

EXPLORING

the Future of Electrical Distribution

A report on progress and plans from the **NAED Futures Group** and the **Office Hours** team.

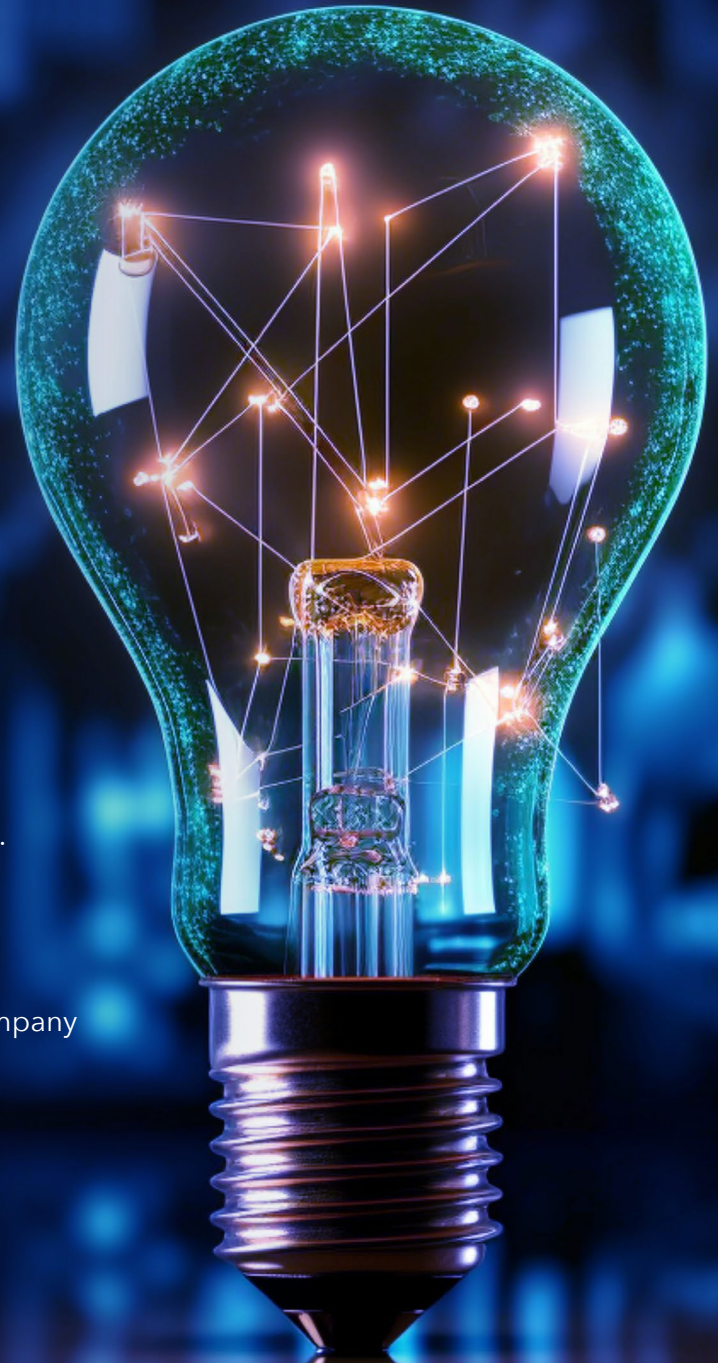
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INTRODUCTION

Futures Group Vice President Scott Teerlinck

Over recent years, we have experienced an unprecedented series of challenges across our industry. We have managed our businesses through a global pandemic, only to emerge with significant and long-standing supply chain constraints. We were then forced to pivot our focus to managing historic levels of inflation and the subsequent pricing challenges that resulted. All the while, we were faced with limited labor availability and newfound challenges of whether or not our employees expected to work from home or office. Needless to say, we have experienced and managed through quite a lot!



We had little choice but to react to what we were facing: lockdowns, empty pallets and shelves, pricing challenges, and/or inadequate staffing. While our need to react will never go away, many would agree that balancing a more forward-looking, proactive approach is equally important.

Enter the NAED. Our Association, comprised of distributors, manufacturers, and related partners, has excelled at helping members anticipate and understand some of the many opportunities and disruptors coming our way. Our more progressive members have been able to seize upcoming opportunities and/or mitigate upcoming threats. One of the many benefits ALL members receive with NAED involvement is a peer group network, with whom all can collaborate and share these ideas and best practices looking forward and ahead.

The Association's Futures Group will continue to help chart the course for our industry, and to the best of the group's collective ability, "look around corners" to help predict what is coming, whether it be new technologies, systems, or approaches. The NAED Futures Group will continue to schedule Office Hours sessions as a means for sharing ideas, opportunities, and introducing thought leaders on various topics relevant to all of us as members of the Association.

We hope you find this Industry Futures Report beneficial. Furthermore, we hope you join us for upcoming discussions and contribute your ideas, thoughts, and solutions to the conversations we host!

A handwritten signature in black ink that reads "Scott Teerlinck".

Scott Teerlinck
President & CEO
Crescent Electric Supply Company

WHAT WE'VE LEARNED

About Industry Change and Member Mindsets

Over the past six months, our Office Hours conversations have unveiled pivotal insights for shaping the future of electrical distribution. These insights highlight both unparalleled opportunities and challenges. Electrification is not just happening; it's charging forward. The grid is evolving, allowing renewable energy sources and batteries to store and deliver power. Construction sites and factories are rapidly embracing automation. The digital age demands distributors to master data and reinvent supplier partnerships, ensuring seamless connectivity in the digital value chain. And notably, the rise of generative AI has sent ripples of uncertainty across not only the electrical markets but throughout society and the economy.

Electrical distributors face a pivotal decision. They can gear up for steady sales and significant growth through product sales and services. Alternatively, they can seize the moment, positioning themselves not just as end-point deliverers but as visionaries shaping an electrical value chain fit for our era. Our 2023 mission? To shine a light on both paths, sparking dialogues with industry leaders and innovators and urging the industry to weigh all avenues in pursuit of the optimal outcomes for NAED members.

Our report unfolds in three sections:

- **Leading with innovation.** Distributors have the power to innovate, fortifying their businesses and propelling the industry. Here, we delve into the significance of mindset, data, and culture in spearheading change. We spotlight the importance of strategic adoption, mastering AI tools, and nurturing a culture that respects heritage and fresh viewpoints.
- **Innovating with purpose.** While distributor innovations hold the potential to revolutionize the electrical industry, success hinges on a customer-focused approach, technological leaps, and the pivotal role of distributors in crafting an electrically powered, sustainable future. We challenge leaders to harness our findings to galvanize and motivate their teams.
- **Looking ahead.** We conclude with an overview of our upcoming initiatives, pinpointing five core objectives: amplifying our influence, enhancing member involvement, welcoming a diverse array of guests, deploying impactful tools, and refining our innovation exploration areas. We eagerly await your insights and recommendations!

LEADING WITH INNOVATION

Mindsets, Data, and Culture: Essential Ingredients for Powerful Innovations

Our first report highlighted several priorities for reaching distributor-led innovations' fullest potential, including adopting a mindset for achieving change, mastering data and artificial intelligence, developing organizational talent, and redesigning distributor business models. The following paragraphs share what we learned from our podcast interviews and Office Hours conversations.

Mindsets Matter

Every Office Hours guest emphasized the importance of mindsets for driving innovation and the responsibility of leaders nurturing the right mindset for their company considering its goals, culture, and market position. Drawing on his extensive technology and supply chain experience, Satya Sanivarapu, NAED's technology director for digital supply chain, hit the nail on the head:

As a leader of any organization pondering which direction to go, one of the most important things is where that leader sees that organization ten years down the road. Innovation requires embracing corporate strategy and considering technology as a means to an end that will continue to evolve. Leaders must be aware of their company's culture, knowing its people will use technology, configuring it to their needs, and achieving its benefits. An open and curious mindset is essential.

Another Office Hours guest and distribution advocate, Dirk Beveridge, agrees. Dirk goes further, highlighting the need for ambition to shape innovations:

I think innovation requires a mindset and ambition. If you don't have the ambition to truly bring new value to the market, to truly grow, to truly build something that didn't exist, if you don't have that ambition, forget it. And if you don't have the mindset knowing that innovation is hard, knowing that it's challenging, knowing that you're going to fail 25 times before the 26th time, when you find out what works.

LEADING WITH INNOVATION (CONT.)

Considering all of our conversations with every Office Hour guest, we've constructed a five-step action plan for distributor leaders and innovators as a tool for self-checking their innovation mindset and working with their leadership team and organization to achieve the alignment essential for the best possible innovations:

- **Visionary thinking.** Leaders must have a clear vision of where they see their organization in the future, independent of technology. Your vision will guide all strategic decisions, ensuring that your company uses technology to aid innovations rather than as an end in itself.
- **Experimentation.** Leaders should be open to trying out new customer experiences and business processes executed by their people and enabled by technology. Technology is becoming more accessible to implement, allowing experimentation with multiple tools and solutions.
- **Culture.** Leaders should be deeply aware of the organization's culture. If the culture resists change, leaders must proactively foster a culture of adaptability and openness, achieved through continuous experiments and never-ending learning.
- **Upskilling.** Recognizing organizational learning curves, leaders should invest in training programs to upskill their employees, including market trends, evolving customer needs, current and emerging technologies, and more.
- **Growth.** Leaders should encourage a mindset that views challenges as opportunities for growth. This involves recognizing that innovation can be challenging and may include failures, but each failure is a steppingstone toward success.

Creating an electrical value chain worthy of our times will take more than innovative thinking; it requires helping set aspirations and a vision for the future shared with customers and suppliers.

Data Delivers

Artificial intelligence is a revolutionary tool that surpasses the capabilities of traditional software, offering adaptability and learning potential that can handle complex tasks with unimaginable ease. At the rapid pace at which AI is evolving, it will have profound and unknowable impacts. **Michael Delgado, the founder of Canals**, a workflow automation firm focused on distribution, discussed several insights on artificial intelligence and the power of data, prompting listeners to respond and contribute:

LEADING WITH INNOVATION (CONT.)

- **AI's power and fascination.** Artificial intelligence is a transformative tool, offering the ability to understand and process data without explicitly defining every rule, as traditional software like Excel requires. AI's ability to adapt and learn may lead to revolutionary applications and outcomes.
- **AI vs. traditional software.** While conventional software is deterministic and relies on fixed formulas, AI sees patterns and makes predictions, making it possible to evaluate multiple scenarios quickly and effectively. AI will reinvent how distributors use spreadsheets at every level of the organization.
- **Rapid evolution.** As a transformative tool, AI is on par with significant technological milestones like the microprocessor, personal computer, internet, and mobile phone. New applications are emerging every day, and distributors must strive to keep up and, at the same time, put forward new problems and applications for AI to solve and optimize.

Another guest, **James Reese, General Manager at Trimble**, a company at the forefront of automating construction job sites, helped lead a conversation on the value and use of data:

- **Digital to physical transformation.** Trimble's motto revolves around transforming how the world works by bridging the gap between the digital and physical realms. As an innovator, Trimble gathers digital data and translates it into actionable insights for the physical world.
- **Data management.** Data must be managed internally by every company as a core competency. Machine learning tools can help create clean data, making it relevant and valuable to every function in a company. Leaders must establish processes to manage data to ensure it is actionable and used.
- **Hardware integration.** Trimble integrates hardware solutions with their data-driven processes to improve job site efficiency. Benefits include establishing locations with high precision and identifying discrepancies between planned and actual installations.
- **Connected construction.** Emerging construction practices require seamless connection of applications, people, and workflows throughout every project's lifecycle, achieved by digitizing offline content and manual workflows from estimating to procurement to execution.

Delgado and Reese, acting as entrepreneurs, develop solutions for distributors and their customers. However, leaders should see their services not just as established best practices but as ongoing innovations. Canals and Trimble are moving quickly, acting on ideas, looking for help developing new products, and encouraging adoption. Distributors can learn by collaborating as partners, building brand and influence, and setting direction for a connected and data-driven value chain.

LEADING WITH INNOVATION (CONT.)

Culture Rules

Distributors are in the midst of a transition from operating as product-centric business models to leading data-driven, people-centered companies. Leaders must creatively design and build cultures beyond protecting customer relationships and optimizing margins to actively engage every employee in identifying opportunities and solutions.

Across all of our Office Hours conversations, it is clear that nurturing the ambitions and aspirations of leaders and workers is essential. Finding and sharing transformative stories is helpful for broadening perspectives and shifting culture, with stories gathered from customers, suppliers, startups, headlines, and other sources. And more, distributors must decide what it means to be a local business in the digital age. People from every distributor live and work side-by-side with customers in the communities their branches serve—a longstanding business advantage that might grow stronger as business shifts increasingly to the virtual world.

But more than anything, distributors must make innovation a core feature of their culture.

Dirk Beveridge put it this way:

I've been working with a buying group this year on our model of the innovative distributor, which includes five component parts: vision, culture, value proposition, business model, and leadership. And I hear that innovation is scary. I hear that innovation is hard. Sometimes, very hard. But when you think about innovation as a relentless focus on helping customers, innovation is intrinsic. It's what distributors do.

Culture repeatedly appeared in every Office Hours event, with essential building blocks shared by guests and attendees. Putting everything together, we suggest a framework for intentionally designing and managing a modern, innovative culture:

LEADING WITH INNOVATION (CONT.)

Building Block	How to Build a Culture
<p>Cultivate a Strong Culture</p>	<p>Make culture the bedrock of your business. Understand its pivotal role and actively invest in fostering and preserving a positive environment. Leaders must champion the importance of culture in every facet of the company, setting the tone for everyone.</p>
<p>Lead With Purpose</p>	<p>Articulate your company’s mission clearly. Ensure that every team member not only understands it but also passionately aligns with it. Let this mission drive your decisions, strategies, and daily actions. Regularly reiterate and amplify your company’s goals to keep them front and center.</p>
<p>Prioritize People and Their Growth</p>	<p>Champion a people-centric approach. Actively invest in the professional and personal growth of your employees. Offer ample learning opportunities, give constructive feedback, and celebrate their achievements. Strive to create a workspace that fosters well-being and personal development.</p>
<p>Embrace Intergenerational Collaboration</p>	<p>Promote the active participation of all generations within your business. This collaboration brings a wealth of diverse insights and ensures the company’s longevity. While valuing the company’s rich history and legacy, remain receptive to innovative ideas and fresh perspectives from the newer generations.</p>
<p>Champion Innovation</p>	<p>Instill a culture of relentless improvement and adaptability. Create a space for employees to propose novel ideas and challenge the status quo. Celebrate every success, big or small, and view failures as invaluable learning opportunities.</p>

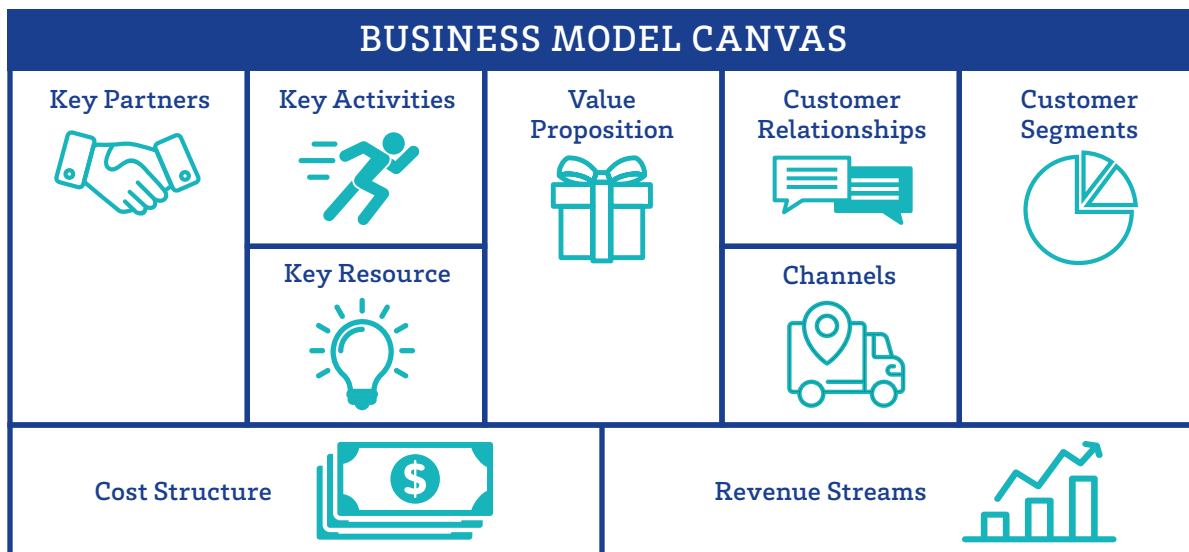
LEADING WITH INNOVATION (CONT.)

Culture is critical because innovation requires more than ideas. Innovation requires people to embrace an idea and run with it, in good times and bad, overcoming obstacles with sustained, ongoing, and sometimes irrational commitment. As the future of work and life is evolving, distributors have much to offer, starting with their people and culture.

Design inspires

World-class design principles inspire, and so can the practice of business model design applied in distribution. Electrical distributors can motivate their teams by adopting the discipline of business model design and customizing it for distribution’s unique needs. In today’s era, where values like safety, sustainability, wellness, and purpose reign supreme, distributors can lead the change with vision and innovation.

As the electrical market evolves, electrical distributors must enhance sales effectiveness and rethink traditional business models. Monumental opportunities and challenges emphasize the need for a proactive strategy. Instead of merely defending their position, members must innovate and adapt. The Business Model Canvas, developed by Alexander Osterwalder, offers a robust framework to guide our exploration and experimentation, ensuring a comprehensive approach to innovation:



Reflecting on our Office Hours conversations, we used the Business Model Canvas to pinpoint ten innovation opportunities for every distributor:

LEADING WITH INNOVATION (CONT.)

- 1 Platform for innovation. Distributors don't just deliver products; they empower customers in their work, laying the groundwork for innovation.
- 2 Digital integration. Distributors should harness digital platforms to weave seamlessly into other stakeholders' workflows, like construction companies, enhancing efficiency and value.
- 3 People-centered business. Distributors should prioritize understanding and addressing the human facets of business, from relationships and culture to personal interactions.
- 4 Electrification and renewables. Distributors can capitalize on the burgeoning electrification, renewables, and distributed power sectors by leading the way toward the market's evolving needs.
- 5 Adapting to changing markets. Agility is key. Distributors must respond to shifting market dynamics, whether reassessing customer segments, embracing new technologies, or reshaping value propositions.
- 6 Collaborative opportunities. Distributors should actively seek collaborations, unlocking co-created value and tapping into new markets or customer segments.
- 7 Embracing technological advancements. Distributors should harness technologies like 3D modeling to bolster operations, introduce new offerings, and elevate customer experiences.
- 8 Value creation through data. Distributors can gain sharper market insights, streamline operations, and offer tailored customer experiences by leveraging data analytics.
- 9 Focus on culture and talent. Distributors must nurture a robust organizational culture and talent development to spur internal innovation.
- 10 Redefining revenue streams. In the digital age, distributors should consider fresh revenue models, from subscriptions and licensing to innovative pricing strategies.

Here's another tool you can use. **Artificial intelligence** helped us create the list of business model innovation ideas above. We merged all our conversations into one document and tasked Open AI's ChatGPT with identifying innovation opportunities. We then refined these based on feedback from our guests and members. Is the list flawless? Not quite. But it's a solid beginning. More crucially, we're showcasing a method for distributors to jumpstart or hone their innovation strategies. Artificial intelligence tools can serve as invaluable allies in innovation, a subject we'll delve into in future Office Hour events.

INNOVATING WITH PURPOSE

Energize Your Innovators

The electrical industry stands on the brink of a transformative era, promising a brighter, more sustainable future. To truly innovate, we must center our customers in all our endeavors. True innovation transcends mere products or technologies. We must craft a future aligned with our customers' deepest aspirations to achieve results that resonate with our times. We must cultivate a culture that celebrates unconventional thinking and resilience. While our path may be fraught with challenges, our relentless pursuit of revolutionary solutions remains undeterred. Distribution's unwavering ambition and visionary mindset may propel us through complex innovation journeys. With a foundation in first principles thinking, we confront challenges directly, devising solutions that defy convention and address our unique obstacles. Even as we tap into the promise of new technologies, we must prioritize the human touch. Our success hinges on augmenting, not supplanting, human capabilities. Every technological advancement should elevate the human experience. As we march forward, our goal isn't merely to meet the demands of our era but to shape a future where communities, bolstered by distributors, realize their utmost potential.

Above, in the first section of this report, we shared our findings, analysis, and recommendations, distilled from in-depth Office Hours conversations. Now, we urge every forward-thinking leader to do the same, leveraging our recorded session as a source of knowledge and inspiration. Assign them to your teams, draw insights, refine your strategies, and recalibrate your investments. As you go, please reach out if we can help your explorations. We would love to hear your questions and feedback. To get started, dive in here:

The Tech-Enabled Future Of The Supply Chain

Satya Sanivarapu, NAED's technology director for the digital supply chain, explores technology's game-changing role in redefining the supply chain's future. Satya emphasizes the importance of streamlining operations, fostering transparency with customers and suppliers, and championing real-time decision-making. Embracing change means fostering cultures primed for swift and adaptable innovations.

Generative AI and The Electrical Industry

Michael Delgado, the founder of Canals, a leading workflow automation firm, unveils the transformative power of artificial intelligence in revolutionizing the value chain. He highlights the automation of tasks, the refinement of data processing, and the optimization of work processes. Delgado envisions the younger generation seamlessly integrating AI tools, igniting a transformative wave. Satya Sanivarapu joins the dialogue, emphasizing distributor implications.

INNOVATING WITH PURPOSE (CONT.)

Automation and the Skilled Trades: The Jobsite of the Future



James Reese and Meredith Olsen from Trimble decode the nuances of construction job site automation. They spotlight the fusion of digital tools and workflows to enhance processes and communication. Together, they illuminate how distributors can pioneer change, aiding the industry and communities in addressing the electrician skill shortage. Through collaborative efforts, we can achieve tangible improvements in efficiency, error reduction, and the realization of every project's envisioned outcome.

Building a 21st Century Team



Dirk Beveridge champions the "We Supply America" initiative, celebrating the "noble calling of distribution" and the profound influence of family-owned and employee-driven distribution businesses. Dirk fervently speaks of the distinct, authentic cultures that deeply resonate with customers. He believes that innovation guides customers towards a brighter tomorrow. Dirk's contribution to the future of distribution is an invaluable resource for all distributors, and we are delighted to share his insights.

Our Future Is Electrified



JD Johnson and Tim Howell of Power Sonic and EVESCO illuminate the electrifying energy trajectory. They provide insights into the rise of electric vehicles and the mounting pressures on the electric grid. This paradigm shift, intertwined with the embrace of renewables, is redefining the energy landscape. It unveils unparalleled opportunities for distributors, from marketing novel electrical equipment to imparting expertise and services and championing national and community-driven initiatives. The potential is vast, but distributors must rise to the occasion, enabling customers and suppliers to seize these golden opportunities.

INNOVATE & THRIVE.



LOOKING AHEAD

Our Top Priorities

We've achieved significant milestones since launching Office Hours a year ago, in October 2023. We actively sought out the most valuable guests, bringing forward ideas and experiences that were previously unexplored. Office Hours aims to address the unspoken topics in the electrical industry. As we embark on our second year, we've outlined five key priorities to enhance our impact:

- **Amplify Our Voice.** To make a difference, we must speak up. We will expand our marketing strategies beyond NAED's traditional methods, such as email blasts and newsletters. We will use social media powerfully and capitalize on word-of-mouth recommendations.
- **Boost Member Engagement.** Every audience has the potential to be a hub of innovation. To realize this, we'll actively involve members in every stage of our Office Hours conversations, from planning to assessment.
- **Attract Diverse Guests.** Our guests bring a wealth of knowledge and experience. We're committed to seeking the best experts, ensuring they're well-prepared to engage with our industry. Whether deepening member understanding or challenging preconceived notions, we aim to keep the conversations enlightening.
- **Implement Effective Tools.** While every distributor's innovations are unique, we believe in sharing tools that have garnered positive feedback. We'll demonstrate their applications and encourage champions to showcase their results.
- **Reevaluate Our Focus Areas.** In our inaugural year, we delved into topics like the evolving electrical industry markets, data and AI, and strategies for organizational growth. This year, we might delve deeper or explore new areas to remain at the forefront of industry discussions.

YOUR FEEDBACK IS INVALUABLE

We encourage you to share your thoughts on the insights and recommendations presented, especially as we chart our course for the upcoming year. Together, we can create unparalleled value for NAED's members and propel our industry forward, offering a value chain that resonates with the current era.





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