

SHDA

Unlocked

How To Defend Your Prices In Difficult Times

By Robert Nadeau

The global economic crisis is on everyone's mind. Nearly every day brings more troubling news about the turbulence unfolding around us.

We would all like to know where our economy is headed. We seek out information that will tell us what to expect next and how to prepare.

There are many uncertainties now, but you can be sure of this: your customers will demand lower prices. How you respond to this price pressure will impact your business for years to come.

When your customer asks for a lower price

Imagine a hardworking salesperson named Bill. Bill sells replacement parts for industrial production equipment. His company, a value-added distributor, maintains a large, local parts inventory and provides same-day delivery.

His prices are a little higher than some of his competitors. But when his customers' equipment breaks down, he can quickly get them the parts they need.

Most of his customers are hurting from the economic downturn. One morning, Bill's phone rings -- it's the purchasing manager for Bill's second-largest customer.

The purchasing manager tells him that a low-cost, out-of-state competitor is aggressively trying to win their business. "We want to keep doing business with you, Bill," the purchasing

manager tells him, "but we need you to match their pricing by giving us a 10 percent discount."

Bill knows that the easiest way to keep this account is to just give them the discount. After all, times are tough, and he needs to do what he can to keep the business.

But he also knows that if he lowers his prices, the customer will be very skeptical of any price increases when the economy turns around. Lowering his price will also create a false perception in the customer's mind about what his products and services are really worth. Bill may be stuck with the discounted price indefinitely, and this could seriously damage his company's bottom line for years to come.

And that might be the best-case scenario. It's also very possible that an even cheaper competitor will come along, resulting in another phone call from the purchasing manager -- and another price drop.

Bill needs to give the purchasing manager an answer. He tells her that he'll follow up. Then he gets to work on defending his price.

Find the dollars-and-cents value of your products and services

Many salespeople would find themselves in a very tough spot here. For one thing, Bill's products and the out-of-state competitor's products are exactly the same. The only difference in the products themselves is the competitor's lower price tag.

Luckily, Bill knows how to sell dollars-and-cents value to his customers. He knows that he is doing far more for his customer than simply selling them products. But he also knows that it's not going to be enough to just tell the customer about all the "extras" they're getting and the value-added services he provides.

Instead, he's going to demonstrate this value in dollars and cents. He's going to show how his products and services, in spite of their higher price, actually save the customer money.

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President's Letter

Dear SHDA Member,

When participating in an association such as SHDA, it is easy to lose sight of the fact that the operation of the association is carried out by a handful of volunteers. These people do it out of a realization that the only way that SHDA keeps functioning is by having people step forward and serve.

In a dramatic fashion, I tried to make a point of this at the last conference by announcing that this was going to be the last conference put on by SHDA. Of course we know that that was not the case; but we should also realize that if something doesn't change in the near future, that statement could become a reality.

SHDA as an organization is quite mature - having been around for 50+ years. With the distributor membership remaining fairly static you end up in the situation we find ourselves in today. Many companies and individuals have contributed both time and money into insuring that SHDA continues. The problem lies in that fact that you cannot keep going back to those same individuals to fill positions within SHDA. With new membership coming on at a slow rate, it is hard to get the commitments necessary to keep things going.

What we need to have happen is for new individuals and companies who have not served in the past, and see a value in what SHDA has to offer, step forward and volunteer their time and money. Time is the critical factor here in that time seems to be the one thing nobody has enough of today. It is no longer acceptable to think that "somebody" will do it; we as an organization are running out of "somebody's".

I hope that you will consider serving on a committee. I would be very happy to speak to anyone who has questions about the commitment. In my opinion, the benefits of participation to both the individual and the association far outweigh the time demands.

Sincerely,

Paul Justen – President

Calendar of Upcoming Events for 2009

March 8-11, 2009	University of Industrial Distribution (IU/PUI)	Indianapolis, Indiana
March 17-19, 2009	Four Pillar of the Sales Profession with Don Buttrey	Dayton, Ohio
April 20 th 2009	Webinar — Crushing Price Objections	with Tom Reilly
August 9-11, 2009	Succession Planning Conference Loews Vanderbilt Hotel	Nashville, TN

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from the cover: **How To Defend Your Prices In Difficult Times**

How can Bill do this? Is he a math whiz? Hardly -- Bill barely made it through high school algebra!

His secret weapon is that he has learned how to calculate dollars-and-cents value for the customer.

Show financial benefits to financial people

The customer already knows what they can save by switching to the competitor.

But they do not realize that they are saving much more by using a distributor with a large inventory and same-day delivery.

Bill meets with the customer's plant manager, and together they look at how Bill has saved them money over the past year. Prior to doing business with Bill, the plant had downtime costs totaling \$70,000 a year. But by getting them the parts they need when they need them, Bill reduced the plant's equipment-related downtime by 85 percent -- a yearly savings of \$59,500.

Armed with these facts, Bill schedules a meeting with the purchasing manager and the plant manager. He opens the meeting by reviewing how much the customer could save with the competitor's 10 percent discount. Total savings: \$15,000 a year.

Then he shows how his large local inventory and same-day deliveries are reducing downtime. This information is credible, because it is coming from the customer's own plant manager (who also happens to be sitting at the table). Total savings: \$59,500 a year.

To close his presentation, Bill shows that while his competitor may offer slightly lower prices, they cannot provide same-day delivery of needed parts when the customer's production equipment breaks down. Therefore, the savings the customer gains from Bill are nearly four times what they would save by going to the competitor.

Two days later, the purchasing manager calls Bill. They've reviewed the numbers, and they've decided that Bill will be keeping the account -- at his current pricing.

Prepare your salespeople with the right training

Can your salespeople do what Bill just did?

To succeed in today's price-sensitive marketplace, salespeople must learn to show customers the dollars-and-cents value of their products and services. This is the best way to defend prices, especially in difficult times. All it takes is the right training.

For more information on how salespeople can learn these skills, call 800.867.2778

About the Industrial Performance Group

The Industrial Performance Group specializes in helping manufacturers and distributors increase sales volume and improve profitability.

www.indusperfgp.com
800.867.2778



Tech Bit 4

How to Make the Most of Your Dashboard

Website Finder Dashboard

90% of what I need to know I can find with Google. More and more great information is on Wikipedia. What about business information?

CEO Express (<http://www.ceoexpress.com/default.asp>) is a portal of links to other business information websites.

Almost any resource you might think of is on that one main page. A premium version (currently \$29 a year) allows you to customize your home page.

Even if you think you know where to go, check this out. I've discovered new resources just scanning the lists of options. It's like having a business web librarian make you a list of sites you should visit.

Knowledge is power, here's a jump start.

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SHDA 39th Annual Industry Advancement Summit Strategy For Today — Success For Tomorrow

Pointe Hilton Squaw Peak Resort - Phoenix, AZ

Come join your fellow SHDA members as this year's Annual Industry Advancement Summit returns to sunny Phoenix, Arizona!

SHDA's Annual Summits are considered the best networking opportunity in the industry and this year's Summit will definitely be no exception! SHDA strives to combine education and industry development with relationship building and fun!

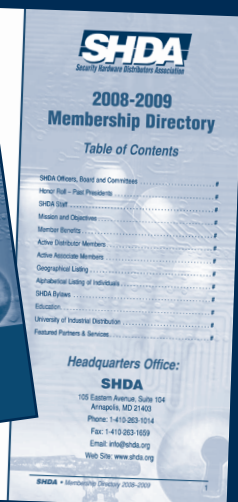
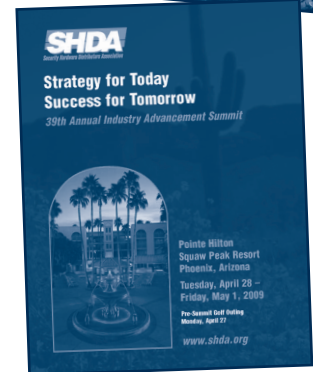
Some of the highlights of this year's Summit Include:

- A welcome reception, Two Nights of Networking Receptions, and Several Networking Lunches and Breakfasts will allow the attendees to build strong bonds with the other attendees -- You will truly have the opportunity to Be All Networking — All the Time!
- An Extended Program of One-on-One Appointments with an additional half-day of expanded 30 minute appointments — You will have extra time to build the strong business partnerships that make the Annual Summit such a successful Industry Event!
- A Newly Renovated Four Diamond Resort to provide the backdrop to the event with plenty of activities from their world renowned golf course to the lovely pool and spa — There are plenty of ways for you to not only be building strong business partnerships but relaxing as well!

If you are renting a car, special rates have been established for SHDA members with Hertz. Please call (800) 654-2240 and refer to Hertz Code **CV#027W0008**.

To access the online registration system for Hertz, click on the link below:

http://link.hertz.com/link.html?id=17314&LinkType=HZLK&TargetType=Reservations&ret_url=www.shda.org



SHDA Membership Directory

The 2009-2010 SHDA Member Directory is available now! Each SHDA Member will receive two complimentary copies of the 2009 Membership Directory. Additional copies are available to members for \$25 per copy.

Please visit www.shda.org for additional details.

Cut to Fit: Keys to SHDA Member Success

Coping with an Economic Tsunami

By: Arnie Goldman, IDN Hardware

The definition of "tsunami" is: a cataclysm resulting from a destructive sea wave caused by an earthquake or volcanic eruption. The financial maelstrom over the last two years has to be called a tsunami. Since 2007, we have watched rolling waves against our shores, subprime loan defaults, home prices falling, massive amounts of foreclosures, gas prices rising and then falling, financial firms hemorrhaging, automobile companies reeling Bear, AIG, Merrill, and Lehman... Fannie and Freddie taken over with government bailouts, TARP, the stock market disintegration, accelerating job losses, massive government stimulus.

There has been a nearly endless cycle of news stories about housing, banks, autos, and the government's economic issues but eventually, everything trickles down to "Main Street," which can simply be called "everyone else". No company or industry is immune from the fallout from the United States and the world economy.

Once upon a time, we used to think that the security hardware industry was relatively unruffled by economic weakness. What many of us had witnessed was that as the economy weakened, the fear of crime went up and then business activity of locksmiths and security companies increased. When I discussed this with a Detroit locksmith recently, we both realized that this scenario may no longer be realistic. Detroit certainly has been devastated by the auto companies, real estate, a declining tax base, and widespread crime. Yet, this time, people who are afraid of crime are more terrified that they will have absolutely no money to spend on security.

In my thirty years in the locksmith supply and security hardware business, I have never seen anything quite like this. Nearly thirty years ago, when the economy was slumping, interest rates were high but budget deficits were not. We didn't face intense global pressures then, the U.S. manufacturing base was resilient, and we certainly didn't face the financial storm from banks and financial institutions like we do now.

When consumers and companies stop buying, even security suffers. If you don't have the money, you won't secure your home. Many are giving up their homes, awash in mortgage debt as their home values continue to plummet. Those consumers will not spend on home security, and have stopped buying homes and cars, turning instead to low cost dollar stores, Wal-Mart, and food stores.

Home security is not the only area suffering. Schools, hospitals, and state governments that are loaded with debt are cutting their budgets and buying only what they think they need. The locksmiths and distributors that depend on commercial customers are facing extreme obstacles as well.

Fear of the loss of money trumps fear of the loss of property or possessions. So many people fear losing their jobs, their homes, their businesses, and even their money that they once believed was safe in the bank. We all know that when things become desperate, crime escalates. But protecting one's home and business is still essentially a proactive act and today, most people simply react to what is most urgent and threatening.

Even if consumers and businesses do decide to buy security products, will they buy them from locksmiths? Locksmiths face a myriad of problems, besides the overall economy. They face the scourge of national 800-lock companies that are ripping customers off and making the public fear any locksmith. Legitimate locksmiths face increasing small business costs and intense competition from big companies, including distributors and manufacturers. They also face the difficult dilemma of collecting from customers who don't have the money or can't get loans from banks.

In these tough times, what's an SHDA distributor to do? Every company faces the same obstacles. As sales and profits suffer, we have to turn to what we can control. Do we need the buildings we have? Do we need every employee or can we cut their hours? Can we lower variable costs? The companies with cash in the bank and little debt can ride out this economic storm longer. And those who were growing the fastest have to take a step back and make sure that their investments are still solid.

We need more consistent collection efforts and help from collection companies. We need to shop every service, including office supplies, health insurance, shipping companies, and advertising. We need to question every cost.

Many of us grew our businesses by being entrepreneurs, focused on selling, ready to grow our business for the good times to follow. It is hard to let loyal employees go, to cut their salaries and bonuses, and focus on cost controls. The American car companies have been focused on cost controls for years and look at the shape they're in because their sales kept sliding as well. When the economic environment becomes a tsunami, we may wonder if what we are doing to survive is enough. We may have to ask ourselves: are we just rotating the chairs on the Titanic?

There is a bright side to everything, however. I do believe that the fear of crime and the necessity to secure one's home and building will not disappear. The security hardware industry is still one of the better markets to be in and that's why many of the



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Did You Know It's Illegal to Sell Counterfeit Products

Legal Advisory from National Association of Wholesale – Distributors (NAW)

The federal criminal laws that prohibit any person from trafficking in counterfeit goods and services apply not only to the counterfeiter—the law applies with equal force to any individual or company that knowingly sells a counterfeit product. (18 U.S.C. 2320). This law, known as the Trademark Counterfeiting Act of 1984, carries substantial monetary fines (up to \$5 million) and prison time (up to 20 years imprisonment or in some cases life) for individuals and companies who violate the Act.

The Act makes it illegal for any person to intentionally traffic, or attempt to traffic, in goods or services and knowingly use a counterfeit trademark on or in connection (such as product labeling and packaging) with those goods or services. The term “traffic” is broadly defined to include the sale of a product that bears a counterfeit trademark. Traffic also means transporting, transferring or otherwise disposing of a product for money or anything of value.



A counterfeit trademark means a spurious mark or designation (e.g., packaging, labeling) that is identical with, or substantially indistinguishable from, a trademark which is registered in the U.S. Patent and Trademark Office, and is used on goods without the consent of the trademark owner. A counterfeit certification mark is considered a counterfeit trademark. Criminal liability requires that the seller had actual knowledge, or constructive knowledge (reasonably should have known under the circumstances), that the product or its labeling or packaging contained a counterfeit trademark.

So a wholesaler-distributor who knowingly sells counterfeit products has a lot to lose under the federal law:

- Imprisonment – Up to 10 years for the first offense and up to 20 years for a repeat offender. An offender who knowingly or recklessly causes death as a result of an unlawful sale faces up to life in prison.
- Fines – Up to \$15.0 million for corporations and \$5.0 million for individuals who are repeat offenders.
- Seizure and destruction of the counterfeit products in the wholesaler-distributor's possession.
- Civil lawsuits by the trademark owner under the federal trademark law for the recovery of damages, lost profits, attorneys' fees and injunctive relief.

Product Liability Exposure

In addition to the above liability exposure, a wholesaler-distributor selling a counterfeit product (with or without knowledge that it is counterfeit) faces legal action by injured parties if the product is defective and causes death, personal injury, property damage, interruption of business operations or

other losses. In these instances the wholesaler-distributor will likely be the one who is ultimately liable to pay these damages – since it is unlikely the manufacturer of the counterfeit product can be found, or is solvent, or insured, or can be subject to the jurisdiction of the U.S. courts. In cases where the wholesaler-distributor knew, or reasonably should have known, that the product was counterfeit, the company will face possible claims for punitive damages as well; and this exposure is generally not covered by the company's product liability insurance policy.

Preventive Steps for the Wholesaler-Distributor

- Purchase genuine products from the manufacturer who owns the trademark on the product or from one of the manufacturer's authorized resellers.
- Be wary of special “deals” that seem too good to be true, closeouts and inventory reduction sales. Extraordinary bargains are a red flag and can be used as evidence that the wholesaler-distributor had constructive knowledge that the product was a counterfeit.
- Be wary of products sold outside the customary distribution channel, such as an online auction.
- Be wary of purchasing “no-name” products where the manufacturer is not identified.
- If there are concerns about the authenticity of a certification mark, contact the certifier.
- Be aware of signs that a product may not be genuine, such as:
 - *Product not accompanied by a warranty, instructions or warnings;*
 - *Apparent product defects or substandard product performance;*
 - *Misspelled words or ungrammatical English on the product, packaging, instructions or other documentation;*
 - *Different shape or design than the genuine product;*
 - *Absence of the genuine manufacturer's markings on the product (e.g., part number, logo, name, third party certification mark);*
 - *Country of origin marking different from the genuine manufacturer's source;*
 - *Different colors or shades of color in the packaging, labels or the product itself.*
- Report discovered counterfeit products to the genuine manufacturer and U.S. Immigrations and Customs Enforcement.

If there is any doubt about the genuineness of a product, the wholesaler-distributor should contact the manufacturer for verification of its authenticity. Don't risk the legal consequences of being a seller of a counterfeit product.



The Impact of the Employee Free Choice Act On Small and Medium Sized Business

By: Jade C. West, National Association of Wholesaler-Distributors

Small and mid-size business should be VERY worried about the possible enactment of the so-called Employee Free Choice Act (EFCA). And smaller business employers should be active in the fight to stop this legislation. Defeating this dangerous legislation is NAW's top priority in this Congress.

Current law versus so-called Employee Free Choice Act:

- Under current law, if a union conducting an organizing campaign obtains signed cards from 30% of the workers in a workplace indicating interest in union representation, the union can request that the NLRB conduct a certification election;
- If the union obtains signatures from 50%-plus-one of the employees, the union can present those cards to the employer and ask to be recognized;
- The employer then has the right to insist on a National Labor Relations Board (NLRB) – supervised election in which workers vote – **by secret ballot** – on whether they want to be represented by the union;
- If EFCA becomes law, if the union obtains the signatures of 50%-plus-one of the employees, that union **immediately and automatically becomes the collective bargaining agent without any secret ballot** and can demand that the employer begin negotiating a contract;
- If a collective bargaining agreement is not reached within 120 days, the union can demand that the negotiations be referred to binding arbitration, and the decision of the arbitrator would be binding on the employer for two years.

Enactment of EFCA would make it easier and much more economical for unions to target small and mid-size businesses, and increase their likelihood of success:

- Under current law, a union has to be willing to commit resources to organizing a smaller company through a secret ballot election process;
- Under EFCA, organizing small shops is virtually cost-free to the unions, since the organizing can be done – literally – over a weekend;
- Without a secret ballot election, the unions do not have to

spend time or money convincing employees to vote “yes;” because

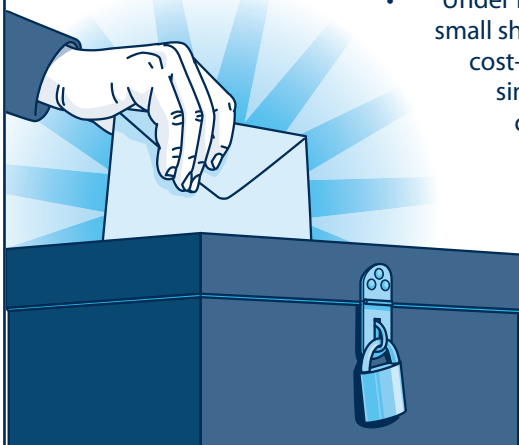
- After a successful card check campaign employers would have NO opportunity to talk to their employees to make the case for staying non-union;
- Negotiating contracts with smaller businesses is often less costly for unions because small employers are much less likely to have experienced labor counsel.

How it works in practice:

In testimony before the House Committee on Education and Labor, and in private briefings with the Management Committee of the Coalition for a Democratic Workplace on which NAW serves, a former union organizer described how a typical union organizing campaign targeting a smaller business works now, and why it would work so much better for them under EFCA:

- The union identifies the workers in a targeted business;
- Organizers contact the employees over a weekend, at their homes or by inviting them, for example, to a pizza party across the street from the company after work on Friday;
- Organizers obtain as many signatures on “card check” cards as they can over that one weekend;
- On Sunday evening, the union organizers meet, spread the signed cards out on a table and count them;
- If they did not get cards signed by 50% of all the employees, they sort the cards by job description to determine if there are subsets of workers from whom they got enough signatures;
- Using this “unit manipulation,” the union can organize the pickers, or drivers, or stockers, or any group of workers within a company;
- Under current law, they present the cards to the employer who can then insist on a secret ballot election;
- Under EFCA, on Monday morning the union faxes to the NLRB the signed cards from any subgroup of workers from which they obtained a majority of signed cards;
- The union organizers then present the signed cards to the company CEO;
- The union becomes – immediately and automatically – the certified bargaining agent for that group of workers;
- The employer would have no recourse, and would have to begin negotiating a collective bargaining agreement.

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The risk to independent business is very real -- small and mid-size businesses are already targeted for union organization campaigns

The common belief that unions only target large corporations is simply incorrect. Small businesses are already targets. According to National Labor Relations Board data, in 2005 more than 20% of certification elections involved employers with fewer than 10 employees; 70% of the elections involved employers with fewer than 50 employees. In 2007, the average number of employees in NLRB elections was 53, and 74% of elections involved 59 or fewer employees.

To make this more real:

- The Teamsters Union is targeting pizza drivers;
- The Starbucks Workers Union has been organizing Starbucks stores since 2004;
- In Pensacola, FL, a Domino's Pizza driver organized 11 of his fellow drivers into a union because, according to press reports, he likes "to sleep late, smoke on the job and listen to the radio" (USA Today, 9/22/2006);
- In a union organizing report in 2005, the Change to Win labor organization noted that they were targeting industries which cannot export their workforce overseas – transportation, ***distribution***, retail, construction, etc....

This is very dangerous legislation, and would restrict employers' ability to run their businesses and deny workers the right to decide in private if they want to be represented by a union. Defeat of EFCA is NAW's top priority this year.

February 2009

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biggest companies in the world, such as Honeywell, Johnson Controls, GE, and Sony, are in the middle of it and focused on expanding market shares.

Surviving today is being nimble and flexible, ready to cut or expand fast, ready to change course quickly. It is necessary to communicate with other SHDA members better than we do. We need to share information on customers who can't pay their bills and exchange information on dead and surplus stock. SHDA distributors need to improve communication with manufacturer vendors that have lost faith in the locksmith supply business and believe that direct sales to integrators and end users are more profitable. We need to hammer home the message that security hardware distributors are the best conduits to sell security products to the business, industrial, hospital, school, and consumer markets.

Sending this message will not be easy. SHDA distributors must be the best business partners they can be. They need to pay bills promptly, be adept technologically, and communicate consistently with manufacturers, especially those that face scrutiny as public companies. SHDA distributors and manufacturers face the same challenges: how to survive and grow together in a very difficult economic climate.

Survival is a reasonable goal for many companies. Those that don't have a lot of debt are actually in the sweet spot of business. Most SHDA distributors are in the retrofit business, selling products that need to be replaced, in a market that is dependent on the fear of crime and the need for security. Stay liquid, be flexible, try to be emotionally positive and focus on profitability, and your company will survive and eventually thrive.

If this recession eases, those SHDA companies that have coped and weathered this tsunami will soon be in a strong position to grow and prosper again.

Arnie Goldman *President*
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