

# Changes in Distribution Channels

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## **Aldo Bolza**, Session Chairman

It is now my pleasure to introduce to you our third speaker in this session. Her topic is “Changes in Distribution Channels” and she will give us an overview of the worldwide evolution of the distribution business. Our speaker is Madame Coisne-Roquette, who is the chairperson and CEO of the Sonepar Group. She is a lawyer by training, she holds French and US law degrees and started her career as an attorney in 1981 in the Paris and New York bars with Cabinet Sonier. In 1984, she became a director at the Board of Sonepar and later left her law career to join the company in 1988. As chairman of the holding company and the Sonepar Supervisory Board she consolidated family ownership, reorganized group structures and reinforced the shareholders group to sustain the long-term strategy of the company. At the end of 2001, she took over executive management of Sonepar when she was appointed CEO in addition to her chairmanship of the Board. She has formerly been a member of the Young Presidents’ Organization (YPO) and presently serves as Executive Committee member and chairman of the Tax Commission at MEDEF (France’s main employers’ association). Thank you for being with us. The floor is yours.

## Electrical WW market

Worldwide TAM (estimate)	€230 bn
of which wholesale: 67% (estimate)	€155 bn

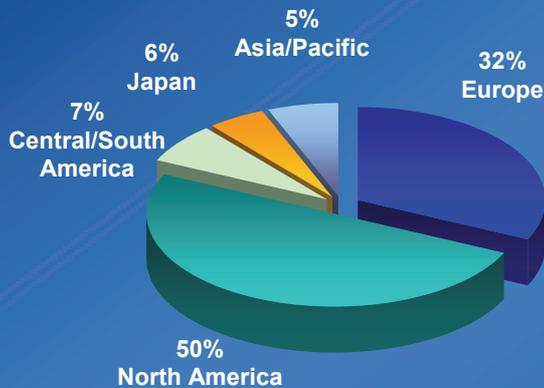
### **Mrs. Coisne-Roquette**

Thank you very much Mr. Chairman. In America there is a saying: Once a lawyer, always a lawyer. Indeed you may regret that due to my years as a lawyer I have a tendency towards advocacy. If you don't mind, I do my best to be a further advocate of the distribution channel as the best choice of channel to market for the cable industry, too.

I have a number of slides with me which give you a context of the over all electrical industry. We estimate that the total available market (TAM) worldwide (WW) is €230 billion (bn). Based on the dollar 2 months ago it would be approximately \$300 bn, of which the wholesale channel amounts to about €155 bn.

## EMR 2007 Study

International Electrical Wholesale Trade in 2007/2008:



**Worldwide Wholesale Market in 2007/2008: € 155bn**

Area	Turnover in € bn
Europe (46 Countries)	50
North America	78
Central & South America	10
Japan	9
Asia / Pacific	8

EMR Euro Marketing Research, June 2008

This distribution channel, which accounts for about two-thirds of the total available market is spread out globally. The numbers may be outdated due to the fact that it is very difficult to access data on the high-growth markets of Asia/Pacific. The data and statistics come from the Euro Marketing Research (EMR) institute.

As you can see, Europe and North America represent the bulk of the total worldwide market, but I strongly believe that we have higher figures in Asia/Pacific. Comparing Europe and North America, North America definitely has a bigger part. North America profits because it traditionally uses the distribution channel more than Europe. Apparently, the difference has so far not been great enough to convince Europe to move further into distribution, but that is where there is growth potential for the future.

## Electrical WW market

- Worldwide TAM (estimate) €230 bn  
of which wholesale: 67% (estimate) €155 bn
- Wholesale consolidation
  - North America: 6 actors for 25% of the market (n°1: 6%)
  - Europe: 2 actors for 33% (n°1: 18%)

The worldwide wholesale market of €155 bn is still a fairly unconsolidated market. Although the consolidation in the past years has been growing dramatically.

To give you an example, the big difference between the wholesale consolidation in North America and in Europe can be seen in the number of actors, in Europe the first 6 actors have a combined market share of 43%, whereas in North America the first 6 actors have a combined market share of 25%. This means, there is a lot of room for consolidation.

The second major difference is the following. When you are number 1 in the North American market, you only account for 6% of that market, whereas in Europe the number 1, whom I happen to have the honor to lead, Sonepar, accounts for 18% of the market.

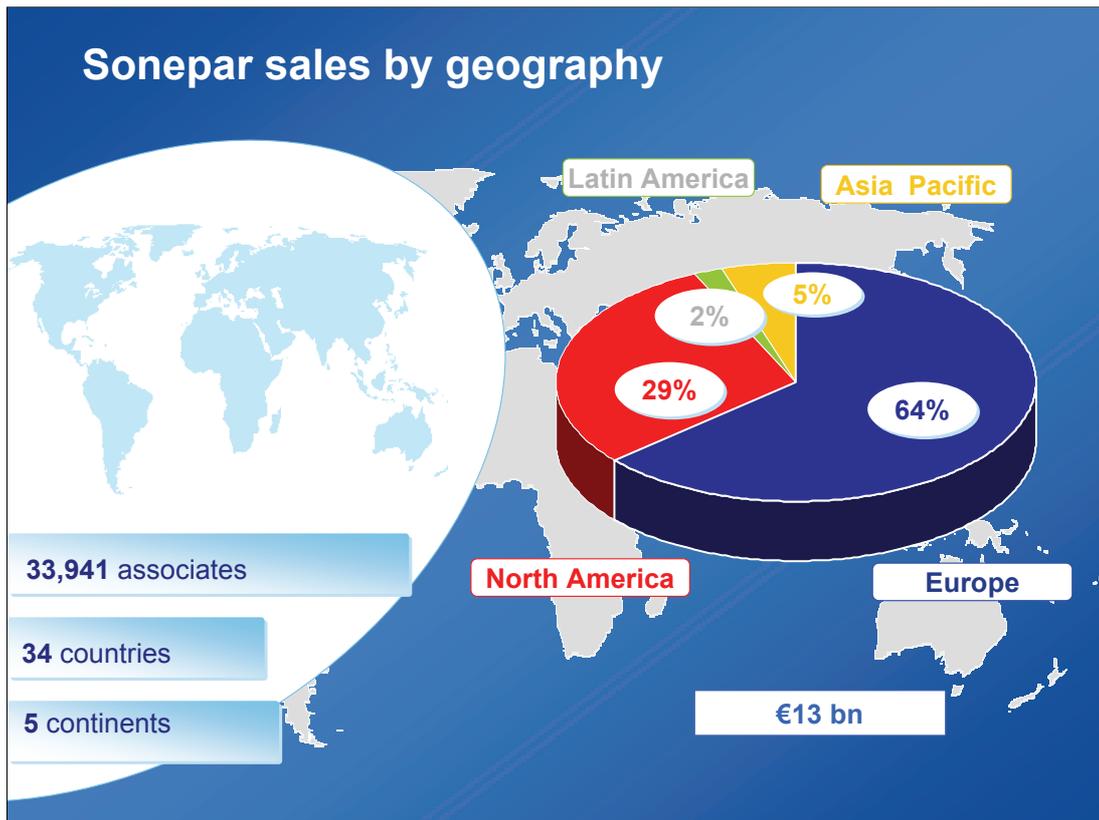
## Wholesale distribution channel

- Mainly LV electrical equipments
- Only professional customers
- Commercial, residential, industrial markets
- Large product offering
- Proximity network
- Value added services

In general, the distribution channel is mainly used for low voltage (LV) electrical equipment, except when you have some specialists involved in the utilities market requiring mid voltage (MV) or even high power. The wholesale distribution channel prides itself on being strictly business-to-business (B-to-B), serving only professional customers, from small and medium size installers to the commercial, residential and industrial facilities which have integrated maintenance.

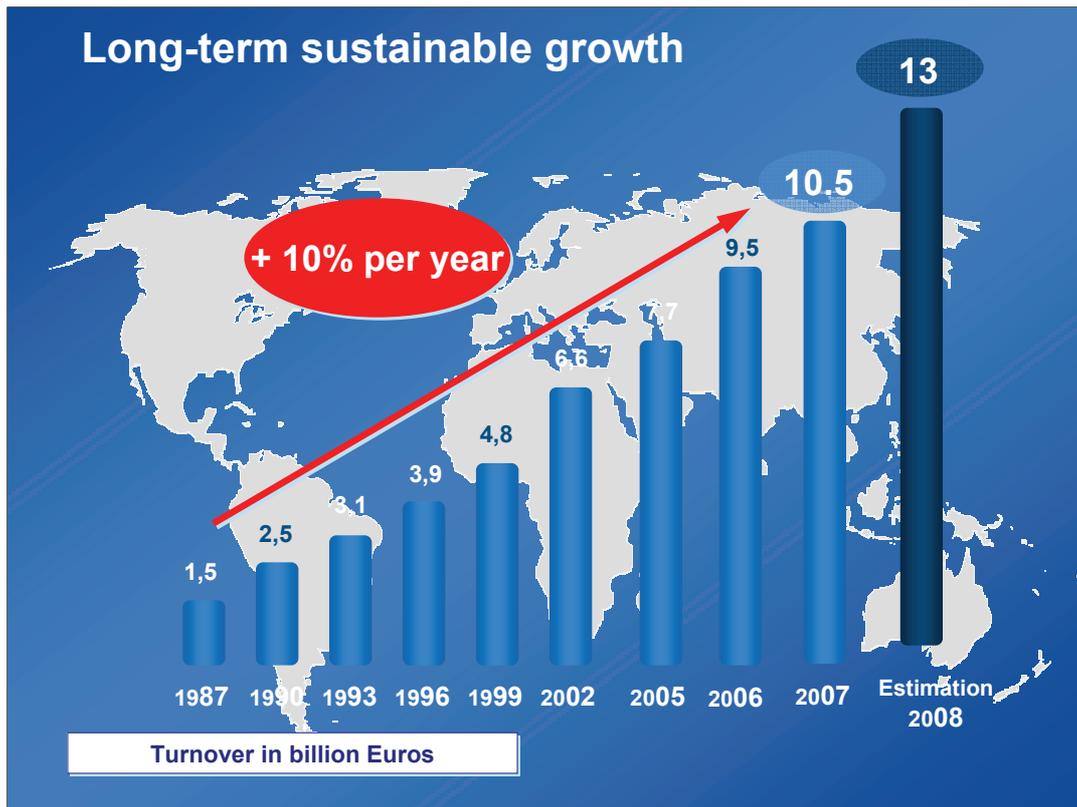
They also have this general characteristic of offering a very large product assortment in all areas, from cable, to lighting, to control gear, to installation materials and conduits, to HVAC (Heating, Ventilation, Air Condition).

Their beneficial feature for the manufacturer is definitely their proximity to the customers via a dense network of branches. They host a sales force which is put at the disposal of their suppliers. In addition to that, depending on the distributor, they have developed a number of value added services, beyond their basic services, which are firstly availability and secondly timely credits.



Within this wholesale distribution channel, Sonepar tries to have some incremental features. First, we have an extensive international network. We are present in more than 34 countries and we have increased our presence in North America in the past year. Basically we grow faster in North America, Latin America and Asia/Pacific, because there we see the growth areas.

Today we account for €13 billion in sales around the world with our 2000 branches. We consider that our autonomous growth is mainly derived from the continuous operational investments, which may differentiate Sonepar from some of its competitors. We believe we have to invest in capacity, both ICT (Information & Communication Technology) and logistics, and in technical resources and in people training, so they become the most effective resource for our supplier partners.



Our growth has been strong. Over the past 20 years we had a more than 10% yearly growth rate, as you can see here. With our sales of €13 billion for 2008, together with a competitor who I will not name here, I think, we are co-leader worldwide.

We also increased our range in product offerings due to our recent move on Hagemeyer, whom a lot of you have known in all the different areas in the world. We have taken over half of Hagemeyer businesses, partly in Europe, and mainly what, looked at, from the point of view of France, we call the “grand international”. Hagemeyer brings us a much larger industrial customer base and consequently a much larger assortment of products, of which we stock about 300,000, throughout the group.

I believe that cables as stock keeping units (SKU) amount to about 20,000 out of this figure.

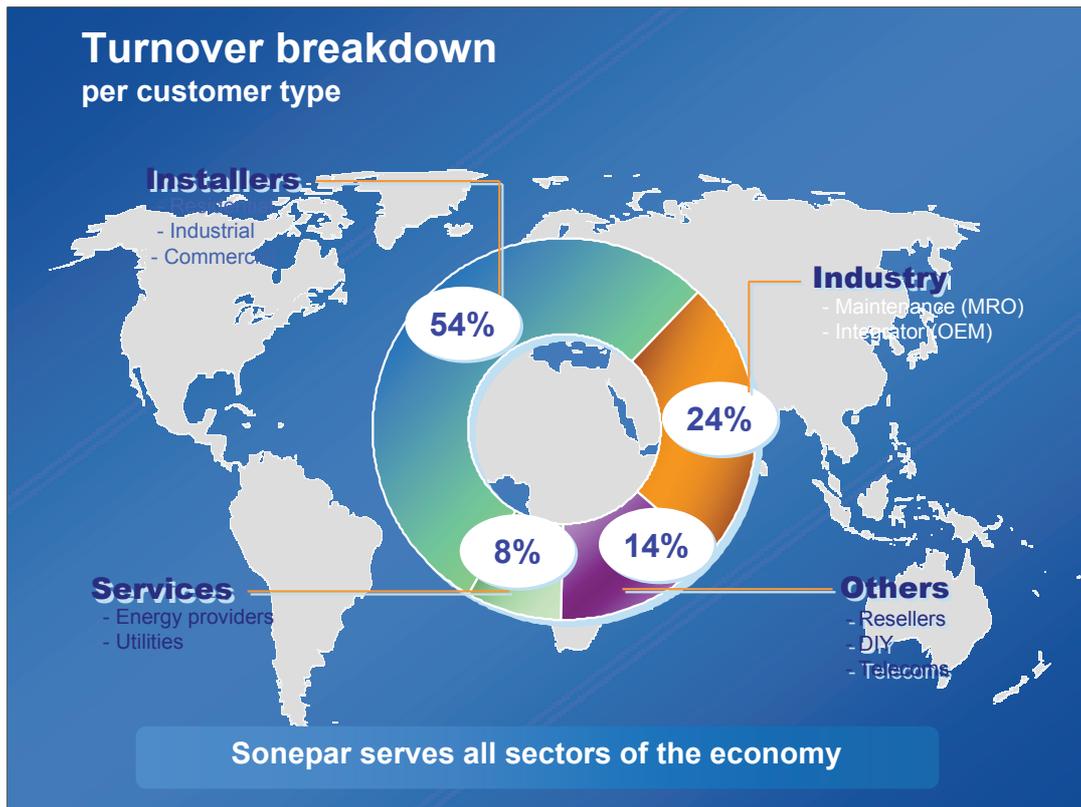
## Sonepar in the wholesale channel

- Extensive international network
- Continuous operational investments
- 10% yearly growth: €13 bn today
- Over 300 000 SKU's assortment
- Solid financial ratios
- Balanced customer base

Another special characteristic of Sonepar, shown in the wholesale channel, is that we have outstandingly solid financial ratios, which allow us to look at the year 2009 with a little more serenity than a number of colleagues. Our strength here is explained by the fact that we are a family owned company. So we definitely have had to set up safety ratios, which most of the bankers would have imposed on us anyway. This ensures that at no point could our bankers jump on us and say, we are beyond the border. We self-limit to what we think is reasonable and we negotiate with the banks to assure higher safety ratios, so that we do have a safety cushion.

We also generate cash flow, because we only work with our own money. We are not listed on the stock exchange. So if we don't make the money we need to sustain the business, we couldn't make operational investments and we couldn't lead the growth that our supplier partners are looking for.

In addition to this, Sonepar has an extremely widely spread, balanced customer base, again, as mentioned earlier, increased by the input of Hagemeyer, who increased our industrial base.



What could be misleading on this slide is the fact that you only see industry with 24%. But let's not forget that industry is served by a number of contractors, here named installers. With the addition of these installers serving the industrial world we do end up with an industrial customer base of over 40%. Lately we have been more active in the services supplying energy providers and utilities, still to a lesser extent than the industry.

So that is the worldwide electrical wholesale channel, in which Sonepar participates. Now let's look at your core business, the cable business, and what may concern you there.

## Cable market 2007

• Our worldwide cable TAM estimate of which €15 bn in infrastructures		€81 bn
• Distributable TAM	potential	€66 bn
	actual	€38 bn
• Sonepar cable sales:		€2.5 bn
• Sonepar cable mix:	LV	€1.9 bn
	other	€0.6 bn

I have seen the ICF statistics, which quote a very different figure from the €81 billion. So my first request today to the ICF organization would be: Could we share data? Because the reason we have those figures is the combination of cross-checking a number of figures publicly available and the ICF ones I got hold of. I believe it is important that we share those numbers. Perhaps you think that our €81 billion for the total worldwide available market is more in the range of €120 billion, this may be due to the fact that your statistics are quoted in US dollars. In any case, this is a significant difference, which would be worth investigating. Maybe you have a better input of data on the Asian part of the world.

Included in this market are about €15 billion in cable supplies for infrastructures. When we take out the infrastructures, we consider the potential of the distributable total available market to be €66 billion. This the total market minus infrastructure. Yet what is the reality? Actually the distribution channel only services €38 billion. It is impressive to see that for the total electrical industry the distribution wholesaling channel serves 67%, and that out of this we only account for about 55% when we move into the cable distributable products!

The share of Sonepar cable sales with 8% is slightly below the share of Sonepar in the global distribution market. We have room for improvement.

Within the cable mix, clearly the low voltage (LV) is the “king family” with about 75% of our total figures, whereas the others like data, power and specials, account for about 25%.

## Wholesale channel benefits

- Growth Network
- Value supporter
- Availability
- One stop shopping
- Credit service

Now, I would like to point out the substantial benefits that the wholesale channel can bring to the cable manufacturing industry. But let's not forget that there is a trend towards consolidation and that there is an increasing trend to distribution within the electrical channel. Therefore we are a growth network.

We are trying to create value on each level of the supply chain.

The next benefit is the availability, the right product at the right place and the right time. We also give our customers the opportunity for one-stop shopping for all the types of products they need. The single source and the single service are benefits customers appreciate very much.

Given the present circumstances, be aware that we are providing credit to our customers. We are using money which is frozen in our receivables. We manage that on a daily basis. We take quite a bit of administration and risk out of your hands...

## Sonepar incremental market value

- Reliability
- Long term commitment
- Technical / marketing resources
- Value added products
- Bundled offers

We have been in business for 40 years, we have grown through very strong and sound values based on respect and profitability. Those of you who know us best, know that throughout the world we probably entertain the most motivated network that you can see in the industry. It is a true story about people, who love their jobs, have a passion for their business and are totally committed to their work. That makes Sonepar particularly reliable in the industry.

We are able to do what we say. We can commit to long term partnerships. We entertain a greater ratio of technically and marketing trained people in order to sustain a higher autonomous growth. In that field, I am very proud to tell you that for the last 8 years we have outgrown our competition. We had on average 3 percentage points more growth than our competition.

We are dedicated to value-added products and I see a real future in bundled offers.

## Our challenges together

- TAM / DTAM / Direct
- Copper fluctuation
  - Cold blood
  - Total stock reduction
- Crisis resiliency
  - Quality
  - Efficiency
  - Safety

We do face some challenges, because the figures show that you cable makers do not use distribution as much as the other electrical suppliers. Why do Schneider, Philips, Osram trust the distribution channel more than the cable manufacturers? The total available market (TAM), the Distributable TAM (DTAM) and the direct market are not fighting each other. But it is surprising to see how much you handle directly.

Copper fluctuation is another challenge. Over the last years the copper price has varied considerably. We need “cold blood” to handle this and a global stock reduction.

In order to be able to better cope with any upcoming crisis, we should also look at general aspects of our operations such as quality, efficiency and safety.

## Our opportunities together (1)

### TCD (Total Cost of Distribution)

- Leverage fixed costs against proportional ones with us
- Measure net profitability
  - ↳ *your costs are our margin !*
- Cuts & packaging
- Transportation & crossdocking

Having discussed how to deal with challenges to our business, it is even more important to look at the opportunities we may have when we work together. I see three areas of opportunities. Have you heard of not only TCD but also TCO, total cost of ownership? The job of a wholesaler and the investment of Sonepar is to build a sales force with the ability to tell our customers that it is not the price of the product that counts, it is the Total Cost of Ownership.

I ask you, when you go home, to check your real costs relative to direct customers and customers via distribution. Generally, you have a sales force, a procurement force, etc. which you could outsource, by moving them to a reliable distributor, a preferred partner within the channel. Having considered this honestly, you can then measure net profitability. You look at the price and conclude: At that price I cannot get through distribution. But if you only consider that price, you don't see the price plus all the hidden cost. We believe that the cost you incur there may very well be our margin, so we could work together and both be more profitable.

If we want to be more effective in the Total Cost of Distribution, one of the questions which arise is: Do you do the cuts or do we do the cuts?

## Our opportunities together (2)

### Tighten cooperation

- Advance market information
- Distribution policy
- Flawless supply chain
- Avoid commoditization of innovation

Another opportunity is to tighten our cooperation. We believe that we own a lot of market information and sharing that information can have value. We think that we should have a clearly stated distribution policy. It may take a while to agree on who should do what and who should make what profit, but I believe, particularly in times of crisis, that the “cold blood” I was referring to, is based on this ability to remain focused on a clear direction derived from a defined distribution policy.

The flawless supply chain, that you arguably may not have, is another opportunity. Our customers don't mind so much, when delivery isn't done in 24 hours, but they do mind when it isn't done by the promised date. With a flawless supply chain, we can save cost and retain happy customers.

We are value-added product promoters. We believe in the technical upgrade of this whole electrical equipment chain, including the cables. When you have a new innovative cable, why don't you want to take the full benefit of it? We have the right people to promote your new product with its attractive features. We can help you assure that your innovative product doesn't get commoditized.

## Our opportunities together (3)

### Expand markets

- Geographical
- Environment concerns
- Installation cost savings
- Safety upgrades
- NTIC

The last area of opportunities for working together, I see in the expansion of our markets. Looking at geographical expansion, we identified strong growth in the Middle East and in Southeast Asia. Russia will not grow as fast, but Brazil is incredible. I do recommend that you consider this country as an extension market. Without going into the details of environmental concerns, installation cost savings, safety upgrades or new technologies in information and communication (NTIC), these elements are also important opportunities for working together.

Thank you for your attention!

**Let us grow  
TOGETHER !**