



Channel Design Starts With The Customer, Creating High Performance Sales Channels

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Dimensions of EXCELLENCE™ is based on the four dimensions of performance and organizational excellence. These are the foundation for our development programs oriented to achieving performance and organizational excellence in sales, marketing, and customer service.

These white papers provide concepts and ideas based on the application of these principles of these programs and our work with our clients. We welcome your comments and observations on these topics.

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Channel selection and deployment is one of the most critical issues facing companies today. Customers are in the drivers' seats, as they should be, when it comes to the buying relationship. Powerful products and, to some degree, great brands no longer provide sustainable differentiation to customers. Customers are looking for superior value in all the solutions they consider. Increasingly, the sales channel creates the most powerful and sustainable differentiation in delivering superior value to customers.

However, much of what companies do today in deploying sales channels keeps them from establishing the highest performance, most effective channels. Many companies are not getting the sales growth, market penetration and customer share they should because of ineffective channel design and deployment. In assessing the channel effectiveness of dozens of organizations worldwide, we find companies doing things backwards. They are designing their sales channels from inside-out, that is, based on a company focused strategy. Our work has shown the easiest and most effective means of designing and deploying high performance sales channels start with the customer.

Traditional Approaches

Unfortunately, many great companies are prisoners of their heritage. Their sales channel design and deployment is driven by their heritage. They continue to do the same thing, only more and faster, not necessarily better. Those organizations that had a strong focus on company owned field sales channels continue to expand that organization, often losing productivity, effectiveness, and profitability.

Other companies try to do everything, exploiting multiple channels to reach the same customers, confusing the customer, creating channel conflict, eroding margins, losing share and opportunity. These companies have all the traditional channels in place and are adding all the new and fashionable channels (internet, direct marketing, and others) without rationalizing the strategy and approach.

Others drive their channel strategies based solely on financial criteria, namely cost of selling, not treating their sales channels as investments which are expected to produce a reasonable return. We see companies downsizing, shifting from a high fixed cost for their own organization to the lower or variable costs of an indirect channel structure (distributors, resellers, representatives, outsourced telesales). Their decisions are driven by expense criteria, not the ability of the channel to effectively reach the right customers at the right time with the right solutions.

Then there are those that can't decide, every year changing their sales strategy to something different than before. Shifting from indirect sales to company owned sales forces. Moving to inside sales. Moving to direct marketing. Moving to the internet. Then starting the whole process again when each move fails to achieve the results needed.

All of these activities are driven by dozens of task forces, studies, organizational assessments and other research efforts to look at the right channel design.

These efforts all miss the point! Moreover, they make channel design and deployment more complicated than it really is. The easiest way to design high performance sales channels is to start with the customer! Once you know who your customers are and how they want to buy, then you can design the channel that most effectively reaches those customers in the way that is most effective.

Channel Design Is Not Rocket Science!

Customer focused channel design and deployment is not rocket science. Effective design, however, requires a disciplined approach to understanding who your customers are and how they buy. Designing a customer-focused channel involves several simple steps:

- Start with the customer. Who are the customers we want to serve? Do we want to expand our relationships with our current customers? Do we want to acquire new customers? What share of customer objectives do we have?
- How do we segment these customers and characterize each segment? What markets do we serve, which products and services are directed to which customers or markets? Remember that customers in similar segments but different geographies may behave very differently (i.e. are your French customers the same as your Chinese and Chilean customers?). What goals or objectives do we have with each segment?
- How do these customers/segments buy solutions like those that we offer? What is involved in their buying process? What steps does the customer go through in defining requirements and specifications, evaluating, selecting, and implementing a solution? Does it require close and frequent interaction? Is it complex, with many people involved in the buying decisions? Does the buying process require close involvement and contact with the “factory?” Is there a lot of customization and integration required? Are there complementary services or products required to provide a complete solution?
- Who do they buy those solutions from? How do they buy the solutions? Direct field sales organization (hunters, farmers?), inside sales, distribution, resellers, reps, Internet, catalog, OEM, integrator, retail, supplier chain relationship?
- What are their expectations of those solution providers? What level of service and support is important in the buying and implementation process?
- How do these solution providers complement and add value to the offerings of the suppliers? They are part of the value delivery chain and need to add value not cost.
- What is the profile of these solution providers, what are their characteristics? How are they organized to support the customers? What programs and capabilities do they need to have? What relationship do they have with the manufacturer?
- What do those solution providers expect of their suppliers? What is the value proposition for channel partner (internal or external)? How do we motivate them to wake up every morning excited about selling our products and services over those of any one else (including other divisions within our organization)?
- How do we map our products and services into the channels that most effectively reach these customers? Which products and services are we going to sell to which customers through which channel?
- What channel programs do we need to put in place to support the channels? What marketing programs are we going to direct to the customer/segment and channel to drive sales growth in the desired area? What programs, policies, processes are needed by segment/channel?

Exploring these issues in the sequence outlined will help establish the design and the deployment of the correct sales resources to achieve your objectives. The “right” channel design and structure becomes will start to become obvious with this analysis. Usually, a couple of alternatives that emerge and a variety of criteria can be used in selecting the best alternative.

In addition to making the channel design and deployment process much easier, the tremendous power to this approach is that since it is customer driven, it will become immediately obvious and easy for your customer to buy your products and solutions in a manner that is most closely tailored to how they want to acquire solutions. This means you sell more stuff to more people more effectively and efficiently!

Critical Success Factors

Based on our experience, few companies can achieve their objectives with a single channel strategy approach. Most organizations must establish a variety of different channels to reach their customers most effectively.

Leading companies will have a combination of many different channels. However, from the customer view, the sales channel should be very clear and easy to understand!

Rule 1: Don't confuse the customer about how he acquires your solutions, keep it simple, intuitive and obvious!

There are too many alternatives for your customers to choose from. Their job is not to sort through how to buy your product, which channel to work with, what price to pay, who is good, who is bad. They just want to procure a solution in the easiest manner possible.

If the customer is in any way confused about who they should buy from, the channel has been defined incorrectly. We need to make it very clear and simple about how to buy our products. If the customer cannot easily understand who they should purchase the product from, they will go somewhere else. Part of what we need to do is make our products and services easy to buy or acquire.

Rule 2: There will be overlap in channels, but this should be minimized and managed effectively. Focus your channels on competing against the competition, not against each other.

The real world is not black and white, there are many shades of gray. It is impossible to define the channel structure cleanly. Design your channel strategy in a way that your channels spend more time fighting the competition than they do fighting each other. The latter case will only produce dissatisfaction with customer and the channels. Ultimately it leads to pricing/margin erosion and share erosion.

Rule 2A: Don't over-distribute your products. Over-distribution means that you will compete against yourself not your competition. You will lose the loyalty of your channel and lose customers.

We like to recommend sufficient coverage of the market with your channels, not over-saturation. Too many outlets, ultimately, is a losing proposition for all. Make sure there is a reasonable business proposition for your channel partners. Are the markets they address with your solutions sufficient to support their investments and to provide an adequate return?

Rule 3: Remember your channel partners are your customers as well. What's your value proposition to them?

Often we are very good at defining our value proposition to our end customers. However, we forget that we need to define the value proposition for our channel partners, as well. How do we create excitement, awareness, and a high desire to sell our products, over other products that the sales channel has to sell (This applies to field sales, as well.)? We need to think of how do we make our products and services compelling for them to sell.

Rule 4: Mindshare in the channel is based on how important your products and services are to their success. If you aren't in the top five, you won't get sufficient attention.

Most sales organizations have a range of products and services on which they choose to spend their time. They will tend to focus on a few areas, in which they can maximize the return on their investment in time. If your products and services will not be one of the top one's in which they focus, you will not get the attention that you need to achieve your goals. You will want to re-assess your channel strategy and programs to assure that you get the right attention on your products. With a field-oriented channel, you may want to put in place special emphasis programs or even an overlay, specialized sales organization. With indirect organizations, you may want to choose different partners. Web-based channels will require other action.

Rule 5: Consider your customer and product life cycles in your channel design. Different channels are required depending on where your customers are in their growth and maturity. Likewise, your product life cycles impact channel decisions.

Many companies make the mistake of determining the channel strategy at product launch, then never changing it as the product matures in the market. Likewise, our customers will change their buying process over time. For example, as products get more commoditized, in the customer's mind, they will change how they procure these solutions. If we have not adopted our channel strategy to support this change, we may not be reaching the right customers, with the right message. This impacts both the top and bottom line.

Rule 5A: Channel strategies cannot be cast in concrete. They must evolve, or sometimes, go through revolutionary change!

We must continue to reassess and tune our channel strategies based on how our customers and markets change. Not doing this will cause us to be left in the dust, losing share, revenue and profits. Many industries are undergoing profound and radical change, which requires new thinking.

Designing The Channel Is Just The Start!

Designing the channel is just the start, what counts is execution! The best channel design in the world, does not mean anything until we start implementing it and tuning the strategy for reality. This includes putting the channel in place, putting the programs in place to support the channel, and putting the measurements in place to assure they are accomplishing what we expected. Continually monitoring performance and tuning the organization in their execution of the strategy is critical to achieving the business results we want.

Partners In EXCELLENCE supports its clients in achieving performance and organizational excellence. We help our clients develop and implement high performance marketing, sales, distribution, and customer service strategies, maximizing their impact in achieving the desired business goals. Much of this work begins with the Sales or Channel Audit. For more information about this audit or for other information on developing and implementing your channel strategies, please contact us at info@excellenc.com, or by phone at (949)305-7146.

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