



## **Demands and challenges for the European electrical distribution industry**

**Article**

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*It is often said that when America sneezes the rest of the world catches flu. In these difficult commercial times, this seems as true as ever, particularly for the electrical equipment wholesaling industry. Electrical wholesale is very much dependent on the success and growth of other industries, such as building and construction, therefore market downturns can have an even greater effect on business. To succeed, companies need to look very closely at their operations and identify areas where competitive advantage and greater profitability can be achieved.*

### **Facing the challenges**

In many other industries, the largest players tend to have an overall majority of the market to themselves. In electrical wholesale, this is much less the case. For example, in the US, the industry's four largest companies have just a 13 percent share of the market. Statistics for Europe are similar and have led to a hugely fragmented market where there are a few major players operating across Europe, but there is plenty of market share and opportunities for smaller companies operating locally.

Electrical distribution is an unusual market in that the barriers to enter it are fairly low. There are no licensing or other governmental regulatory restrictions which prevent firms from entering and there are little or no resource constraints that can prevent entry. This means if a company can afford warehousing and distribution facilities and is prepared to take on the established players in the market, it can set up and trade fairly easily anywhere in Europe.

Traditionally, electrical wholesalers have all sold pretty much the same products. However, in response to the modern world and also in a bid to gain some competitive advantage, some companies are specializing. The growing awareness and importance of environmental issues and renewal energy sources has created whole new markets, which the industry is responding to. By investing in new industry sectors, wholesalers are giving their business a new lease of life and establishing a revenue flow that will continue to grow and support the business until other markets, like construction, start to grow again.

### **The opportunities**

Exploiting new markets is very important, because there are plenty of opportunities out there for electrical distributors. Areas such as electrical transmission, electric motors and switches are continuing to show some steady growth. In addition, there are other external forces which can drive further revenue and profitability gains into the industry. For example, the global shortage of copper is driving up the cost of cabling and this in turn increases the revenues that distributors can gain from this market.

Other growth markets include renewable energy and other green businesses. These are fairly new markets and are driving the requirements not just for new products, but also making sure old products are correctly managed and then properly disposed of recycled. Electrical distributors can expand their businesses by taking ownership of disposal and recycling, ensuring more traffic through their supply chains and greater opportunities to add value and increase profitability.

This leads to another important area where electrical wholesalers can gain market differentiation and yield better margins - customer service. By being better able to respond, predict and drive customer expectations companies can ensure they gain and maintain more and more of their existing customers' business. Customers respond well to a positive buying experience with their

suppliers. Systems that ensure timely accurate deliveries, exploit all possible discounting and rebate opportunities, as well as helping them meet their own requirements for environmental regulations will ensure wholesalers maximize revenue and profitability from their most important assets – their customers.

### **The market IS growing**

Another reason for the formation of a market dominated by large numbers of smaller distributors is the huge scope of the electrical products market. Within this industry approximately 25 percent is wiring and cabling and a further 20 percent covers lighting fixtures and fittings. These areas, as well as the market for switches and switchboards (13 percent), relay and industrial control equipment (14 percent), are directly connected to the construction industry. \*

Looking at the US, the predictions are not all doom and gloom. The electrical distribution market is set to enjoy a level of growth higher than that of the overall market. In Europe, we are not quite so positive, but forecasts still suggest that electrical distribution will grow at the same levels as the rest of the European economy.

As discussed earlier, the broad range of products sold by the electrical wholesalers, and the even broader range of end-users of these products, means the performance of the industry is reliant on a large number of factors. As the market gets tougher, companies in other industries will seek to invest more in automated equipment and processes to reduce their costs. Business' increased dependence on computers and other automated equipment has created a massive demand for protection from power outages and variations. This promotes spending on those electrical products that help to improve the reliability of electrical supplies.

In addition, the greater global awareness of environmental issues can have a positive affect on the electrical equipment market. New products are being

developed that are more environmentally safe and these need to replace incumbent products. This is creating an incremental market, which will add to the overall growth of the industry.

The larger companies in the market, although only accounting for a relatively small overall market share, are still growing steadily through acquisition, while leaving local brands in place. The current downturn in the economy will probably restrict this growth, leading more to a period of consolidation within the industry. Companies are looking to maximize profitability by increasing efficiency and therefore reducing operational costs.

### **IBS Electro delivers business success**

This is why companies like IBS are of huge importance to the industry. When business is tough and profits are tight, it is those companies that are able to save huge costs by streamlining operations, ensuring fast and accurate deliveries, which are going to succeed.

IBS has developed an enterprise wide integrated business software solution that is proven at thousand of organizations around the world. More specifically, the company has a fully dedicated solution for electrical distributors that handles the industry's specialized business requirements. For example, IBS Electro incorporates a unique solution for Cable and Drum management that provide powerful tracking capabilities to ensure distributors can minimize scrap and maximize profits through tight control of cut wire, drums and reels. The system also contains an automated system for ensuring prompt retrieval of empty drums from customer sites.

For many years IBS has worked with electrical distributors all over the world to deliver complete business management solutions that support both local and international supply chains. IBS Electro has been developed to meet the very specific requirements of the market and includes unrivalled industry-specific

functionality that has been fully tried and tested in the field. With its commitment to on-going development and regular system updates, electrical distributors throughout Europe can increase their competitive advantage thanks to this unique and hugely powerful business management system.

**By Davide Spada, Vice President Electrical, IBS**

\* Figures based on market research of US market, by IBIS World, March 2008

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