ELECTRICAL WHOLESALER STUDY 2016

How to successfully operate in a disruptive market by building a customer-centric wholesaler brand

WHITEPAPER

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## TABLE OF CONTENT

Abstract ........................................................................................................................................5
1 Introduction: Why focus on electrical wholesalers? .................................................................6
2 Approach: Ask the customer! ....................................................................................................6
3 Wholesaler challenges: Product is king ..................................................................................7
4 The big picture: Technology shifts drive market disruption .........................................................10
  4.1 Technology shifts .................................................................................................................10
  4.1.1 LEDification ....................................................................................................................10
  4.1.2 Connected home ..............................................................................................................12
  4.1.3 Digitalization ..................................................................................................................13
  4.2 Effects of market disruption ..............................................................................................14
  4.2.1 Product portfolio effects ...............................................................................................14
  4.2.2 Price and competition effects .......................................................................................14
  4.2.3 Service effects ................................................................................................................14
  4.3 New challenges due to changing installer demands .............................................................15
5 Coping with disruptive change: Establishing a clear proposition .........................................16
6 How to operate in the higher end of the market ......................................................................19
  6.1 Know your customer – really well ....................................................................................19
  6.1.1 Identifying core customer groups ...................................................................................19
  6.1.2 Identifying customer segments .....................................................................................20
  6.1.3 Wholesaler checklist: Identifying customer segments ....................................................22
  6.2 Fix the basics – the right price structures ..........................................................................22
  6.2.1 Pricing based on customer segmentation ......................................................................22
  6.2.2 Pricing based on needs (“value based pricing”) .............................................................23
  6.3 Define the value proposition ..............................................................................................25
  6.3.1 Functional versus emotional value propositions ............................................................26
  6.3.2 The wholesaler’s brand ..................................................................................................26
  6.3.3 Wholesaler checklist: Developing a clear value proposition .........................................27
  6.4 Go beyond the product .......................................................................................................27
  6.4.1 Corporate behavior as one driver for success .................................................................27
  6.4.2 The main marketing and sales levers ............................................................................28
  6.4.3 Wholesaler checklist: Determining added-value for customers ....................................29
7 The proof of the pudding: The benefits of creating a strong wholesaler brand. .................30
  7.1 Price premium ....................................................................................................................30
  7.2 Direct impact of strong brands on sales .............................................................................30
  7.3 Greater consumer loyalty ....................................................................................................30
  7.4 Higher stock market price ..................................................................................................31
  7.5 Attracting and retaining talent ..........................................................................................32
8 Conclusion ..................................................................................................................................33
Case study 1: Bosch .....................................................................................................................34
Case study 2: Vaillant ....................................................................................................................35
Case study 3: Schott Ceran ..........................................................................................................37
Case study 4: Amazon Prime .......................................................................................................38
## TABLE OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Challenges electrical wholesalers expect to face in 2020</td>
<td>7</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Challenges electrical wholesalers expect to face in 2020 by region</td>
<td>8</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Challenges electrical wholesalers expect to face in 2020 by business type</td>
<td>9</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Technology shifts fueling change</td>
<td>10</td>
</tr>
<tr>
<td>Figure 5</td>
<td>Rate of LEDification per year according to market experts: Wholesaler view</td>
<td>11</td>
</tr>
<tr>
<td>Figure 6</td>
<td>Rate of LEDification in 2016 by country: Installer view</td>
<td>11</td>
</tr>
<tr>
<td>Figure 7</td>
<td>Gartner hype cycle for connected home technology</td>
<td>12</td>
</tr>
<tr>
<td>Figure 8</td>
<td>Top factors influencing decisions to shop online</td>
<td>13</td>
</tr>
<tr>
<td>Figure 9</td>
<td>Strategies to gain competitive advantage</td>
<td>17</td>
</tr>
<tr>
<td>Figure 10</td>
<td>Reasons why end consumers purchase light bulbs</td>
<td>18</td>
</tr>
<tr>
<td>Figure 11</td>
<td>Five different electrical installer segments</td>
<td>21</td>
</tr>
<tr>
<td>Figure 12</td>
<td>Reasons why installers choose their wholesaler</td>
<td>23</td>
</tr>
<tr>
<td>Figure 13</td>
<td>Lighting needs and associated product technologies and price sensitivities</td>
<td>23</td>
</tr>
<tr>
<td>Figure 14</td>
<td>Purchasing channels that wholesalers expect to use in future</td>
<td>25</td>
</tr>
<tr>
<td>Figure 15</td>
<td>Impact of perceived brand image and advertising awareness on sales</td>
<td>31</td>
</tr>
<tr>
<td>Figure 16</td>
<td>Top 40 Business Week brands (B2B, B2C and B2B-2C businesses)</td>
<td>32</td>
</tr>
<tr>
<td>Figure 17</td>
<td>Schott Ceran marketing campaign and English translation</td>
<td>37</td>
</tr>
<tr>
<td>Figure 18</td>
<td>High price transparency in online shopping</td>
<td>38</td>
</tr>
<tr>
<td>Figure 19</td>
<td>Lower consumer loyalty in B2B and B2C scenarios</td>
<td>38</td>
</tr>
<tr>
<td>Figure 20</td>
<td>Overview of Amazon Prime offers</td>
<td>39</td>
</tr>
</tbody>
</table>
ABSTRACT

This whitepaper analyzes the disruptive character of LED ("LEDification"), smart home technology and digitalization to see how these trends have changed the behavior and expectations of installers and contractors as the key customer group of electrical wholesalers.

We selected the lighting industry, which offers unprecedented dynamics like no other product category in electrical wholesale before.

Directly after Light + Building and Lightfair International 2016, we conducted a number of dedicated surveys among electrical wholesalers and their customers across Europe, the United States, and Latin America. The main findings and conclusions from this comprehensive dataset yielded is presented in this whitepaper. Further publications will provide deeper insights, e.g., into country specifics or the implications for different wholesaler types.

Our findings show that the main concern affecting electrical wholesalers is the need to offer the right product portfolio and innovations – despite price competition remaining a challenge. Moreover, our surveys reveal a renaissance in “value selling”: In an era of omnichannel selling and marketing, this finding is driven by the need for a more customer-centric approach. Consequently, we argue that electrical wholesalers have to continuously work on building their own brand – not just relying on the manufacturer brands in their product basket.

We provide a number of practical “checklist questions” aimed at the improving “day-to-day business at the counter”, especially for low-to-mid-tier players. The paper also analyzes best practices from four case studies and uses the findings to complement our “how-to-win”-guide for wholesalers, who strive to further build their brand in the higher end of the market.

KEYWORDS:
Value selling, electrical wholesale, LEDification, smart home, digitalization, customer centric brand

DATA (collected April-June 2016):
Quantitative surveys of over 3,600 installers in six countries (US, UK, DE, IT, TR, BR). Countries selection based on market size and panel availability.
Qualitative and quantitative interviews with over 140 wholesaler representatives from four regions (Western Europe, Eastern Europe, North America, Central and South America). Four case studies from other industries to provide cross-industry input.

ANALYTICAL METHODS:
Descriptive statistics, statistical significance tests (z-tests to compare respondent group proportions; t-tests to compare respondent group means), correspondence analyses to reduce response dimensions before clustering, k-means clustering to identify respondent groups with similar response behavior.
1 INTRODUCTION: WHY FOCUS ON ELECTRICAL WHOLESALERS?

Technological change has often been the cause for major market disruption. Consumers tend to benefit from these kinds of disruptions through improved service levels or radically lower prices. Manufacturers have the potential and often the resources to lead the transition towards a complete different market environment.

Wholesalers and distributors, however, have fewer means to drive changes themselves. They face the risk of being squeezed on multiple sides by demanding digital customers, changing value chains resulting from new digital competitors and strong manufacturer brands.

The needs and strategies of electrical wholesalers facing disruptive change have not been researched nearly as much as other parts of the value chain. This paper focuses on those wholesalers and how they can successfully meet their customers’ needs. In order to do so, it is essential to understand the demands of installers and contractors as these are the main direct customer group for electrical wholesalers. We are aware that the challenges of international vs. local wholesalers vs. buying groups are diverse. A deep-dive into our dataset reveals these differences. However, the purpose of this first paper is to focus on threats and issues that are common to all wholesaler segments.

This whitepaper illustrates market dynamics and challenges and provides practical guidance on how to master changes in these terms. We add exemplary “checklist questions” in order to give a pragmatic tool for implementation. By doing so, we want to react to the feedback from our interviews in which many (local) wholesalers asked for “pragmatic tools” to use.

The lighting industry was selected as our research focus, because it proves to be a rather dynamic example of how recent technology shifts can shape market changes. We believe that our findings here are also of relevance to wholesalers in other technology sectors without claiming generalization across industries. We also do not provide full coverage of all current technology trends within the lighting industry.

2 APPROACH: ASK THE CUSTOMER!

In spring 2016, the global lighting industries’ most important trade fairs, Light + Building (Frankfurt) and Lightfair International (San Diego), provided strategic impetus on the latest industry trends and key technology innovations. Considering these fairs, we conducted an international study that draws on both empirical findings and theory to capture a wide-angle view of both wholesaler and installer perspectives.

To provide our research with a strong empirical basis, we...

- conducted an online survey among 3,686 electrical installers (in other words, the customers of wholesalers) in six countries to gain insights of their opinions and needs,
- applied advanced statistical methods to the mentioned dataset to evaluate significant differences between various groups of installers and to identify clusters of installers with similar expectations across multiple countries,
- carried out face-to-face interviews among 141 wholesaler representatives (primarily owners or high-level managers) from eight regions in onsite workshops,
- analyzed data from four in-depth case studies of other technology sectors in order to incorporate cross-industry insights in our research.

The current paper summarizes our findings and embeds them in a solid framework of marketing theory.
3 WHOLESALER CHALLENGES:
PRODUCT IS KING

When asked about key business issues over the next five years, electrical wholesalers painted a relatively consistent picture globally (see Figure 1 below):

- Almost three quarters claim that offering an up to-date and innovative product portfolio will be among their top three headaches in 2020. In times of shortening technology cycles, it is becoming increasingly challenging to “bet on the right horse” and consistently offer a state-of-the-art product range.

- At the same time, wholesalers are struggling with price pressure due to a combination of a cheap supply from unbranded Asian LED manufacturers and new distribution channels such as online B2C shops.

- In light of emerging online competition, nearly half of all wholesalers worry about how to become well-managed, multi-channel businesses considering resource constraints caused by pressure on margins. Almost 50 percent of the interviewed wholesalers see this as one of their top three challenges for 2020.

„OFFERING THE RIGHT PRODUCT PORTFOLIO WITH THE RIGHT INNOVATIONS” IS THE KEY CHALLENGE FOR ELECTRICAL WHOLESALERS

Share of Wholesalers globally who expect the following to be among their top three challenges in 2020

Source: Global Electrical Wholesaler Survey May / June 2016 (N=135)

Figure 1: Challenges electrical wholesalers expect to face in 2020
Within this global picture, there is also a number of differences between individual countries and types of businesses (see Figure 2 and Figure 3):

- Although product portfolios and innovation challenges are hot topics across all regions, they appear to be particularly important in Western Europe and South America. Looking at the different wholesaler types, these are the most important issues for International wholesalers, but they are slightly less of a challenge for buying groups and local independents.

- In general, price pressure is understandably more of a headache for buying groups considering the very nature of these corporations. Interestingly, North American wholesalers across the board, compared to other regions, consider price pressure as the top challenge by far.

- However, the price pressure in America does not seem to originate primarily from online competition. According to our interviews, this issue is more likely to be a challenge in Europe. Competition from internet platforms is also a key factor for international wholesalers rather than local wholesalers and buying groups.

- Supply Chain Management (SCM) seems to be a much more widespread worry among wholesalers in America. Almost half of the respondents rate SCM as one of their top four challenges, compared with only 15 percent in Europe. Of course, buying groups are affected more often by this challenge than more centralized wholesalers are.

Challenges vary across regions – North America feels strongest price pressure
Share of Wholesalers by region who expect the following to be among their top three challenges in 2020

Source: Global Electrical Wholesaler Survey May / June 2016 (Western Europe: N=44; Eastern Europe: N=23; North America: N=34; Middle & South America: N=34)

Figure 2: Challenges electrical wholesalers expect face in 2020 by region
Challenges vary among wholesaler types – International Wholesalers rate “competition from online platforms” the highest

Share of Wholesalers by business type who expect the following to be their top three challenges in 2020

Based on our interviews, it became obvious that wholesalers find themselves under more pressure compared to the past. Normal market dynamics continue to squeeze margins. At the same time, shorter technology cycles and new forms of competition resulting from digitalization exacerbate the situation. This first trend makes product range and portfolio decisions more challenging than ever, while the second one threatens traditional value chains and business models.

Source: Global Electrical Wholesaler Survey May / June 2016 (International wholesaler: N=30; Buying group: N=29; Local independent: N=76)
Changes in technology cause the majority of the wholesaler-challenges listed above. These technological developments fuel market disruptions in a number of ways, for example, by allowing new players to enter the market, driving down unit costs, prolonging product lifetimes, and opening the way for new supply chain configurations. These kinds of market disruptions are changing the expectations and demands of installers. This is creating new wholesaler challenges – as outlined above – and putting pressure on wholesalers to adapt accordingly.

Figure 4 provides an overview of our research approach and a systematic view of changing customer demand in the lighting industry.

Three major shifts prompting customers to demand more from wholesalers

Research approach

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<tr>
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How to find the "winning model"?

Figure 4: Technology shifts fueling change

4.1 TECHNOLOGY SHIFTS

We identified three major disruptive technology trends affecting the lighting industry: LEDification, connected-home-technology, and purchasing-channel-digitalization. The focus in this whitepaper will be set on these technological improvements, while there are certainly other trends, especially in the area of home automation and functional lighting.

4.1.1 LEDIFICATION

In a very recent report, Goldman Sachs views the adoption of LED technology as the most fundamental market disruptor in the green energy sector. Moreover, the analysts call it one of “the fastest technology shifts in human history” as adaption beyond the developed countries is accelerating (Jin 2016).
LED technology has actually entered the lighting business some time ago. Since then, however, the expansion of LED production has led to a double-digit drop in annual sales of conventional bulbs and halogen lamps. In the German retail market, for example, every second consumer lamp sold in 2015 was based on LED technology (GfK Retail Panel data, Germany 2015). Furthermore, the technological features of LEDs – in particular dramatically prolonged product lifecycles – are paving the way for the cost-effective production of lighting fixtures (luminaires) with integrated LED technology.

All market researchers, the wholesalers, and installers interviewed in our study confirm the accelerated adoption of LED technology (see Figure 5 and Figure 6). On average, wholesalers expect almost two thirds of all lighting revenue to be generated by LED-powered products by 2020. In fact, three of four installers already choose LEDs over other technologies today:

**Rate of “LEDification” is accelerating from a wholesalers’s point of view is accelerating**

Anticipated share of LED revenue in the year 2020

![Figure 5: Rate of LEDification per year according to market experts (wholesaler view)](source: McKinsey & Company, OSRAM Market Model, Frost & Sullivan, LEDVANCE Wholesaler Survey, May 2016 (n=138)

**Rate of „LEDification“ is accelerating (installer view)**

Panel of electrical installers after Light + Building 2016

![Figure 6: Rate of LEDification in 2016 by country (installer view)](source: Survey Among Electrical Installers, April 2016 (N=3,495)
4.1.2 CONNECTED HOME

While LEDification is a mature trend maintaining momentum, connected-home-technology is still in its infancy. Use cases are still evolving and there are often no standards governing interoperability. This is the main reason why Gartner, the world’s leading information technology research company, puts connected home at the “Innovation Trigger” stage in its Hype Cycle model. As such, the “Plateau of Productivity”, in other words widespread adoption and solid revenue, is five to ten years away.

In its report, Gartner writes (Elizalde 2015: page 17):

> The connected home exists today mostly as silos of services and products and underlying enabling technologies that sometimes compete with each other. Yet the interconnection of home electronics and devices has been simplified enormously in the past few years, with content and information being distributed throughout the home via a variety of devices.

However, the report authors also state:

> The connected home will evolve into the rendering of increasingly intelligent systems which, by using smart learning algorithms and predictive analytics, will develop into smart home experiences. This is resulting in a rapid progress in the Hype Cycle toward the Peak of Inflated Expectations.

The questioned installers, as part of our research, also expected smart-home-technology to be rapidly adopted and, in particular, confirmed the significant business potential of these new technologies.

Our range of qualitative interviews with wholesalers confirmed that the service silos and missing standards are currently a major inhibitor for the full commercial exploitation of smart-home-technologies. On the other hand, they claim that once standards emerge, the conversion of light management with other home-automation-systems has the power to change the whole eco-system affecting marketing strategies for OEMs and wholesalers.

Although connected home overall is still in the „Innovation Trigger“ phase, installers see sales potential for smart products in lighting increasing.

Gartner hype cycle, 2015

[Graph]

Electrical installers opinions about sales potential for smart lighting after Light + Building 2016

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Figure 7: Gartner hype cycle for connected home technology
4.1.3 DIGITALIZATION

for new business models that would previously have been unthinkable. Given that this paper focuses on wholesalers, we want to look at the increasing digitalization of sales channels that influence the relationship between installers and wholesalers – in other words, the use of digital technology in trade.

Interestingly enough, price (i.e. price savings relative to offline channels) is not the number one priority for installers here. In fact, “only” around one third of installers across the different countries list price as one of their key considerations when purchasing via digital channels. In a world of shorter product lifecycles and huge product diversity, more than half regarded digital channels as an important means of comparing products and obtaining additional information. As Figure 8 shows, this is an aspect of online selling that wholesalers have very much underestimated to date.

In an industry, where customers are used to experience personal interaction and to collect products at outlets instantly, delivery speed is a key concern when purchases move online. In fact, if we look at the data in more detail, in some countries (Germany in particular) and for some types of installers (e.g. dedicated installation companies as opposed to building managers) this is the most important factor when purchasing online.

Wholesaler and installer have different priorities regarding online purchasing

Source: Voltimum Survey Among Electrical Installers April 2016 (N=2196), Electrical Wholesaler Survey, May / June 2016 (N=141)

Figure 8: Top factors influencing decision to shop online
4.2 EFFECTS OF MARKET DISRUPTION

In combination with socio-demographic megatrends such as increased urbanization or ageing populations, the above technology shifts have a disruptive effect on the value chain. Many of these effects can already be witnessed today and are causing the key wholesaler challenges listed above. These include:

4.2.1 PRODUCT PORTFOLIO EFFECTS

- LED technology is prolonging product lifetimes significantly, thus drastically reducing the potential for replacement business. At the same time, it is making the production of integrated over-the-counter luminaires much more cost effective.

- LEDification is radically shortening technology cycles. With technology generations shifting every six months, it is becoming increasingly challenging for wholesalers to maintain an innovative product portfolio and offer the same levels of service and advice on such rapidly changing portfolios. At the same time, installers expect a certain level of consistency with interfaces and standards across technology generations.

- As we have seen above, the connected home market currently comprises a host of competing standards and “ecosystems”. Although there is a great deal of business potential here, there is also a risk that this war around standards will ultimately result in smart home use cases failing to deliver on their promises. On the other hand, international wholesalers in particular cannot risk missing the boat on this trend, as it would further exacerbate their portfolio challenges.

4.2.2 PRICE AND COMPETITION EFFECTS

- LED technology has opened the way for new, “unbranded” manufacturers to enter the market at very competitive price points. This has increased margin pressure on branded products for established wholesalers.

- However, these new players have only been able to enter the market so rapidly thanks to the emergence of digital sales channels. On the one hand, local and often specialized online platforms for lighting products have emerged offering lower transaction costs. On the other hand, online pure players and marketplaces (e.g. Amazon) are also expanding into the lighting business, offering attractive prices and shipping cost.

4.2.3 SERVICE EFFECTS

- The lighting sector has evolved dramatically in recent years. No longer the simple process of changing light bulbs, it is becoming a more “high-involvement” business also for consumers. Professionals need to think in terms of solutions rather than products. This is especially true for smart home applications.

- Because of global digitalization, consumers are adopting a “24/7” and “ubiquitous information” mentality. Both, consumers and professionals no longer tolerate low service levels or poorly designed product information. They also believe that all manner of demands can now be provided via digital platforms.
4.3 NEW CHALLENGES DUE TO CHANGING INSTALLER DEMANDS

These technology shifts are fueling market disruption and subsequently changing the expectations of electrical wholesalers’ direct customer group: installers and contractors. Many of these professionals deal with lighting products every day. However, they are also consumers in other areas of their lives. They therefore have other purchasing experiences and, subsequently, expectations, especially from interaction with digital pure players and marketplaces.

Consequently, installers develop new expectations and requirements vis-à-vis electrical wholesalers. These include:

• Maintaining a more flexible portfolio that reflects the latest innovations
• Maintaining a portfolio that caters to both “top seller” products as well as “long tail” special products (especially for traditional lighting)
• Providing end-to-end support for installers, including service for larger and more rapidly changing product portfolios
• Providing advice on trending technologies, especially smart home and smart building products
• Educating installers on how to become “solution experts” themselves rather than just filling out product orders
• Creating a credible multichannel strategy without sacrificing personal contact with installers and proximity of outlets to installers.

Meeting these demands from installers will cost wholesalers money. However, this also comes at a time when wholesalers are facing a challenging margin situation in some lighting categories (over 60 percent of wholesalers are already worried about price pressure). Wholesalers also have higher fixed cost bases than new digital market players. As such, the key question we have to ask is:

“'What is the winning model for electrical wholesalers?"
We believe that the only way for wholesalers out of this dilemma is by offering high service and quality levels and asking for an appropriate price premium – in other words – playing as strong brands in other industries play.

This belief is not only based on our own business experience but also on economic theory: This theory suggests that there are three strategies that companies can adopt to create a competitive advantage, especially when coping with disruptive change: cost leadership, differentiation, and focus on niches (Porter 1980: p. 34f).

- **Cost leadership:** This first strategy focuses on reducing costs along the value chain to the greatest possible extent. This can include the cutting of fixed or variable costs and decreasing outlay for consumer insights, market research, marketing expertise, customer loyalty programs, production, and purchasing as well as sales and after sales activities. This strategy requires very strict approach by a company and eliminates everything that is not vital to selling the product. This is often combined with a target to achieve certain economies of scale.

- **Differentiation:** This second strategy requires that a company differentiate its offering from its competitors. It is usually adopted in the fast-moving consumer goods (FMCG), white goods and automotive sectors. These industries serve highly saturated, mass markets where there are enough consumers to support different brands and high levels of transparency regarding ingredients and/or tools. In such markets, it is difficult to succeed in the long term just through innovation. Instead, a company has to give customers a compelling reason as to why they should buy its product and not a competitor’s.

- **Focus:** The third strategy involves focusing on specific customer groups or regions and offering them a product or service that is almost “tailor-made” to their needs. Luxury goods are a prime example here. A perfectly executed focus strategy results in a highly differentiated product or brand or a very strong cost leadership position.

This idea is nearly 40 years old. Today, however, experience shows that these strategies can effectively be merged into two (see Figure 9).

For example, if a company differentiates successfully enough, its offering will be tailored perfectly to the needs of a particular customer segment. In other words, the company would have a focus strategy that aligns with these customers, and a differentiation strategy that sets it apart from the competition. Focusing on customers’ needs is vital to a company’s success and we will be discussing it in more detail in the next section. For the same reason, a company that chooses to focus entirely on cost leadership is usually also a price leader operating at the lower end of a market. If a company tries to pursue both strategies at the same time, there is a risk of being “stuck in the middle”. In other words, it will be unable to either focus on differentiation or cost leadership and will see its profits fall.

The first question established electrical wholesalers have to ask themselves is: In light of the expectations of electrical installers (see Figure 4) and our cost base, do we even have a choice to play the price game in the long run?
We do not believe that they can. This is because Asian manufacturers in combination with low fixed cost internet platforms will continue to drive price levels down. At the same time, installers will continue to demand increasingly superior service, which will drive costs up. Furthermore, it seems that electrical installers do not want to source their products from no-frills discounters. Our survey revealed that price is not the top priority when selecting a wholesaler. The same is true of the end consumers. 70 percent of the reasons listed in Figure 10, for example, are not related to price.

This has been confirmed by a recent quantitative study published by McKinsey & Company on the most important drivers of success in B2B sales negotiations, which yielded – yet again – a renaissance of value selling in its two main findings:

- The sales experience is twice as important as buyers report, ranking near price in importance
- Service and support is the most important buying factor—twice as important as price.

Although the two principle options of cost/price leadership and differentiation are available for electrical wholesalers in mature markets such as Europe and the US, we focus our discussion on what we believe is the more advanced route of differentiation. In other words, developing and executing a value-added company, brand or offering that sets itself apart from the competition.

We argue that wholesalers need to build their own brand. Otherwise, they face the threat of being shortcut by manufacturers (“brand online shops”) or new e-distributors that have no experience and legacy in electrical wholesale, but carry over a brand from other product categories and especially the B2C world.

In the following we will describe how to operate in the higher end of the market, especially how an own, powerful brand can be established by electrical wholesalers.

The “where to play” question – risk of becoming “stuck in the middle”
70% of end consumers choose light bulbs based on content and quality factors; only 30% are influenced by price

Purchasing priorities over all countries and application scenarios (work, living, visible, covered); only refers to bulbs, not spots, due to "beam angle" attribute.

Figure 10: Reasons why end consumers purchase light bulbs

Source: OSRAM market research, 2015
To operate in added-value market segments successfully, companies apply a number of different levers, usually at each step of their sales channels:

- Know your customer – really well
- Fix the basics – the right price structures
- Define your value proposition
- Go beyond the product

These factors were chosen based on our interviews with wholesalers, industry experts, and the results of the installer surveys. All four levers are relevant for both, wholesalers and manufacturers in the end.

Leading companies apply all four levers together. Firstly, the company has to understand their customers and needs to decide which customers it wants to focus on and gain in-depth understanding of these target groups. Secondly, a company has to fix the basics in terms of price structures. This will provide a stable revenue stream and enable it to adjust to disruptive trends. The value proposition then has to be adapted or aligned accordingly while the company must offer a 360-degree customer experience that goes beyond the product itself.

6.1 KNOW YOUR CUSTOMER – REALLY WELL

B2C and B2B businesses have to know what their customers really want to establish strong relationships, strengthen customer loyalty, and secure higher margins. This can be trickier than it seems as most companies serve a range of different and in many cases extremely diverse customer groups, depending on the size of the wholesaler. These can include residential and non-residential contractors, large installers, industrial and maintenance customers as well as other manufacturers, electrical specialists and small installers. Although the needs of these customer groups may vary drastically, best practice examples show that companies can successfully address customer needs if they go about it in the right way (see Case study 1: Bosch).

6.1.1 IDENTIFYING CORE CUSTOMER GROUPS

If a company has too many target customer groups, it can choose to focus on a core stakeholder and tailor an excellent service offering specifically for this group. This is particularly relevant for smaller companies.

There are several ways a company can analyze its customer base to select the “right” stakeholder. In our experience, these are the three most effective analyses:

- ABC analysis based on revenue
- ABC analysis based on profit
- ABC analysis with forward-looking strategic options

Smaller wholesalers may find it more effective to base judgements on future potential in specific business segments on the opinions of in-house experts such as sales teams or the general manager. Larger companies can use data analytics for these analyses (or both).

Regardless of which of the three methods are used, the customers who yield highest revenue/profit/potential are given an ‘A’ rating, enabling the company to focus more of its resources and labor on these clients. B and C customers warrant progressively less attention and are afforded the corresponding levels of service. The key here is to really focus operations on the selected customer group (see Case study 2: Vaillant).
6.1.2 IDENTIFYING CUSTOMER SEGMENTS

Identifying the most relevant customers is only the start. Once a company has chosen which customers to focus on, it then has to find out what these customers need. As expected, electrical installers do not all want the same thing from a good wholesaler. We used a combination of correspondence and cluster analyses to evaluate the results from our survey of more than 2,000 electrical installers and contractors across five markets1. The markets were selected based on two criteria: market size and panel data availability (which was not given in other major markets such as France for example). The analysis enabled us to identify different segments of electrical installers.

In total, we found five different segments of electrical installers across countries. Each segment has different primary needs:

- Roughly, a quarter of all installers across our sample want the lowest prices and good payment terms (Segment 4: Price-sensitive segment). The installers in this segment use online channels primarily to compare prices and hope to get lower prices online.

- The remaining installers have different primary needs. Segment 1 installers (24 percent of all installers asked), for example, list access to a broad, readily available product portfolio as a top priority. Installers in this segment also mention proximity to wholesaler outlets and an online offering as further key needs.

- Segment 3 installers (28 percent of all installers asked) look for a trusted relationship with their wholesaler as well as innovative products. Installers in this group also seem to be the early adopters. This group has the highest LEDification acceptance rate among all installers surveyed: 67 percent of this segment say that LED will be their first choice for 100 percent of their installations in the near future. It was also the most optimistic about the sales potential of connected home products after Light + Building 2016, with 55 percent saying that potential has increased or strongly increased.

- Segment 2 installers (16 percent of all installers asked) focus on business convenience and trust. Business convenience is mostly related to good payment terms. Unlike in Segment 4, price sensitivity does not play such a distinctive role here.

- Finally, segment 5 installers (7 percent of all installers asked) rate all five factors as equally important. In other words, they want it all, which makes this segment, arguably, the most difficult to satisfy.

Although we were able to identify these different installer segments in all of the aforementioned markets, our dataset allows for country-specific deep-dives. For example, we see clear differences in the segment distribution from country to country:

- Germany, for example, has quite a high share of segment 1 installers (broad portfolio and high product availability). This group accounts for more than half of all German installers we surveyed. In addition, the most demanding segment (those who “want it all”) is exceptionally large in Germany. The purely price-focused group (segment 4) is rather small here.

- In Italy, almost one third of all installers fall into this price sensitive segment.

- In Turkey, installers primarily look for a trusted relationship with wholesalers together with favorable payment terms. These two segments combined represent 63 percent of the installer base.

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1 We conducted quantitative installer/contractor surveys in six countries: USA, Germany, UK, Italy, Turkey and Brazil. We were unable to apply the statistical techniques to the results from the US due to the sample size and the slightly different structure of the survey here. We therefore used the data from the remaining five countries to create installer clusters. However, qualitative interviews in the US indicate that our findings also apply there.
Not all installers have the same needs. We found five segments across countries. Wholesalers shall treat each group differently.

100% analytically derived installer segments based on a survey of their needs across five countries

<table>
<thead>
<tr>
<th>Segment</th>
<th>Size of segments across countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24%</td>
</tr>
<tr>
<td>2</td>
<td>16%</td>
</tr>
<tr>
<td>3</td>
<td>28%</td>
</tr>
<tr>
<td>4</td>
<td>26%</td>
</tr>
<tr>
<td>5</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Survey Amongst Electrical Installers April 2016 (N=2,196); Countries covered: DE, IT, UK, TR, BR; Analytical method: Correspondence analysis and k-means clustering based on three survey questions.

Similarly, installer segments are also not equally represented among the different professional groups:

- For example, architects and engineering firms seem to care much more about getting innovative products at good prices for their planning and cost calculations (almost 60 percent of companies prioritized these factors)

- Training providers, however, have an understandably greater need for sound payment terms

- Electricians and facility managers need the right products quickly. Segment 1 is therefore over proportionately represented in this group
Such deep-dives and a deeper qualitative understanding of the secondary needs of these installer segments and the best way to approach and target them will be subject of further specific research outside the scope of this paper.

There are two key lessons to be learned from such an advanced segmentation: Firstly, not all installers are the same; they have five different primary needs that vary in size across markets. Secondly, price sensitivity is an issue with a quarter of installers, but it is far from being the biggest or single most important driver. If a wholesaler were to focus its value proposition exclusively on the lowest price, it would be focusing on just one quarter of the market and may therefore not have the right offering for the remaining 75 percent.

Wholesalers can use this information to identify the different installer segments in their customer base. Evaluating these segments and understanding further insights regarding sub-groups (e.g. countries or professional groups) will bring valuable insights for developing further business potential within the existing customer base.

6.1.3 CHECKLIST QUESTIONS:
IDENTIFYING CUSTOMER SEGMENTS

- Do I know who my customers are (based on revenue and profit)?
- Have I carried out an ABC analysis?
- Is a specific professional group overrepresented?
- Did I “dig deep enough” to develop further business potential in my customer base?
- Do my sales force and service team know about our strategy to focus on the “right” customer group?
- Do I have a key performance indicator (KPI) system in place for these colleagues to create incentives for focusing on the “right” customer group?

6.2 FIX THE BASICS – THE RIGHT PRICE STRUCTURES

Pricing is the most powerful lever to improve revenue and profit. However, price elasticities are often “implicit” features managed based on business experience and industry knowledge. We want to discuss two complementary approaches that can help “fix the basics” in terms of establishing the right price structures.

6.2.1 PRICING BASED ON CUSTOMER SEGMENTATION

Successful pricing starts with the identification of customer segments (see section 6.1.2). Companies can then target these segments by developing different strategies based on price sensitivity. Our research shows that when selecting their electrical wholesaler, installers are not just looking for a “product pushing discounter”, but that other criteria like “brand” or “product offering” are equally important to them (see Figure 12).
When selecting a wholesaler, installers are not just looking for a “product-pushing discounter”

Top priorities for INSTALLERS worldwide when selecting wholesalers

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust in brand</td>
<td>55%</td>
</tr>
<tr>
<td>Best price</td>
<td>46%</td>
</tr>
<tr>
<td>Broad product range</td>
<td>37%</td>
</tr>
<tr>
<td>High product availability</td>
<td>35%</td>
</tr>
<tr>
<td>Innovative products</td>
<td>33%</td>
</tr>
<tr>
<td>Business convenience (e.g. payment terms)</td>
<td>28%</td>
</tr>
<tr>
<td>Proximity of outlet</td>
<td>24%</td>
</tr>
<tr>
<td>Online offering</td>
<td>16%</td>
</tr>
</tbody>
</table>

Figure 12: Reasons why installers choose their wholesaler

Source: Global Survey Among Electrical Installers April 2016 (N = 2,196)

6.2.2 NEEDS-BASED PRICING
(“VALUE-BASED PRICING”)

When it comes to selecting products, the next step is to understand the concrete “need” that has to be met. Using the example of the lighting industry, we can identify different lighting needs that can be addressed with a tailored approach—both in terms of product technology and price sensitivity (see Figure 13).

Different customer needs can be addressed with different technologies and different price sensitivity

Figure 13: Lighting needs and associated product technologies and price sensitivities
In the context of LEDification, this results in two different approaches:

- **Traditional products**: With the market transitioning to LED technology, sales of traditional products are in decline. In order to increase share in a declining market, competitors usually start to reduce prices to push sell-out. This cuts inventory in wholesalers’ warehouses and increases inventory in manufacturers’ factories and leads to a “lose/lose” price war without any winners (as was the case, for example in the DRAM industry). In turn, managing value proactively enables companies to keep prices stable (and manage market share). They can even increase prices for certain products where price sensitivity is less of an issue (e.g. certain high-pressure discharge lamps).

- **LED products**: Experts argue that the industry is currently in the “steep part of the S-curve” regarding LED price decline. Over the coming years, pressure on prices is expected to slow. There are two main arguments for this: (1) LEDs are accounting for less and less of the overall product cost; as such, the decline in LED component prices is having less of an effect on the cost of finished lamps and luminaires. (2) Alternative technologies such as filament lamps are emerging and will help to differentiate products again. The key here is to manage stock in the context of 6 - 9 month generations, as this will prevent the real price killer, which is selling off inventory.

Overall, it could be argued that lighting is a low-involvement product, where the best price always wins. It could also be said that total cost of ownership is more important to professionals than to private end users. However, market research shows that even private end users do not buy light bulbs based on price alone. Many different factors also play a role; for example, design and energy-saving properties (see Figure 10). Understanding real consumer need enables wholesalers to develop value-based pricing models.

In the end, electrical wholesalers have demonstrated that they know how to earn money and they know where their strengths lie – to avoid destroying value.

### 6.2.3 CHECKLIST QUESTIONS: IMPROVING PRICE STRUCTURES

- Do I know my top margin products?
- Do I split my customers into different groups based on price sensitivity?
- Do I know customers’ actual lighting needs in individual projects?
- Do I have the capacity to keep a higher share of traditional products?
- How price sensitive is my business with traditional products? Can I increase prices for certain products? Should I bundle purchasing volumes to keep supplier complexity low?
- In LED, do I have attempts to reduce the prices? If so, why?
- Do I collect the right statistical data, e.g. market share as a percent and not (just) in terms of absolute volume?
6.3 DEFINE THE VALUE PROPOSITION

When facing disruptive challenges, many companies make the mistake of trying to deliver everything to everybody. The key to success, however, is to know exactly what a company and/or brand stands for: Who are its customers? What does the company offer them? Why should they work with that particular provider and not with its competitors? In other words, what does the brand/company stand for? In addition, do all customers share the same view of that value proposition?

A value proposition is a clear, actionable positioning statement that outlines value or a benefit from the customer’s perspective. It can be developed for a company as a whole or for individual products and services. Companies that find out what their customers really want and build their value proposition around this are in a stronger position because they have a clear idea about whom they are serving and how they can serve them. They can also make sure that their strategy is systematically executed along all consumer touch points, which results in a clear brand image.

Online shops become more widespread and installers have multiple options to source from

Which purchasing channels do you expect to use at least occasionally in the coming 2 years?

<table>
<thead>
<tr>
<th>Channel</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesaler Outlet/Phone/Fax</td>
<td>63</td>
</tr>
<tr>
<td>Wholesaler Webshop</td>
<td>47</td>
</tr>
<tr>
<td>DIZ Store</td>
<td>22</td>
</tr>
<tr>
<td>DIZ Webshop</td>
<td>11</td>
</tr>
<tr>
<td>Electronic Online shop</td>
<td>39</td>
</tr>
<tr>
<td>General Online shop</td>
<td>32</td>
</tr>
<tr>
<td>Manufacturer webshop</td>
<td>36</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
</tbody>
</table>


Figure 14: Purchasing channels that wholesalers expect to use in future

A dedicated, clear value proposition is important for electrical wholesalers. In the past, customers might have chosen a company because its physical stores were close to the customer’s company. This differentiation factor will become less important as online shops become more widespread and installers have multiple options to source from (see Figure 17). Amazon Prime, for example, already offers a one-hour delivery service for certain items in selected cities in the US and Europe (see Case Study 4). This is just the beginning of rapid delivery services. Wholesalers that have a clear value proposition and execute it perfectly across all customer touch points have a greater chance of winning against the competition.

There are hundreds of books on how to build a strong brand and many different ways to develop a good value proposition (Esch, 2004: p. 91f.). In our more than 20 years of experience, the most effective and successful value propositions are very simple and very clear. They only contain three elements: consumer insight, benefit, and reasons why.

CONSUMER INSIGHT Reveals what customers want and/or the challenges they face. It should ideally be formulated in the customer’s own tone of voice. In other words, it sums up the customer’s “problem”. It should be as short as possible, in many cases only one or two sentences.

THE BENEFIT is the company’s own view of how its product or service can solve the problem stated above. It is the very essence of the value proposition. In short, it is the company’s solution to the customer’s challenge.

THE REASONS WHY provide rational or emotional reasons why the product or service can offer that solution. This is typically just a short list of the most important elements and not everything that a product offers or contains.
This value proposition should be captured in just a couple of sentences. It should not be longer than one page and should be easy to understand for people who are not experts in the field.

The following are examples of consumer benefits summed up in one sentence: (Riesenbeck, Perrey 2004: 158f)

- Gentle skincare at a reasonable price (Nivea)
- A lot of car for a reasonable price (SIXT)
- The lowest price in airlines (Ryanair)

6.3.1 FUNCTIONAL VERSUS EMOTIONAL VALUE PROPOSITIONS

Arguably, all of these value propositions are based on functional benefits such as price, skincare or value for money. Many brands also feature more emotional benefits (Aaker 1996: p.97):

- Feeling safe (Volvo)
- Being happy (Coca-Cola)
- Being in control of aging (Oil of Olaz)
- Feeling warm inside (Hallmark Card)

There is also some evidence that a combination of functional and emotional value propositions is the best approach. For example, a market research experiment involving shampoo showed that adding an emotional benefit such as “you will look and feel terrific” to a functional promise of “your hair will be thick and full-bodied” enhanced the ad’s appeal. (Agres 1990: 1-18)

At the same time, brand evolution plays an important role. Interestingly, NIVEA used a more functional benefit in the late 1990s and has developed a more emotional promise since then. In contrast, Coca-Cola is currently moving slightly away from the emotional promise of happiness and evolving benefits that are more functional. One could argue that each brand tries to balance a functional and emotional promise and moves in the opposite direction to its previous brand positioning (NIVEA more functional, Coca-Cola more emotional).

The value proposition forms the basis of a company’s offering as well as its product and service development. It is the basis for product tests in market research and the brief for any advertising effort.

Installers have different needs (see Figure 11). An offer tailored to installers in segment 1, for example, would be very different to an offer designed for installers in segment 2. It may not be possible for a company to develop five different offers or value propositions for the five different installer segments.

6.3.2 THE WHOLESALER’S BRAND

During the course of our research for this paper, we held many discussions with wholesalers. One major question emerged when talking about value propositions: Can a wholesaler company even be considered a brand? In our experience, it is practically a must.

A brand is what happens in the mind of the customer when they hear or see the name of the brand or company. New brand theory is therefore moving away from the conventional idea of the brand (i.e. as only relating to products in a B2C environment) towards a much broader definition that encompasses products (Apple), services (US mail), regions (Silicon Valley), cities (Paris) and people (Donald Trump, Madonna). All of these are now considered brands, because when consumers hear the name, they have an idea about what that “brand” offers them. As such, wholesalers, retailers and installers are also brands. They all offer something and must therefore make sure that what they offer is relevant to their customers.
6.3.3 CHECKLIST QUESTIONS: DEVELOPING A CLEAR VALUE PROPOSITION

- Do you know how your A-customers perceive your value proposition? Have you ever conducted brief expert interviews with them, for example, and asked them why they buy from you and not from others?
- Have you already chosen the installer segment(s) you want to focus on?
- Have you written a value proposition?
- Is your team familiar with it and do your people identify with it?
- Have you broken down the value proposition into the three most relevant points for each department in your company?
- Do you check every once in a while if your customers’ perception of your company aligns with your value proposition?
- Do you have a set of KPIs for your value proposition and are these measured on a regular basis (for example using net promoter score)?

6.4 GO BEYOND THE PRODUCT

There is a high level of price transparency in strategies that focus exclusively on the product. The degree of transparency has increased with the rise in digital platforms. Today, there are hundreds of online price comparison sites that allow consumers and installers to search for the cheapest prices. If a company thinks exclusively in terms of the product, it will end up competing with price/volume players in the lower end of the market, and the risk of losing out here is high.

In terms of profit, (see Section 7) it makes a lot more sense for companies to focus on providing additional services and innovations to customers. These additions to the portfolio should be based on a company’s value proposition and on customer needs (see Sections 6.1 and 6.3). This very creative exercise should be performed in a structured, ongoing way. The practical examples of Schott Ceran and Amazon in the appendix show just how different these approaches can be.

In addition, our research with installers shows that product/portfolio is not the only factor that influences electrical installers when choosing a wholesaler. Across all countries and installer sizes, product and portfolio never account for more than 50 percent of responses (Available on request).

The question now is how wholesalers can go beyond product and price – in a structured way – to operate in the higher end of the market. One typical approach here is to expand the value proposition to include corporate behavior (in other words, how employees execute the company’s promise) and also the five most important marketing and sales levers (product, service, price, distribution and promotion).

6.4.1 CORPORATE BEHAVIOR AS ONE DRIVER FOR SUCCESS

It is crucial that all employees in a company are familiar with the brand promise and execute it in a uniform manner. To ensure this is the case, managers should sit down with staff in different departments and break the promise down to at least three action items for each team.
For example, a promise to deliver a “convenient method for ordering lighting products” could be broken down as follows for different departments:

THE CALL CENTER:
• Answer each call within the first six rings (leaving customers waiting on the phone does not promote the idea of convenience)
• Orders should be booked within two minutes (provided this is a good industry benchmark)
• Always ask the customer if there is anything more we can do to make their order easier

THE ONLINE SHOP:
• Place a large, visible order button on the homepage
• Offer a one-click order option
• Make sure someone calls or emails the customer personally and proactively if there is a delay with the order

PAPER ORDERS:
• Make sure the form is on the first page of the website
• Make sure the customer information is automatically entered in the form
• Make sure the form is logically structured and has a simple design

It pays to remember that these guidelines must reflect the customer’s point of view, not the company’s.

6.4.2 THE MAIN MARKETING AND SALES LEVERS

We already touched on the “price” lever Section 6.2. “Product” also does not seem to be of a problem for electrical wholesalers based on our findings from the interviews and workshops. As a result, this section will focus on the remaining two levers: communication and distribution.

Communication:

The most important factor to remember here is whether “one cannot not communicate” (Watzlawick in Schulz von Thun: 1995: 34). Everything that people see, hear, feel, taste, smell in relation to a product or brand – even the absence of communication – contributes their image of a company and the products and services it offers. All communication should therefore reinforce the image that that the company wants to create. Advertising via dedicated paid media channels is a very effective lever to address the most important factors. This is also the only lever that a company is in complete control of. It is therefore crucial that all advertising is clear and reinforces the same, intended image.

Using a claim is one effective way of ensuring this. A claim is a condensed version of the value proposition. Although the value proposition should already be short, it is still too long for advertising purposes. A claim is a simple sentence or sometimes even just one word. Examples include:

“THINK DIFFERENT” – Reflecting Apple’s commitment to innovation in its value proposition

“DAS AUTO” – Reflecting Volkswagen’s value proposition of democratizing mobility and underscoring the idea of German engineering as a by-word for quality

“VORSPRUNG DURCH TECHNIK” – Reflecting Audi’s promise to deliver state-of-the-art technology and German engineering quality

Distribution:

Based on our research and workshops with wholesalers, there did not seem to be any issues with conventional distribution channels such as shops and call centers (for orders). The questions that did emerge, however, were related to online shops and how these can be integrated into other channels.
In reality, this is not too complicated. After all, an online shop is just another distribution channel and should be treated as such. Moving a portfolio from the analogue to the digital world may not be as hard as it seems. If a company has a clear value proposition, all it needs to do is apply this to a different channel. The promise to customers should not change. The tricky part, as always, is correctly adapting the promise to the rules of that particular channel. For example, if a company promises to deliver a convenient shopping experience to consumers, it has to define rules for its call center (e.g. maximum wait times for calls, number of questions needed to place an order and a clear confirmation form). To deliver the same promise in the online world, a company has to look at website loading times or the time it takes to find the right product (the equivalent to waiting time in a call center). The information required to place an order and a simple, clear confirmation form could also be seen as key issues here. Some elements may even be the same in both worlds.

Once again, this underscores the principle that all distribution channels should be based on the same promise to the customer and they must all deliver on this promise.

6.4.3 CHECKLIST QUESTIONS:
DETERMINING ADDED-VALUE FOR CUSTOMERS

☐ Can all employees explain the value proposition and describe how their work contributes to its success?
☐ Have you aligned your most important levers (e.g. product, price, communication and distribution channels) with your value proposition?
☐ Have you developed a claim for all communications?
☐ Is there a process in place that enables you to systematically check the fit of the value proposition and its execution across all customer touch points?
☐ Does your offer already meet the needs of your most valuable customers and the installer segment you want to focus on?
☐ If not, what kind of service, communication, call center support etc. could you offer to enhance your image and create new revenue streams in addition to product sales?
☐ Can you pilot these ideas in a smaller test area, ask test customers to provide feedback and information on their willingness to pay and then improve the offering based on this feedback?
7 THE PROOF OF THE PUDDING: THE BENEFITS OF CREATING A STRONG WHOLESALER BRAND

So far, we have argued that operating in the higher end of a market makes sense for electrical wholesalers. We have outlined four main levers that can lead to success and have provided a brief overview of how this can be done, also referring to some real-life B2B case studies.

In this last section, we will show that operating in the higher end of the market and investing in strong brands pays off for electrical wholesalers. Here are the five most important reasons why a strong brand pays off.

7.1 PRICE PREMIUM

Companies that successfully pull these four levers develop a strong brand and can charge a price premium for them. As you can see in the case studies, Vaillant can charge around 50 percent more than Buderus while Schott Ceran earns around 80 percent more than Siemens for comparable products. These companies can charge a price premium because they provide added value that customers know about and understand. Because it matters to them, they are willing to pay more whether it is for Vaillant’s improved service for installers or Schott’s environmentally sound production process.

This is also true when different brands have the same levels of quality. In the case of white goods, the biggest independent German test institute “Stiftung Warentest” awarded three washing machines (AEG, Miele and Siemens) the same grade of “good”. However, the Miele brand costs 39 percent and 82 percent more than the other products even though they have same test results. This is all due to the brand value, underlying service offering and perceived quality.

7.2 DIRECT IMPACT OF STRONG BRANDS ON SALES

Experts sometimes argue that brand management and advertising efforts only help in the long term as they influence image and therefore only have an indirect and delayed impact on sales. Although advertising and marketing do have a proven, long-term impact on sales, the image of a brand or company also directly influences sales.

When using an un-biased research methodology of factors that drive purchasing decisions, it is clear that brand drives a significant proportion of sales. Looking at an example with white goods in Spain (Figure 15), we can see that the perceived strength of the brand and awareness of advertising accounted for around 20 percent of sales. Of course, it is unrealistic to assume that consequently around 20 percent of a company’s budget should be channeled into brand management and advertising – after all, there are also other factors to consider such as strategic and competitive arguments. However, this does at least provide an initial indication of just how important company image is in comparison to other drivers.

7.3 GREATER CONSUMER LOYALTY

Strong companies and strong brands sell more. This is because they have more loyal customers, and loyal customers generate 60 to 70 percent of all sales of branded products (Schüller 2012). Companies with a strong brand, that have actively engaged end consumers (those who have a strong attachment to a brand) have 23 percent more share of wallet than brands with an average engaged end consumers. Brands with actively disengaged end consumers (hence not strong brands) have a 13 percent discount in share of wallet. (Gallup 2014: 1). Alternatively, if we stay with the example of washing machines: “almost every customer buys a Miele again” (Esch 2012: 10).

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\footnote{Figures are an outside-in price comparison using the following price comparison websites: www.Heizungsdiscount24.de; www.Mediamarkt.de; preisvergleich.de (as at April 16, 2016).}
Brand has a direct, measurable impact on sales

Relative importance of drivers to predict variance in sales (Example: Fridges), Spain

CONSUMER DURABLES

Seasonality 4%
Media Spending 11%
Price & sales channel 13%
Brand strength & advertising awareness 21%
Weighted distribution (= availability of product 51%

Source: brand.cision model by Analyx based on retail panel data, Spends (ATL/BTL) and brand KPIs

Figure 15: Impact of perceived brand image and advertising awareness on sales

7.4 HIGHER STOCK MARKET PRICE

Greater customer loyalty has a direct impact on sales. This, combined with a higher price premium, can also boost stock market performance. According to a McKinsey analysis (Perrey, 2016: 1), brands and companies ranked in the top 40 of Business Week’s Best Global Brands report outperformed the MSCI World Index benchmark in nine out of twelve years. In times of economic upheaval, the value of these companies also remains more stable than others. Interestingly enough, this is true for B2C and B2B companies. Out of the 40 best global brands in the Business Week list, 53 percent of the companies operate either exclusively in B2B scenarios or in both B2B and B2C markets. Only 47 percent of the companies are exclusively B2C businesses (Figure 16).
Higher stock market also for B2B companies: 53% of best brands operate in B2B sector or in B2B and B2C likewise

7.5 ATTRACTING AND RETAINING TALENT

There is a strong correlation between a company’s positive image and its attractiveness to students and senior experts when hiring and to retain own employees. Porsche and Apple receive more applications for open positions than other car manufacturers or IT suppliers. These companies (with strong brands) are more likely to hire better employees than others. Strong brands provide companies with a pool of better and more motivated candidates to choose from, leaving these companies in a stronger position in the fight for talent within mature markets, such as Europe and the US. The same positive effect can be seen with existing employees.

These are just a few areas in which strong companies with a high-profile image and a clear value proposition outperform their peers and benefit from operating in the higher end of the market.
Our primary research shows that price is not the only major challenge for wholesalers. Adding real customer value through product and service innovations, adopting a customer-centric perspective and managing the transition to digital business are also key concerns.

All these challenges are based on disruptive technological shifts that are affecting the market by changing the way customers and installers behave. Installers want more training, better service and 24/7 support from their partners. However, this will increase cost structures for these partners. These challenges are the same for wholesalers and manufacturers alike.

Effectively, there are two main strategies that companies can use to overcome disruption and thrive. They can either choose to focus on the cost-sensitive, lower end of the market or compete in the higher end, added-value segment. In light of strong competition (and expertise) from Asia in the cost-sensitive segment, and with installers looking for more service from wholesalers, we believe that the only viable path for companies based in Europe, the US and Latin America is to focus on the higher end of the market – in other words, to “go beyond price” and play a “strong brand game”.

Establishing an own wholesaler brand – and not just relying on the manufacturer brands on the shelf – is vital in order to stay competitive. Otherwise, the threat of being shortcut by manufacturers or new e-distributors exists.

Following discussions, workshops and interviews with wholesalers and backed by many years of experience in the B2B and B2C sectors, we defined four core (brand) levers that wholesalers in B2B scenarios need to operate to succeed. These four levers work in unison and have a direct impact on sales and margins:

- Know your customer (and customer segments) – really well
- Fix the basics – the right price structures
- Define your value proposition
- Go beyond the product

Four dedicated case studies show how these levers can be operated successfully also in the B2B context. In using these levers well, electrical wholesalers actually create a strong brand – opening the way for higher price premiums, greater customer loyalty and higher stock prices. They also allow companies to motivate more and better candidates to apply for jobs and retain the best talent.

Finally, even though international wholesalers, buying groups and local independents are very diverse, the above factors seem relevant for all of them while looking to create a winning model for the future.
Case study 1: Bosch

Understanding customers and offering the services they need Bosch Professional developed a product/service that created a new revenue stream and increased income from an existing stream. Here's how they did it:

THE INSIGHT:
Bosch Professional offers power tools for trade and industry professionals. By talking to their customers, the company found out that their clients wasted a lot of time managing tool inventories, in particular trying to locate power tools. In some cases, employees did not return tools to their storage locations. Instead, they left them in vehicles, at construction sites or even took them home so they could use them the next day. Damaged or broken tools can be a major headache, costing valuable time – and subsequently money – that cannot be billed to customers.

THE IDEA:
Bosch Professional decided to develop a product called TrackMyTools. This open, retrofit solution comprises a small Bluetooth tag, known as a beacon, which can be attached to any tool or piece of equipment the client wants to track. The tag emits a signal every eight seconds that can be picked up by a mobile phone within a radius of 30 meters using the TrackMyTools app. The phone then transmits this information to the Bosch cloud, creating an up-to-date database of tool locations. The company owner, inventory manager and tradesmen can then access and maintain this database via the app on their phones or through a website, enabling them to locate all the tools in just a few seconds.

The new service does not just find missing tools. It also enables supervisors and inventory managers to keep track of tools and equipment at all times and helps them remember maintenance dates, check tool statuses and bundle all information about power tools in one location.

With the next generation of Bosch Professional tools, the tracker will be integrated into the tools. Each tool will then be able to push service alerts to the server for instance. This will reduce downtime and improve service planning.

THE IMPACT:
For the customer:
• The new service cuts the amount of time spent managing and locating power tools and reduces tool downtime, enabling staff to work more effectively and earn more money.

For Bosch:
• The system has opened up a new revenue stream from service/usage fees
• Bosch has earned kudos for proving that in addition to being a trusted supplier of high-quality, professional tools, it also understands its clients’ needs and can help them reduce transaction costs.
• The trackers can also be attached to other (competitor) devices in the installers’ inventories, providing Bosch with information on other tools as well, not just their own.

Lesson learned:
Understanding the customer can:
• Increase revenue
• Generate information, even about your competitors
• Open up additional revenue streams
• Increase existing revenue streams
Case study 2: Vaillant

Focusing on installers as a core customer group

Vaillant decided to focus its 360-degree customer support on heating installers and built dedicated services for them. Here’s what they did:

THE SITUATION:
The Vaillant Group is Europe’s second largest manufacturer of heating, cooling and hot water technology.

The company’s business model has faced a number of challenges in recent years:
- Challenge 1: New energy labelling requirements mandated by the EU provide consumers with more transparency about heating products. This makes it more difficult for OEMs to differentiate their products as all manufacturers aim for the best energy class.
- Challenge 2: Vaillant operates in a sophisticated B2B2C market and has multiple target groups including heating installers, architects, public housing managers, social housing managers, building companies and private homebuilders. In other words, the company’s customer base ranges from private home owners who purchase a heating unit once or twice in their lives to professional social housing project managers who buy thousands of heating products a month.
- Challenge 3: The Group operates in a Europe-wide market that goes through periods of stability and slight contraction.

Vaillant had to find a way of ensuring its offering stayed relevant. The Group also wanted to focus its marketing and sales efforts on the most relevant customers to limit marketing and sales expenses to a profitable company baseline.

THE SOLUTION:
After a thorough analysis of its clients, Vaillant decided to focus its services on one main target group: heating installers. This group intersects with many of the other stakeholders and acts as a multiplier. For example, installers work with architects, public housing managers, social housing managers and building companies (that don’t have their own heating specialists) and with private homebuilders.

Vaillant subsequently developed and adapted a number of dedicated services for this target group. Three of them are listed below:

“Competence Partner” Germany: Vaillant collaborated with the highly respected Fraunhofer Institute to create a certification system for a select number of installers who deliver excellent customer service, quality and innovation. These certified installers have premium access to an enhanced service hotline and Vaillant training. Only 200 of the 14,000 installers in Germany are certified by Vaillant.

major benefit as installers are usually standing next to their customers when carrying out repairs and do not want to be on the phone for too long. They also want to look competent in front of their customers. If a call center agent has to download and read a manual before providing support this could take too long for the installer. Having exactly the same unit on both sides of the phone line means that both experts are on the same page as quickly as possible.

THE IMPACT:
• The call center is highly regarded by installers
• 3,000 installers from around Europe are trained each year at Vaillant Expo
• Vaillant is the most trusted brand for heating, ventilation, air conditioning and refrigeration (HVACR) in Germany (2015)* - not only but also because of the actions listed.

*http://www.servicevalue.de/wettbewerbe/branchenuebergreifend/vertrauensranking/ranking/ranking-der-anbieter-von-haustechnik/ (April 20, 2016); trust levels for Vaillant are + 27.53 percent higher than the industry average.

LESSONS LEARNED:
• Focus on core stakeholders
• Deliver excellent service to these stakeholders
• Training can be fun and used as an opportunity to connect with the brand

INSTALLER TRAINING IN A BRAND ENVIRONMENT: Vaillant opened a new brand exhibition called Vaillant Expo at its headquarters, which informs visitors about the Group’s past, present and future. Again, there is nothing unusual about this. However, Vaillant also integrated a dedicated training room and now holds most of its training courses for installers here. This approach means that the company can train installers on different topics in an environment that also provides a more emotional overview on the brand and its mission.

Source: If not otherwise indicated: http://www.vaillant-group.com, and personal interviews with Vaillant professionals, held on April 2016
Case study 3: Schott Ceran

Using innovation to add value to a “normal” product

Schott took itself out of the price erosion spiral by offering and talking about real innovation

THE SITUATION:
Schott Ceran is an international manufacturer of cooktops. Founded in 1884, the company is based in Germany and employs 15,000 people in 35 countries. In 2014/2015, it reported revenue of EUR 1.93 billion.

THERE WERE 3 CHALLENGES:
1. Differentiate cooktops as part of overall stove
2. Manage complex supply chain and margin from Schott to OEM stove manufacturer to retailer to customer
3. Fend off still Asian competition and efforts to erode brand value, risk to start a price war

THE SOLUTION:
Schott systematically screened all innovations in its pipeline to see which ones had the potential to resolve these issues. The company chose an innovative glass production method that did not use arsenic or antimony. Arsenic and antimony are highly toxic, for both humans and the environment. This innovation made Schott the world’s first manufacturer to produce Ceran cooktops without arsenic or antimony, saving 180 tons of arsenic per year. By doing this, the company had identified something that marketing experts call a unique selling proposition (USP).

To ensure there was sufficient pull from end consumers asking for this specific Schott cooktop, the company developed a marketing campaign for both oven manufacturers and end customers. With the claim “good for the environment – good for the kitchen”, the campaign enhanced the environmental credentials of Schott Ceran’s glass products.

THE IMPACT
• More consumers actively ask for Schott products when buying ovens. This generates a push effect from the market to retailers and oven OEMs. It also means that customers are more willing to pay for an innovation that has proven benefits.
• Manufacturers again started to see the Schott brand as a visible ingredient in their products and were more willing to pay higher prices for Schott parts.
• Schott won several awards, including the German Innovation Award. These can be used in marketing campaigns as proof of their innovative drive and environmentally sound products.

LESSONS LEARNED:
• Innovation can help companies develop a USP and avoid price wars
• Ingredient branding can benefit both brands
• Advertising to consumers can help generate pull
Case study 4: Amazon Prime

Offering value-added services to prevent price being the only buying criterion.

Many people would assume that champions in pricing and price transparency such as Amazon would not look into these kinds of added value options and services. However, the following case study of Amazon Prime shows that even a pricing champion and native digital brand acknowledges the value of additional services as a tool for overcoming price wars.

Price transparency is very high in online markets, which is why Amazon, like all digital sales channels, competes on price. Here is what the company did to escape the price erosion trap.

THE SITUATION:

Challenge 1: Amazon is a pioneer in digital sales and has to contend with high price transparency. Pressure to decrease prices comes with a high risk of price erosion.

Challenge 2: Despite volume-based negotiation leverage, Amazon is not always the cheapest option.

Challenge 3: Customers have become less loyal to suppliers in recent years, increasingly cherry picking products for the cheapest prices.

One of the key questions facing Amazon was: How can we maintain and increase customer loyalty?

CASE STUDY: CONSUMER LOYALTY IS ON THE DECLINE. ONLY...

Figure 18: High price transparency in online shopping


Figure 19: Lower consumer loyalty in B2B and B2C scenarios

THE SOLUTION:

Amazon developed Amazon Prime, a membership loyalty program that offers members free benefits for a fee of 99 dollars per year in the United States or 49 euros per year in Europe. The package includes free shipping, rapid delivery and flat rate streaming of videos, music, TV content and books. The company continually updates its offering and recently added guaranteed delivery within one hour of ordering in some cities.

By launching this service, Amazon is actually letting its customers decide whether they want to become VIP customers (or A customers discussed in section 6.1.1) in return for a membership fee.

Source: http://www.idealo.de/preisvergleich/OffersOfProduct/4579189_iphone-6-16gb-spacegrau-apple.html as seen on 8th of June 2016
CASE STUDY: AMAZON PRIME GIVES AWAY SOME SERVICES FOR FREE TO BOOST CUSTOMER LOYALTY

From a psychological perspective, the membership fee means that customers will want to make the most of their spend and will therefore be more loyal to Amazon. They are incentivized to choose Amazon – the more they order, the more they get out of their membership fee.

THE IMPACT (ALL FIGURES ARE FOR THE US):
• This has created a new revenue stream for Amazon. The estimated 54 million Amazon Prime subscribers in the US pay a membership fee of USD 99, which translates into USD 5.346 billion gross (minus the lost revenue for shipping costs and the cost of products such as TV shows for Prime members)
• The extra USD 500 per year (Levin 2016: 1) in revenue generated on average by each Prime member for product orders translates into a further USD 27 billion gross
  o Even though Amazon gives away some services for free that entail significant costs, this business model is still likely to be profitable
• Greater overall levels of loyalty and a greater understanding of the needs and behavior of A clients

LESSONS LEARNED:
• There are other ways of competing in e-commerce rather than reducing prices
• It makes sense to focus on the product and on the end-to-end customer experience (including delivery)
• Consumers are willing to pay a fee for a service if the service is useful

Source: If not otherwise indicated: http://www.amazon.com, personal interviews with digital sales experts, April 2016; own graphs, all calculation are outside-in and for the US
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LIST OF REFERENCES


