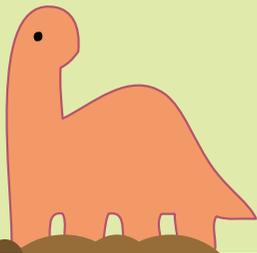


30%

of independent manufacturer reps facing extinction

Tom O'Connor and TJ O'Connor



An estimated 80% of all electrical manufacturers use independent representatives to sell their products. Historically, commodity manufacturers have promoted their independent reps to have large geographic footprints with warehouses and delivery trucks. Specification manufacturers, on the other hand, have discouraged independent reps to grow their geographic footprint. Additionally, lighting manufacturers have always preferred the best independent lighting agent in a local market over a larger geographical footprint.

The rep of the future

In 2010, we published “The Rep of the Future” research report for NEMRA (U.S.-based National Electrical Manufacturers Representatives Association). We concluded that many reps were fast becoming dinosaurs. We warned them that, to escape extinction, they had to develop the following six survival skills:

1. Develop clear and accurate strategic vision of the future; where they are versus where they need to be.
2. Implement an annual strategic business planning session with key manufacturer partners.
3. Employ channel marketing expertise within their geographic footprint.
4. Deploy the right strategic selling strategies to distributors, contractors/end users and specifying engineers.
5. Execute the right technology strategies to streamline processes, become operationally efficient and improve profitability.
6. Teach people at all levels of an agency to continually think strategically, anticipating market opportunities and threats while managing the daily tasks that fall within their scope of responsibilities.

Sadly, many manufacturer reps have neither adopted nor incorporated these six survival skills. Those that do not will become extinct over the next five years. According to one commodity manufacturer:

If there is a rep agency that offers young salespeople rolling up to a distributor or contractor that can provide more information than the old rep could provide in a month, which rep do you think the manufacturer will support? The role of a rep as a value standpoint has dramatically increased.

30-30: Extinct reps replaced by new entrants

Not long ago, we executed then published the results of a research study entitled “Sea Changes in the Electrical Channel: Technology & Multi-Generational Workforce”. The study was sponsored by the National Electrical Manufacturers Representatives Association (NEMRA) and its affiliate, the NEMRA Manufacturers Group (NMG), and Electrical Wholesaling Magazine.

Research participants estimate 30% of current NEMRA reps will no longer be in business five years from now. Concurrently, the majority of participants believe that, by 2018, 30% of the independent representatives will be newly created firms. These new rep firms will come from talented individuals from manufacturers and distributors who understand the need and opportunity in the electrical distribution channel.



There has been an uptick in independent rep firms being established by employees from manufacturers. The manufacturer's requirements of rep firms are evolving, and former employees have a good grasp of what is expected. Much like electrical distribution, the existing rep firms must evolve and become solutions providers, truly partnered with the manufactures they represent.

These new rep agencies will be more specialized for specific lines and markets. More of them will have lines and sell services in the technical markets, and will not follow the traditional distribution channel.

In addition to lighting reps, commodity reps and spec reps, the channel is on the verge of a new energy solution rep-based model in which the rep firm carries only complementary, cutting-edge energy-efficient solutions for new construction, retrofit and outdoor spaces.

Closer alignment between manufacturer and rep

There will also be a much closer alignment of independent rep agencies and manufacturers with less tolerance of competitive lines. This will be true of both existing players and start-ups.

Manufacturer consolidation with Philips, Eaton/Cooper, ABB/Thomas & Betts and others soon to follow will create sea changes in the existing rep structure. These mega-manufacturers will try to align their packages with fewer distributors. Continued manufacturing consolidation will result in super-regional rep firms, like an 'Eaton/Cutler Hammer/Cooper' rep firm; an 'ABB/T&B' rep firm; possibly a 'Schneider/Square D' rep firm; a 'Hubbell' rep firm; possibly a rep focused on Emerson/Appleton products; and other

platform companies being represented by a super-regional rep firm.

According to one electrical manufacturer, “Most NEMRA rep firms are going to have to get bigger. Love the local rep, but that doesn’t fit the size model of most manufacturers any longer”.

Another strong possibility is that—as the platforms get bigger with consolidation and a common line package—it may be cheaper for these mega-manufacturers to go factory-direct.

In addition to the super-regional reps, there will continue to be smaller specialty reps for specific lines and markets. New rep firms will be founded by manufacturer and distributor employees who understand the need and opportunity and want to go into business on their own. More of these new rep agencies will have lines and sell services in the technical markets and will not follow the traditional distribution channels. Electrical manufacturers will continue to support new independent rep agencies.

According to one electrical manufacturer:

Agents are vital to the industry. They provide the local linkage between the distributor and manufacturer. As the ED channel evolves, so must the agent with a solutions mindset. As manufacturers build out vertical segments, the agents will be required to have in-depth knowledge of those segments. For some agents, this will be a new expectation. The ability to call on an EPC [engineering, procurement & construction] engineer, or an oil & gas customer—with knowledge of their special needs, wants and requirements—will be vital.

Another manufacturer said:

We are on the verge of a new energy-based solutions model for reps. If I were a new rep, I would look to develop a focus on energy-efficient solutions; not a lighting rep or a stock-and-flow rep. It’s a new and different business model for a rep agency. Would need solid inside engineering staff and would only carry cutting-edge, energy-efficient solutions for new construction, retrofit and outdoor space.

One manufacturer says he is seeing more new rep firms being established by employees of manufacturers:

Manufacturers’ requirements of rep firms are evolving, and their former employees have a good grasp of what is expected. Much like electrical distribution, the existing rep firms must evolve and become solution providers truly partnered with the manufacturers they represent.

One independent manufacturer representative also sees more agencies being established in the future. The primary source will come from electrical manufacturers and distributors, he says.

I do believe there will be consolidation in the rep business that will bring opportunity for future growth. Some agencies will get larger with platform manufacturers. And consolidation will also create specialty reps to assist in specialty products for specific markets. There will be many opportunities for specialized reps.

Added another electrical manufacturers’ rep:

We will see new rep agencies and they will be more specialized for

specific lines and markets. They will come from manufacturers and distributors who understand the need for opportunity. More of the new rep agencies will have lines and will sell services in the technical markets, and will not follow the traditional distribution channels.

According to another representative:

We have seen new rep agencies with a focus on the energy market starting up. With so many new manufacturers, especially on the lighting side, there are many opportunities for new rep start-ups. There is inherent risk to reps in this case, depending on how well capitalized those new manufacturers may or may not be, and also on whether the manufacturer’s goal is to ultimately sell to someone else. Many reps have recently had the experience of investing in missionary work required to build a manufacturer’s business, only to lose representation of that manufacturer when it is sold. Even so, even established agencies have taken on the risk of representing new companies in order to help the agency’s product offering keep pace with the rapidly evolving market.

According to one electrical distributor:

We have seen new rep agencies starting up. Existing reps at times cannot take on new lines or have to give up lines due to conflicts. Some ‘legacy’ agencies are becoming complacent, which is creating opportunities for talented and experienced individuals in the market that have the entrepreneurial desire.

How do independent reps drive value in the future?

Every rep needs to challenge their business model to answer the following question: What value do I provide to my electrical manufacturers and distributors that cannot be replicated?

The six critical survival skills noted above and referenced in our 2010 “Rep of the Future” research study will remain in place over the next five years. Reps of the future must also:

1. Document value to both manufacturers and distributors.
2. Provide complementary line card product offering that provides a package to vertical segments.
3. Provide value at an overall lower cost than a direct sales approach.
4. Possess funds and willingness to invest in agency as reps’ role continually changes.
5. Provide true product experts with ability to teach distributor salespeople.
6. Possess deep relationships at the contractor.
7. Offer services that provide solutions for the customer, distributor and manufacturer. Provide design-build capabilities across product lines, project services, take-off services and technical expertise—especially in new technologies.
8. Deliver specification capability at engineers and architect community. ■

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