

Out of the Fire

The final article in this series will help you expand your options and grow even when your markets haven't yet recovered.



The rock band Tower of Power had a 1997 release called *Rhythm and Business* that featured a song named, “The More You Know, The More You Know You Don’t Know.” The song teaches listeners that it’s what you don’t know that fuels growth rather than what you know. Think about that, because it’s the key to a return to prosperity.

It’s difficult to get people excited about growth op-

portunities right now. When we mention growth strategy to distributor executives, they look at us like we’ve lost a few screws. That’s unfortunate, because the economy is not going to roar back like it did following the last recession, and you need to think about growth differently than ever before.

Some emotional barriers must be overcome before anybody can think about growth. Growth requires channeling energy into exploring new opportunities. We don’t sense a lot of emotional energy out there. That’s understandable

By Neil Gillespie and Allen Ray

when your business has just suffered through the worst economic decline of your lifetime. Here are some thoughts that may have danced in your head:

- You feel overwhelmingly dependent on the overall economy.

- The wind is knocked out of your sails from the loss of volume, company value and profits.

- You don't have the emotional energy to try something just to see it fail, and you are still mourning.

- You think the only ways to grow are to sell more stuff to existing customers or find more customers for your stuff, but these strategies are not yielding what they used to.

- It's easier to sit back and wait for the economy to improve.

- Perhaps you have mentally capitulated and are considering closing the doors and giving up.

- You don't really know your company's true set of growth options.

The most dangerous of these thoughts is the lack of emotional energy that has frozen many electrical distributors into sitting back and waiting. They are very disappointed that they had it made in 2007 and 2008, only to see their wealth evaporate suddenly in 2009. That can take the wind out of anybody's sails.

You need to heal from that, but don't take too long. The biggest killer of businesses is failure to react to the environment by adding to the core business. Mature businesses in steadily declining markets will perish unless they supplement their core markets by getting into adjacent market opportunities.

To refuel, you need to associate with different people. Expanding into market adjacencies takes learning, and that takes reigniting hope and energy. Heal up fast so you can focus. That usually requires associating with some different people, learning from them, and getting emotionally refueled. You will not be able to sustain a new attitude if you keep associating with the same people who have a way of yanking you back into their trough.

It's also dangerous to sit back and wait for the economy to come back like it did in late 2003. It's not going to. You must think in several new directions simultaneously for growth. We don't want to throw cold water on an already chilly topic, but here's the reality:

Most of the growth in our economy comes from businesses with 500 or fewer employees. They provide 70 percent of the new jobs in the economy, according to the Small Business Administration.

Credit has been cut off from small businesses. That spells a lack of fuel for the most important growth engine in the country. If you don't have at least \$10 million dollars of free cash flow, you're probably not going to get a look from a bank unless you are rock solid. If small business can't get fuel, unemployment is going to

stay high and consumer spending will stay low because of it. It doesn't matter how many retraining programs the government sponsors. There are no jobs in which the retrained people can land.

Though large corporations are flush with cash, they're not investing it unless they see consumer spending tick up significantly. They've reduced staff, optimized profitability and are simply pocketing the cash.

EXPANDING YOUR OPTIONS

The electrical market usually grows at double to triple the rate of the economy in a recovery, but it suffers much more than that when there is a decline. We're in a decline and we don't expect a robust recovery due to the aforementioned factors. So what are your options?

Look horizontally across trades, as well as maximizing your position within your existing vertical market simultaneously. Look at selling additional products, adding new services and exploring these simultaneously. One of the problems inherent with a robust recovery is that we get satisfied with reaping the growth the recovery dishes out and many times that's all we can handle with the existing people resources. So we abandon our investigative efforts and our skills go dormant. It's time to wake them up.

In a previous article in this series, we discussed how distributors indicated that they had difficulty in growing on multiple fronts and finding people to head up growth initiatives. Those are real issues. The Who, the group that graced your screen during the halftime show of this year's Super Bowl, wrote in their 1974 release, *Join Together*, "It's the singer, not the song that makes the music move along." Let's go with that for a minute. Perhaps it's not all about the right people, but instead teaching people to think and see the world differently, replicating that capability in a number of your people so you can develop simultaneous growth initiatives.

A NEW SET OF LENSES

To get this going in your company, you need to see growth opportunities through a new set of lenses — six of them to be exact. The sixth explodes out into a whole new set of opportunities by itself, totaling more than a dozen types of opportunities. Learn to think like this and you can begin to see your way out of the most difficult of situations.

Your mission is to get something going in each of the following six areas. That creates diversity, which reduces risk of failure in any one endeavor. Here is the new set of lenses:

#1. Maximize core customer retention. Keep more of the growth you already have. Nobody likes to delve into the reasons you lose customers or significant share at a

customer. If you learn the reasons and fix them, you keep others from leaving. To retain your best customers, offer them special privileges. The best customers give you tens of thousands or more in annual volume, high gross profit dollars per order and they pay on time. Use these criteria to profile your customers. Those that are larger with small gross-profit-dollars per order are killing you. But large customers also represent the biggest potential profit improvement in your company if you expand the mix they buy.

#2. Get more business from core customers. Improving the product mix purchased by existing customers is the fastest way to improve profitability. Why? It raises the average gross profit dollars per order relative to fixed transaction costs to fulfill the order. Go all out with marketing and sales practices to promote this behavior.

#3. Take share from competitors' customers. This is admittedly more difficult. If you do it the wrong way, you typically end up cutting price. So what's the right way? First of all, you must put the right people on this task. Not everyone is suited to going on the prowl; they may instead be better at maintaining existing accounts.

You need meat eaters on this task, but a different kind of meat eater: one with cunning and patience at the same time because this is a longer process. Share takers realize it's the relationship with the opposition's salesperson that needs "breaking." They study the strengths and weaknesses of the competitor while observing how customers are reacting to these. Then they position themselves as the positive opposites of their competitor. This awakens latent dissatisfaction in a positive way. Eventually, they wear the customer down and they see why they have to leave "old Joe" in the cold. Do you want to know more? Get a hold of the book, *The Wedge*, by Randy Schwantz. You'll never view selling the same again.

#4. Create demand. Many distributors believe their role is to fulfill demand and that the manufacturer should create the demand for the product. I wouldn't count on this equation working in my local market. Most of us fall prey to the feature/benefit selling trap, which does nothing to create demand. Too many people forget products are invented to serve functional needs or to solve problems, and that you must show how your company provides solutions to the problems. For instance, you may need to remind industrials about the seven or so biggest automation application mistakes, or tell residential contractors or homeowners about lighting mistakes in the home, and then reveal how your company provides the solutions.

To position yourself as a provider of solutions for these mistakes, consider making movies of each of the seven mistakes in a marketing campaign and posting them on YouTube or on your web-site. Above all, it's going to take a whole new way of marketing and selling to get people to spend more to solve their problems. You need to remind them of the issues they have, and then introduce the solutions. Anybody suffering in the lighting showroom market? Market the seven biggest lighting design mistakes in the home, and then reveal the solutions you have to solve them. Women will go nuts for it. They know what they hate but don't know the solutions.

#5. Get high early share of the fastest-growing segments. The media have chronicled it well: Green market opportunities are pretty much all you hear about for growth. But just how big are these, and how good a bet are they? We'll address that.

First, you need to understand how to look for the fastest-growing segments locally as well as regionally and nationally. For example, when a major auto assembler like KIA moves into western Georgia, they bring a caravan of tier one and tier two OEMs

behind them. You can find out who these companies are by asking local authorities. They will give you a list with phone numbers and might even have them posted on their web sites. Roden Electrical Supply, Knoxville, Tenn., did this in Montgomery, Ala., before the Hyundai plant even opened its doors there.

Check with the county and municipal authorities regularly for new business registrations, construction permits, etc. The tax authorities are another source, because they frequently make concessions to major new employers long before they arrive. Zoning officials are another good source of what's going to happen. If they zone a new area for retail development, while residential development has been underway, it might be time to have a branch out there.

Aside from the niche opportuni-



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ties the green movement offers, all of the macroeconomic growth is in the services sector. The senior care market, health and wellness, discount retail, cheaper alcoholic beverages and local business are the biggest bets according to *Entrepreneur* magazine and other sources. According to the Bureau of Labor Statistics, the long-term prognosis for manufacturing is continued shrinkage by almost one percent annually, while services industries will grow by 1.2 percent, with health and education services leading the way. Industrial distributors should start getting better at penetrating the commercial market.

Solar and wind power are tenuous bets. Currently, their growth has been sustained by grants that improve payback on investment. The paybacks will be entirely too long until the cost of using the technology approaches the cost of coal energy in most areas of the country. Subsidies “subside” by design and there’s the risk.

This is going to be a game of spotting better competitors in an industry and following them rather than betting on specific industries for growth. Just as guides take hunters to the big game, you might need some guidance here, too. Specific companies will survive because they learn how to expand their core business using all of the tools in this article.

#6. Expand into adjacent markets.

Here’s the big revelation: Your traditional markets shrank. Even if markets come back a bit, they are shrinking long term. When you are dealing with a shrinking core, your survival and future prosperity depends on getting into adjacencies. These involve expanding into other markets that leverage your core expertise.

Adjacencies take the most creative thinking of any growth opportunity. They get you thinking out of the box and into a new pool of demand you previously would not consider serving. That’s a sound strategy because it’s not dependent on economic growth.

You must expand your core business out of your existing vertical industry. The hard reality is that you must start thinking like a distributor of more than electrical products and consider broadening the products you sell and the customers you serve. That may mean you have to acquire another type of distributor to get decent lines. Then add services like recycling services and preventative maintenance services, which might mean joint ventures with engineers and contractors. You may not have tackled something like this before, but you’re going to have to learn, because you need to broaden your sources of revenue.

If industrial, electrical, safety, HVAC and plumbing distributors will all suffer from a shrunken market, then it makes sense to combine operations under one roof where there is significant customer overlap between companies. This affords operational cost synergies. You can integrate back rooms and still keep market focus with your front room sales and marketing.

Here’s a more complete list of the types of adjacencies to consider. Your job is to brainstorm the possibilities in each adjacency type and then rate them on the size of the opportunity versus the degree of difficulty to implement them:

- New customer types.
- New product categories.
- New services: recycling, preventative maintenance.
- New store formats like store-in-store, trailer store, or small residential-light commercial stores such as what Stuart Irby uses in the Southeast.
- New marketing techniques (internet marketing, catalog marketing and storefronts).
- New channels of distribution (mostly for manufacturers, but distributors can set themselves up as master distributors or joint venture with other distributors to access other markets).
- Different value chain position:

be a manufacturer, distributor, dealer or installer.

■ Geographic expansion.

You will probably look at some of these opportunities and realize you don’t know how to operate in that market. But that’s a sure sign you’re on your way to growing. Growth is all about having the humility to admit you don’t know how to do something, and then getting busy discovering what it takes to succeed.

Ask yourself how the founders of your business started it in the first place. That’s where you need to get back to — the spirit of the American entrepreneur hungry to discover whatever it takes to succeed. If you can rekindle that spirit, that’s where the healing begins. The burning desire to discover what it takes to succeed in something new is what will get us all out of the fire.

A fire, after all, is pure selfish consumption. Learning to do something new is about adding new value to benefit someone else, which is the key to growth. It draws your best efforts to bear on an opportunity. Embrace the challenge. ■

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