

# New sources of future profits take shape

Distributors need to provide tech-savvy products and customer support if they want to tap into new growth opportunities like VoIP, PoE, and wireless.

**O**ne day, the world may look back at 2006 as the year of convergence. Everywhere we look we see new technologies and powerful economic forces merging what were once separate and distinct electrical functions, and even entire industries.

Upon examination, it's clear that three powerful currents have converged into a perfect storm that is literally reshaping portions of the electrical industry:

**1. The explosion of new digital technologies.** Everyone wants more bandwidth. The lines have been blurred be-

tween voice, data, video, audio, security, lighting control, etc., and as contractors expand their services, distributors must expand their product mixes to keep up.

**2. A higher comfort level with PC-based solutions.** No longer is it just engineers that are tech savvy. Today grand-

## Top technologies

• **10 GbE.** Tim Place, president and CEO of Cablofil, pointed to the big benefit driving increased interest in 10Gb wiring. "With 10Gb more money is spent on wire. Why would anyone do that? Because no one wants to wait," he said. "With 10Gb, pipes can handle faster data so machines can run faster."

"The need for bandwidth will never decrease," observed Hugo Draye, certification marketing manager for Fluke Networks. "We're seeing data storage facilities being designed using 10Gb in order to handle high-bandwidth, high-speed servers, data storage, and gateways."

"We're looking for PoE and 1 GbE to be big contributors to our three-year growth," added Robert Baxter, director of data-comm marketing for Hubbell-Premise.

• **Home automation.** "Within the residential market, whole-house automation includes not only lighting control, but also the integration of audio systems, security, irrigation systems, and other automated whole-house electronic systems," said Scott Jordan, product marketing manager for Square D/Schneider Electric.

"Lighting control has become the central unifying feature of many of these systems," he added. "The ubiquitous light switch of the 1970s has really transformed into a fully intelligent system that controls much more than a single lighting fixture."



**Straight Wire's Silver Bundle cable features six 23-gauge coax cables with silver-plated conductors bundled together, including a Cat 5e conductor and component video terminations.**

• **Power over Ethernet (PoE).** The market for industrial Ethernet technology is currently \$212 million, having grown 24% in the past five years, and sales are projected to reach \$650 million in 2008.

PoE uses part of a building's existing electrical infrastructure to carry the VDV needs, eliminating the costs associated with installing a redundant wiring network.

"Advancements in Ethernet technology infrastructure on the plant floor has changed the way we work, connect, and communicate," said Michael Krampe, press and analyst relations for Siemens Energy and Automation. "Ethernet connectivity provides users with an architecture that has lower total cost of ownership by offering scalable performance, scalable distance, ease of use, flexibility, and interoperability."

"Networking cables are now carrying power with data and power running together over Ethernet with only 15W of power per cable," said Baxter. "But IEEE is considering increasing the power rating to between 30W and 60W, which would affect the types of items stocked at distributors."

"Recent growth rates for industrial PoE technologies are in the 100% range," said Mike Nager, manager of industry marketing for Phoenix Contact. "A study done by an independent consulting company has estimated 90% growth for Ethernet field devices between 2002 and 2007. Ethernet-based I/O is expected to increase 50% to 100% yearly."

"There's a significant need for partners who can integrate the systems and do the engineering work," added Krampe.



**Wireless Ethernet radio, like this from Phoenix Contact, is replacing hard-wired networks in industrial facilities.**

## MARKETS & TRENDS

mothers and preteens use PCs, digital cameras, and iPods.

### 3. Priority on both energy and installation cost savings.

Government, builders, building owners, and contractors are all intent on less costly solutions; enter VoIP, wireless, PoE, and building automation.

Most notable is the convergence of the previously separate areas of communications and entertainment, as giant providers of telephony add Internet connectivity and video programming services. Soon, Verizon and AT&T will no longer be merely phone companies, as they morph into direct competitors with cable companies and offer a broad array of fiber-fed TV and audio programming as well as high-speed Internet access.

Mimi Thigpen, vice president of strategy for Cox Communications, recently described the "converged services" of "entertainment, information, and communications" in an article in *CED Magazine*. As a partner in Sprint Joint Venture, Cox is one of



**Lighting controls are now available in designer colors, such as this line from Lutron Electronics.**

• **Specialized wiring.** Converging technologies have also opened up growth potential in several types of wiring.

Steven Hill, president of Straight Wire, has experienced an increased use of higher-end VDV wiring in newly built homes. "We've seen a significant increase in the use of

sophisticated wiring as residential prices have risen," said Hill. "Using properly grounded shielded Cat 5e to improve electronic equipment performance, as well as installed power protection and surge suppression, is growing in importance."

"We see security wire sales growing at 18% per year through the next five years," said Kathy Jo Van, vice president of Coleman Cable. "We see a great opportunity for electrical distributors due to the extensive growth in security wiring for alarms, cameras, and all types of security installations.

"This wiring used to be installed by small security installation companies," she added. "About two or three years ago more electrical contractors began providing more of an overall wire management role for the gen-



**Fluke Networks' NetTool Inline Tester tests VoIP connectivity from the phone back to the core of the network.**



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many companies leading the way in the integration of voice, data, and video services.

"When you have a Gigabit fiber connection coming into a house or office, a whole distribution closet and all of the downstream components sold by distributors are needed—cabinets, ONTs, switches, hubs, and UPS systems," said Paul McClusky, telecom industry marketing manager for Phoenix Contact.

Organizations—including BICSI, CABA, and Z-Wave Alliance—are paying great attention to the integration of business information and building automation systems, wireless communications, VoIP,

and industrial Ethernet cabling. These and other groups are tracking developments

**"Distributors must be at the forefront of understanding and being able to explain the technology. Successful distributors will take the opportunity to understand the products, act as a learning resource, and be proficient in guiding their contractor base."**

**—Scott Jordan, product marketing manager,  
Square D/Schneider Electric**

that indicate quickly changing business opportunities for both electrical contractors and their distributors.

Another factor is the growing trend for specifiers at builders, design-build, and

engineering firms to increasingly seek more cost-effective approaches to energy savings. Added to this is their growing preference to hire a single contractor to take full responsibility for the management of every aspect of a project's electrical wiring.

In response, many electrical contractors are positioning themselves to handle the installation of anything under the electrical umbrella—from power distribution to security and fire/life safety, and from VDV communication networks to fiber-optic, wireless, building automation, and home theater.

"One-stop-shopping is very critical in the commercial application arena," said

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eral contractor by including power, data, and security wiring."

- **VoIP.** As the telecommunications industry quickly converges with the IT, PC, and datacomm worlds, VoIP phones are no longer reserved for cash-strapped college students calling overseas. In-Stat/MDR reported that the percentage of all companies using VoIP communications quadrupled between 2002 and 2004 to 12% overall. Meanwhile, Gartner Research predicts that by 2010, 40% of all companies will have completed the convergence of their entire voice and data networks with IP telephony applications,



**Hubbell's PowerTrac Power over Ethernet mid-span delivers sustained 10GbE performance, providing reliable power to Voice over IP phones, security cameras, wireless access points, and building automation controls.**

eventually replacing circuit-switched PBX voice systems entirely.

"Wireless VoIP opportunity is expanding its reach from just indoor offices to manufacturing plant floors and outdoors," said Krampe.

- **Wireless technology.** Wireless technology allows users to enjoy the benefits of an automated environment without tearing open existing walls to add VDV, lighting control, and other automation controls. The labor savings allows contractors to reduce their time and material to complete a job. Distributors will likely see additional business as existing buildings become viable prospects for retrofit wireless technology.

In-Stat/MDR forecasts sales of WiFi media devices at a 104.7% compound annual growth rate with 44,601 total units shipping in 2008.

"We're experiencing growth in excess of 20% annually in wireless lighting controls, and we think the growth in this category is likely to ratchet up," said Phil Scheetz, residential systems marketing manager for Lutron. "Convergence is affecting the installers. In some cases integrators, networking and security system contractors, and very large security firms are expanding into home/building automation," he added.



**Leviton Integrated Networks and Controls' has expanded its offering with JBL home theater components.**

According to Jordan, while today's residential systems are largely cable-based systems, the latest trend has been to embrace wireless technology to reduce installation costs, particularly in existing homes. "Wireless systems are clearly going to be a major growth area in the years ahead," he noted.

In the industrial sector, wireless I/O systems are replacing hard-wired networks that connect sensors, transmitters, or actuators to controllers such as PLCs, PCs, or DCSs.

"Wireless technologies are being driven in many industrial applications as a way to reduce wiring costs. Industrial wireless technology can save end-users a lot of money," said Nager. —D.C.

Greg O'Brien, U.S. channel manager for Fluke Networks. "Electrical installers are now picking up datacomm work, and they require dealing with electrical distributors that can provide all of their supplies."

"In previous years, electrical distributors felt that security and alarm wiring was a smaller part of the sale, but now they're saying, 'We want that part; we can handle the whole package,'" said Pete Comber, director of sales and marketing for Omni Cable.

Jack Merrow, director of business development for Leviton Integrated Networks and Controls, also sees the changing attitude. "Distributors who a couple of years ago didn't know what structured wiring was about are now carrying network solutions," he noted.

Recently, the National Association of Home Builders reported that 74%

of home builders now offer entertainment systems, while the CEA indicates that 67% of home builders turn to their electrician for this technology.

"It's not even 'VDV' anymore," said Mark Walters, director of residential systems for Leviton Integrated Networks and Controls. "It has become 'VDE&A'—voice/data/entertainment, and automation—with multiroom audio now the biggest part of home entertainment and security systems going into about 25% of new homes.

"A builder's default setting is asking the electrician to complete the work," he added. "And the electrician's default is to ask the electrical distributor for the products."

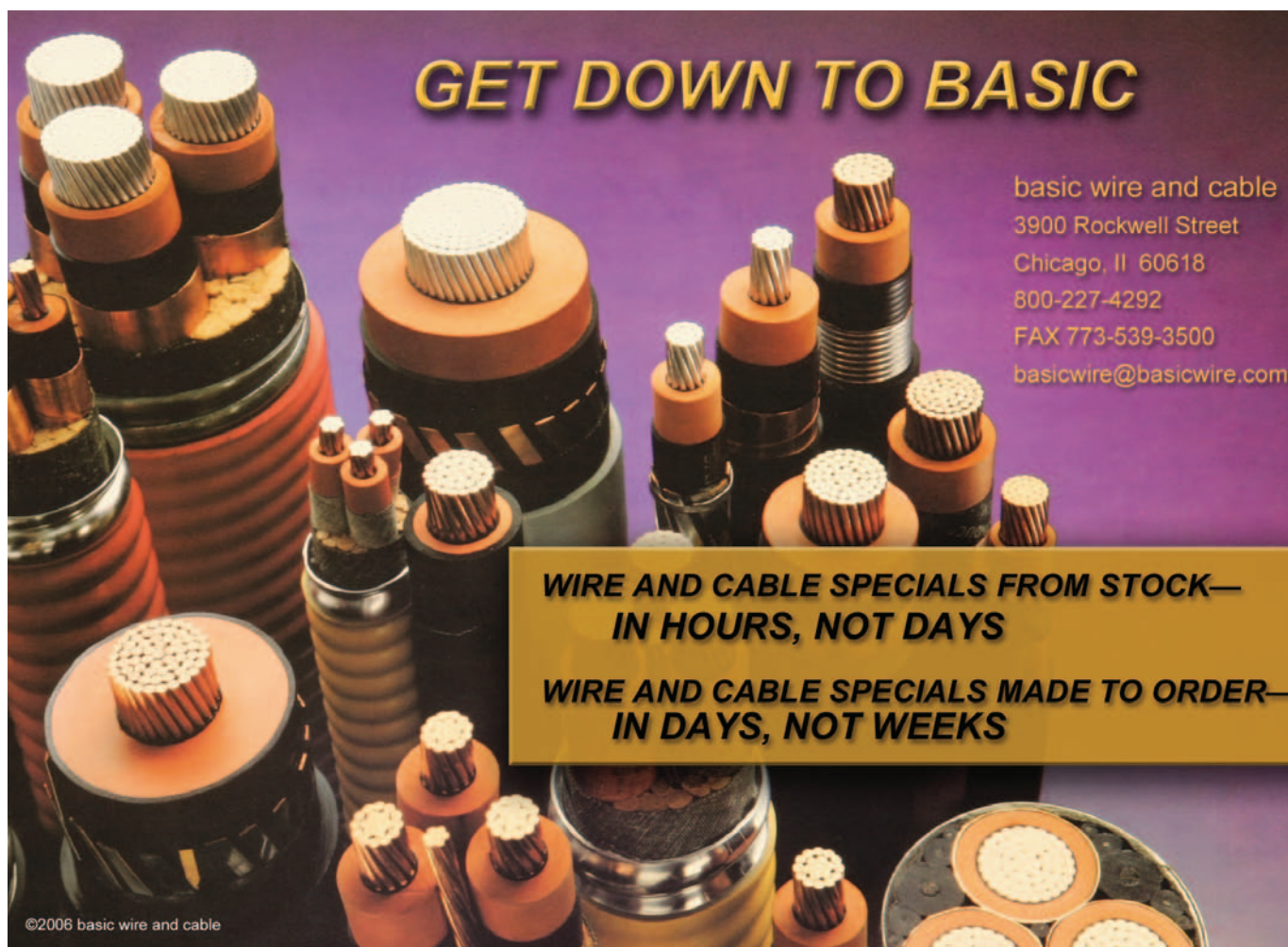
#### **Distributor opportunity**

Electrical distributors are in a great position to play a pivotal role in these grow-

ing technology markets, but to do so they first have to become committed to providing the required technical expertise in order to help contractor customers make smart purchase decisions.

Scott Jordan, of Square D/Schneider Electric, sees technical training as the greatest challenge to distributors interested in growing their sales in this market. "Distributors must be at the forefront of understanding and being able to explain the technology," he said. "Successful distributors will take the opportunity to understand the products, act as a learning resource, and be proficient in guiding their contractor base." ■■■

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