

KNOWLEDGE:

a profitable electrical product

By Joseph Sullivan

The one product of all that is most likely to hold good margins, differentiate a distributor, and bond a customer, cannot be seen, touched or boxed up in the warehouse. In a word, it is knowledge. Although knowledge has always figured into the service that distributors provide, it is growing more important and more profitable all the time. Winning distributors across the country are learning its value, and learning how to sell it at margins far above those of electrical hardware.

Customers have always relied on distributors for knowledge and information. They have expected counter and inside sales staff to know such things as wire ratings, gear features, lamp characteristics and practical information such as which hubs, fittings and conduit you need to install with a 200-amp exterior disconnect. Customers have also quite reasonably expected salespeople to be able to explain and compare the features and benefits of various products, and to know which would be applicable to specific projects. On the other end of the knowledge spectrum, we find electrical distributors with heavily industrial customer bases keeping trained engineers and technicians on staff. This is especially true of Rock-

well/Allen-Bradley houses. These distributors know that if they are going to “get the business,” they must have the ability to help the customer design, assemble and maintain complex automation equipment. Historically, most of this knowledge and know-how has been free.

Something new is happening though. Clear-eyed distributors have begun to see that in many cases, knowledge not only helps get “the business,” it *is* “the business.” Look at the burgeoning Systems Integration industry. Knowledge is what they sell. Whatever electrical products they install are almost incidental. Distributors, too, can sell knowledge and make good money doing it. The table on Page 47 is a framework for thinking of ways to profit from knowledge.

Industrial houses have some of the biggest opportunities to sell knowledge “products,” but there are other fruitful areas as well, such as lighting.

These days, the number of lighting options in terms of cost, quality, power efficiency, coverage and spectrum is enough to bewilder any lay person. Even the pros must hop pretty fast



to keep up. Everything in the list above could be applied to lighting. There are doubtless other knowledge niches as well.

The key to making money is to tightly define the services being “bundled” with hardware sales, and charge for everything above and beyond. Good salesmanship is required. Customers must know, up front, that they must pay for support beyond a certain level, and they must agree that it is fair and reasonable. In concept, this is no different than a retailer like Sears

selling extended service contracts. The customer is clearly told what he or she is buying in terms of warranty or post-sale service, and offered the opportunity to purchase more. I am aware of some cases where distributors decided to “unbundle” services, but did not communicate the change to the customers. This led to very awkward situations for field technicians. Customers in such situations feel as if they have been pulled over a barrel and they can become resentful.

Design and installation have a dark side, too. Its name is liability. If your team made the plans or did the work, you are in the line of fire if anything goes wrong. You absolutely must review your overall risk management situation including insurance, before undertaking any design or installation work.

Train for Profit

Training is the best, the cream, the gold standard of knowledge sales. It is quite possible on a fully loaded basis to earn gross margins in excess of 70 percent. I know of nothing else a distributor can do to consistently earn those kinds of mar-

FORM OF KNOWLEDGE	HOW USED	HOW SOLD
Basic product features and benefits	Sales process	n/a
Product applications, substitutions, installation, issues requiring some degree of judgment and advice	Sales process	Can help support margins in a “full service” house.
Understanding of and advice on application to functioning systems with some level of complexity	Sales process	Can help support margins, and develop customer reliance.
Ability to create and install and start up complex systems and installations	Sales process Profit generator	Availability can help make a sale, but work should mostly be billable. Develops customer reliance.
Ability to troubleshoot and repair systems	Sales process Profit generator	Some defined post-installation support may be offered to help make a sale, but should be billable beyond that (with some judgment as to customer relations).
Training	Sales process Significant profit center	The gold standard of knowledge sales. Some may be bundled with sales, but most sold with very attractive margins.

gins. Training involves little, if any, liability exposure. It has other significant benefits as well:

- ◆ It makes you and your team the gurus for whoever attends your training, which is very good for sales;

- ◆ The very best way to acquire deep knowledge of a subject is to teach it, so trainers tend to be on the cutting edge of technical knowledge, which can help immensely in other sales;

time. It is better to rent space elsewhere. Depending on the training, you may also need demo equipment (sometimes provided by vendors), and computer and networking gear. If you already have the room and the technicians but nothing else, you can expect to pay \$30,000 to \$50,000 for the equipment for a good software and automation training setup. Lighting labs can also be expensive unless subsidized by vendors (as they usually are).

Training completely avoids the appearance of competition with your customers. Especially in metropolitan areas, distributors’ customer bases tend to include lighting designers, energy efficiency experts, master electricians with niche markets, and systems integrators, who will not react favorably if you become their competitor. Fortunately, almost none of them provide training. Far from taking it amiss, these trade customers are themselves prime prospects to buy training from you.

Training need not be limited to electrical products and directly related software such as Rockwell Software. If you can attract qualified people (and this can be done on an independent contractor

- ◆ In effect, customers are paying you to sell them additional products;
- ◆ It brings customers repeatedly into your facility and into contact with your team on a very favorable basis.

An up-front investment is required to sell any of the knowledge “products.” You must hire the technicians who will do the work, and you must have a suitable facility. To save money, some have tried to wedge training into unsuitable rooms. This always looks like an afterthought, and it rarely succeeds over

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KNOWLEDGE = PROFIT

A dramatic turnaround in a client's industrial branch shows how great the potential rewards are of aggressive knowledge marketing. Although well-located, the branch had lost credibility. Business was down and headed deeper. Direct losses exceeded \$20,000 per month. The only thing going for it besides its location was a Rockwell/Allen-Bradley APR, and that was starting to look shaky. **Our strategy was to hire two very high-quality technician/engineers**—actually increasing the short-term losses, and to begin, a bit at a time, to show targeted customers what they could do. Within a few months our guys were in high demand, and sales were headed up. We then invested \$40,000 plus into remodeling and equipping a good training room with capacity for 12 students at a time. The two technicians were the trainers (and were given a chunk of the profits). The training effort did not immediately take hold, but with **focused and creative marketing** and a liberal sales commission schedule, it was profitable within three or four months, and headed up from there. When all was said and done, that branch was averaging \$30,000 per month in fully allocated profit. The knowledge products not only were very profitable themselves, but also fed traditional parts sales. Talk about the best of all worlds!

basis), there are other big opportunities. The most obvious is Microsoft product training—which can be offered with a business or “industrial” slant. Depending on your markets you might also consider Oracle, telecom and network products, or

other industrial management software. For the ambitious, who are willing to study the market, develop a credible offering—including facilities—and a real marketing plan, there is gold to be mined in such targeted software training.

Another interesting approach to software sales is to “retail” third-party training. These days, this can even be in a web-based format. Festech Software Solutions of Findlay, Ohio, offers private-label courseware on a selective basis to qualified distributors, along with a wide

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array of other very high-quality industrially oriented software training.

Whatever your markets, you are missing something really big if you are not considering adding knowledge to your product offerings. The knowledge “product” is very profitable itself. It boosts sales of more traditional hardware. It develops customer reliance upon the distributor. Finally, in an age of margin pressure and uncertainty about the impact of the internet, it provides a wonderful way for your company to stand out from the crowd and grow a solid franchise. ◆

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