

EMERGING SALES FORCES

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EXECUTIVE SUMMARY



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INTRODUCTION

The objective of this project is to develop predictive scenarios in order to help electrical supply distributors build sales teams to fit the dynamic market conditions of the next 5+ years.

In order to meet this objective, this paper provides the following:

- ◇ *Identification of the key factors affecting distributor sales teams:*
 - *Macro economics*
 - *Industry economics*
 - *Demographics*
 - *Customer buying processes*
 - *Supplier requirements*
 - *New products/technologies*
- ◇ *A description of the likely sales technology environment*
- ◇ *A prediction of the role of (and skills needed by) the future distributor salesperson*
- ◇ *A forecast for the requisite number of distributor salespeople*
- ◇ *Scenarios formulated from assessment of key factors*
- ◇ *A transition plan for distributors from today's selling environment to that of the future*

OVERVIEW

Initial analysis identified many factors driving various trends in sales. Change scenarios that may be precipitated by these factors are listed below along with the particular elements that may lead companies to make those decisions.

MORE SALES PEOPLE

- Macro-economic growth
- Higher electrical content
- Larger population

FEWER SALES PEOPLE

- Macro-economic decline
- Industry sales slump
- Loss to competitive channels
- More e-commerce
- Increasing sales force productivity

NEW SKILLS/MIX

- New technologies
- New buying patterns
- New selling techniques
- Changing demographics

SAME SKILLS/MIX

- Industry inertia
- Time frame

SALES INFLUENCERS

Macro-economics

Key economic metrics include:

- GDP growth
- U.S. deficit and debt levels
- Income and wage levels
- Personal consumption growth
- Expenditures on mortgage, rent
- Private investment, fixed residential structures
 - Single family
 - Multi-family
 - Home improvements, renovation
- Private investment, fixed non-residential structures
- Industrial production and capacity utilization

Gross private domestic investment 1994, 2004, 2014 and projected 2014

Category	1994-2004	2004-2014	2014-2024
GDP Growth	3.4%	1.6%	2.2%
Personal Consumption Growth	3.8%	1.8%	2.4%
Housing Services Growth	2.4%	1.4%	2.0%
Private Investment, Fixed Residential Structures (\$496.1B)	4.8%	-4.9%	3.7%
Single family (\$169.5B)	4.4%	-8.4%	7.7%
Multifamily (\$40.2B)	6.5%	-2.5%	2.2%
Other* (\$287.5B)	5.1%	-2.1%	0.4%
Private Investment, Fixed Non-Residential Structures** (\$456.2B)	0.6%	1.0%	3.0%

*Mobile homes, dorms, home improvements

**Due to replacement of aging industrial/commercial infrastructure aided by decent corporate profits and relatively low interest rate.

Demographics

Age

The loss of Baby Boomers from the workforce will leave a vacuum in businesses of all sizes across industries. The population gap in Generation X compounds this challenge. Along with these fluctuations, the percentage of people considered dependent (under 18 or over 65) is expected to grow from 59% in 2010 to 75% in 2030.

Diversity

While the white (non-Hispanic) population is predicted to experience less than one percent growth in 2025, while Asian and Hispanic groups will be at around 25% growth.

Millenials

Up and coming employees born after 1982 present employers with a new set of requirements and skills. Beyond the desire to be paid well, Millenials surveyed list good work/life balance, opportunities to progress/ be leaders and flexibility (i.e. remote working and flexible hours) as their top three priorities. But, before the compensation conversation, a new hire has to display the needed skills for these openings. Studies show that millenials in the U.S. fall short of global peers when tested in literacy, numeracy and "problem-solving in technology-rich environments."

Education

Secondary and Post-Secondary

High school graduation rates have been slowly increasing though, due to slow population growth, the number of graduates is declining. As with the population at large, the number of minority graduates is growing more rapidly than the number of white graduates. College graduation rates for two and four year programs are projected to grow across demographics. These increasing numbers of graduates, has not had a positive impact on test scores. Comparisons of scores with countries in the Organization for Economic Cooperation and Development place the United States below average for all areas measured.

Vocational Education

Though the U.S. does fall in the middle of the pack for vocational graduates worldwide, few of those students study engineering, manufacturing or construction skills.

Workforce Gap

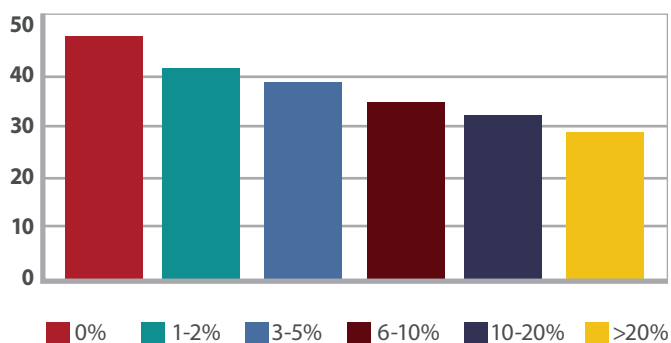
The labor gap established by Baby Boomer retirements, Generation X population disparity and mediocre education outcomes is likely to grow. Jerry Howard, CEO of the national Association of Home Builders says, "I would go so far as to call it an epidemic."

Customer Buying Behavior Trends

Members of Generation X are increasing their spend in the remodeling arena but Baby Boomers still spend twice as much. Millennials make up less than 3 % of the remodeling pool.

However, Millennials are making a big impression in B2B purchasing, seen here:

Average Age of Purchasing Agent by Online Purchase of Electrical Products (All Categories)



When a purchasing agent is under 30, a company is far more likely to make purchases online than when agents fall into the Baby Boomer bracket. Those Millennial decision makers are also typically half-way through their search process before engaging with the supplier for a purchase.

There are also similarities in purchasing behaviors among generations. A study shows that both Baby Boomers and Millennials take advantage of discount offers and utilize loyalty programs.



MYTH BUSTERS

Millennials are no more likely to shop a socially conscious, "green" retailer than GenX and Boomers. Shopping at a retailer with a "social conscience" is important to about 67% of all these generations.

Selling Behaviors

Simple v. Complex

Purchases:

Mixed and complex purchases in which a new product is requested, value-added services are needed or an entire solution is needed are about a quarter of sales.

Simple purchases where a brand is already specified, the customer knows the product and requires no value-add or is just a re-order make up a large, and growing, portion of orders since customers do a lot of research online before placing an order.

E-Commerce

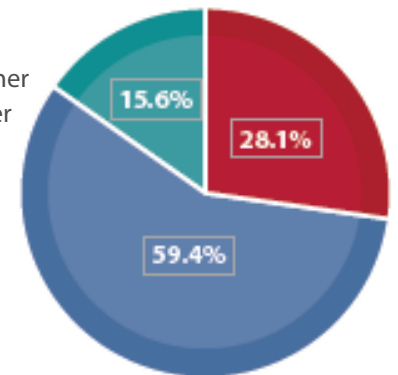
From 2013 to 2016, contractor online purchases were slated to double. When surveyed, small contractors believed they would have an even greater increase than medium and large companies.

Distributors plan to move simple/repeat purchases to inside sales or to their websites. The outside sales teams may tackle the more strategic purchases. These consultants and navigators are likely to make up a growing portion of sales teams.

Products:

Distributors do expect the portion of complex products they sell to become a bigger percentage of sales over the next five years.

- Same
- Significantly Higher
- Somewhat Higher



Technology and New Product Trends

New technologies and the products associated with them may offer opportunities for future sales. The growth of some of these categories can be seen here:

Global **circuit breakers and fuses**:
6% CAGR from 2015 to 2021 to \$31.1B
– Transparency Market Research

Global **smart lighting** market:
15.9% CAGR from 2014 to 2020 to \$56.2B. – Transparency Market Research

Global **green energy** market:
8.5% CAGR from 2014 to 2020 to \$550B. – Zion Research

Global **variable frequency drives**:
7.0% CAGR from 2014 to 2020 to \$24.7B. – Transparency Market Research

North American **IoT hardware and value-added services**:
24.6% CAGR from 2013 to 2018 to \$31.3B
– ABI Research

“Many products will lead to recurring revenue from associated services. Will need more product specialists and salespeople who can sell services. More solution-selling. We’ll also need more training for generalists and need to hire generalist with more tech savvy. The market is becoming more about how we deliver information to the customer, and it will increasingly not just come from the salesperson’s mouth. Customer expectations are shifting from features/benefits to ‘understand my business and operations; and fix my business problems.’”

–NAED Distributor

SALES FORCE INFLUENCERS

Productivity

Through the greater application of "scientific" methods, sales teams are improving productivity. Such methods include:

- Improving classification of prospects - *measuring correlations between customers, reclassifying territories*
- Set sales goals using an iterative approach - *evaluating market segment and territory to adjust goals*
- Targeting products/services by segment - *targeting customer characteristics, demonstrating new products*
- Automation, tools and processes - *increasing time spent selling in front of customers*
- Performance metrics and management - *measure new and existing reps based on dynamic scale*
- Sales force deployment - *outside reps focused on solutions, team with product specialists and inside reps*

Compensation

Current compensation plans are focused on salary and commission or commission and draw. But these combinations may not suit future sales teams. Trends in compensation include compensating for services and solution sales. Basing compensation on net margin is also growing with the increase of better data analytic tools. And, Millennials in the workplace seem to be interested in simpler plans with a higher fixed component.

Technology

Trends in technology are not limited to products distributors sell. Sales teams may benefit from utilizing some combination of new technologies. According to International Data Corporation (IDC), sales enablement is "the delivery of the right information to the right person at the right time in the right format and in the right place to assist in moving a specific sales opportunity forward." What this means is that when sales forces are armed with up-to-date information at their fingertips, sales may well follow.

The following are ways to utilize technology to drive sales:

MAKE BUYING SIMPLE AND EASY	MAXIMIZE CUSTOMER VALUE	REDEFINE CUSTOMER VALUE
-lean, automated, industrialized and scalable	-innovative bundles, pricing and value capture	-generating "must-have" situations
-extensive use of digital channels	-co-creative with customers	-(virtual) experience of products and services
-customized interaction models	-educating customers about value creative opportunities	-big data enabled customer analytics

SCENARIOS

Defining Future Scenarios and Signposts

Four different scenarios were shaped from the disparate factors measured in the research. One or more may become the case for your company.

Salesforce Sophistication

New technologies, innovative products, shifting profit needs, and changing sales expectations will mean that relationship-only selling by outside salespeople (OS) will decline and be replaced with more consultative selling. Specific factors include: supplier development of innovative products such as smart lighting, advances in technology, increased data, new definition/types of "value," services like customization, and the customer need for solutions.

- Increasing need for vendor pre-sale technical support
- Vendor insistence on greater technical sales skills; higher new product quotas
- Losses to competitors with heavy investment in sales technology

Automation and Alternatives

E-commerce alone may not shrink the distributor sales force, but combined with some losses to alternative channels and greater technology-driven sales productivity, the sales force of the future will be smaller and shift towards inside sales and online sales.

- Industry or company online sales in excess of 20%
- Increasing rate of losses to alternative channels
- Increased difficulty setting face-to-face meetings with customers

Slow, But Steady Growth

Modest economic growth will result in relatively minor changes to the distributor sales force. Despite the advance of technology, most customers and salespeople will remain comfortable with the status quo. Millennials will adapt to the industry, rather than the other way around. Dramatic changes will only play out over a very long time.

- GDP growth and forecasts between 1% - 2.5%
- No significant uptick in new customers
- Modest housing price inflation

Demographics and Millennials

Millennials buying habits will drive the residential housing market. Their comfort with technology will drive its greater use by distributors. As employees they are more risk averse, team rather than individually-oriented and want more stable pay.

- Difficulty replacing Baby Boomer salespeople, contacts, or skills
- Higher-than-usual turnover among new salespeople
- New complaints about sales processes, compensation, job satisfaction, promotions, etc.



**EDUCATION &
RESEARCH FOUNDATION**

Our Mission

The NAED Education & Research Foundation provides information and training products that create the most effective channel to the market for distributors, manufacturers and their customers.

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