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The Value of Personal Networking

All of us are familiar with business networking and its benefits. We even coined the term NAILD-Working time for informal get together time around the pool to discuss the ins and outs of the lighting business at our annual convention. When you learn to trust others with discussing your business, it is just one small step further to trust them with some of your personal life as well.

It was about this time last summer, the value of two NAILD members networking together paid great dividends once again. The difference was, this time it had nothing to do with the lighting business.

I had just related a personal experience to my NAILD friend across lunch when he quite innocently replied, "I have a book for you to read." Little did he or I know the profound effect which that conversation and book would have upon my personal and professional life.

It was a small book less than 140 pages long titled "THE FOUR AGREEMENTS" by Don Miguel Ruiz. Billed as a practical guide to personal freedom it was quite small and humble. It spoke of 4 simple truths:

1) Be Impeccable With Your Word
2) Don’t Take Anything Personally
3) Don’t Make Assumptions
4) Always Do Your Best

While I am pretty sure most of us had parents who taught us highly similar ideas, I took these to heart in my professional life and started practicing them with immediate results. I had forgotten at the ripe old age of almost 50 what it was like to start growing personally.

Suddenly I found myself being excited again. I had fallen into a rut and had not realized how long I had been there. I started reading all sorts of books and articles again with the focus on becoming a better me. Oddly, the world around me began to seem a little better as well!

Today, I find myself a better businessman, husband, father and friend. Now of course it wasn’t the book I referenced earlier that produced all this, but it was that conversation with a NAILD friend which did start it all.

I am currently reading a book written in the early 1900s "As A Man Thinketh" by James Allen. While only 40 pages long, I am reading it for the third time trying to wring every drop of knowledge out of it.

I will leave you this month with a quote worth pondering . . .

“You will be the same person in five years as you are today except for the people you meet and the books you read.”

— Charles “Tremendous” Jones

Wendell Strong
NAILD President 2008 – 2009
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Congratulations! NAILD Lighting Specialist 1 Graduates
(As of July 2008)

The following participants have completed the NAILD Lighting Specialist 1 Online Courseware as well as the Hands-on requirement.

Each of our graduates received their NAILD Lighting Specialist 1 certificate and pin. They are welcome and invited to use NAILD LS 1 appellation on their business cards and as appropriate.

We are currently at 155 Graduates. Congratulations to All.

Thank you for your continued support. If you have not yet participated in this program and wish to do so, please call Linda or Dee at (716) 875-3670 for all pertinent information or e-mail Dee at dee@naild.org.

R. B. Evans, Howard Lighting Products
Bob Denney, Light Bulb Supply
Craig Armstrong, Light Bulb Supply
Ed Lippert, Light Bulb Supply
John McCarney, Light Bulb Supply
Kurt Schwabauer, Light Bulb Supply
Lance Goetz, Light Bulb Supply
Rick Donoghue, Light Bulb Supply
Seth Eichorst, Light Bulb Supply
Ulrike Inderawati, Light Bulb Supply
Tina Kuykendall, Light Bulb Supply
Dee Gavin, EiKO Ltd.
Jared Plumb, EiKO Ltd.
Cheryl Quistad, West-Lite Supply Co.

Corrections:
E. Russell Smith is with Professional Lighting & Supply, Inc.

Randy Vanderlinde, Howard Industries

New Distributor Member

The Light Bulb Shop
Edwin E. McGary, President
E-mail: eem@lightbulbshop.net
6318 Burnet Road
Austin, TX 78757
(512) 543-2852
(512) 453-0155 fax
Web Address: www.lightbulbshop.net

Members in the News

Jim Nolan, Shat-R-Shield Founder, Passes

Founder and retired Shat-R-Shield CEO, Jim Nolan passed away June 11, 2008. Jim is credited with creating the protective lighting industry with the introduction of the first safety-coated fluorescent lamps in 1976. TED Magazine recently honored his contributions to the electrical distribution industry as one of their “100 Faces for 100 Years.” After retiring from Shat-R-Shield in 1997, Nolan left the operation of the company to his son, Robert, who serves as CEO.

Jim realized his dream of creating a successful, family-owned business that, provides for its employees. He and his wife Peggy made Amelia Island, FL their retirement home.

Schaadler Yesco Announces Vice President Appointment

Kurt Suchar was recently appointed Vice President of Sales.

Kurt, former Director of Industrial Automation and Industrial/OEM Sales, has additional responsibilities that include planning and direction of the growing industrial/OEM, Contractor, commercial, and government markets, in Schaadler Yesco’s Central PA territories.

“This change will allow us to better focus on future business expansion opportunities including new geography/branches, as well as acquisitions and company resource utilization,” said Matt Brnik, president.

TCP, Inc. Announces Two New Hires, Promotion

TCP, Inc. recently hired Charles Gallagher as vice president of operations, Jeffrey Bristol as director of retail sales and promoted of Peter Weller to general manager.

Gallagher was general manager of Whirlpool operations at Penske Logistics. He will oversee the supply chain, distribution and assembly of ecoVations®, TCP’s specification fixture division. He is an adjunct professor at Cuyahoga Community College, a member of the

Warehouse Education and Research Council (WERC) and the Material Handling Institute of America (MHIA). He received a B.S. from St. Joseph’s University and a master’s from Campbell University.

Bristol, formerly with Philips Lighting Company, now manages both daily and long-term strategies for the TCP retail channel, including The Home Depot, Wal-Mart and other do-it-yourself and food, drug and mass (FDM) retailers. He is involved in the Illuminating Engineering Society (IES) and the Global Market Development Center (GMDC) and has a B.S. in Communications from State University of New York Brockport.

Weller, former director of engineering and product development at TCP, will lead the specification fixture division, ecoVations. Weller has 24 years experience, including work for Sylvania and other lighting companies. Also a member of the IES, he has a B.S. from the University of New Hampshire and attended the Consortium for Executive Development at Babson College.

For more information, go to www tcpi com or call (800) 324-1496.

Con-Tech Launches Hospitality Initiative

Con-Tech Lighting has launched a targeted sales and service initiative in the Hospitality industry with its new Hospitality Division. This division will focus on the lighting needs of hotels, restaurants and casino chains across North America.

Con-Tech promoted Jake Summers to lead this initiative as sales manager. Jake was promoted from Con-Tech Area sales manager for the central region.

“Con-Tech has the right products, experience and service infrastructure to be a perfect lighting resource for hospitality businesses,” says Tim Brennan, vice president of sales. “We chose Jake to lead us because of his valuable hospitality lighting experience and his success specifying and servicing these types of businesses for us in the past.”

Replacing Jake is Glenn Hortmann who comes to Con-Tech Lighting from Cooper Lighting where he was involved with the central region representatives for Cooper.

“Glenn brings a lot of knowledge about the energy solutions and will be a welcome resource for our Sales Representatives and customers,” says Brennan.

For more information contact Mike Lehman at (847) 559-5500 or michael@con-techlighting.com.
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* The generous financial contributions from Philips, GE, OSI will enable NAILD to continue developing educational programs including but not limited to the well received Lighting Specialist Course.

For information on 2009 sponsorship opportunities call 716.875.3670.
NAILD Exhibits at Lightfair 2008

Lightfair 2008 in Las Vegas! . . . And NAILD was upfront and very visible. We had an incredible location . . . And an excellent opportunity to showcase our new booth display! Just about anyone walking thru the Lightfair exhibition passed our booth . . . many stopped to say hi . . . many curious about whom we are . . . but most stopped by to hear more about what a NAILD membership could mean to their company.

Our LS 1 program drew huge attention . . . partially due to being included in LFI New & Innovative Awards Program and partially because LS I is already known to the outside world. While we did not take the Innovative Award . . . just having our LS 1 program showcased on the big screen (make that 2 big screens) was quite an honor! This entry prompted many to make it a must stop at the NAILD Booth and learn more about our course.

NAILD again sponsored the water break during the “Lamps & Ballast Technology Update”. This session continues to have record attendance providing yet another great opportunity for NAILD recognition.

It takes great team effort to ultimately deem an event a success. And the NAILD team always comes thru . . . whether it is for the convention, exhibiting at an event, or just coming up with new ideas . . . this team can always be counted on. And this year’s Lightfair Campaign was no different . . . many players stepped up to help make sure our Lightfair experience was the best.

Special Thank You To:
Gary Root for spearheading the Lightfair Fund Campaign

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Wattsaver Lighting Products, Inc.

Volunteers in the Booth
Wendell Strong
Gary Bellos
Gordon Hunt, LC
Blake Hunt, LC
Don Pezzuto
Frank Johnson
Jack Huff
Randi Johnson, LC
Garry Haverland
Jim Daniel

And All Those Members (distributor and vendor) Who Stopped By and Just Offered Support

• Gordon Hunt for the design of our new NAILD Display;

• Paul Hafner for building the NAILD LS I Slideshow;

• Paul Hafner for submitting NAILD LS 1 for the New & Innovative Showcase; Marketing Committee for developing the brochure handout; and

• Our exhibiting vendor members for proudly displaying the new NAILD placard in their respective booths.

It was a whirlwind 3 days . . . we had plenty of activity and acquired many leads . . . with high hopes of some of those leads becoming our newest NAILD members. Lightfair provides a perfect venue to continue to get our name out into the industry and increase national recognition. You can be proud to be a member of our great association.
Getting the Most Out of the New NAILD LS 1

By Paul Hafner, LC

How can you use NAILD LS 1 to help you retain your staff and grow your business? Here the five steps you can take to get the most out of your investment in this training and education program.

Step One: Assign a Coach
Each company should assign a Coach to oversee the program. A Coach’s Manual is now available from the NAILD Office, to assist you in guiding your candidates to successful completion of NAILD LS 1.

What is the role of the Coach? The Coach acts as a coordinator and a guide performing the following functions:

• Assist NAILD LS 1 candidates in completing the Modules
• Answer questions, or direct candidates to someone who can answer questions about the Module content
• Ensure that the Workbook Activities are properly completed
• Set up props and supervise Hands-on Exercises
• Fill out, and submit the “Verification of Completion” form when a candidate completes the nine Modules
• Ensure the Survey is completed
• Register candidates for the Final Exam (First Exam will take place in August)
• Supervise the Final Exam, in particular the Workbook Activities and Hands-on Exercises.

We learned during the development of the NAILD LS 1 program, that we need someone on-site to support the completion of the program. If you are the only candidate, or you do not have someone capable of handling this function today, I will act as your Coach. Then you or an individual from the initial group of candidates will become the Coach for subsequent candidates.

Step Two: Taking the On-Line Modules
Remember that this is not a race, but rather a tool to help you, help your staff, build the confidence and competence in lighting. Most of the Modules contain about 30 – 45 minutes on-line content, and about 2 ½ to 3 ½ hours Workbook activities and Hands-on Exercises. Allow about 4 hours for each Module. Then, encourage participants to take a “breather” (24 - 48 hours) between Modules 2 and 3, Modules 4 and 5, and after Modules 5, 6, 7, 8, 9. Use this “breather time” to give the candidates time to practice and use what they are learning. On-line learning is often “certificate” driven. Unless the candidate immediately applies the online content, activities, and exercises to their work, retention, and thus the value of the learning, drops precipitously.

Each Module has a quiz. Make sure the candidates work at the Module until they can score 100%. Note that the Final Exam contains many of the questions, activities and exercises found in the Module Quizzes and the Module Workbook. Success here ensures success on the Final Exam.

Step Three: Getting Ready to Take the Final Exam
Upon completing the nine Modules, the candidates must complete an online Survey. The survey provides both a review of the content for the candidates, and an opportunity for the NAILD LS 1 development team to learn what works and what needs improvement in the program. So far, the feedback has been very helpful.

Completion of the Survey, signals the opportunity for the Coach to file the “Verification of Completion” with the NAILD Office. The Verification of Completion indicates that the candidate has completed the nine Modules, properly filled in the workbook, completed the activities, and the hands on exercises. At this point you can schedule candidates for the Final Exam.

Step Four: The Final Exam
The Final Exam consists of both Multiple Choice questions and a series of Workbook Activities and Hands-On Exercises. NAILD will offer the exam once each month, on an “as needed” basis.

NAILD will hold a Coach’s Conference Call on the third Thursday of the Month, to provide an overview of the Exam and procedures for implementation. The Final Exam will be offered on the following Thursday. Start time is 11 a.m. (Eastern Time). The Multiple Choice portion is timed. The Workbook Activities and Hands-on Exercises must be completed by Friday, 5 p.m. (Eastern Time). Passing Score: 80%. More details are available on the NAILD Website.

Step Five: After Passing the Final Exam
Your candidates will receive a NAILD LS 1 Certificate, Pin, a letter of recognition from the NAILD Board, and the authorization to use NAILD LS 1 on their business card and business communications. In addition, NAILD has created a half page explanation of the NAILD LS 1 for inclusion in proposals to customers. This is available from the NAILD Office. You can review a copy of this on the NAILD website.

Summary: The keys to success:
• Assign a Coach
• Encourage your participants to take the Module Quizzes until they score 100%
• Make sure that your participants fill in the Workbook activities fully and completely
• Use the “Hands-on” Exercises as a tool to ensure that your participants are “getting it.”

Overall, remember this is not a “race to the pin” this is a tool to help candidates increase their competence and confidence in light and lighting. It is a tool to improve employee retention and because they become better at what they do, increase customer retention.

If you execute the program in this manner, you will communicate that the company values the candidates and their success. You will also help ensure that they will ace the Final Exam. We hope that this effort will go a long way to helping you strengthen your company.

Industry Note:
The 2008 Lightfair Innovation Showcase featured the new NAILD LS 1 as one of eight entrants in the highly competitive Publications category. In fact, the winner in this category, SPOT a Daylighting program produced by the California Energy Commission, went on to win Most Innovative Product at the 2008 LightFair.

Authors Note: If you have questions about anything relating to NAILD LS 1 and its implementation, please contact Paul Hafner through the NAILD Office.
Family Businesses: Pursuing Fast Growth Strategies

By Stan Mandel, Ph.D., CPA, PE

At the last NAILD conference a number of you met to discuss some of the issues that family businesses face. We had a lively exchange, but only began to scratch the surface. The purpose of this article is to extend that discussion into an area we are all vitally interested in—growth! How is it different within family businesses?

Family Businesses (FB) are the life-blood of our economy. They comprise over 70% of all US companies, contribute over 50% of our GDP, account for the largest share of new job creation, and provide leadership for our communities. Yet we seldom associate them to the most dynamic segment of our economy.

At Wake Forest University we sponsor a membership-based family business program. Recently I prepared a short talk that was part of a program dealing in “best practices.” My portion was to address the issues of fast growth within family businesses. I’ll share my thoughts in this column.

A study of fast growth family businesses that were finalists in Ernst & Young’s Entrepreneur of the Year program indicated that these companies grew in sales at a faster rate than Fortune 500 companies (22%/year vs 15%/year rate). What can we glean from the activities behind this outstanding performance?

FB Balance Sheet. Let us first look at some of the traditional qualities of FBs . . . those that add to their success, and those that detract.

Assets
• FBs are driven by a set of strong family and business values.
• They have a long-term perspective for conducting business.
• They tend to be efficient and productive.
• Organizational performance is superior to others.
• There is a quality orientation because of family association.
• Employees comprise an extended family.
• Relationship among family and non-family members are important.

Liabilities
• Planning for growth is ad hoc.
• Strategic planning is limited.
• There is a tendency to be secretive and not share operating information.
• FBs have an aversion to debt and are risk adverse.
• They do not want to share ownership outside the family.
• FBs want to avoid loss of control, including the perception that comes from a board of directors with outsiders.

What can we learn from the practices of Fast Growth Family Businesses (FG-FB)

Planning Practices. FG-FBs are proactive in the planning process. They develop and communicate written strategic, ownership, and succession plans. They plan across a multi-year timeframe (3 most common), and measure their actual performance to plans. Ownership plans are often tied to the family’s harvest strategy.

Management Practices. FG-FB have developed a collaborative decision making process that stresses consensus building. However, FB CEOs are able to make the tough decisions even if there is not unanimity. Top management teams consist of 3-6 executives spread among 3-4 organizational levels. Performance is most commonly measured and benchmarked against industry leaders, competition, and industry norms. Job standards are established for most individuals in the organization.

Boards of Directors. FG-FBs still have a reluctance to share control with outsiders. Most have a 3-5-member board, meet quarterly, and deal with both strategic and operational issues.

Marketing Practices. FG-FBs generally follow high quality strategy vs low cost . . . perhaps because of the family name association. They tend to be first movers or a fast second with respect to new product/service innovation. Sales arising from new products/services are 30% and from new customers 20%. New customer acquisition tends to be larger than existing ones. FG-FBs concentrate on national markets and have little penetration into international ones.

Financial Practices. FG-FBs select financing sources that permit them to grow while not relinquishing ownership. They choose banks over venture capitalists. Their financial plans include multiple rounds occurring within a 2-3 year time frame. In contrast to other FG businesses, FBs do not share ownership with employees through incentive compensation plans.

What does it mean? FBs are different because the principals make decisions based on the complex interaction among business, family, and ownership systems. In addition, as individuals they pursue individual, family, and organizational goals. The fact that a significant number of Ernst & Young EOY are FG-FB speaks to their ability to create value as they navigate these complex systems. FG-FBs succeed by capitalizing on their assets and being proactive in dealing with traditional FB liabilities.

A fundamental question FB must first address is “do we want to become FG?” Many FG-FB practices are mixed blessings. Consider the resources and effort that must be invested to become and maintain a FG strategy. And to what end? Do you want to become FG in order to achieve a near-term harvest strategy (sale, IPO, or merger)? Or alternatively, do you want to maintain ownership and management control to pass the business to the next generation?

Answers to these questions challenge the value of becoming a FG-FB.

If you want to learn more about the dynamics of FB and are in the North Carolina area, I extend an invitation to join us at one of our next programs. Contact Kathy.Baker@mba.wfu.edu for a program schedule. If you would like to pursue more topics on FB or explore other issues at your next conference, contact me at Stan.Mandel@mba.wfu.edu. I would be pleased to discuss future options or respond to your specific questions.

Stan Mandel, Ph.D., CPA, PE, Executive Professor & Director of Angell Center for Entrepreneurship was a presenter at the 2008 NAILD Convention presenting “Creating Stronger Families and More Successful Businesses.” He can be reached at Babcock Graduate School of Management, Wake Forest University, PO Box 7659, Winston-Salem, NC 27109; 336-758-3689; stan.mandel@mba.wfu.edu
A Jack of All Trades

By Jason Bader, Managing Partner

I love the expression, “A jack of all trades, but a master of none.” I am getting really sick and tired of running into ERP software solutions masquerading as wholesale distribution packages. The claims are just getting absurd. The solutions I am referring to are those a la carte packages that allow you to build your dream distribution management package out of manufacturing cast off modules. I have recently been perusing the websites of some of these solutions. The marketing rhetoric is fantastic. You have ultimate flexibility to grow with the business. Loosely translated, you will have consultants on the payroll for the remainder of your natural existence. Don’t get me wrong, the premise is nice. We all have some unique nuances to our wholesale distribution businesses and occasionally our current software solutions may feel a bit confining. Let me tell you, I know a whole crew of distributors that would trade in their open architecture Frankensteins for a little restrictive stability.

I was recently working with a client who had invested in a flexible ERP solution. The reseller he worked with convinced him that this product could be molded to fit the needs of his small wholesale distribution business. I am talking start up small. A hundred grand across the palm and he was off to the races. This is where the trouble began.

The reseller he worked with did not have a wholesale distribution background. Carrying cost and GMROI were not in his vocabulary. This is not untypical of the support found in these types of packages. Let’s face it; these packages were designed to fit the needs of manufacturing organizations. That is where all the money is. Even the name, Enterprise Resource Planning, smacks of a manufacturing environment. When I think of “resource planning” in a wholesale distribution environment, I am usually thinking about adding bodies. With a very rare exception, the fundamentals of wholesale distribution are a mystery to the support staff. You have to know what you want, so they can program it for you. Hello billable hours.

A couple of years ago, I spoke to a distributor in a similar situation. He had invested over four hundred thousand dollars on the same open ERP system mentioned above. Don’t adjust your reading glasses and that was not a typo. Ready for the heart stopper? He was a 10 user organization. After all this money, he still couldn’t trust the replenishment advice coming from the software. The reseller should be slapped. I believe that someone stepped over their ethical responsibilities.

As many of you know, I teach a course in distribution and inventory management. I teach the fundamentals so that distributors can get their arms around the basic buying and selling of inventory. During the session, I talk about some of the controls inside the software and how those affect the replenishment process. These are the tried and true Gordon Graham methodologies available in most wholesale distribution packages. I know that some of you may take issue with the simplicity of Graham, but you can’t deny that it works well for a whole bunch of distributors. Invariably, I get someone coming up to me during the break and telling me that they have never seen any of this in their system. Where do I find the safety stock setting? I don’t know if my system offers EOQ. I have never seen a field for a bin location. I think it is an add on warehouse management package. Since when did warehouse functions become optional for a distributor? It just kills me. These folks have spent an awful lot of money for a system that was supposed to handle their distribution needs and they are coming to the realization that they are about to spend a whole lot more.

The true distribution packages you see on the market were built for the specific purpose of helping distributors manage their business. Many of them were accounting packages that added a sales component, and then quickly realized that they needed an inventory replenishment module. By focusing on the wholesale distribution market space, they listened to the needs of their clients and made refinements to the product. Over time, they became distribution experts in their own right. The tools developed were designed to enhance the distribution business model. They understand what you do for a living because they have focus.

One of the best reasons to stick with a ground up wholesale distribution package is the user base. Feedback from the user base is how a product evolves to meet the changing needs of an industry. Many of these enhancements are brought forward during an annual conference of the users. How can you have a meaningful user conference for a package catering to a multitude of different business types? As these solutions boast, they can be adapted to several different businesses. You are likely to see retailers, manufacturers, designers and such. There is no common thread. No shared wisdom. The user’s group meeting is where you learn the good stuff. I am talking about those solutions that never quite made it to the users manual. We may complain that true distribution software packages are not perfect, but at least they focus on what we do for a living.

I am sure many of you believe that I have committed the equivalent of consulting hari-kari. This couldn’t be further from the truth. When I left my family distribution business 5 years ago to join Scott, my goal was to help distributors work through the same challenges I faced every day. I never intended to be a software salesman or an advocate for one system over another. The focus has always been, and will continue to be, in the best of interest of the wholesale distribution business owner.

Before you go out and commit to any distribution software solution, please take a minute to give me a call or email. I won’t charge you a dime. I will help you cut through some of the marketing promises and give you my honest opinion of the capabilities. Good luck.

Jason Bader is the managing partner of The Distribution Team. His firm specializes in helping wholesale distributors manage operational and inventory challenges. He is a regular speaker at several distributor conferences and industry events. Jason can be reached via email at Jason@distributorsteam.com. To learn more about their services, or to read past articles, visit his website at www.thedistributorsteam.com.
In periods of economic growth price cutting is a serious problem. In tougher economic times price cutting morphs into an absolute disaster. However, when sales volume is soft, firms almost instinctively resort to reducing prices in an effort to “keep things going” even if they are going poorly.

This report will address the issue of price cutting, particularly with regard to its impact on profit in slower economic times. It will do so from two perspectives:

- **The Impact of Price Cutting on the Bottom Line** – An examination of how price cutting affects the profit structure of the firm.

- **Alternatives to Price Cutting** – A review of the opportunities for actually enhancing gross margin in down times.

### The Impact of Price Cutting on the Bottom Line

In good times, NAILD members generate good profits. In slower times, the profit numbers are much less exciting. This makes the industry much like the rest of the economy. Despite this obvious relationship, many managers do not fully understand exactly how economic factors truly drive profit.

Exhibit 1 presents financial information for a typical NAILD member during an economically neutral period. That is, the firm is experiencing moderate growth, and sales, including inflation, are increasing somewhere around 5.0% per year. This is the set of results is presented in the first column of Exhibit 1.

As can be seen, the typical firm generates $5,000,000 in sales, operates on a gross margin percentage of 35.0% of sales and brings 3.0% to the bottom line on a pre-tax basis. Things are comfortable, although certainly not as exciting as when sales are growing rapidly.

Like every firm in every industry, this typical NAILD member has both fixed expenses and variable expenses. Fixed expenses are overhead expenses that tend to be difficult to shed as sales fall. Variable expenses, including things like commissions, are expenses that rise and fall with sales volume. For analysis purposes, variable expenses are assumed to be 6.0% of sales – a figure that would be reasonably close for most NAILD members.

In the next three columns of numbers, sales have been impacted by recessionary pressures. In the second column the sales decline is only 5.0%, which is the sort of reduction experienced in most moderate recessions. The reality, though, is that profit is sharply reduced because of the inability to shed overhead expenses. With a 5.0% sales decline, profits fall by 48.3%.

In slower economic times there is a very natural tendency to lower prices in the hope that such price cutting will jump-start sales volume. The last two columns examine the impact of a 5.0% price reduction coupled with two very different sales assumptions.

In the third column of numbers the price reduction has no impact at all on sales volume. This represents a situation where demand is not influenced by price reductions – a very common event in recessions. Under this assumption, two things happen. First, the gross margin percentage falls to 31.6% and second, profits disappear. In short, a bad situation becomes much worse.

The final column of numbers examines how much additional sales would have to be generated due to the price cut just to keep profits at the level they were after the initial sales decline.

That is, what sales increase is required to keep profits at $77,500? The answer is a rather staggering 19.3%.

In summary, price cutting is always problematic. In a recession, price cutting does little more than make things much worse. However, in a recession, every competitor seems to resort to price cutting. If the firm doesn’t react, it may experience an even larger sales decline. It does not appear to leave the firm with any options other than bad choices. However, with some planning, that may not have to be the case.

### Alternatives to Price Cutting

The title of this section is somewhat deceptive. Realistically, there are no alternatives to price cutting in a down market. However, there are some very legitimate ways to minimize the impact of price cutting to the point that profits can be maintained. There are two major tools at the firm’s disposal. They need to be applied, as an old football coach once said, with rigor and vigor.

#### Targeted Price Cutting

– For most firms there are only a few items that are exceptionally price sensitive. These are the ones on which the firm absolutely must be price competitive, even if competitors are making bizarre pricing decisions. They are also the ones where the firm must communicate how price competitive it is. It is not enough to cut prices here; the cut must be known.

Typically, the SKUs that deliver the largest sales activity are the ones that are the most price sensitive. The
issues is determining exactly how many of these there are in the assortment. As a general rule, the items that deliver the top 10.0% of sales volume are the genuinely price-sensitive SKUs. That means that if all of the SKUs are arrayed in order from most to lowest sales, the SKUs at the top of the list that provide 10.0% of sales are the ones where prices need to match competition to the penny.

From a financial perspective, a 5.0% price cut on items producing the top 10.0% of sales amounts to only a .5% price cut for the total firm. It gives the firm the ability to be competitive without incurring the massive profit loss associated with price cuts made across the board.

It is tempting to cut prices beyond this point. In fact, there may be selected items beyond the top 10.0% that need to have price cuts, but there are probably only a few of them. The essential marketing point remains. The firm must cut on highly price-sensitive SKUs and brag about it so customers are aware the cuts have been made.

Margin Build Backs – At the other end of the product spectrum, there are lots of SKUs that are not price sensitive. In addition, during slower sales periods these are products where competition may have reduced inventory and may not have the items in stock. These are the items on which prices can actually be adjusted upwards – even during a recession – to build back gross margin sacrificed in the targeted price cutting.

Probably half of the SKUs qualify as margin build-back candidates. Since they only generate something like 5.0% of sales, the increase in price needs to be more than a nickel and dime effort. On these items, the value added that the firm provides is availability. It should be a focal point of the selling effort.

Moving Forward
Price cutting is a fact of life in slow economic times. The challenge for reputable firms is to maintain a competitive posture without destroying its profit structure. If the firm can price competitively where it has to and build back margin where it can, it should be able to minimize the impact of the recession and be in a much stronger financial position when the economy starts to recover.

A Managerial Sidebar:
Making it Up With Volume
Exhibit 1 looked at the sales increase required to offset a price reduction after the gross margin had been reduced. The following table looks at the “making it up with volume” equation starting with normal operations. That is, the firm has a typical NAILD gross margin of 35.0%, a bottom line of 3.0% and variable expenses of 6.0%. Each of the following sets of price reductions and increases in dollar sales will keep profit at the initial level of $150,000.

<table>
<thead>
<tr>
<th>Price Cut Required</th>
<th>Increase in Dollar Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0%</td>
<td>2.3%</td>
</tr>
<tr>
<td>2.0%</td>
<td>4.8%</td>
</tr>
<tr>
<td>5.0%</td>
<td>13.4%</td>
</tr>
<tr>
<td>10.0%</td>
<td>33.2%</td>
</tr>
<tr>
<td>15.0%</td>
<td>65.4%</td>
</tr>
</tbody>
</table>

As can be seen, the required sales increases start out small, then begin to increase geometrically. Once the price reductions reach a moderate size, it is apparent that the firm simply can’t ever make it up with volume.

---

**Exhibit 1**
The Impact of Price Reductions in a Recessionary Environment

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Current Results</th>
<th>5% Sales Decrease</th>
<th>Additional 5% No Sales Increase</th>
<th>Price Reduction Sales Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dollars</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>$5,000,000</td>
<td>$4,750,000</td>
<td>$4,512,500</td>
<td>$5,385,288</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>3,250,000</td>
<td>3,087,500</td>
<td>3,087,500</td>
<td>3,684,671</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>1,750,000</td>
<td>1,662,500</td>
<td>1,425,000</td>
<td>1,700,617</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable Expenses</td>
<td>300,000</td>
<td>285,000</td>
<td>270,750</td>
<td>323,117</td>
</tr>
<tr>
<td>Fixed Expenses</td>
<td>1,300,000</td>
<td>1,300,000</td>
<td>1,300,000</td>
<td>1,300,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>1,600,000</td>
<td>1,585,000</td>
<td>1,570,750</td>
<td>1,623,117</td>
</tr>
<tr>
<td>Profit Before Taxes</td>
<td>$150,000</td>
<td>$77,500</td>
<td>-$145,750</td>
<td>$77,500</td>
</tr>
<tr>
<td><strong>Percent of Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>100.0 %</td>
<td>100.0 %</td>
<td>100.0 %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>65.0</td>
<td>65.0</td>
<td>68.4</td>
<td>68.4</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>35.0</td>
<td>35.0</td>
<td>31.6</td>
<td>31.6</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable Expenses</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Fixed Expenses</td>
<td>26.0</td>
<td>27.4</td>
<td>28.8</td>
<td>24.1</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>32.0</td>
<td>33.4</td>
<td>34.8</td>
<td>30.1</td>
</tr>
<tr>
<td>Profit Before Taxes</td>
<td>3.0 %</td>
<td>1.6 %</td>
<td>-3.2 %</td>
<td>1.4 %</td>
</tr>
</tbody>
</table>

Exhibit 1
The Impact of Price Reductions in a Recessionary Environment
Russell’s Rules for Leadership

A Bi-Monthly Column By Russell J. White, CSP

In my research I’ve discovered some commonalities great leaders have when maximizing the performance of their employees. First of all, these leaders know their employees determine the overall success of the organization and the success of the career advancement of the leader himself. Secondly, these rules will help the leader to retain the best talent which is critical in these talent-lean times. Based on that research, I’ve written a book called Russell’s Rules: Leading for Pinnacle Performance. These are a few of the rules from that book.

Rule #1: There is never enough time — and it’s never an excuse.
Managers who are always waiting for the right time will never find it. When times are good, you are swamped busy and don’t have time. When times are bad you are busy trying to get more revenue in the system and cut costs, so you don’t have time. If you wait for enough time, you will eventually find it — when you shut down your business, and then it’s too late.

Great leaders find a way to get things done, and get them done properly without cutting corners. Make deadlines mean something. Have clarity with communications so you aren’t losing time having to re-explain information. Not enough time usually indicates lack of planning, improper staffing or serious time-wasters filling a day. Once the excuse is removed, the real reason for not getting things done becomes clearer.

Rule #2: Everyone is motivated in his or her own unique way.
Old school management had a list of motivational items all employees would respond to — in theory. In practical application everyone is an individual and the leader who takes the time to get to know and understand those individuals will learn how to push their motivational hot buttons. Truthfully, just the act of taking the time to learn about the employee as a person and making the effort to understand each as an individual will be a huge motivation in itself. Make a list of your employees by name, and list those things that are important to them such as the name of their significant other, their favorite hobbies, their kids’ names, their personal goals in life. The better you can help them enjoy what is important to them, the more motivated your employees will be.

Rule #3: An opposing view isn’t always wrong.
We get so competitive as we defend our opinions at times that we forget there may be some merits to the opposing point of view. In fact, by exploring the opposing point of view, you will find weaknesses about your own business you never saw before. You will also see there may be a better way for you to perform without the hard-line defense on your position.

Study the competition identifying all the things they do right and may in fact do better than you. Fight the impulse to look for their negatives; it’s the strengths they have that provide us opportunities for growth. Growth and improvement happen because someone was given the opportunity to shoot holes in the current position on a matter. Take aim on your strongest held organizational opinions and find the better way.

Rule #4: Goals are achievements of desire, not implements of pain.
Do your employees view goal achievement as a “get it done or else” situation, or do they see the goals as “if everyone pulls together we can make this happen” opportunity? Many corporate goals have become so unrealistic employees are actually de-motivated by them. Zero defects, zero accidents, “to realize your bonus you have to set company records and then next year it will get raised again” scenarios are playing out all over our business climate, and they only serve to frustrate the workforce. Goals need to have reach AND be obtainable. The minute a manager starts using goals as sticks to beat people, the incentive is gone. Work with employees to set realistic goals with reach and give them constant feedback because everyone wants to win. They just need to believe they can.

Rule #5: People will work hard if they believe.
On a scale of 1 (low) to 10 (high), rate your enthusiasm, ability to communicate, ability to listen, commitment to achieving success for the company, and commitment on assisting employees to achieve their goals. Now have a third party ask your employees to rate you on those same items. The gap between the answers will give you some insight on how much your employees believe in you as a leader. Because most employees are more interested in following someone they can believe in, than in the cause of the company. Find out if what they think you believe is the most important part of your job. This is where you will find your department’s real belief system.
Popular CFLs are also Shatter-Resistant

Shat-R-Shield announced the availability of shatter-resistant compact fluorescent (CFL) lamps. CFLs are currently replacing incandescent bulbs in many commercial and industrial applications. This is attributed to their remarkable performance – lower power consumption, longer life and improved color temperature benefits. Shat-R-Shield, safety-coated compact fluorescent lamps are offered in all popular models.

The outer plastic coating on a Shat-R-Shield CFL provides a protective safety envelope for glass tubing, mercury and phosphors if the lamp is accidentally broken. Risk to employees, product, equipment and business is greatly reduced.

Food processors, foodservice and many manufacturers have zero tolerance for unprotected glass in the workplace due to government regulations and internal safety programs. The use of Shat-R-Shield compact fluorescent lamps complies with regulations, safety programs and policies concerning protective lighting requirements.

Visit www.shatrshield.com

Litetronics Spiral-Lite Covered CFLs Offer Attractive Savings in Familiar Shapes

Litetronics International, Inc. is proud to introduce Spiral-Lite Covered CFLs into its product line. Spiral-Lite Covered CFLs come in a variety of familiar shapes to combine the energy savings of compact fluorescent lamps with the attractive look and feel of an incandescent. Available in 9 and 14-watt A19, 11-watt G25, 15-watt R30, 23-watt R40, and 23-watt PAR38, Spiral-Lite Covered CFLs provide up to 80% energy savings in a wide range of applications. These energy savings help lower utility bills and reduce greenhouse gas emissions.

Spiral-Lite Covered CFLs are ENERGY STAR qualified and have an average life of 8,000 to 10,000 hours. This helps reduce replacement, labor, and maintenance costs. In addition to their familiar shapes, Spiral-Lite Covered CFLs have a 2700K color temperature that provides the same warm lighting as incandescent lamps. Replace inefficient incandescent lamps while maintaining the same attractive look with Spiral-Lite Covered CFLs.

Call LITETRONICS for additional information at 1-800-860-3392 or visit us at www.litetronics.com.

ecoVations Introduces New Linear Fluorescent Lighting Fixtures

ecoVations, the specification fixture division of TCP, Inc., introduces its new line of linear fluorescent lighting fixtures, each containing a lamp, ballast and fixture combination system, as energy efficient replacements for traditional metal halide high bay systems. Including the Aisle Lighter fixture, ElitePlus Fluorescent High Bay, Enclosed & Gasketted Fluorescent High Bay, Green Hi-Bay and Performance Bay, the fixtures are all designed for optimum performance using either T5 or T8 lamps.

The ecoVations Aisle Lighter fixture is designed for surface or suspended mounting heights of up to 40 feet. Requiring low to medium light levels, its superior optic beam covers narrow aisle lighting to open general lighting making it ideal for open and stack aisles, warehouses and storage and retail facilities.

Designed with the contractor in mind, the Performance Bay features a hinged door on the back of the fixture, while the ElitePlus Fluorescent High Bay offers a swinging lens and reflector, both providing easy access to the ballast. The ecoVations Green Hi-Bay is a lightweight fixture available in a four, six, or eight lamp configuration. All three fixtures include sockets that offer secure positioning rotating collars that lock lamps into place, and can be used in a variety of applications including warehousing, gymnasiums, commercial and manufacturing facilities, and open and stack aisles.

The Enclosed & Gasketted Fluorescent High Bay fixture is a high efficiency solution for sub-zero settings that include cold storage and refrigerated facilities, as well as environments with temperatures as low as -29 degrees Celsius. It provides maximum performance with lamp and ballast systems that can tolerate colder ambient temperatures.

All of the fixtures offer 95% lumen maintenance, improved color rendering, extended lamp life, multi-level switching, instant on, dimming and improved uniformity. In addition, they are all recommended for mounting heights from 15 feet to 40 feet.

For more information, visit us at www.tcpi.com or call (800) 324-1496.

A perfect summer day is when the sun is shining, the breeze is blowing, the birds are singing, and the lawn mower is broken.

— James Dent

If you saw a heat wave, would you wave back?

— Steven Wright
Advance Awards 2008 “Beyond Illumination” Scholarships Through IALD

In commemoration of its milestone 60th Anniversary and subsequent contribution of $60,000 to the highly-regarded International Association of Lighting Designers (IALD) Education Trust in 2005, Advance proudly awarded its fourth annual pair of $5,000 student scholarships to deserving students at the annual IALD Awards Presentation and IALD Education Trust Benefit Dinner in Las Vegas on May 29th. Established in 2005 to recognize outstanding North American-based students and help support pursuit of their on-going interest and specialized education in the field of lighting, Advance’s “Beyond Illumination” scholarships will continue to be administered in the form of two $5,000 student awards annually through 2010.

“In commemoration of our 60th anniversary in 2005, we couldn't think of a better way to honor the spirit upon which Advance was founded than to positively recognize and support exceptional young talent in the field of lighting and help drive the next generation of lighting innovation,” said Gary Sanders, Director of Strategic Marketing for Advance. “We congratulate our 2008 winners and wish them the very best in their lighting pursuits.”

Student recipients of the “Beyond Illumination” scholarships represent the “best of the best” in the field of lighting, reflecting the outstanding intellect, innovation, creativity, entrepreneurialism, and integrity that have enabled both Advance and the lighting industry to evolve so successfully over the years.

The two recipients of Advance’s 2008 “Beyond Illumination” Scholarships, Ericka Bailey of Texas Christian University and Lisa Friese of the University of Nebraska, are wished much success in their lighting endeavors!

For more information visit Advance’s website at www.advancetransformer.com or call Advance at (800) 322-2086. Advance is a division of Philips Electronics North America.

New Lutron Website Provides Guide for Consumers to Make Informed Decisions

As American consumers and businesses struggle with the myriad of light bulb choices available to achieve energy efficiency and other objectives, Lutron Electronics Co. Inc., has created an easy-to-read website designed to answer the basic question, “What is the best light bulb for me?”

The new site- www.lutron.com/bulbs – compares standard-socket (E26) incandescent, screw-in compact fluorescent (CFL) and halogen bulbs. The bulbs are evaluated in a variety of categories, including efficiency, price, performance, controllability and quality of light.

This new site complements Lutron’s energy informational website – www.lutron.com/energy – launched last year to provide detailed data about the energy-efficiency capabilities of Lutron dimming.

Optica Track Fixture Wins Lightfair Innovation Award

Con-Tech Lighting has received a Lightfair International Innovation Award for its 22W CMH Adjustable Beam Spread Optica Track Fixture. The Con-Tech fixture was honored for Best of Category in Track, Low-Voltage, Cable & Rail Systems at last week’s LFI Show in Las Vegas.

The CTL8028A22MBT Optica track fixture, part of Con-Tech’s Eco Technology Sustainable Energy Solutions, utilizes the latest in energy efficient CMH technology. Beam distribution can be instantly changed from spot to narrow flood to flood with its unique cool-to-the-touch adjustment knob. High performance optics provide maximum performance at each beam distribution and lockable precision aiming includes 360 degree horizontal and 180 degree vertical rotation.

The 2008 LFI Innovation Awards honor lighting related products that exemplify the best in innovative design and thinking. LFI received 184 submissions and each was judged by an independent panel of renowned lighting professionals.

“At Con-Tech we are always working to develop lighting products that feature high style and the latest sustainable technology, says Mike Lehman, Vice President of Marketing and Product Development for Con-Tech. Lehman adds, “We succeed everyday in providing innovative but still relevant lighting solutions for all our customers. Our Optica line of track fixtures is just one example of that.”

For more information visit www.con-tech-lighting.com.

TCP, Inc. Expands Its West Coast Operations

TCP, Inc. recently announced the relocation of its west coast distribution center and warehouse to the Massie Industrial Park in Stockton, California. The 130,000-square-foot building features state-of-the-art radio frequency technology, 10 loading docks, and office and meeting spaces. The new facility, which opened July 1, will bring as many as 30 new jobs to San Joaquin County.

Increased global demand required the company relocate to a larger facility from their...
current location in Sacramento. The move will allow for faster delivery to 11 western states as well as Alaska and Hawaii.

The distribution center can house as many as 12 million lighting products, which range from energy efficient compact fluorescent lamps (CFLs) and fixtures to cold cathode and LED lamps.

TCP worked closely with the San Joaquin Partnership, a private non-profit Economic Development organization, and Synergy Real Estate Group, Corporate Advisory Group, a premier California tenant representation and commercial real estate advisory firm, to find a location that could accommodate the company’s current needs as well as allow for future expansion, including the addition of light assembly operations.

For more information, visit us at www.tcpi.com or call (800) 324-1496.

29th Annual High-Benefit Lighting Awards Program Underway

The 29th annual High-Benefit Lighting Awards Program is underway. Sponsored by the National Lighting Bureau, the unique awards program is open to virtually anyone associated with an indoor or outdoor lighting installation: owners, designers, facility or property managers, contractors, manufacturer’s representatives, utility employees, and users, among others.

The National Lighting Bureau applies the term “High-Benefit Lighting” to indoor and outdoor illumination systems that are designed intentionally to fulfill the purposes for which they will be used, to maximize returns for those who own and/or rely on the lighting. For example, High-Benefit Lighting installed in indoor workspaces can help people work faster, with fewer errors, because it comprises illumination designed to be “just right” for the specific space, tasks, and people involved. A seemingly small, 1% productivity improvement can save an employer $300 annually for each worker paid $30,000 per year. The cost of the energy that employer spends to provide electric illumination to such an employee? Probably less than $50 each year.

To be eligible for consideration in the 2008 High-Benefit Lighting Awards Program, an entry must reach National Lighting Bureau staff by no later than October 31, 2008. An entry should document how modification of an existing lighting system or development of a new one improved productivity, increased retail sales, or achieved any of the many other bottom-line benefits of High-Benefit Lighting.

For more information on the 29th High-Benefit Lighting Awards Program, visit www.nlb.org or call (301) 587-9572.
Calendar of Events

2008

October 2 – 3
LED Measurement & Standards
Sheraton San Diego Hotel & Marina
San Diego, CA
Contact Stacie Chalmers at (207) 781-9615
or visit www.leds2008.com

October 12 – 15
NALMCO 55th Annual Convention
Scottsdale Resort & Conference Center
Scottsdale, AZ
www.nalmco.org

October 24 – 25
NAILD Fall Board Meeting
Radisson Fort McDowell Resort & Casino
Scottsdale/Fountain Hills, AZ

November 12 – 14
ArchLED’08-LED Lighting for the Built Environment
Chicago Merchandise Mall
Visit: www.architecturalsl.com
or www.mwalliance.org

2009

April 19 – 23
NAILD 32nd Annual Convention, Trade Show & Organized Casual Conference (OCC)
Radisson Fort McDowell Resort & Casino
Scottsdale/Fountain Hills, AZ

April 29 – May 1
Equity/EDN Annual Meeting
GA Hyatt Regency
Atlanta, GA
www.equity.org

May 4 – 7
LIGHTFAIR International
New York Javits Center
New York, NY
www.lightfair.com

May 16 – 20
NAED Annual Meeting
The Westin Diplomat Resort & Spa
Ft. Lauderdale, FL
www.naed.org

October 11 – 14
NALMCO 56th Annual Convention
Hilton Sandestin Beach Golf Resort & Spa
South Destin, FL
www.nalmco.org

NAILD Mission Statement:
To enhance the value of the specialized lighting distributor by creating opportunities for business development and growth through education and member interaction.

Educational Training Opportunities

Advance University
(800) 322-2086

GE Lighting Institute
(800) 255-1200

NAILD University
www.naild.org
(716) 875-3670
(Opening Soon)

NAILD Lighting Specialist Program
call (716) 875-3670
or e-mail info@naild.org

Osram Sylvania
(978) 750-2464

Universal Lighting e-Learning Center
www.unvlt.com

The Philips Lighting Technology Center
(732) 563-3600

For more information on NAILD
visit www.naild.org or call 716.875.3670.
What Good Is A Supplier Who Doesn’t Provide Better Options?

FAQ

Q: Erika, why switch customers from magnetic to electronic ballasts?

Erika: Electronic ballasts are more efficient, cost less and are versatile, providing additional lamp/ballast combinations and Multi-Volt options.

Upgrade from magnetic to electronic ballasts to save energy, lower costs and reduce SKUs.

Choose from our broad range of ProLume® Electronic Ballasts for directly replacing Magnetic T12 ballasts, including F20T12, F40T12, F96T12 and F96T12/HO. Electronic Ballasts provide more than 20% energy savings compared to their magnetic counterparts, when using the same T12 lamp. Electronic ballasts also provide equivalent light output, quiet operation, light weight slim case design, flicker-free lamp operation, and carry a 5-Year Warranty.

Ask me a question about Halco products and services online at www.halcolighting.com

Think Halco!

— Erika

Call us today to place your order for ProLume Electronic Ballasts.
EiKO presents a new way to think about lighting with our line of Certified Green lamps. They provide quality light while saving energy and minimizing their environmental impact.

EiKO offers one of the widest Selections of environmentally friendly and energy efficient spiral compact fluorescent lamps. Our Certified Green spiral line features a wide array of wattages and color temperatures as well as the ENERGY STAR® rating on the following:

- SP13/27K
- SP13/35K
- SP19/27K
- SP19/35K
- SP23/27K
- SP23/35K

ENERGY STAR® rated for energy efficiency