



Manufacturer of The Future Report



A NEMRA Strategic Advisory Council Initiative

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National Electrical Manufacturers Representatives Association
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In February 2020, NEMRA launched the latest iteration of its Rep of the Future series. Since then, the electrical distribution industry has experienced:

- Covid
- Government policies to stimulate investments into an "electrification" economy
- Reshoring of manufacturing to North America
- A technology revolution epitomized by the emergence of artificial intelligence (AI)

And more.

These have resulted in:

- Increased opportunities in the areas of renewables, grid modernization, infrastructure, automation, industrial sector growth, and energy efficiency.
- A changing workforce has driven manufacturer, distributor, and manufacturer representative consolidation and changes in workforce composition, training, and tools.
- Changing customer dynamics. With distribution channel consolidation, larger contractors doing work throughout their historical markets; projects designed, purchased, and installed in different locales; manufacturer acquisitions and product line expansion creating line conflicts for manufacturer representatives and distributors; and services being developed, and marketed, as value-added products, the market for selling electrical material continues to evolve.

In short, the industry, and market, defined as all elements of the electrical distribution channel, have changed.

NEMRA's Strategic Advisory Council (SAC), formed in 2021, recognizes the changes occurring and the opportunities, and challenges, for independent electrical manufacturer representatives. In setting the foundation for continued member growth and charting a path as the manufacturer representatives' role in the channel takes on increased importance in supporting manufacturers, distributors, contractors, and other electrical buying influencers, the SAC sought to update the Rep of the Future.

The first phase is better understanding NEMRA's manufacturer representatives' customers ... their manufacturers.



Manufacturers are independent manufacturer representatives' customers as manufacturers are the source of their income. While representatives call on distributors, contractors, end-users, and other influencers to affect brand preference, generate demand, and provide customer service, they conduct these services on behalf of their manufacturer partners.

In essence, a manufacturer representative is a fractional sales entity for a manufacturer.

With this in mind, NEMRA asked Channel Marketing Group, who researched and developed the 2020 Rep of the Future Report, to solicit input from manufacturers on how they see the market, the channel, and their needs, over the next 3-5 years. The initiative is best summarized by "let's ask the customer about the market and their needs" with the premise that this will provide a guide for the 2025 Rep of the Future Report.

Throughout the first part of 2024, Channel Marketing Group interviewed over 30 manufacturers to solicit their input. Interviews ranged from 30 to 90 minutes each.

Key areas covered included:

How could:

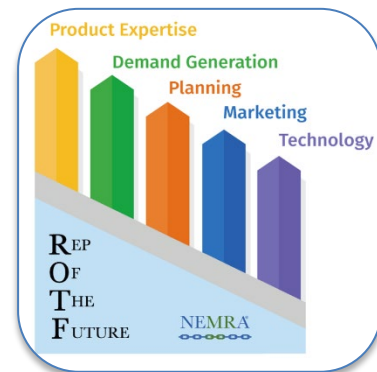
- *Distributor consolidation change manufacturer channel / go-to-market strategy?*
- *Rep consolidation change manufacturer sales strategy?*
- *Technology, inclusive of AI, change manufacturer relationships?*
- *The aging of the channel workforce change the industry?*

The focus was on the dynamics that drive manufacturer/manufacturer representative relationships rather than marketplace opportunities and products.

For those who read the 2020 Rep of the Future Report, the key areas were summarized in the [Five \(5\) Pillars](#):

- Product Expertise
- Demand Generation
- Planning
- Marketing
- Technology

The 2020 Rep of the Future report, and the SAC, further defined these elements. (A copy of the report is available by contacting NEMRA.)

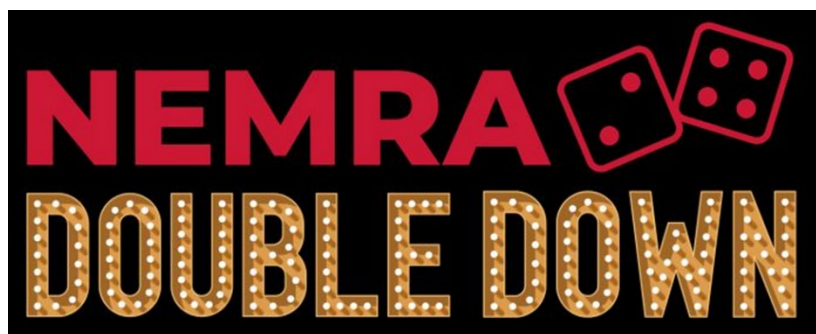


Double Down ... Drivers of Change

To synopsize manufacturer feedback from the Manufacturer of the Future interviews, manufacturer representatives need to “double down” on:

- **Supporting demand drivers**, defined as contractors and end-users.
- Being **proficient marketers** and communicating with multiple audiences.
- Utilize “data” to influence actions.
- **Implement technology** to streamline interaction with their manufacturers with a goal of frictionless interactions. The goal is to be the lowest cost-to-serve model.
- **Invest in their staff** to ensure agency knowledge.

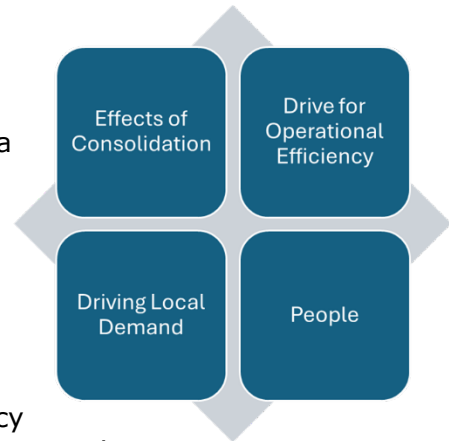
This feedback, coincidentally, was the theme of NEMRA’s 2024 Annual Conference.



Drivers of Change

These conclusions are driven by insights gathered on:

1. The Effects of Consolidation of distributors and manufacturer representatives.
2. The impact of a Drive for Operational Efficiency via the centralization of inventory, utilization of technology, and emergence of data as information.
3. Recognition that manufacturers need to drive brand preference at product decision-makers, and this results in representatives Driving Local Demand.
4. People continue to be what differentiates an agency within their market, and to a manufacturer. Investments in people, especially via training, are critical to agency success.



Some manufacturers interviewed shared that these "drivers of change" may necessitate different relationships with their representatives.

1. The Effects of Consolidation

Between January 2021 and June 2024, Channel Marketing Group tracked 103 distributor acquisitions. This resulted in over \$8.5 billion in distributor revenues changing ownership. Surprisingly, only about 50% of these deals were consummated by national chains.

The impact, however, is more significant as many mid-sized regional distributors were acquired.

- The driver of most of the acquisitions is the aging of distribution ownership.
- From an acquirer's viewpoint the key driver is the ability to scale their operations.

Distributor scale has changed the role of the representative. This is most evident in the increase in the number of CDCs (centralized distribution centers) that have been built by distributors. Decisions on what to stock, as well as the negotiation of significant relationships and initiatives, are now centralized at a corporate level within a distributor and negotiated directly with manufacturer corporate management. The representative's role is to support/execute within their territory.

Distributor Consolidation

While the "big get bigger," creating demand remains at the local level. **Manufacturer feedback included:**

- Manufacturers do not see changes in whom they are willing to sell to, however, they do foresee that their level of "support" may differ based on the distributor's business model and level of support for the manufacturer. In the words of one manufacturer "Manufacturers will decide whom to align with but may still sell to others. The difference will be the level of engagement for rebates and being proactive. We'll have different sales strategies based on their support. We're waiting for the dust to settle." Some envision that consolidation will reduce their cost-to-serve due to better logistics and less

- administrative support, especially as the business becomes less relationship-oriented.
- They are concerned, however, that many distributors are more focused on operational excellence than generating, and capturing, demand from their customers and, while they communicate supplier preference, they frequently do not communicate this within their organization.
 - For distributors with centralized/regional warehouses (CDC's / RDC's), the role of the rep is focused on the branch and customer demand generation. The manufacturer is responsible for corporate interaction to "get into the warehouse."
 - In this scenario, the importance of POS reporting increases, and the manufacturer is responsible for ensuring appropriate commission credit is provided.
 - If a manufacturer is not stocked in a distributor's distribution center (CDC or RDC) the representative either needs to focus on the branch (presuming the distributor's model allows branch discretion in stocking inventory) or focus on generating demand (projects) to "walk" them to the distributor if that is the customer's preferred distributor.

A few manufacturers commented that distributor consolidation may require them to seek alternative channels to support "niche" customer types. These companies are saying that they will "follow the customer" and respect "where" they want to buy their material. Some feel that the electrical distribution channel will continue to lose share to alternative channels, and they would consider agencies for other channels, but they are also open to compensating current agents for calling on other channels, if resources are allocated.

All manufacturers interviewed expressed two major concerns with distributor consolidation:

- Less distributor focus on demand generation across their platform and to all relevant customers
- Less distributor trained staff

This results in, other than for the largest manufacturers, less brand preference.

Manufacturer Representative Consolidation

Many manufacturers see manufacturer representative consolidation as inevitable as it follows one of the core trends of distributor consolidation ... the aging of ownership.

Some manufacturers also view the trend as inevitable as agencies seek scale to support the desired initiatives of their factories and the need to generate incremental revenues to support these services.

In some instances, the factory wants a representative to expand their geographical reach. A manufacturer, observing this trend, commented "As the role of the rep increases, the size of the rep may, probably will, need to increase. They may require more territory or be deserving of more. Some may want to call on other channels for us."

For many manufacturers, the agency ownership transition issue relates more to retaining, or developing, quality staff to support the market. Manufacturers seek the "best" option to support them in a market.

For others, this is why succession planning discussions are important. Many commented about the number of their manufacturer representatives who have

become, or are considering, ESOPs. Others commented about key management becoming owners to facilitate future transitions.

For those manufacturers who support consolidation, feedback included:

- "Scale gives an agency an opportunity to invest to get better."
- "Mega reps are an efficiency model. It is easier for us to manage, and it is easier for us, and them, to invest in, and integrate, tools to improve efficiency."
- While some recognize that larger firms may represent manufacturers that have competing brands, products, or individual SKUs, in the words of one manufacturer "(They) May have to have conflicting lines, especially if (they are) a large agent with multiple conglomerates. The key is planning."

A number lamented that there are not more representation options in some marketplaces with one commenting "(We) Could see consolidation now, break-ups later, if larger agencies don't deliver for (a) manufacturers." Another shared that, based on line conflicts, they could envision complementary manufacturers forming, or funding, new agencies for specific territories.

Other manufacturers prefer more focused agencies. Some of this aligns with the size of the manufacturer, some with the focus, or served market segments, of the agency. Feedback includes:

- "Smaller manufacturers get lost in big reps."
- "I don't want to put all my eggs in one basket."
- "While there can be economies of scale by adding territory, it can be outweighed by dilution of leadership attention and focus."

For many, the smaller rep firm is more nimble, more personal, more responsive, and more accessible, while maintaining relationships with the necessary stakeholders. Manufacturers feel they have more involvement, and influence, with a smaller agent.

While performance remains the number one priority for manufacturers followed by marketplace stability, manufacturer agencies need to be investing in:



- Training, and a "train the trainer" model
- Marketing, inclusive of market research
- Business analytics
- Technology to facilitate frictionless interaction with the manufacturer
- Centralized, or field, product/service specialists
- Individuals dedicated to calling on end-users / contractors.

Given a preference for stability, manufacturers do not see a need to change their relationships, assuming that an agency performs and is investing to deliver upon manufacturer expectations. Without continuous investment ... in salespeople, in marketing, in technology, in training ... manufacturers will seek alternatives. They are not seeking change unless the need for change is brought upon them.

2. Drive for Operational Efficiency

From a manufacturer's viewpoint, logistics is the domain of the distributor as the CDC / RDC model is the most efficient means of moving product into the channel. This is

coupled with the belief that a distributor should be investing in, and holding, inventory.

Some commented that the role of an agency warehouse may re-emerge whereas others questioned the ROI of the model.

Small and mid-sized manufacturers who are challenged with investing in regional warehouses may seek either reps with warehouses or be open to multiple rep firms in a marketplace co-investing, or collaboratively operating, a regional warehouse to support manufacturers serving branch locations and smaller distributors. Further, these "cooperative warehouses" could function as fractional RDCs for manufacturers.

This model could bring operational efficiency to manufacturers and benefits of "local inventory" to support demand generation for multiple lines, cost-efficiencies while mitigating the influence of distributor CDC's/RDC's.

For this to be effective, compensation models other than the historical warehouse allowance may need to be considered.

Technology

Manufacturers want to engage with reps who are technology savvy and have invested in the tools to improve productivity, automate processes, gather information, and enable frictionless and timely interactions.

The goal is to "obtain operational efficiency throughout the sales cycle" and to "utilize technology to simplify business while delivering value to the local customer."

While all recognize opportunities for process improvement, and many have investments to make, looking forward they expect:



- Increased utilization of EDI
- Portals and APIs to be the primary sources of information and connectivity.
- A CRM system within an agency as an expectation
- Knowledge of business intelligence tools
- Expertise in technology-enabled presentation tools

They expect interactions with the factory for customer service issues to be managed via their portals and, in the future, AI-driven capabilities, which they are, or will be, developing. The issue of sharing CRM information with a manufacturer is an issue between the manufacturer and their representative(s) and requires applicable safeguards.

Regarding CRM, most manufacturers focused on CRM being mandatory within an agency for the agency's benefit as a means to gather, retain, mine, and market information from and to their customers.

The end goal of technology is to improve accuracy, reduce "non-sales time," and help both reps and manufacturers be more profitable by increasing throughput with lower obstacles.

Some manufacturers, who are beginning to view their representatives as part of their company, are willing to invest in technology tools and provide them, or share the cost, with their agents. These manufacturers view their agents as their sales organization, not a third party. Culturally, this is being promoted within their company. In the words

of one manufacturer "Treat reps as if they were FTE (full-time equivalent) salespeople."

Manufacturers see opportunities with AI. All are discussing internally, some have initiatives.

Areas where AI will impact the manufacturer/manufacturer representative relationship include:



- Data mining to drive analytics and planning
- Customer service with real-time information
- Cross references
- Support for inside salespeople

Today AI is being viewed as a "service engine and to respond to repetitive questions." What it could be used for a few years from now is what manufacturers are contemplating.

While technological investments have been the purview of larger, and more progressive, manufacturers, smaller manufacturers will need to become more technologically efficient. Identifying appropriate cost-effective tools, or relationships, will be critical to driving sales success as agencies, and distributors will spend more time on lines that are easy to interact with.

Data

All recognize that quality "data" is more important than ever. "Data" is defined as product content information, transactional "data" to consummate quotations and orders, as well as sales and commission information.

Quality is defined as accuracy.

Industry consolidation continues to reinforce the need for POS (point of sale) information to ensure accurate agency compensation.

Data will drive sales planning and inventory discussions. One manufacturer commented and asked, "Manufacturer/distributors will have more data-based conversations. Will the rep be able to participate? Will they be able to contribute? Will they use the information to drive local initiatives?" At the same time, the manufacturer also emphasized that the regional management of the future will need to be better able to utilize, and strategize, using data.

As the industry moves forward, optimizing operational efficiency will require the appropriate utilization of technology coupled with quality data. Leading manufacturers will capture increased agency mindshare, and optimize their performance, when, as one manufacturer commented, "(Manufacturers) bring productivity tools to agents with agents in mind. We do with distributors, why not with our agents, especially since they are our salesforce?" or, as another manufacturer said, "We need to arm agents with real-time information if they are our partner, like we would with a direct salesforce."

The goal is more direct connection between manufacturers and their manufacturer representatives to create a frictionless communication and information transference process.

3. Driving Local Demand

While the industry is undergoing structural change and margins continue to tighten, operational improvement is critical to facilitate information flow. Further, an agency's core value proposition is its ability to generate demand preference for a manufacturer's products within their assigned territory. This drives sales, manufacturer profits, and agency commissions.

Manufacturers view that distributor consolidation, a broader product offering, distributor staff turnover, and the need for training will result in distributors focusing more on operational efficiency than driving product demand and, more importantly for a manufacturer, preference for their product.

Given this, manufacturers view that their agents need to be their demand drivers, coupling product expertise, local relationships, local market knowledge, and their capabilities to drive brand preference and product demand from influencers, end-users, and contractors while managing local distributor relationships and influencing distributor discretionary product decisions.

Manufacturers believe that the agency of tomorrow will:



- Deploy more resources, and time, and call more on contractors, end-users, and influencers. In the words of one manufacturer "change their distributor/contractor time ratio."
- Employ subject matter experts (SMEs, or specialists) to support product categories and/or suppliers.
- Improve their marketing proficiency
- Be more intentional with their account planning and opportunity targeting.

Recognizing the growth caused by electrification initiatives and the fragmentation of the channel, they expect agents to "understand and sell all channel segments such as lighting designers, panel shops, OEMs, ESCOs, electronic distributors, HVAC contractors, and more depending upon the product and manufacturer." Some feel that this could open up more rep opportunities and that they would authorize agencies for broader markets if there is a plan with resources.

Manufacturers repeatedly shared that "reps need to drive demand" and "we look to reps to drive demand" as they feel "distributors are order-takers."

From a manufacturer viewpoint, "the role of an agency's inside sales organization is to be distributor focused whereas the outside sales organization is contractor/specifier focused." This manufacturer further stated, "*The best agent in the market is defined based upon their demand generation capabilities and their relationships with contractors, specifiers, and lower levels within distributors in their market.*"

While demand generation inevitably gets measured via sales performance, others commented that demand generation equates to:

- "Engagement with end-customers"
- "Branding/support and awareness of key verticals"
- "Ability to sell solutions with complementary lines to contractors and end-users"
- "Defined processes for launching new products"

While agencies have been known based on their local relationships, which continue to be important, other key attributes now include:

- Being able to be positioned as an extension of the manufacturer.
- Their quality of marketing can help "win" a line, and more importantly, help leverage manufacturer resources to reach more people quicker and more frequently with a "trusted" voice.
- Be "the customer's" local resource for information and product knowledge.
- Breadth, and quality, of the agency's marketing database and the tools to utilize, and monetize, the information.

With industry consolidation driving more manufacturers to be distributor agnostic, manufacturers want their representatives to increase their marketing proficiency to drive demand for their brand.

4. People

The changes driving the electrical industry are also creating significant personnel changes within the industry.

The industry is experiencing:



- Aging of principals and trained staff within agencies
- Higher sales management turnover rates within manufacturers
- Agency recruitment challenges
- Less experienced staff supported by nominal "electrical basics" training
- Interests in new training methodologies

The concern expressed by manufacturers is that there is a "war for talent" and that, with personnel changes throughout the channel, there is a need for a "robust learning culture" with manufacturer representatives being the ones to "facilitate knowledge transference" within their agencies and to distributor personnel.

One manufacturer shared that they needed to "improve the education of distributors through (*their*) agent network".

Manufacturers believe that agencies will need to have the skills of "inside manufacturer training" and will need to deploy a "train the trainer" model and invest more in training.

This training will be a combination of

- Video / technology-oriented training (inclusive of VR and AR)
- Online training, with access to portals
- Face-to-face training

And that, while much training is product-based, training needs to evolve to be more application-based.

The training will be supported with AI for transcription, summation, searchability, and editing purposes to make it available for marketing usage.

Importantly, while training is typically considered a tool to support new products, manufacturers commented that there is a need for "basic" product training. Essentially this is an onboarding process for new agency personnel and for agents to provide to their distributors for distributor staff onboarding to provide "basic" education.

The “professionalization” of the rep sales force is important to manufacturers. To them “experience in an agency matters, as it makes everything faster.” Not only do representatives need to be experts in products, but they also need to be experts in applications, and a manufacturer’s business operations.

Multiple manufacturers commented that there will be “massive personnel change in the next ten years.” Representatives are “the lynchpin between the factory and the field” and need to be the most educated. One manufacturer feared that “distributor consolidation will reduce average industry tenure, so our reps will be even more important.”

Additional Insights

Manufacturers shared other dynamics that they believe will continue to gain traction in the coming years:

- Taking business “direct” - A number of manufacturers are accepting larger orders directly from contractors, general contractors, ESCOs, EPCs (engineering and procurement companies), and others. Much of this emanates from manufacturers having a hybrid sales network and deploying sales engineers/business development staff. Many of these opportunities cross agent territories. Manufacturer representatives may not be aware of the opportunities, or they may have provided the manufacturer with the introduction. What should be the role of the agent? Are they committed to only supporting electrical distribution? Should they be compensated? Should they be open to taking, or facilitating, some orders going direct, or will manufacturers deploy sales organizations to pursue these opportunities?
- Channel Fragmentation - While electrical distributors currently represent the primary channel for electrical manufacturers, many manufacturers now sell through multiple channels as distributors diversify into offering electrical products to serve their customers. While this may benefit end-users / contractors, and manufacturers, should independent electrical manufacturer representatives call on these other markets to support their manufacturers? Should they be compensated for marketing in their territories while other distribution entities benefit from an agent's demand-generation initiatives?



- Compensation Models - Many manufacturers commented on their need to improve managing point-of-sale for compensation purposes due to distributor consolidation and feel that consolidation may make this process more feasible. Others shared that they need to “make sure that their agent compensation model is proper.” Some suggested that, with “traveling contractors” they need to evaluate registration models and split credit models based upon “specification, order, and destination credit.”

A few commented, and inferred, that they are working on, models to “localize investments” and “co-invest in the rep model, at least with committed reps,” suggesting that the historical 30-day contract model could become obsolete for “the right relationships.” With manufacturers expecting more, some recognize that they may have to invest more.



Conclusion

Looking towards the future, manufacturers envision that:

- Distributor consolidation will streamline elements of their relationships, especially from an operational viewpoint.
- That their manufacturer representatives will be more important in helping them manage, and execute, their initiatives locally and that the manufacturer representative is a critical partner in helping them:
 - Drive brand preference and demand for their products.
 - Educate their distributors and customers / prospective customers.

Leading manufacturers see that the independent electrical manufacturer representation model is integral to their achievement of local goals. Manufacturer representatives have the local knowledge, and relationships, to generate brand preference, deliver training, operate efficiently, and profitably deliver sales. Manufacturers who "embrace agents and make them more inclusive to their (*the manufacturer's*) organization, have tighter relationships throughout the company (*manufacturer*)" and believe that they can gain greater mindshare from the agency and market share within the territory.

Manufacturers are the independent electrical manufacturer representatives' customers. Given ongoing personnel change, acquisitions, line expansions, and more within manufacturers, agencies need to be strategic with their focus, nimble in their decision-making, intentional in their strategies, and invest in systems that support local relationship development while continuously "reselling" their value proposition to their customers.

