

A Life of Lighting

ELECTRICAL WHOLESALING, May 1, 2006

By Jim Lucy, Chief Editor

The product mix of lighting specialists seems an inch-wide compared to the dozens of products that full-line electrical distributors sell, but their expertise within this niche is a mile deep and tough to match.

Over the past decade, many industry observers have said the electrical wholesaling industry will morph into a world of either mega-distributors or smaller niche distributors, and that mid-sized distributors will struggle to survive. Despite more than 200 acquisitions in the last 10 years, this transformation is occurring more slowly than expected. The 150 or so mid-sized distributors with annual sales between \$28 million and \$100 million on *Electrical Wholesaling's* Top 200 listing are alive and well, and often are the top dogs in their local markets.

At the other end of the electrical spectrum are the hundreds of smaller distributors with \$20 million or less in sales, several branches and 20 employees or less. They survive and quite often thrive by focusing on smaller geographic market areas or specializing in niche product groups.

According to DISC Corp., Orange, Conn., 85 percent of all sales through electrical distributors comes from just 150 metropolitan statistical areas (MSAs). Larger electrical distributors tend to focus on these larger geographic market areas, while smaller electrical distributors often do a terrific job in smaller cities and rural areas where larger regional or national distributors don't have branches, or don't have salespeople making regular sales calls.

This series of articles will highlight the product specialists that focus on the most popular product niches: lighting, wire and cable, voice-data-video (VDV), industrial automation and utility products. If the electrical wholesaling industry truly does evolve into a world where there are either very big or very specialized companies, the role of the product specialists will become more important than ever.

Full-line electrical distributors already have a tough time competing with these specialists. A niche distributor may have a product offering that's an inch wide, but it's a mile deep and almost always supported by a finely tuned mix of services, inventory and expertise that full-line electrical distributors often can't match. The first in this series of articles will focus on lighting specialists.

The Lighting Guys & Gals

The world of lighting distributors is surprisingly similar in some respects to the electrical wholesaling market. An awful lot of the lighting products that a full-line electrical distributor sells are on the warehouse shelves of the nearest lighting specialist, too. However, the product expertise and value-added services that an estimated 200-plus lighting specialists wrap around lamps, lighting fixtures, ballasts, reflectors, lighting controls and related lighting products differentiates them from full-line electrical distributors. (See the sidebar, "10 Value-Added Services that Make Lighting Specialists Special," on page 24).

The customers that lighting specialists covet aren't all that different from electrical distributors' favorite accounts, either. Lighting specialists sell their package of products to a broad range of commercial, retail, institutional and industrial customers such as stores, hospitals, doctors' offices, schools, universities, theaters, property management companies and other end users

It's a group of customers that would be very attractive to any full-line electrical distributor, too. The difference is that while lamps, commercial/industrial lighting fixtures, ballasts and residential lighting fixtures account for an estimated 29.7 percent of the typical full-line electrical distributor's sales, according to *Electrical Wholesaling's* 2006 Market Planning Guide, lighting products account for 100 percent of sales for lighting specialists. Lamps alone account for 57 percent of sales for the typical lighting specialist who's a member of the National Association of Independent Lighting Distributors (NAILD), Buffalo, N.Y.

None of the lighting specialists are truly national in scope with locations in every major metropolitan market, but it's not uncommon for these companies to have national contracts to service the replacement lighting needs of large retailers. Several regional lighting specialists were big enough to make *Electrical Wholesaling's* most recent Top 200 listing: City Lighting Products, St. Louis; E. Sam Jones Distributor Inc., Atlanta; Voss Lighting, Lincoln, Neb.; Regency Lighting, Van Nuys, Calif.; Wiedenbach Brown Co., New Rochelle, N.Y.; and Villa Lighting Supply, St. Louis.

Although some lighting specialists focus on lamps, most now sell a full lighting package. According to Bill Hurd, president, Nova Lighting, Charlotte, N.C., and this year's NAILD president, approximately 75 percent of the 100 or so NAILD members sell lighting fixtures, ballasts, reflectors and lighting controls along with lamps.

"Light bulbs by themselves became a commodity very quickly," says Hurd. "None of us could make a living just selling light bulbs." Instead, lighting distributors looked for ways to differentiate themselves from full-line electrical distributors.

"We said, 'Let's be specialists in the whole lighting arena — lamps, fixtures, design and even turnkey project install,'" says Hurd. Many lighting specialists will manage lighting projects for end users from the beginning to the project's completion. "I am designing it, selling the product, and I am getting the labor done — whether I farm it out or do it myself. The customer has only one invoice."

No two lighting specialists are exactly alike because of the differences in product mix, customer base or operating philosophies. But they all tend to be very good at selling new lighting products because they have the technical expertise to take a product to market and know which field applications offer the best sales opportunities. This knowledge differentiates lighting specialists from full-line electrical distributors.

"We understand all of the idiosyncrasies," Hurd says. "The technology has changed so much that if you don't catch a lot of little things, the customer is not going to be too pleased. A full-line guy has switchgear and everything else to sell. It's very difficult for them to understand the fullness of the technology in lighting. It's where we have found our niche."

As a manufacturer of specialty lamps, Andy Poorman, vice president of marketing, Eiko Ltd., Shawnee, Kan., agrees most lighting specialists are involved with the cutting edge of lighting technology. "There are some old-time plain distributors, but many of these people know the latest products and trends," he says. "Each distributor has its own niche, from grocery to government, warehouses, etc. Some specialize in high tech, or energy savings or daylight lighting.

"Technically, anyone listed in the yellow pages under 'Light bulbs and tubes' would be what we call an 'LOD,' or 'lighting only distributor.' This is a commonly used term for lighting companies to describe this market. The 'Big Three' lighting manufacturers (GE Lighting, Sylvania and Philips Lighting Co.) call it specialty distribution to differentiate it from traditional electrical distributors." Poorman adds that some of the LODs' customers are electrical distributors who need to fill out orders with lighting products they don't carry themselves.

The Lighting Co.'s Steve Espinosa has a unique perspective on the lighting business. He has launched two different lighting specialty distributorships, and he worked for years in his family's full-line electrical distributorship, Orange Coast Electric Supply, Irvine, Calif. (now part of OneSource, San Diego). While earning a business degree at the University of California at San Luis Obispo in the 1980s, he started a small specialty lighting distributor that sold energy-efficient lighting products to the multi-family housing market. Many of the jobs involved replacing outdoor incandescent lighting with compact fluorescent lamps.

After graduating from college, he worked at Orange Coast Electric to learn the operations side of the business. He founded The Lighting Co., Irvine, Calif., in 1994 to serve lighting maintenance contractors and provide commercial and industrial buildings with replacement products.

Espinosa agrees with Nova Lighting's Hurd that fewer lighting specialists focus just on lamps, as was common in the past. "The old-style lighting distributor sold bulbs and dabbled in replacement ballasts," says Espinosa.

Many small distributors in remote markets sell every type of light bulb available, and about half the NAILD members have that market focus. But he says because these bulb specialist tend to be very small companies, a lamps-only focus accounts for a relatively small percentage of NAILD's total volume. The biggest niche NAILD distributors cover is energy-efficient products such as ballasts, lamps and T-5 fixtures. Electronic ballasts, LED exit signs, recycling, and high-bay T-5/T-8 fixtures are a much larger portion of an energy-efficient sale than lamps, maybe 80 percent.

"Because lighting distributors are niche distributors with few product lines compared to traditional electrical distributors, NAILD distributors can get up to speed on new products quickly and convey the information to the contractors and end-users," says Espinosa. "They can perform design, energy audits, and complete rebate paperwork without vendor assistance."

Based on total sales volume for NAILD members, he says MRO is the largest market, with a big emphasis on government contracts for jobs such as state projects and school districts. The next biggest market is retrofit work for a broad array of end users.

Espinosa has taken a special interest in the profitability of lighting specialists and the Performance Analysis Report (PAR) that NAILD members can use to benchmark their businesses against other lighting specialists. He was familiar

with PAR reports from his days as a full-line electrical distributor, when he served on the PAR committee for the National Association of Electrical Distributors (NAED), St. Louis. Espinosa says lighting specialists have higher gross margins than full-line electrical distributors, according to the NAELD and NAED PAR reports.

“According to the latest NAELD PAR data, lighting distributors are twice as profitable as an industry as electrical distributors,” he says. “Lighting distributors have higher gross margins because they tend to sell instead of just take orders. They have fewer product lines, so it’s easier to find the lower cost items. However, from an operations standpoint, full-line electrical distributors are more efficient than lighting distributors.”

Espinosa says electrical distributors have lower gross margins, so they must watch their costs better. But he says full-line electrical distributors have some operational advantages in that they are more automated than lighting distributors, more sophisticated with their outside training, and focus more on inventory turns.

“Electrical distributors have a more difficult time than a niche lighting distributor due to the large number of products they sell,” he says. “Lighting distributors also have the advantage of a large percentage of their vendors coming out with new products that add value to their customers and can generate higher sales.”

Niches within the Niche

Many lighting specialists have evolved far past just selling lighting packages and now provide some interesting value-added services. They perform lighting audits to analyze a customer's existing lighting system and if necessary make recommendations for more efficient systems. They project the new system's energy savings, total cost, payback and factor in utility rebates or other financial assistance from electric utilities, as well as from local, state or federal programs. Many but not all lighting specialists perform lighting audits.

Paul Hafner, president, Maintained Illumination, Buffalo, N.Y., says the product and service niches that lighting distributors choose are all over the board. “The guys that are poised for the future are diversified and have some type of service component,” he says. “If you're just selling a 700 Series T-8, you can pick that up anywhere. Most guys have discovered they need a better value proposition to survive in the market.”

Some lighting distributors have become providers of turnkey lighting packages and offer design, installation and repair capabilities along with supply of products and facility audits. These services thrust lighting distributors into some interesting business relationships with lighting-maintenance companies and energy-service companies (ESCOs). Lighting maintenance companies specialize in the repair and replacement of lighting systems in the commercial/industrial arena. ESCOs focus on design, payback analysis and at times installation of not only energy-efficient lighting systems but also energy-efficient heating, ventilating and air conditioning (HVAC) systems; windows; roofing; and other products or building systems that can slash a facility's energy bills.

Says Nova Lighting's Bill Hurd, “Sometimes we are going head-to-head with ESCOs, and sometimes we partner with them. They have a bigger package to sell than us. I may sell them products or find them labor and make something on it.”

He says ESCOs often want to partner with lighting specialists because energy-efficient lighting is such an integral element of the energy management control systems they install. Hurd says energy-efficient lighting systems are important to ESCOs because they have a shorter payback than some of the other building products and systems they sell.

“It makes the entire package ESCOs present more attractive when it includes lighting,” he says. “Trane and Johnson Controls do performance contracting where they guarantee energy savings over a 10-year period. They have to do lighting, too. Lighting payback is three years, versus five to seven years for HVAC or water systems.”

Challenges for the Future

While the future looks bright for lighting specialists, they have plenty of challenges ahead, too. Constant improvements in lamp life, the quality and color of the light produced, new lighting controls and new lamp sources are always changing the mix of products they stock. The increasing popularity of selling lamps, ballasts, lighting fixtures, reflectors and related products as a package requires a different sales philosophy, and possibly new sourcing arrangements. Whenever they take on new products or systems, lighting distributors must learn them thoroughly to maintain the advantages in technical expertise they hold over other distributors of lighting equipment.

The Web also offers challenges and sales opportunities for lighting distributors. John Devereaux, president, Northwest Lighting, Elgin, Ill., says lighting distributors first saw Web-based lighting companies as a threat. “There are two types of bulbs that can be sold on the Internet: low-price commodity items and hard-to-find-bulbs,” he says. “Some NAELD members sell on the Internet, especially those that concentrate on those hard-to-find bulbs. A commodity bulb is going

to be cheaper, but what a customer cannot get on the Internet is someone to give them advice on what the best bulb for the application is.”

Vendor relationships are changing, too. Most lighting specialists stock products from at least one of the Big Three — GE, Sylvania and Philips — but according to Paul Hafner of Maintained Illumination, these companies now service smaller distributors differently than their larger accounts. He says if a distributor doesn't buy at least \$500,000 annually in lamps, a large lamp manufacturer may not assign a field salesperson to the account, and will instead use telephone sales personnel to service it.

Northwest Lighting's Devereaux has a slightly different take on the relationship between the Big Three manufacturers and lighting specialists. He says lighting specialists know how to “sell up” when a customer is looking for the least-expensive commodity items, and that oftentimes they can convince the customer to buy a higher-quality lamp manufactured by one of the Big Three.

“There are customers who want only bulbs from the Big Three. There are customers who want the best bulb, and there are customers who want the cheapest bulb,” he says. “There is enough business out there for all of them. The people who buy private labels are generally low-end, commodity buyers. I don't see that affecting lighting distributors. The Big Three would rather not sell commodity-type items if they had a choice. We can get those buyers to upgrade.”

New offshore suppliers producing some of these private labels will also become a bigger factor in the lighting market. Lighting specialists are already acclimated to dealing with manufacturers from China and other foreign countries, and say as long as the product quality is good their customers don't demand products be manufactured by “traditional” manufacturers. Many customers also realize some offshore factories produce the same products for traditional lamp manufacturers and smaller, niche manufacturers. At the end of some production runs for some large lamp manufacturers, the offshore factory simply relabels the lamps for a different manufacturer.

“People are not naïve,” says Nova Lighting's Hurd. “They are looking for a quality product at a competitive price. With the large lamps — high-intensity discharge (HID) and linear fluorescents — customers want to see the major brands. In some cases, it's not important as long as the quality is there.”

He also says new niche manufacturers stand a better chance of being accepted than a new company that attempts to sell a full line of products and compete directly with one of the Big Three.

Steve Espinosa agrees that imported lamps have established a foothold in the market. “The imports are here to stay,” he says. “Their major advantage is net price. If a distributor is calling on an end user and is able to create a lighting retrofit, in most cases the end user is leaving the product selection to the distributor. That is the big opportunity for the import brand, because brand name is secondary to the distributor. If there is a significant price advantage, the import can get in.”

Espinosa says the Big Three lamp manufacturers can compete with offshore manufacturers if they don't focus on price and instead emphasize to lighting specialists how much training and co-op advertising they provide, the value of their product warranties and the profitability of their new products. “Manufacturers also need to make the purchasing process easier for the distributor,” he says. “That is half the advantage of the imported brands.”

NAILD members and their vendor partners have a great opportunity to sell their newer and more profitable products, but lighting specialists need help from their vendors in producing quality sales literature that they can use in direct-mail campaigns to their customer lists, says Espinosa. Another big challenge for lighting specialists is getting their vendors to recognize the amount of time and capital it takes to do specification work. He says vendors should consider offering special warranty arrangements or more co-op marketing funds so these efforts can continue.

Eiko's Andy Poorman also sees some exciting times for lighting specialists and their vendors. Poorman says distributors and vendors will have to figure out how and where to apply light-emitting diodes (LEDs), and believes programmable lighting systems will offer a challenge because distributors will need to be “technology savvy as well as lighting savvy” to sell them properly.

Before Bill Hurd joined Nova Lighting, he spent 13 years with Philips Lighting, so he has seen the lighting market from both sides of the fence. He says one of the reasons the market is so exciting is that the technology is always changing. “If you do it right with the right marketing and niche yourself with strategies like direct mail and seminars, it's a profitable business,” he says. “But to really make money and impress an end user, you must do more than just sell light bulbs.”

10 Value-Added Services that make Lighting Specialists Special

Along with selling nothing but lamps, lighting fixtures, ballasts, reflectors, lighting controls and related lighting equipment, lighting specialists focus on a package of value-added services that are unique in the electrical market. They perform these value-added services to differentiate themselves from full-line electrical distributors, lighting maintenance companies and energy-service companies (ESCOs). Lighting distributors do the following:

1. Stock hundreds of hard-to-find lamps.
2. Employ lighting experts who can match or cross reference a bulb to a customer's description.
3. Support employees' continuing education needs by paying for the completion of lighting-certification programs.
4. Enlighten customers about the potential savings from utility-rebate programs, the new federal energy legislation and other local, state or federal programs that offer incentives for the installation of energy-efficient lighting equipment.
5. Perform free energy audits for customers to show them the savings a lighting retrofit could produce for their facilities.
6. Offer inspection of a customer's outdoor lighting equipment to ensure it's working properly and providing proper illumination after dark.
7. Handle recycling and environmentally safe disposal of fluorescent lamps that contain mercury, lead and other heavy metals considered toxic.
8. Use occupancy-sensor loggers to collect data on how long lights in a facility are on, or how long a facility or room is occupied. This data is used to determine how much energy the occupancy sensors could use based on these usage patterns.
9. Offer turnkey services that include the design, installation and repair of new or retrofit lighting systems, in addition to supplying products for the project.
10. Operate a fleet of boom trucks, personnel lifts and related equipment to provide lighting maintenance services, and carry the proper insurance to protect all company-employed maintenance workers.