CEDA CURRENT
Serving electrical distribution, construction and maintenance markets

An Interview With Ceda Chairman Bob Shapiro

Early in June, Electrical Business travelled to Montreal to visit Bob Shapiro — newly-elected chairman of CEDA for 1987-1988 and president of Franklin Electrical Supplies (Canada) Ltd. We wanted to talk with Bob about his objectives, both as CEDA's chairman and as an electrical distributor, and about his general view of the status and outlook for electrical distribution in Canada. Interviewed by Electrical Business's Executive Editor Hugh McBride, we got a lot more than we had bargained for. Bob's extensive experience in electrical distribution, keen intelligence as well as candidness came together during their conversation to give fascinating insight into the state of Canadian electrical distribution.

Electrical Business: What would you identify as the greatest challenges facing electrical distributors through to the end of this decade and into the next?

Shapiro: To remain a viable industry. To have a purpose for existence. If we're not going to add value on behalf of our suppliers on the one hand and contribute better value in the eyes of our customers on the other hand then we cease to have a raison d'etre. You can look at the marketplace in different sections. The majority of electrical distributors in this country get a high percentage of their business from the contract trade. The raison d'etre to serve them is slightly different from the raison d'etre to serve the industrial marketplace. The industrial marketplace is complicated and getting more sophisticated. The needs of a General Motors or Ford or any other member of the automotive sector, for example, which a number of our members serve, are different from the small contractor. For the majority of small contractors in this country EDI (Electronic Data Interchange), for example, will never be an issue.

We're in a world market where our customers have to be more and more competitive. They have to do whatever they can to reduce their costs: acquisition costs and inventory costs primarily. We're also seeing the introduction of foreign entities into the distributor marketplace: mainly from Europe, but I see distributors coming from Japan or other parts of the Far East in the future. They're bringing new distribution concepts, so we can't afford to isolate ourselves in the belief that we're an island unto ourselves. We have to constantly search for things that make what we have to offer of value to everybody. To serve the industrial market we have to get more sophisticated in our business techniques. We can't just be middlemen, relying on our suppliers to provide all the technical support that our customers require. In that scenario our suppliers are going to question what role the distributors are playing.

Electrical Business: As you know, the School of Business Administration at Dalhousie University in Halifax was commissioned by CEDA to study the business strategies of Canadian electrical distributors. A report was published in time for the Association's Annual Conference in Halifax late in May. One of the more fascinating conclusions made by the authors of the report was that while many electrical distributors believe their customer loyalty is strong, interviews with customers revealed the opposite. Does customer service offer a poor return on investment?

Shapiro: I think the world is much too competitive to rely only on customer service in the long term. But again, we have to review the sophisticated industrial market separately from the sophisticated larger electrical contractor, and separate, again, from the unsophisticated smaller electrical contractor.

In my view, the small electrical contractor isn't looking beyond today. He's going to go where he can get the goods with a minimum waste of time and at the right price. The larger electrical contractor is interacting more with our supplier, the manufacturer, or traditionally he has been. A lot of the negotiations for projects are still being done by either our suppliers alone or by our suppliers together with us. The larger industrials, on the other hand, are under significant cost pressures and two things are happening: one is that levels of management are getting stripped out of some of our large customers. The people with whom we've traditionally dealt are being moved around or moved out at a much greater rate than before. As a result, some of the replacement players aren't encumbered by that long-term loyalty you mentioned: new buyer, new supplier.

Electrical Business: Is the typical customer in the industrial area less concerned with loyalty and more concerned with getting products at a good price, getting fast delivery and good after-sales service.

Shapiro: I think we have to understand the concept of total acquisition costs. What I, the distributor, have to offer is a fair price, but not necessarily the lowest. I have knowledgeable people for you to talk to, so I can solve your problems in less time. I either have the available stock or can process an order quickly enough to minimize the number of receivings you have to do and the amount of stock you have to carry. Each of those together have a cost component. If we understand how they fit together and what's important to them, then we can offer our service with all of those things in mind.

Electrical Business: Another conclusion made in the Dalhousie report concerned the fact that the electrical distributors who were interviewed felt their bargaining power with suppliers would increase in the future because of supplier loyalty; that is, because of the strength of their relationship. In contrast, the authors of the report said that distributor bargaining power was likely to decrease for the very same reason — because of the mutual dependency of the parties.

Shapiro: In Canada, the purchasing power is in the hands of relatively few distributors. I think that the very large distributors and some of the larger groups command between 75 and 80 percent of the purchasing power. This situation dictates a certain way of functioning on the part of our suppliers. Having said that, I think that alignments are getting stronger. Suppliers are expecting distributors to deliver more to add value, to play a much more effective role in the marketing of product.

In the past, there was a tendency on the part of a lot of our suppliers to get the widest possible distribution on the basis that the more distributor shelves on which they have the product the greater their sales. The problem is that when you have so many competitive distributors carrying the same product in the same marketplace it discourages the distributor from doing any marketing on his own. Any marketing effort that he undertakes, in effect, creates market for his competition.

Limited distribution, however, gives the distributor a greater incentive to go out and do some marketing. On the other hand, it also says that if that's the case the distributor has to be willing to limit the number of competitive products he carries on his shelf. I can't go to customer A with supplier X today and go back to customer A tomorrow with supplier Y of the same product. The customer will ask himself "who does he really represent?" The supplier, on the other hand, thinks I don't really care what I'm selling as long as I get the order. All things considered, I believe that suppliers need distributors to help them market their products more than ever before.

There should be a multiplier effect in selling. Suppliers have distributors both to keep product on the shelves and to penetrate the market. Because products, develop so rapidly, life cycles are much shorter. The supplier today has to choose distributors that are going to enable him to get to the market before the life cycle is over. So as a distributor I have to make some commitments. I don't know if a new product is going to fly or not but I'm commited to the supplier and I'm going to assist him in the marketing area. I'm not going to wait until the market is created for me and then enjoy the benefits.

Electrical Business: Would you say, then, that a commitment to the success of a product or product line increases the distributor's bargaining power with his suppliers?

Shapiro: Yes, because in that scenario if we're truly contributing to the marketing effort, and the supplier recognizes that, then he needs us. And if he needs us, then we enhance our bargaining power. In the past, many distributors have been given a product or product line to sell because they were willing to take the business at a lower margin than the next guy, not because they were effective in selling the product.

Selling to a large extent, in large volumes, has been controlled and/or done by suppliers or their agents. If we're going to control our destiny, therefore, we've got to better understand marketing. By gearing ourselves up to be more effective marketers of product we're going to enhance our bargaining power. Most of the control of the marketplace has been historically in the hands of the suppliers, particularly in the area of non-commodity items, and these are the kinds of products that we're going to sell more and more of in the future.

Plant automation is an excellent example of that. General Motors is going to tool up a line that is going to involve robotics and programmable controllers and a whole network. One, it's a significant investment and two, the risks if it doesn't work are enormous. So who's he going to do business with. He's going to do business with somebody he has confidence in, who knows what he's talking about.

Electrical Business: The authors of the Dalhousie report concluded that distributors are going to find it increasingly difficult to find and retain the technical personnel they need in order to sell high-technology products effectively. They said, also, that the price of that manpower will continue to go up. Any comments?

Shapiro: We have to define what our training needs are —

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