



DIRECT

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PART TWO IN A SERIES

Building a "how-to" for distributor profitability

NAED Foundation research update

By Dr. Parviz Daneshgari & Benjamin Olmstead

THE ELECTRICAL distribution industry is at a crossroads. The traditional electrical distributor operational model is not as profitable as it once was due to the advent of other distribution channels. Next-day shipping, Internet sales, and DIY stores all compete with the traditional electrical distributor's operational model.

The new NAED Education & Research Foundation was created to conduct industry-specific research which will reveal the direction electrical distributors need to take in order to preserve and expand their position in the electrical material supply chain.

A new operational mode

Historically, the core competency of electrical distributors has been supplying material. But the model that supports this "parts supplier" competency is outdated. Non-distribution industries have been able to use different

models of operations to reestablish their profitability—and one that could potentially regain the industry's profitability is fee-based value-added pricing (FBVAP) or fee-based services.

But how can electrical distributors increase their service offerings while lowering prices? By examining lean production principles that have been utilized in other industries, The first Foundation research project applied these principles to the electrical distribution industry. The principles can be summarized into five categories:

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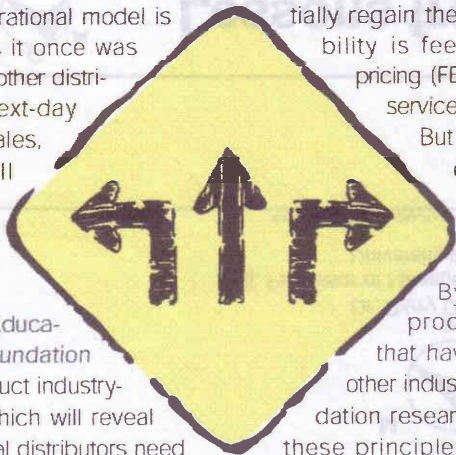
1. System design principles provide a method of reducing waste in a process such as the supply chain. In this method, the entire system is examined to determine which activities do not add value. Electrical distribution can improve overall

profitability by reducing non-value-added friction among its stakeholders.

For example, customers regularly demand lower prices from distributors. In turn, distributors seek lower prices from manufacturers. The win-lose situation of the entire supply chain is costly and counterproductive. Designing the entire supply chain as one lean system will help electrical distributors eliminate adversarial relationships and a large amount of valueless time, variance, and activities.

2. Organizational learning principles incorporate a company-wide system of learning from previous mistakes. A system of organizational learning will enable information to systematically traverse all levels inside of an electrical distributorship and offer immediate tangible benefits by reducing rework. Mistakes will be captured, shared with the entire company, and then prevented from reoccurring.

3. Team technology has immediate financial benefit to all levels of the supply chain. Distributors waste significant amounts of time and resources putting together bid proposals for clients, of which they only win a small percentage. A partnership or team technology model among different levels of the supply



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Get your company in ship shape

An interview with best-selling author and speaker
Captain D. Michael Abrashoff on "Grassroots Leadership"

By Amy Zimmerman



AT AGE 36, Captain D. Michael Abrashoff was selected to become the commander of the \$1 billion warship the USS *Benfold*, a ship burdened by excessive costs, low morale, high turnover, and low performance. However, by learning to see the ship from the eyes of his crew, Abrashoff found a solution that he calls Grassroots Leadership.

The USS *Benfold* achieved a remarkable turnaround in fewer than two years, becoming regarded as the finest ship in the Pacific Fleet and winning the Spokane Trophy for the highest degree of combat readiness. Publications from *Fast Company* to the *Harvard Business Review* have heralded Captain Abrashoff's remarkable success. His book, *It's Your Ship: Management Techniques from the*

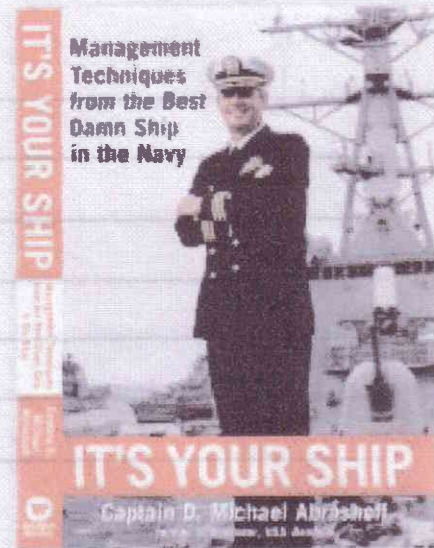
Best Damn Ship in the Navy, became an instant best seller.

Here, Abrashoff shares how leaders from electrical distribution can implement Grassroots Leadership and engage the hearts, minds, and loyalties of their employees.

TED: How do you feel Grassroots Leadership can be used successfully in other businesses, such as electrical distribution?

Abrashoff: It's applicable in every industry because of what motivates us as people. We get satisfaction out of being the best at what we do.

This initiative has been used in many different businesses to develop an environment that fosters success. For example, the COO of a law firm decided he wanted to change the culture at his organization, so he implemented Grassroots Leadership initiatives on his own. His firm's culture survey improved from a C- to an A+, and this year it was listed



as one of *Fortune* magazine's best places to work.

TED: One of the main principles of Grassroots Leadership is instilling a climate of ownership in which every person feels that he or she is accountable and responsible for the success of the organization. How can this be accomplished in an electrical distributorship?

Abrashoff: The key to ownership is providing a clear purpose and letting people understand why what they are doing is important and why it makes a difference. Companies need to impress on employees why it is in their best interest to take ownership: because their financial future depends on it. Give them something to buy into. When employees understand what is at stake, they realize the importance of taking ownership in their organization.

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chain is a much more productive system.

Although partnerships are common between distributors and their suppliers, as well as between distributors and their OEM and MRO customers, partnerships between distributors and electrical contractors are rare. Correct implementation requires expert knowledge of the needs of each other's businesses.

4. Visible process models. By making the process more visible, distributors will be able to offer a higher level of quality.

5. Methods, algorithms, and tools (technologies) incorporate specific technologies which allow electrical distributors to provide service and sell products. Every method, tool, and algorithm must be evaluated from the customer's point of view. Electrical distributors must ask themselves: How does the customer use the technology? What are the benefits or detriments to implementing any method, tool, or algorithm?

Electrical distributors who apply these five principles will be able to lower prices

as well as improve their response to customer needs.

Upcoming articles will examine a more in-depth application of several of these principles to electrical distributors. For a more extensive version of this article, visit www.tedmag.com. ■■■

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