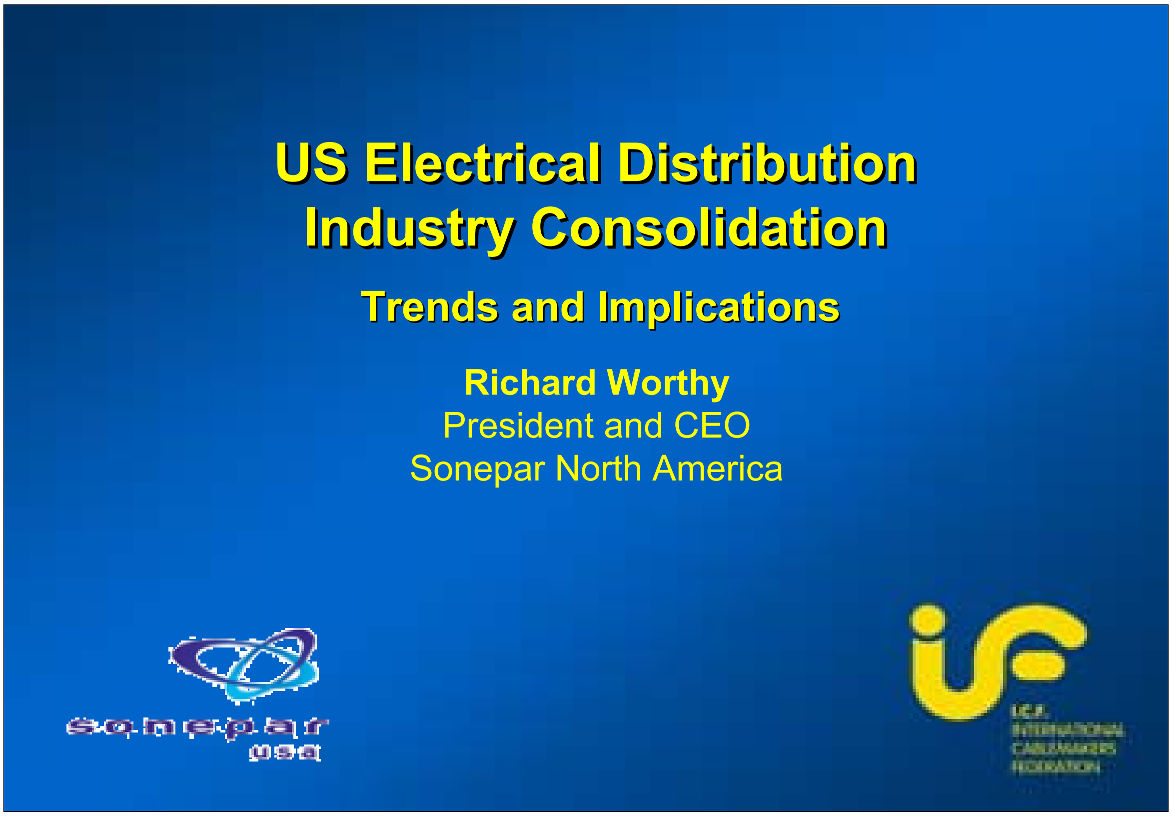
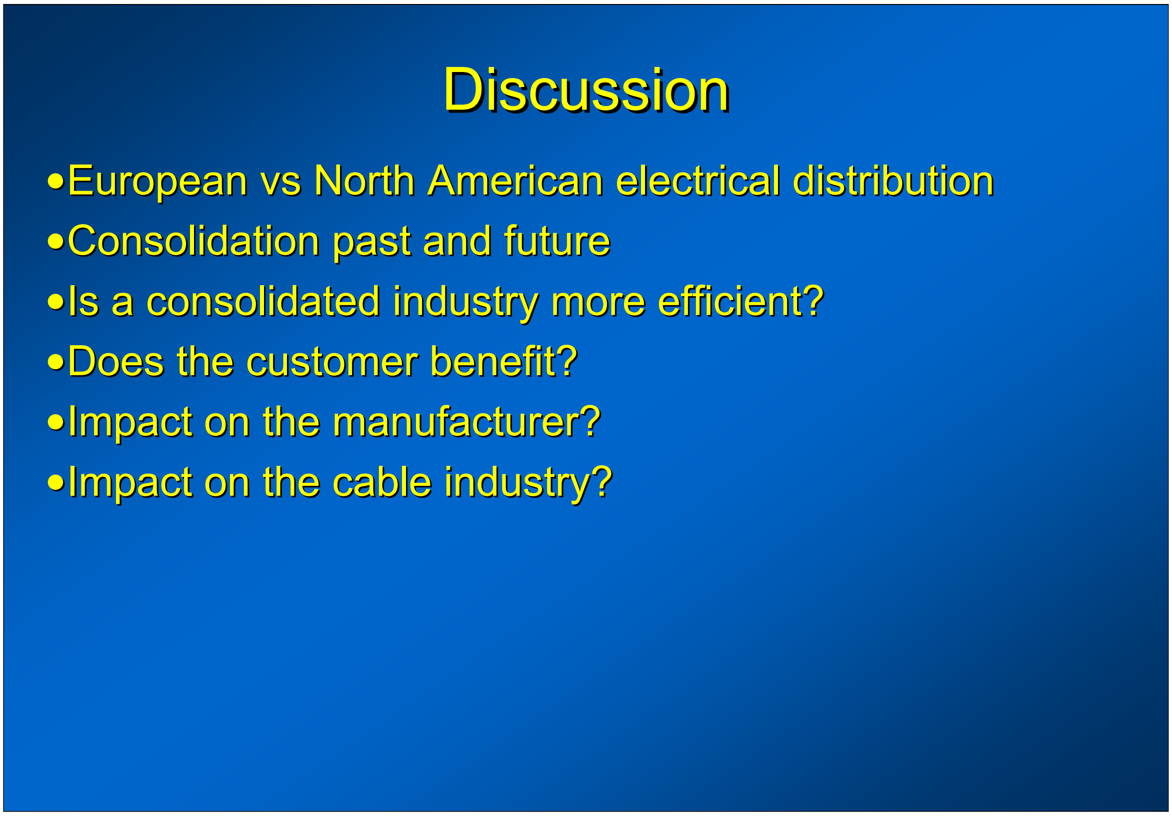


Mr. Marc Choussat, Session Co-chairman

The next speaker, Mr. Richard Worthy, will share with us his views on the drivers of this consolidation and the implications for the customers and the industry and the cablemakers, the suppliers. So, I am very pleased to leave the floor for Richard.



Good morning,

Thank you for having me here. I agree with Bob, that this economy and market scenario is probably not going to change quickly. So, I hope you are looking at this environment with a positive outlook, because it is going to be here for a while.

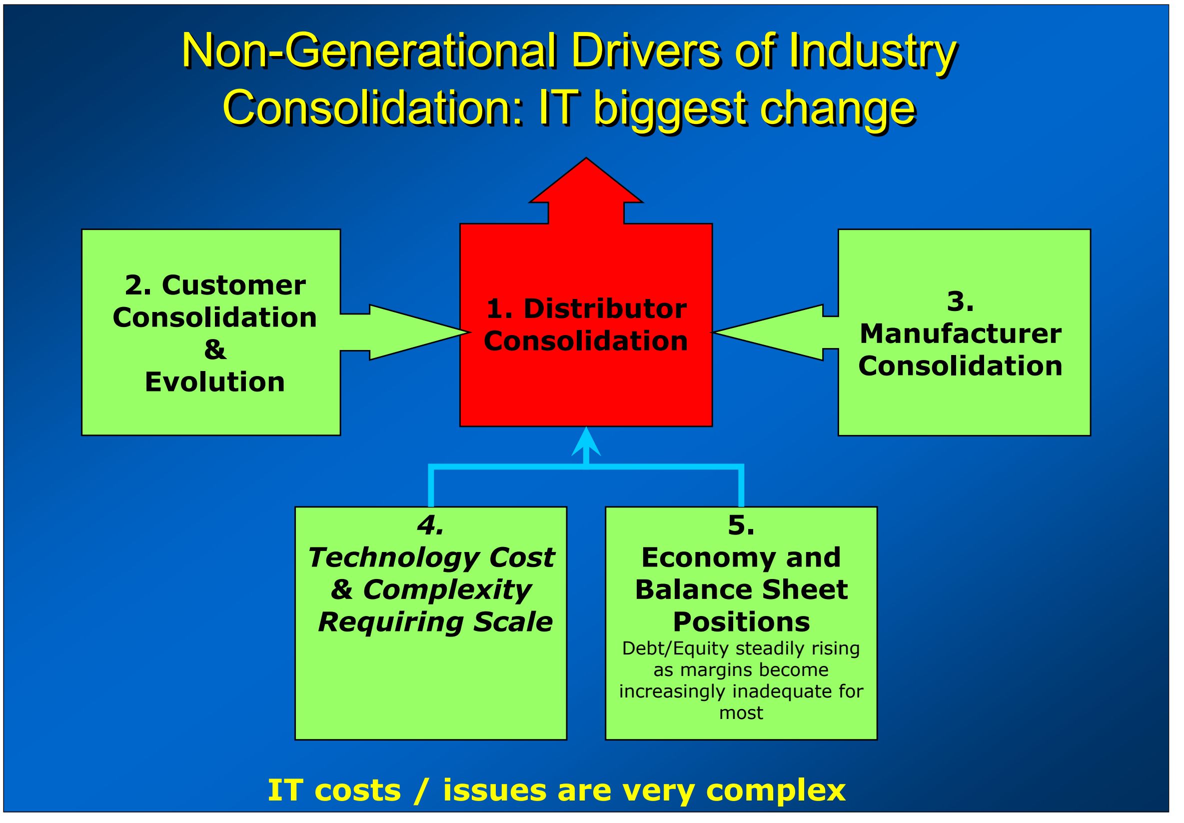
I was asked today, to run through the scenario that exists in traditional electrical distribution. There has been consolidation worldwide – in particular in North America. I will give some basics as to why has it happened, where is it going and what is the impact on the cable manufacturers.

I will run through the above listed points. First I like to show you Europe versus North America.

Consolidated, limited geography, advanced

Issue	Europe	North America
Market Size	$40-$50billion	$70-80 billion (US 85%)
Industry Consolidation	High: Two players = 35% of market: Rexel & Sonepar	Low = Top 250 less than 50% of electrical business. Top 2 = 10% (Canada very concentrated, though)
Distribution's role in Economy	Lower: Economies generally run by country for most part. (Germany = size of New England)	Higher – Mainland USA = 2.7 X land mass of Europe, product aggregators have high economic advantage vs direct approach
Major Product Differences	Contractors play larger role as Gear and Panel OEMs, few assembly plants for Dist Equip.; low voltage	US electrical infrastructure 1900s Europe rebuilt in 1950s
Logistical Differences	Tighter geography, denser markets, CDCs far larger and more evolved	CDC best practices still developing, clashes with independent rep needs CDC = Central Distribution Center
Sales Forces	High direct selling content, Less distributor project sales	80% of volume sold through independent reps

People tend to look at history and will say that it repeats itself. If you look at the European landscape, Europe is consolidated, has limited geography and the products are technically more advanced, which distributors like. We all like innovations in products. It allows us to make higher markups, more profits. Looking at the market size, these numbers could be off by 5 to 10 billion dollars in each category, but we know they are in that range. The reason, it is hard to gauge what the exact market of electrical distribution is, lies in the question, whom you want to count and whom not. Do you want to count DIY (Do It Yourself), do you want to count the $2 million distributor, but roughly historically speaking these are the numbers I come in. In the United States, the North American market is considered to be 1.5 to 2 times the size of the European market. What is the consolidation in distribution? In Europe distribution is highly consolidated and concentrated, which occurred over 30 to 35 years. Rexel, Sonepar, Hagemeyer, Nordsolar make up about 40% to 45% of the $40 to $50 billion. In the United States and in Canada you have to look at the market separately. The Canadian market is rather consolidated not to the extent of Europe, but significantly more so than the United States. In the US market there are 200 distributors whose annual revenues exceed $20 million and with the top 20 distributors the annual revenues exceed $200 million. Then you brake down to the big 6 distributors that are all over $1 billion, with Graybar being the largest with $3.5 to $3.7 billion in sales. What is the role? In Europe it is a greater logistics role because of geography. It is denser, the area is smaller. The volume that runs through Europe per squaremile is much greater than you take North America. That has lead to some advanced logistics. It also has lead to some greater clarity of roles between who will serve the customer and in what fashion. Direct shipments from the manufacturer play a large role in Canada and the US, much lesser role in Europe. This is also true for the products. In Europe the infrastructure of the 1950s brought a technological advancement not only in mindset but in application. The US has somewhat of a commodity mindset, which none of us like. 80% of the volume goes through sales agencies, in particular in the cable manufacturing business.



The sales agent, the distributor and the manufacturer becomes the key discussion point as time goes on and distribution evolves. I agree with Bob on the drivers of change for owners of independent distribution. It is accelerating. There has been consolidations in the 80s, but IT (Information Technology), which is now a greater customer requirement, a manufacturer interface requirement for distributors has changed the operating margins for an electrical distributor dramatically. As the distributors become larger they deal with a broader base of customers. Those customers have requirements, the manufacturers who also serve those customers have more complex requirements. The basic finance package, warehouse management, IT system just does not accommodate the customer and manufacturer requirements. When you look at the cost threshold, to go from a $30 to $50 million electrical distributor's IT system to a new cutting edge, maybe not even ERP but certainly year 2000 technology IT system, it is a jump from 0.1% of revenues, which is what the traditional electrical distributor's expenditures cost, to 1.5%. Anyone who tries to run an ERP system for less then that would run into great difficulties and have. If we look at all the generation issues, those that happen before, they happen again. What also becomes important is the cash, the balance sheet position, not so much the P&L. That has always been up and down. But the industry still trades in that 1.5% to 4% EBIT range. If you are a very well run distributor, good times versus bad, that has been it. But the amount of cash to run these businesses as they grow and continue investment has changed the outlook and the risk appetite of many independent small distributor owners.

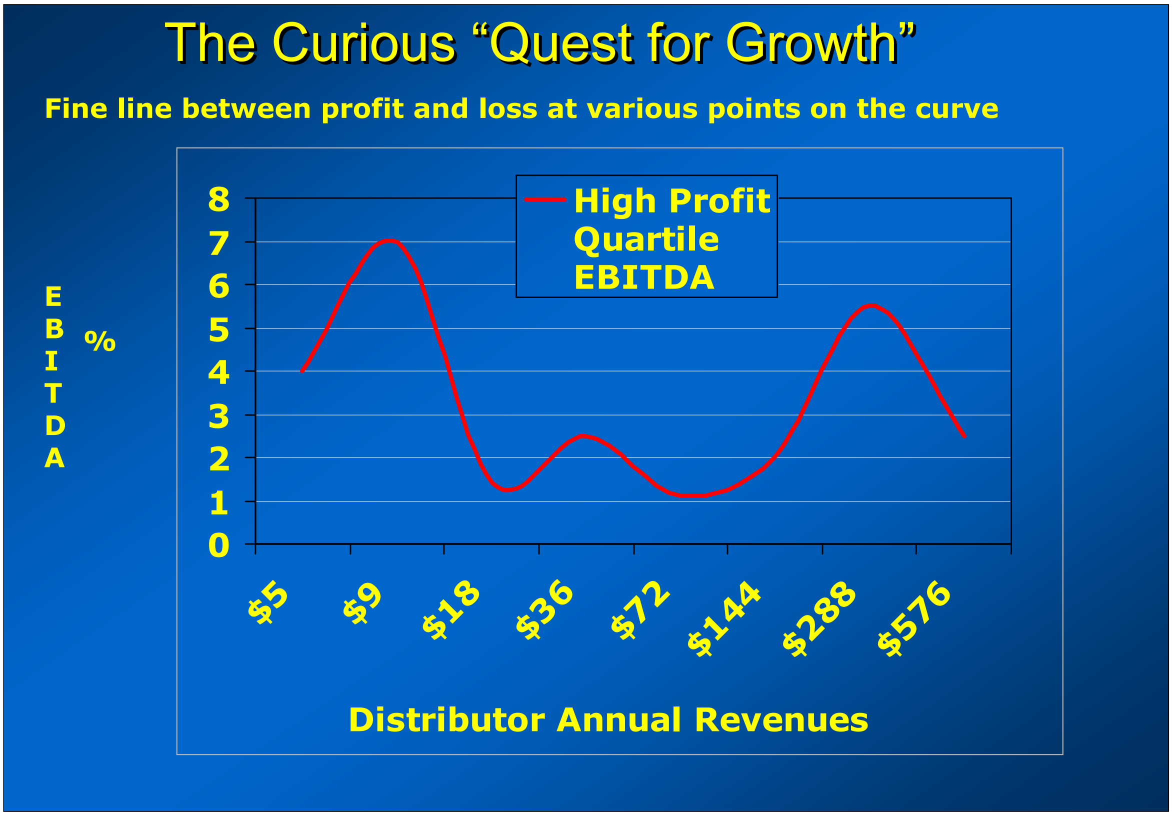
Why is growth so costly??

- Warehousing, logistics and IT are all fixed costs that grow instantaneously, good, profitable, sales growth comes logarithmically
- As you grow customers become broader, more demanding
- At 10+ branches and $80M of sales IT costs sky rocket - .1% of revenues to 1% - 1.5% of revenues, OVERNIGHT!!
- Must grow 2x to 4X to justify cost increase and GM% decrease that higher volume, broader customer base brings
- Dramatic organizational, leadership, skills, requirements impact
- Receivable, inventory, require incremental working capital – BIG cash requirements!

Does risk/reward equation justify the % vs. magnitude trade?

One of the factors that we always discuss is growth. As a distributor we like to talk about growth. Growth is costly. Growth for distributors is instantaneous.

If I had only 10 minutes and not 30 to talk to you, I would present only the chart on the next slide to you. This chart is perplexing and relates to the mid-size distributor that Bob referred to. The red line represents the moving average of EBITDA. The y-axis represents EBITDA as a percentage of revenues. The x-axis represents sales. It is somewhat logarithmic, it doubles at each increment. When you look at the optimal points on the curve to run an electrical distributorship, you find maximization occurs around $20 to $22 million. The balancing of percentage of profit and magnitude of EBIT dollars as well as investments that have to be made, infrastructure requirements, maximizes right around $22 to $25 million. It varies with customer mix, it varies with geographic proximity. But for the most part – we looked at hundreds of distributors over the last 5.5 years – Sonepar USA has gone from zero in revenues to $1 billion today and North America to $1.5 billion. We had a decent vantage point to obtain and assess this information.



Why do people try to grow? If you make more money as a small distributor, psychologically there is a security in growth, that we all like. And there is a wonderful oasis, if you get to that $220 to $250 million revenue, 25 location CDC (Central Distribution Center) centric model. But it is awfully painful in between. There are cost redundancies galore. Many distributors get to a $100 to $150 million, see that there asset turns have decreased, cash requirements skyrocketed, and the organizational structure has to change dramatically. All of this combined causes distributors to call us: Would you like to buy us? It is very hard to buy distributors when they start down that path. They all want to be considered platforms. That is the dilemma. That is what is occurring today. You have this awfully difficult position for a distributor, who does not want to be $30 million business, because of the inherent risk this can bring. 2 or 3 customers go away, you have a large problem. Margins have shrunk in the industry. But the investment required to get up to that $200 million level is significant.

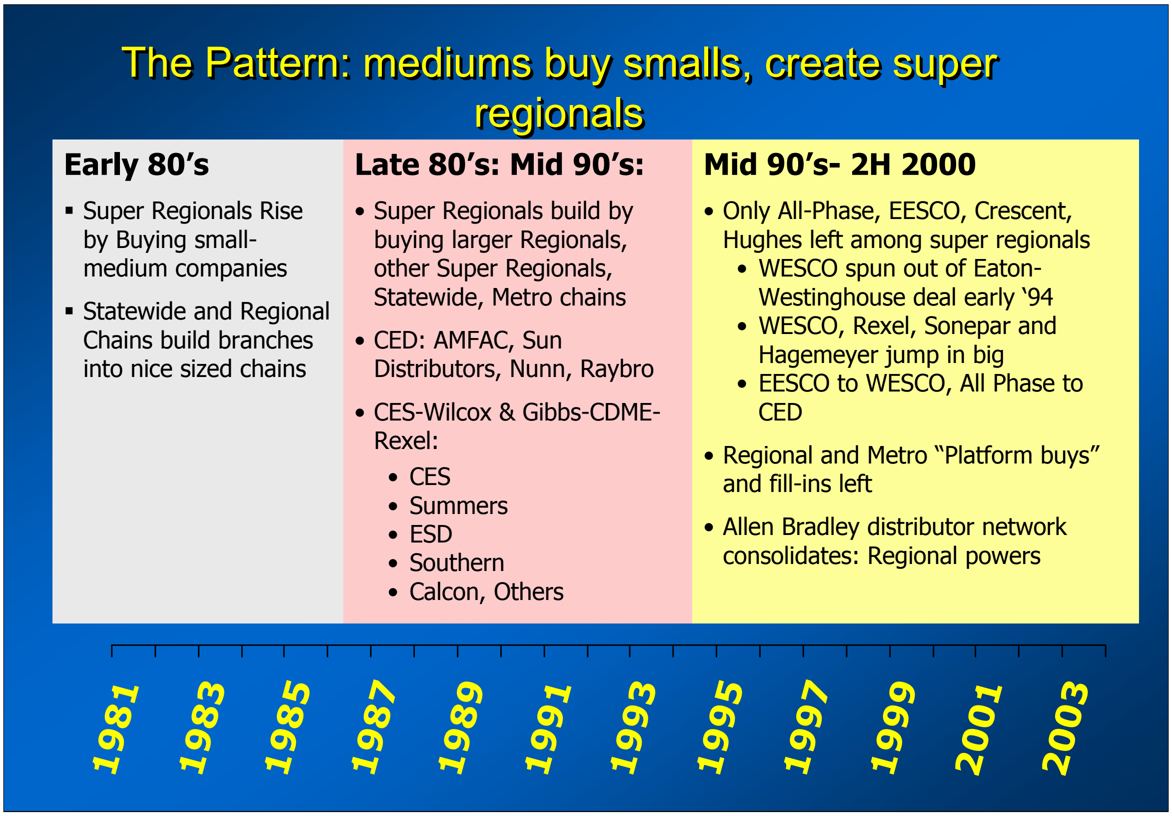
The risk reward equation usually comes down to the risk appetite and somewhat to the ego and confidence, that an individual owner would have on a business. You can name in the US the independent owners who drove through these awkward points on the chart. Chuck Steiner at Branch Electric, Jim Shecker at Viking Electric, John Walters at Walters Electric, the Platt family at Platt, they all built big, powerful, highly profitable, very good asset management based companies with 30 to 50 locations, regionally dominant, very hard to replicate, it certainly would take a lot of time to do that. Unfortunately the IT cost and the upgrade of investment does not stop for them or for us.

Quick Synopsis: USA Consolidation

- **Past – 1996 2000**
  - Flurry of acquirers, WESCO, GESCO, Westburne, Hughes & CED
  - Rexel, Sonepar and Hagemeyer enter game
  - Pace heats up to 2+ points of share into top 10
- **Recent past – 2nd half 2000 to present**
  - GDP growth stalls, Non Residential capital investment nosedives
  - Premiums difficult to recover; industrial distributors depressed
  - Pace of consolidation bounces on bottom: 0.5%-1%
  - Unrealistic price expectations
  - Capital won't chase poor earnings prospects
  - Distressed asset or stock sales dominate the limited action

Acquirers' ability to fix operationally challenged "buys" key to success

During 1996 and 2000 you had a flurry of activities. Back then you had WESCO, Graybar, GESCO, CED, Westburne, Hughes Supply as well as Rexel, Sonepar and Hagemeyer seeking to acquire businesses. A lot of things were going in the right direction. In the last 1.5 to 2 years there have been few acquisitions, certainly none to be noteworthy. If you look at what has occurred good will premiums have not brought the incremental growth margin, EBIT to justify an acceptable ROI. The IT synergies never occurred, the improvement of purchasing power and gross margin did not occur to the scale required to justify the high premiums that were being paid from 1996 to 2000. The commerce turned out to be an interesting time in the world. I can remember in 1998 I could not sign an LOI to buy from a seller, unless they could state that they had a Y2K compliant IT system. Today, I can tell you that most of our businesses run on legacy systems that would never have passed that litmus test. So the world has changed and where is it going?



If you look at the 80's there was a generational issue. A lot of 1940, 1950, World War II American and Canadian veterans came back. They were entrepreneurial, they had gained skills in the military. Electrical distribution was a heaven for people with that type of skill set and ambitions. Statewide regional chains developed. A big distributor back in the 80's was $50 to $60 million with 10 to 12 locations.

If you look at the late 80's to mid 90's Rexel-Lens focused on the US, Sonepar goes to Canada (1984). Rexel bought some large regional players, who had gone the road to $200 million and decided not to continue that. CED bought some good, medium-sized, regionally dominating players and then took advantage of the downturn in 1989 to 1992.

In the 90's it all started, kind of came and went, the players that were left are still left. The regional mid-sized players are the key to where this industry goes from here. Will they try to go to $600 million? Will they be content to constantly invest more into infrastructure? More capital being at risk for the same return? That and the Allen Bradley distributor who is experiencing a tremendous industrial downturn makes up a large percentage of the large regional distributors. Those will be the key how it will go into the future.

Was 1995 – 2000 unique for distributors?

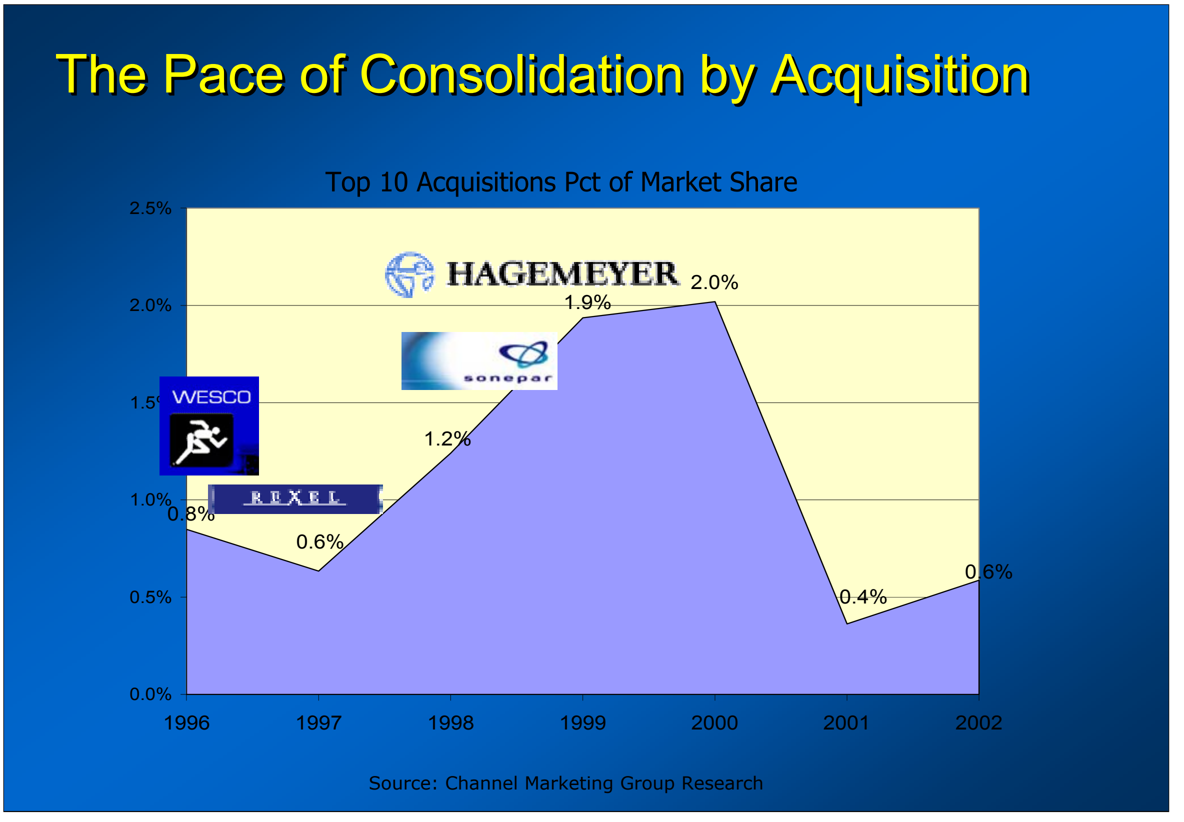
How the past created the present & possibly future……

- **1980 borrowing rate around 14%, high equity or book values**
- **1986 Sub Chapter S – ideal mechanism to take profits out**
- **1992-'94 asset based lending becoming mainstream**
- **Interest rate below 8% in 1998, prime later drops to 3%**
- **IT – ERP, SAP, e-commerce, Y2K, all to deliver SYNERGIES**

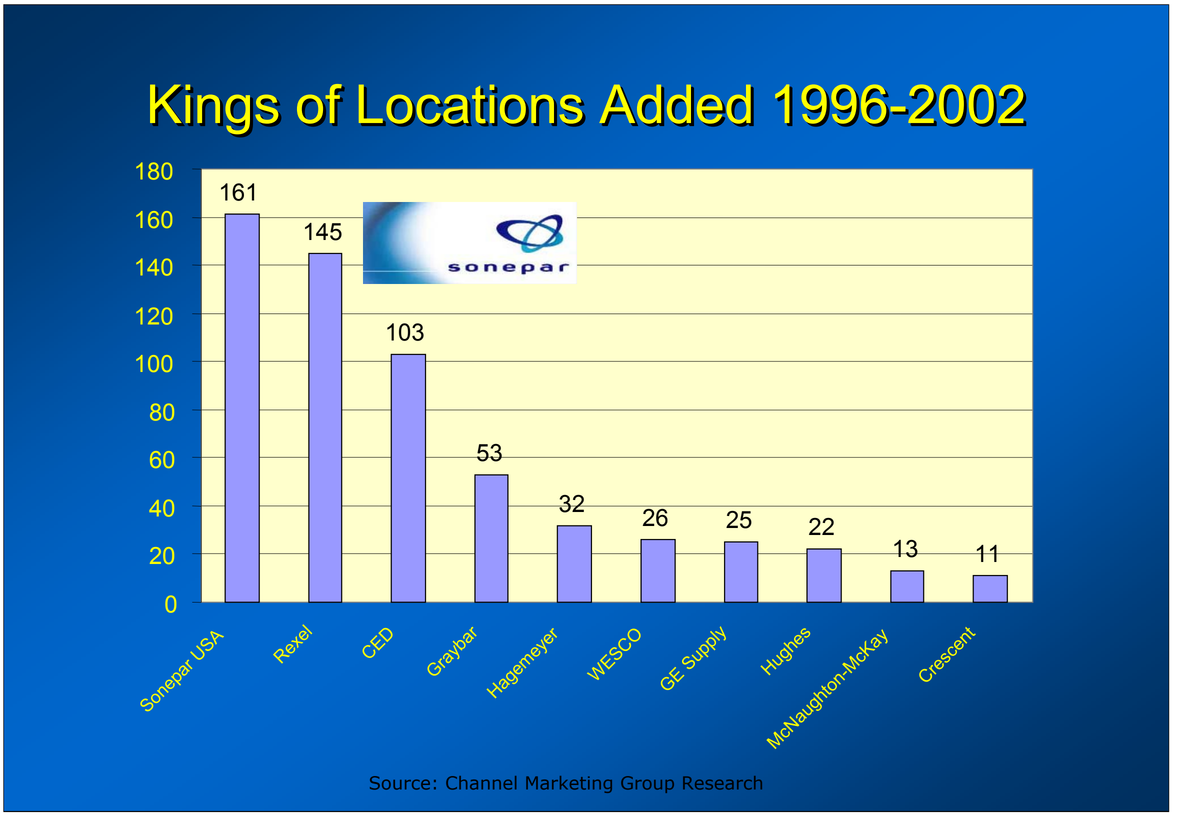
It was the "Perfect Storm" for buyers and sellers

If history repeats itself, why should not be there another iteration in the cycle? It was a pretty unique time. If you look back, how independent distributors financed themselves, in the 80's book value was king. You had to have natural equity in your company. The interest rate was around 15%. People have forgotten those times, but it was real. Banks would not lend you money, unless you had equity. You did not want to borrow money at the rate you had to pay for. You kept more equity in your company and you depended on manufacturers for lengthy payables terms. That was the scenario. In 1986 along with the Commercial Bank Reformation Act the Sub Chapter S company comes into existence, a perfect vehicle to extract dividend checks from a small independently owned business. Now you start to give some rope to the owners to hang themselves.

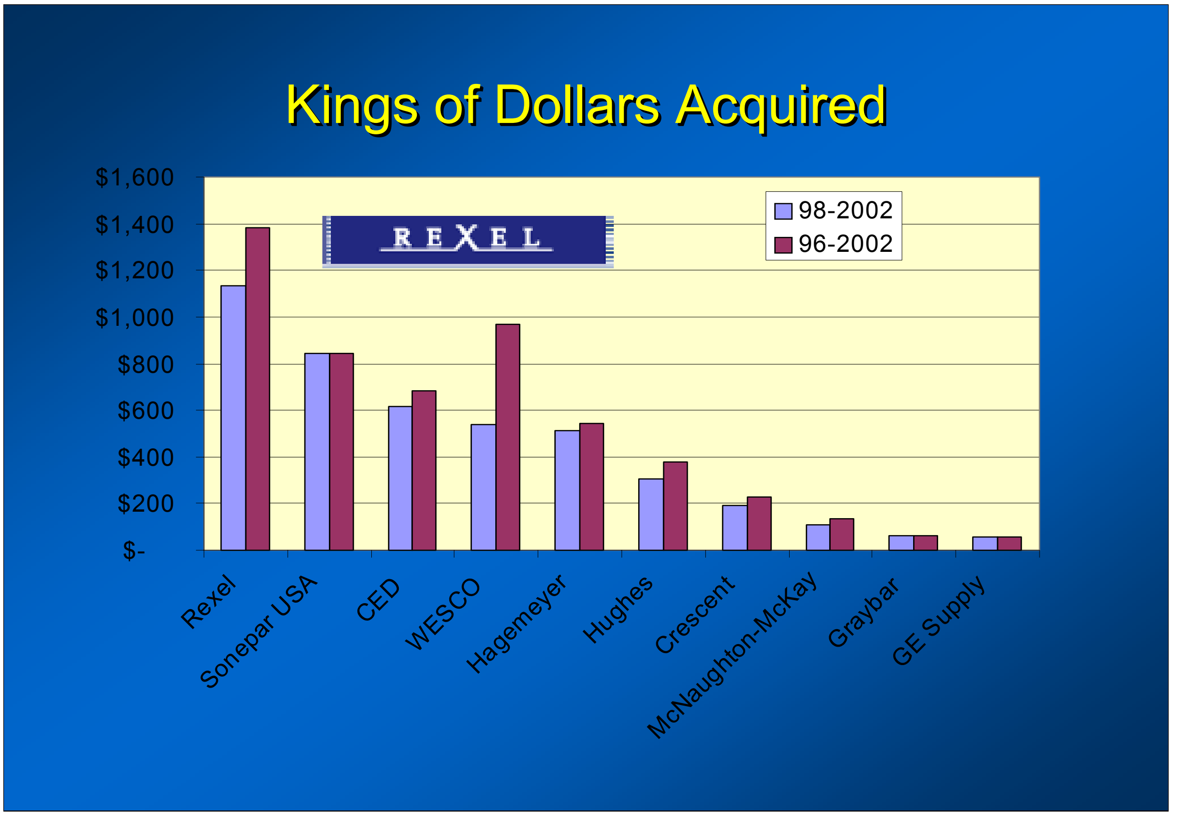
In the period 1992 to 1994 the interest rate gets cut in half and then by another 40%. Asset based lending comes into existence in full force. You can borrow against your assets, which are for distributors inventories and receivables. Now we created this perfect storm. You do not need high equity values anymore for a bank to lend you money. You can take a large dividend check out of your business as an owner and pay taxes once due to the Sub Chapter S tax laws. Suddenly people come around and tell you that they will give you multiple EBITDA. This is a term, I guarantee you, 25 years ago very few distributor principals did not even know what it was. But in the last 10 years they became expert of it. You had a perfect storm for people to sell or to buy. Why for the buyers? IT-ERP was delivering synergies. Trees were going to grow to the skies.



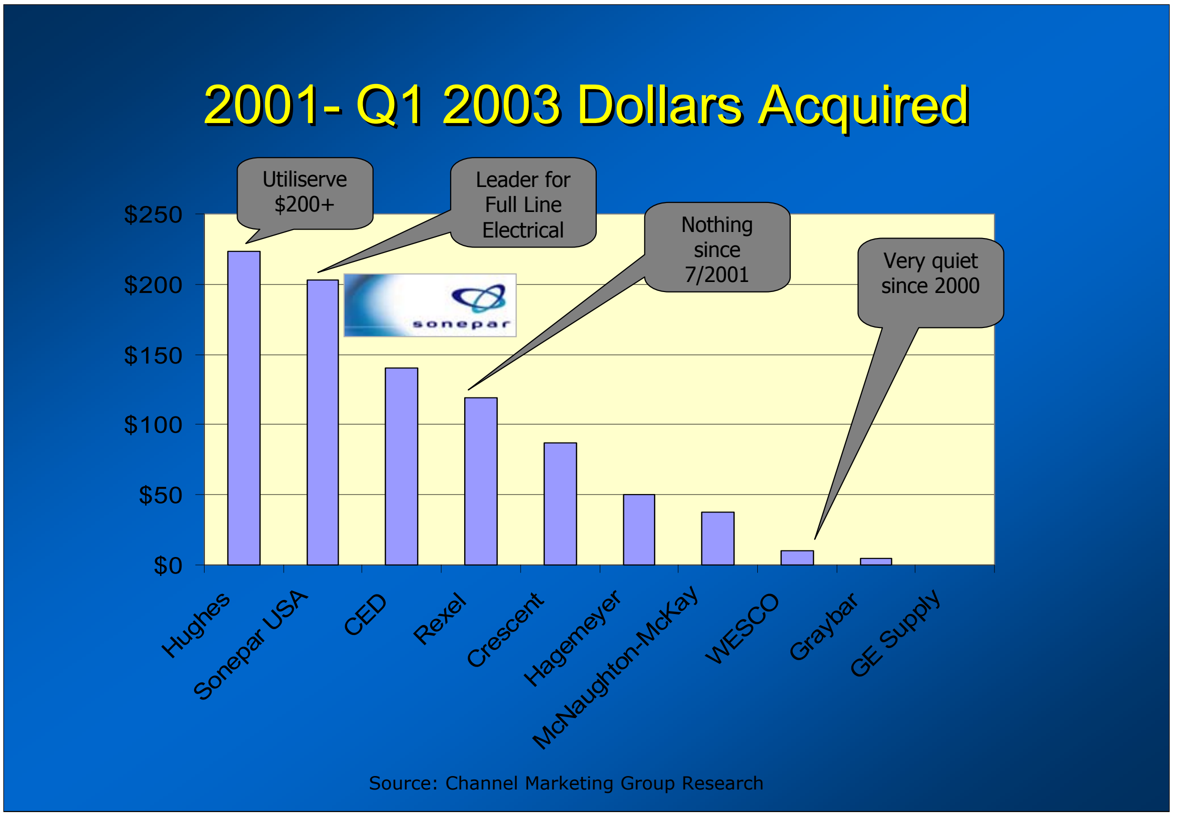
That cycle went for a rather long ride versus what normal infrastructure investment cycles would go in North America. Who is to say in 1999 that it will stop in 2000? It did. But most people thought it would stop in 1997 because it began in 1994. All of this brought together, buyers who want to buy and had the cash to buy, sellers who want to sell, interest rates at all times lows, what was the result of that? You had some people come over, WESCO, Rexel, Sonepar and Hagemeyer, each year they were buying 2 points of market share. In an $80 billion industry that is a lot. That started all the panic, if you were not $10 billion by the end of 2008. There were distributors who put out strategic plans stating in public that they would be, at least $8 billion by 2005 and $10 billion by 2008, otherwise you would not be able to compete. Homedepot and Lowe's put a lot of fear into the small independent distributors as well as into the larger distributors who at one time were big customers for people like yourselves as well as light bulbs, switch gear manufacturers. Suddenly they did not get the treatment nor the financial attractive packages they had seen before. There was a scale issue. Homedepot is now buying on an annual basis 3 times as much light bulbs as Graybar and Sonepar combined. That is something Phillips, Osram, GE Lamp have to consider when they are deciding who to give what to. That brought some fear into the equation.



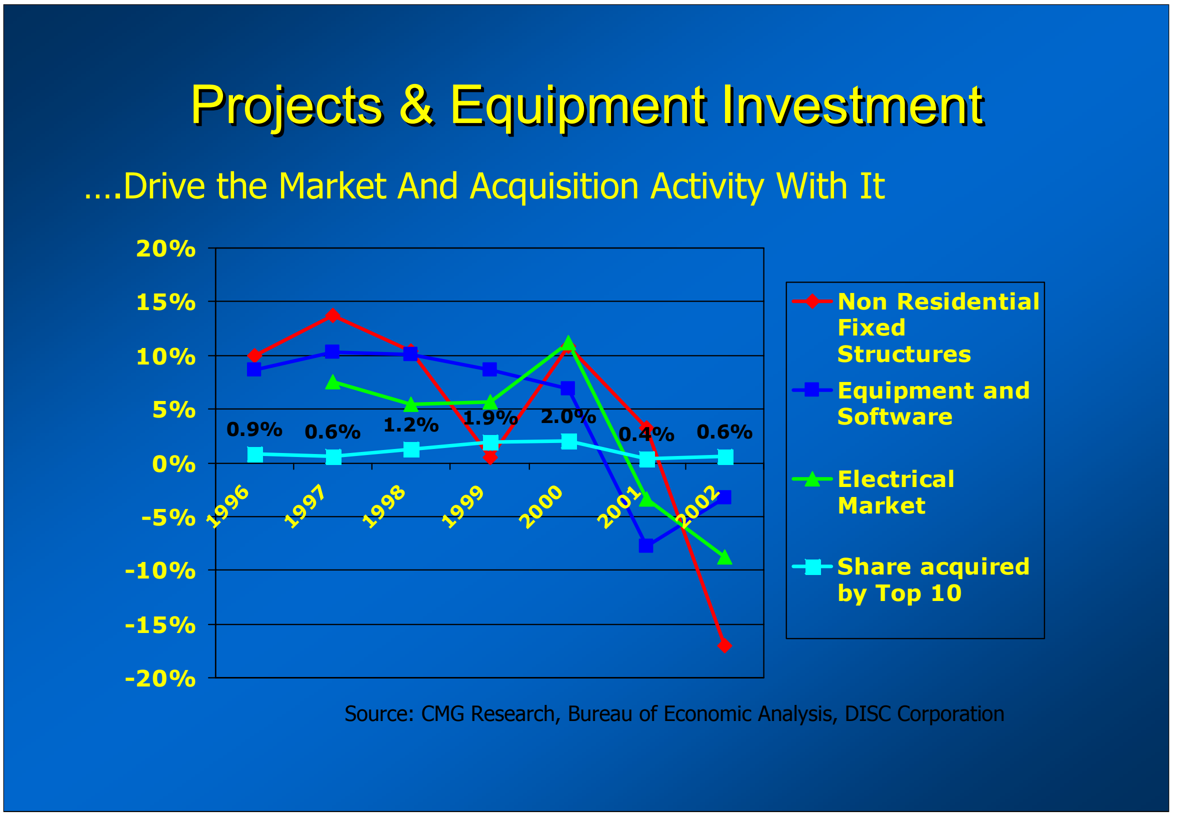
This is probably a more important chart for all of you. Who bought locations? You can buy dollars, but product mix is critical for all of us. Everybody would love to be just in the portable cords or electronic wiring business, where there are very nice attractive margins. The key to selling a more favorable product mix for yourselves and for the distributors is locations. You need to attract the smaller installer, deal with the smaller OEM. There is a proximity geographic governor that will not go away. Human beings, regardless what the e-commerce people had said 5 years ago, still are creatures of habit. This became a big piece as to how can you bring the right mix and perform local marketing for the manufacturer as a distributor. We do not make or buy anything, we sell. We get paid by a customer not for buying but for selling, hopefully by you for doing some local marketing. So we are selling the right product and gaining some price.



This is the chart that always gets thrown around. Who bought the most? This is an element of scale that is required to invest in infrastructure and that matters. But today it does not matter as much. There is a certain critical mass that had to be obtained. That is yesterdays story.

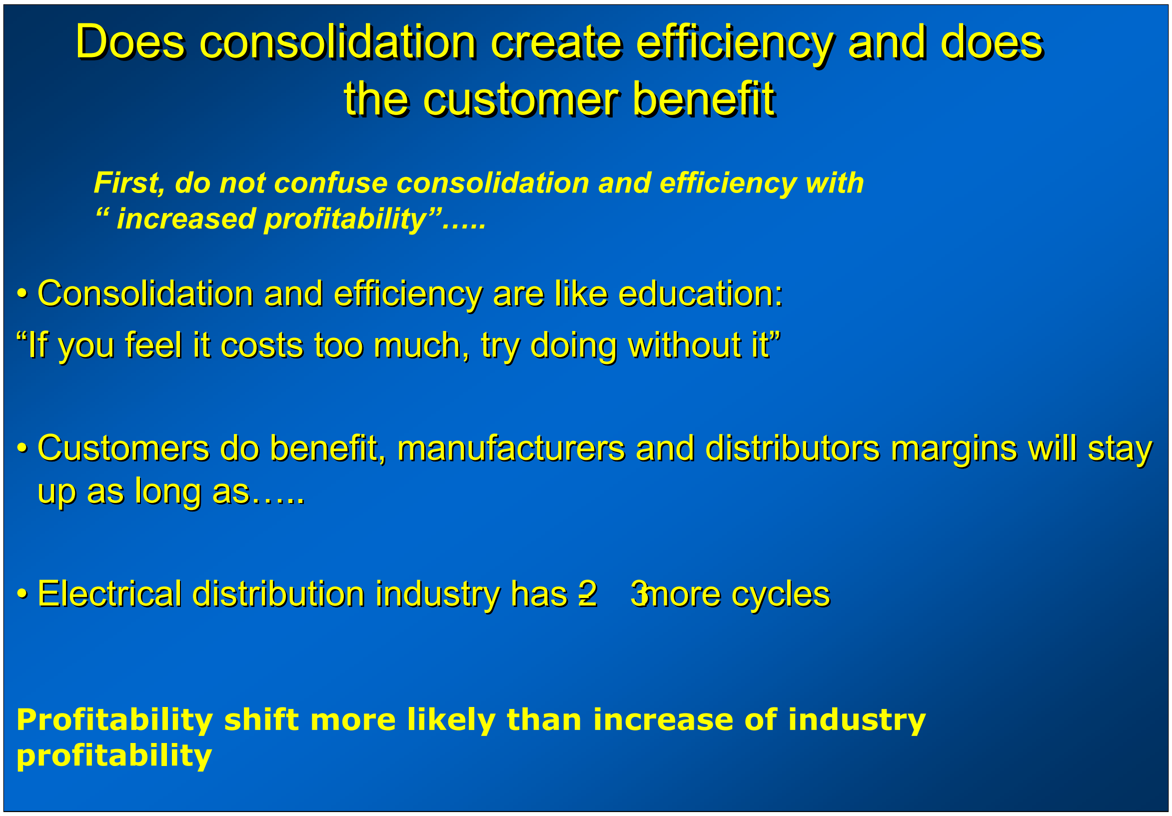


What is of note is the drop off, if you look at who has been doing the acquiring and who has the balance sheet to continue the acquisition flurry, because there are plenty of sellers out there. Right now there are not a lot of buyers. Once again, it drops off very fast and it will continue to do so. Is there a chicken and egg to this drop off?



I have taken some information from DISC Corporation, which are some of the sharper people that historically are being able to predict the electrical industry to some degree better than most. Look at the non residential fixed investment, because the electrical distributor has been living from residential construction for the last 3 years. With the precipitous drop in 2000 on commercial construction, the negative dramatic cliff we all went over in industrial construction, residential construction has been pulling the industry through. This is also very nice, because the product mix is attractive. It has a high growth margin rate. It is better for you all and for the other manufacturers we represent. But if you look at non residential, the equipment and software and the overall electrical market, combined with acquisitions we always wonder do people buy, because is it the right time to sell, do sellers sell because is there an impending doom ahead?

What drives better numbers post acquisitions? If you are a buyer, you want the numbers to be better after you buy it. Most buyers – it may be emotional or financial, maybe both – would like to see lesser financial achievements. Otherwise it means they sold too soon. As we see the non residential fixed investment drops off dramatically in 1998 and 1999, it was masked by the other segments that were still carrying the electrical industry, who did not have such a bad drop. But the death bell was out there and acquisitions slowed. We had an upswing as residential continues to boom. The lime green line in the chart goes up and acquisitions therefore continue, because the financials that the independent distributors are showing look pretty good. The reason for this lies deeper. If you just tried to buy dollars or to buy purchasing power leverage, you may not have examined this as closely. Everybody hits the skids in 2001. Residential cannot grow fast enough, commercial and industrial construction comes to a standstill. These are numbers nobody has seen in this industry before in the 90’s.



Based on this information, I am not so sure, history will repeat itself. This is hard data. If we examine this, it will give you a pretty good understanding. The consolidation will continue. What pace will it continue at? One of the questions arises: Is there efficiency created? You are better off if acquirers consolidate and continue to grow. Does it make the channel more attractive for all of us or is it just a financially based rollup? Obviously we at Sonepar are not a rollup. This year our company will top out at $7 billion in sales, in North America around $1.5 billion. We are operators. Sonepar does not sell electrical distributors. At the same time there were many financial buyers who came in, true rollups, wanted to take the start public, their initial investment, whether it be private equity firms, venture capital firms. Those were the people that have come in. Some have stayed, many have gone out. But for us to bring you value by consolidating the channel, there is some good news and some bad news. Is there efficiency created? Yes! Does this equate to higher profitability? Not in all cases! Unfortunately, that is sort of the dilemma we all face. If we do not gain skills, if we do not go into the higher, more complex IT infrastructure solutions for our customers, someone else will provide that service. Customers rarely go unserved. That could be an entity who looks at the IT investment as being minor, whether it be a larger retail chain or maybe it is a large industrial corporation or possibly a manufacturer. They would not look at an IT investment as being such. We have to do this, which means, we probably will not be more profitable in doing it. If the efficiency drives profitability for you all, then the answer is yes. Customers tend to benefit the most, which is good. You hate to make all the IT investment, see that they do not benefit, then you have to write down that investment. That is the good news and bad news. Customers have stated that they are benefiting from the consolidation of the channel due to the broader network of distribution and locations, the more sophisticated approach in serving their needs. This leads to 2 or 3 more iterations or cycles of the mid-size distributors having to decide one by one if they want to fall off the map or to sell at probably less than attractive prices which they were seeking, certainly, versus what their peers have obtained 4 to 6 years ago.

Continued Slow Growth:

- Less than 3% GDP = Flat to negative electrical
- Only economic “fix” is fixed business investment (Not Resi)
- Many voluntarily throw in the towel at asset value
- Or, distributors run out of money
  - Ratios deteriorate, Banks move to get their money out
  - Demand a sale or grab assets
- Result:
  - 30 75 asset buys a year starting this fall
  - Rate = 1.0% 2.0% of companies (4000)
  - Healthy and Marginal Distributors wait it out

You have to build an economic scenario. If you have less than 3% GDP growth, which has been the norm, you have a slower industry. This means sellers with worse financials, but certainly not better financials, and a buyer can usually only pay book value. Most distributors in the electrical industry today are not profitable. It does not mean they are going out of business, because they made significant profits over the last 10 years. Banks continuously ask owners to inject equity into their companies to keep their lines of credit. If that continues there is a point on the curve when an owner says: It is just not worth incremental after tax dollars being brought back into my company, I sell!

Decent Growth Returns by 2004??

- Consolidation languishes for a couple of years
- Earnings / cash flow improves, distributors solvent
- Distributors seek high premiums, postpone selling
- Buyers need to regroup
  - –Most will be reluctant to pay 8 10times multiples
- Results:
  - –Acquirers hold off until at least 2 consecutive good years
  - –2006 Big wave of consolidation begins
  - –Distributors "Won't miss the wave this time"

If broad industry recovery is in '05, then next wave in '07

If the market picks up and is rather robust, and stays that way for a couple of years, then everybody is concerned about, will there be the dead cat bounce, the really strong 18 months, 1970's error type of 1.5 good years, 2 bad years, 1 good year, 1 bad year. That then is really not the trend that favors either buyers or sellers. Probably it would create more status quo. But if you believe, there is an upswing and there is an amount of capacity waiting to be unleashed for new construction, that demand is real. You probably are looking at a real industry upswing in 2005 and certainly looking at the backlog of the major switch gear and lighting manufacturers. 2004 will not be in any way different from 2003. Those are 12 to 15 months cycle products. If we do not have the backlog now, they do not have the backlog. We do not have incremental backlog this year. Therefore 2004 will be as this year. This will drive the financials. 2005 will get better, because eventually we all feel this has to end. This would cause acquisitions to spur up.

What does that mean for the mid-size distributor, those super-regionals, that dictate where this industry goes, and how does that impact you?

Logistics: Get It There vs Have It There

- Old Style: Replicate branch model
  - "Have the inventory there" mentality
- New Style:
  - RDCs, Hub & Spoke, Cross docking
  - Be part of a larger supply network
  - Consolidating C&D items yields higher fill rates
  - Lowers cost per stock line item shipped

CDCs maximize the cost / service level / inventory equation, but very IT intensive and very costly

As people pass the $100 million mark, they put in central distribution centers. It is because the working capital gets out of control if you do not. The logistics cost becomes very difficult to manage as well as just logistics in general. The number of trucks, the number of people in the warehouse, the sophistication that is required is no longer possible for the owner with 2 family members to run the business. You have to go to a much more structured environment. As I showed you on that chart earlier, not always more profitable. But they know some day if they can get to $200 to $250 million, they will have their cake and eat it too, great cash flow, good profits and market sustainability, which is what people like.

Logistics and Consolidation – Turns & Earns

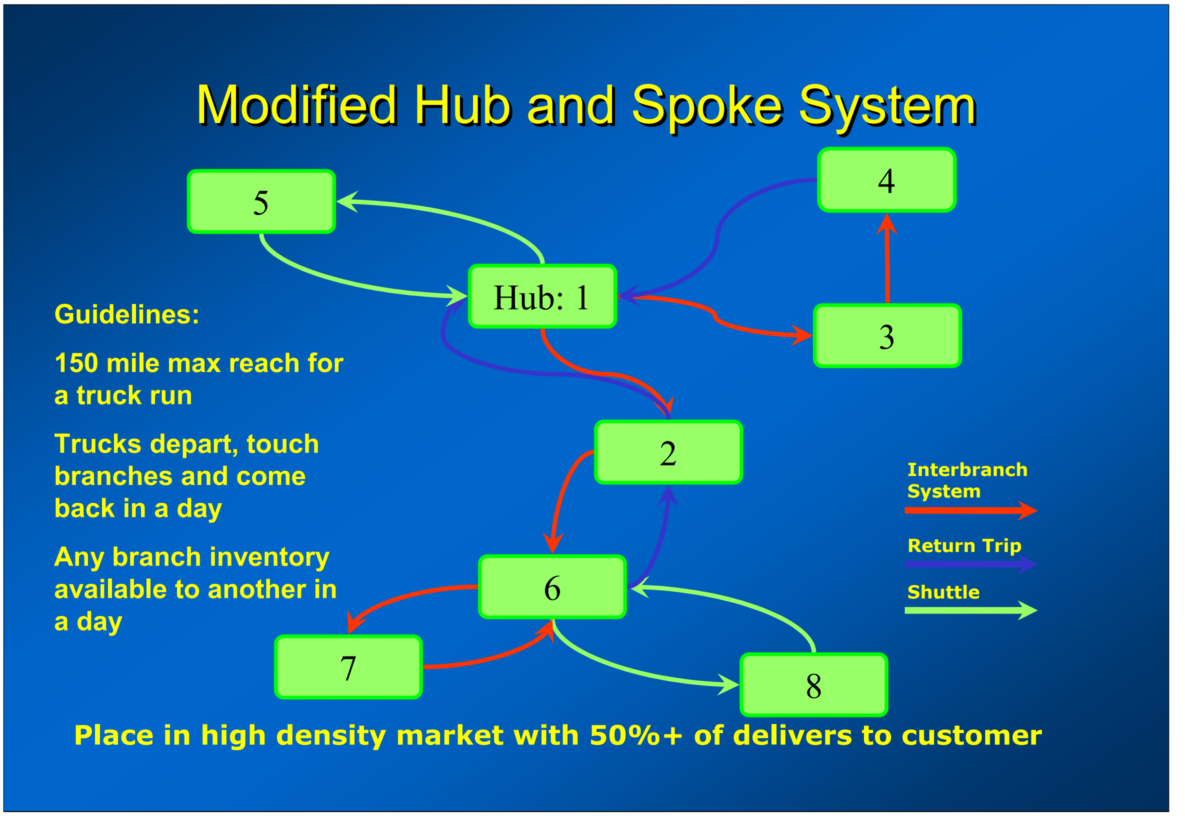
- CDCs require scale to deliver economics and competitive advantage
- Goal:
  - –Increase availability
  - –Lower cost per line item shipped
  - –Reasonable lead time for the customer
- Consolidating B&C items increases fill & gross margin (GM) rates
- Consolidating inventory & automating CDC lowers cost per line item shipped

The best method to serve a broad mix of high, medium and low turn as well as high, medium and low GM% items

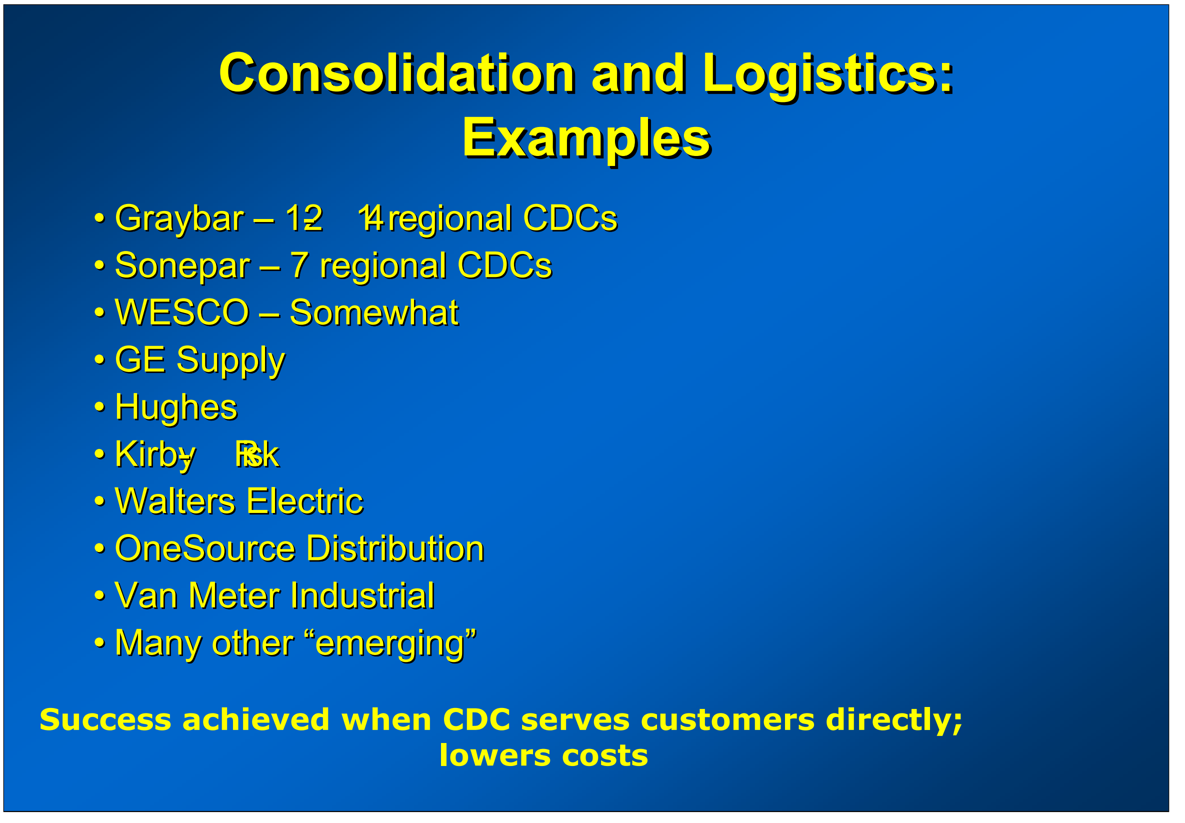
So they put in the CDCs with all the features listed above. You have to change the mentality. It is going to be next day delivery. The counter operations will have $200 to $400 thousand worth in inventory. You will find as a rule of thumb for a distributor: Whatever your inventory level is, let say it is $15 million, $7.5 million will probably be in the CDC and $7.5 million will be sprinkled among the branches.

Turns & earns is ultimately the simple mindset and rule of thumb that guides a distributor. If a maximizing turns, a maximizing working capital. You could say the same on day sales outstanding or accounts receivables. If I am turning it, I am not putting myself in undue risk. If receivables hang around for too long, they tend to go bad and you have to write them down. If inventory hangs around for too long, it either goes obsolete or it never was inventory you should have bought in the first place or it is something the manufacturer will not take back. Nothing good comes out of low turns.

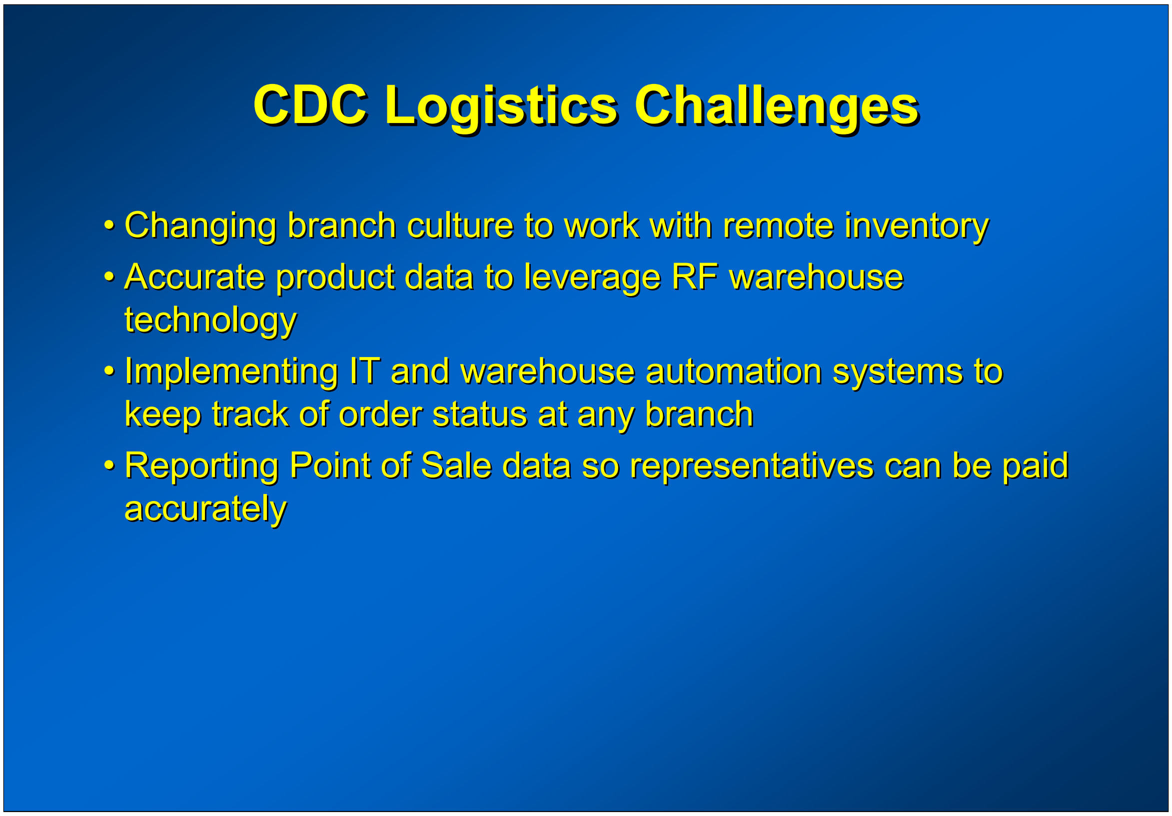
In trying to balance a broad mix of products (B & C items) that will drive our profit. Unfortunately it also drives low turns. Central distribution centers with a hub and spoke system allows you to balance the A item's high turn low gross margin with the B & C items' high gross margins lower turn and have the whole equation come to about 6 turns. Viking Electric with $200 million in revenues, 21 branches, and Cooper Electric with $255 million and 27 branches, both have 6 turns on their inventory. Both owners took risks to build those central distribution centers, which we purchased from them in the acquisitions. They achieved it. It does work. Getting there can be messy.



There are a lot of discussions, what does a CDC mean versus redistribution versus cross-docking, etc? In our CDCs, we have a rule of thumb, half of the deliveries go directly to the customer out of the CDC and it is serving a high density metropolitan market, otherwise it is very hard with any scale to achieve that measurement. The other half is going to the branches. We maximize the total equation.



That puts some geographic limitations on how far of a radius you can serve. We do not go 5 hours off the CDC. If we do, we certainly do cross-docking. It is really not a CDC. But this becomes the crux of the issue for this room. How do you invest in your logistics and infrastructure with your agents to be able to coexist with the consolidators and the very large regional players which have the future in this business?



It is not slowing down. The consolidation might have slowed down. But it is very difficult if you take the top 30 distributors in our industry to find one that does not have a central distribution center similar to what I mentioned, or in the case of a WESCO a redistribution center. Either way its brings on some interesting issues for both of us in the local agent.

Manufacturer Implications

- POS issue: CDCs clash with reps if no POS data reporting

- Getting economy of scale with YOUR logistics when you ship to a mix of CDCs and stand alone branches
- Territory vs Chain Share Tradeoffs:
  - Must look at chain share and balance vs local share optimization
  - Clashes with local rep culture, too: don't care about chain share, just local share
- Requires shift in organization structure and compensation to drive sales manager collaboration

- Who is performing local marketing?... If new products become differentiator instead of low costs, local marketing will be critical – *who gets paid to do what?*

Point of Sale: It was overlooked for many years, when there was a manufacturer distributor discussion. I spent a great amount of my career with GE Cap and the industrial business on the manufacturing side and then on the distribution side. It was on the manufacturing side we never really cared, even where we used agents in some places. It is not a big enough issue to matter. Then there also was the view in the early to mid 90's that the individual agent does not work with the chains anyhow. They work with the small local independent distributor and that is where they team up with. I do not think anyone of us has that luxury anymore. That attitude brings more grief, lower profit for all of us and a lot of waste of energy. We have to solve this issue.

You want economy of scale with your investments and your logistics. It is not just the wire & cable industry. It is the switch gear, the lighting, the fittings, the Thomas & Betts of the world. Everybody is struggling with the channel efficiency discussion. Who should put in the infrastructure and then how do you get a return of investment for that infrastructure you just built? There needs to be more of a partnering outlook, which is not an easy topic. The industry is not clear enough yet. That clarity, we all like to have, has not evolved yet in the United States the way it has in Europe and the way it has pretty much in most of Canada with the exception of Ontario and some of the prairies. That is when we all have to work together if we want to maximize this. The investments are big, therefore why would we not maximize it.

Cable Manufacturer Implications

- How do enjoy economic scale with your logistics?
  - Distribution still a mix of stand alones and CDC organizations
- How do you adapt cost and organization structure to meet higher price competition from consolidated chains?
- How do you get distributors to report POS data accurately and timely for rep compensation?
- How do you get reps to collaborate and make tradeoffs on local share vs region or country wide chain share gain opportunities?

Clarity of Roles between, Manufacturer / Agent / Distributor will evolve

Ultimately who is performing local marketing? If we are replicating cost then we get into some ugly discussions of frustration. That is a byproduct when we built these regional powerful distributors, we become marketing organizations. Your agents are getting larger every day. One of the largest, if not the largest cable manufacturing agent in the US, is Fox Rodent. They go from Virginia, the state next to Washington, DC, to the bottom of Florida. Driving this distance by car it takes 17 hours. They are going through the same scale discussions we are going through. We have to decide who is going to do what and gain some clarity in our roles.

Thank you very much. Have some fun! It is tough and it is to continue to be tough, but this is the industry we are in. We love it, so let's have some fun doing it. Thank you!