

Developing a Channel Strategy

What's the best way to sell into a new market or improve performance in existing markets? You can build your own sales force to sell directly to customers or use an indirect channel partner to reach customers. You can also use other channels such as the Internet. The decision is based on a number of factors, including cost, speed to market, control, support requirements, and access to wider market opportunities

What You Need to Know

Why is channel strategy important?

How companies sell has become as important as what they sell. When companies are selling practically the same products at essentially the same prices at about the same cost, the only real source of sustainable competitive advantage is the sales channel: how you sell, not what you sell. Selling becomes a question of how to connect products with customers via the best mix of sales channels—the direct sales force, distributors, agents, retailers, and the Internet.

What to Do

Supplement the Sales Force

Channel partners such as distributors, agents, and retailers play a vital role in the process of getting products and services to your final customer. Indirect channels can provide a cost-effective supplement to a direct sales force. Channel partners do not simply take orders or hold inventory for local distribution, they should be actively involved in marketing your products or services. In the manufacturing sector, for example, distributors have traditionally dealt with the smaller local customers while the manufacturer dealt directly with larger national accounts. But, with the growth of multisite customers and an increasing emphasis on service and aftercare as a key marketing activity, distributors now play a more important role in offering a consistent level of nationwide service.

An effective distributor sales force can ensure that your local customers receive a high standard of service and contribute to overall turnover, while your direct sales force concentrates on maintaining relationships with the customer's head office team and carrying out strategic development work. The distributor sales force extends your reach into the local market and enables you to provide a nationwide service without investing in a larger national sales infrastructure.

Improve Understanding of Local Markets

Comprehensive marketing information is vital to effective decision-making, and channel partners are in the best position to understand the local market. They know the customers and they know why prospects are dealing with competitors. Because they are in regular contact with the local market, they can identify changes in the marketplace and respond quickly in a way that you may not be able to match.

Build Closer Relationships with Customers

Effective relationships are the key to long-term customer satisfaction and loyalty, and personal contact is an essential ingredient in building those relationships. You may not have the resources to develop close relationships with every customer, so you depend on channel partners for individual contact. Because they understand local customer requirements in terms of products and levels of service, a channel partner can identify the combination of skills and resources needed to provide the right local service. Training and business support can be tailored to build the right team and deliver the highest levels of customer satisfaction in each territory.

Respond Quickly to Change

Channel partners have the flexibility to change their policies and their levels of service quickly in response to changes in demand or in competitive activity. Head office changes take time to work through the system with corporate decisions to be made, schedules to adjust, and procedures to be amended. Channel partners are dealing in smaller numbers and the decision-making process is shorter. If an important customer needs a completely new form of service and support, you may not be able to respond rapidly, but a local outlet with the right backing from you can quickly make the decisions and implement the changes.

Maintain Control over Channel Partners

While a strategy of marketing through channel partners may provide you with flexibility, it may also result in a loss of control. You need to ensure that each channel partner is contributing to the achievement of overall corporate objectives and is meeting its targets. If each partner is pursuing individual objectives and targets, it could be difficult to measure comparative performance and to exert overall control on the network.

Ensure Adequate Financial Support

If your channel partners are to succeed, they need adequate funding to implement marketing programs. You have to decide how to allocate your support budget. If you are providing a uniform support program to the entire network, it is comparatively easy to distribute funds

evenly, but if each outlet is pursuing its own business and marketing program, the decisions on budget allocation become more difficult.

Overcome Growth Limitations

Financial resources are just one aspect of the potential of individual channel partners to grow and develop. Each channel outlet is likely to have finite resources in terms of space, equipment, people, and management, and, although any business can expand, there may be limitations. For example, if there is a shortage of key skills, an outlet will only be able to deliver a certain level of service and its potential may be severely limited.

Ensure Consistent Branding

Consistent branding is important in channel development so that you can ensure a strong, clear identity for local outlets. You want to know that your partner outlets are perceived as first choice for quality products and high standards of service and that customers will enjoy a high level of satisfaction whenever they visit a branch. The objective is to encourage customers to select a retail outlet in the same way as they select a product, by recognizing its brand values. You will only succeed in this objective if each outlet in the network operates to consistently high standards. Poor service at any outlet can quickly dilute the benefits of a corporate branding program. A network of independent partners each pursuing their own local objectives may also make it difficult to develop a set of core brand values for the entire network.

Replicate Standards of Service

Closely related to branding is the question of consistency throughout a network. You want to be confident that customers will be able to enjoy the same standards of service wherever they go. This is particularly important when partners are serving a number of major customers who operate on multiple sites and who will be concerned with consistent standards on every site. A major national service contract, for example, would be awarded, not to the supplier with the largest number of local outlets, but to the supplier who could demonstrate control and consistent quality across a network that gave reasonable national coverage. Inconsistent standards force the customer to spend more management time on controlling supplier performance and may ultimately affect the quality of the customer's own service.

Offer Direct Sales Via the Internet

As well as marketing products and services through indirect channel partners, many companies are using the Internet to offer direct sales to business-to-business customers. In the

Internet sales model, customers can obtain information on products, prices, features and order status from the Web Site, then place orders directly. The process is spreading throughout industry as both suppliers and customers recognize the benefits of self-service in terms of cost, control, and customer satisfaction.

Make Online Buying Rewarding

Direct sales give you greater control over the sales process and customer relationships. In this channel, it is you who owns the relationship, rather than the distributor or agent. The direct route also reduces sales and distribution costs and minimizes inventory holding costs if a build-to-order model is used. Online buying provides precise information on what customers want, so it is essential to tailor the service to meet those requirements and make buying online a rewarding experience. Support levels, for example, can be customized to individual user profiles, making service delivery more convenient and cost effective.

Add Value with Customized Services

Customer information can also be used to develop customized added-value services, for example providing business customers with personalized Web pages which include access to their own product configurations, automated, paperless orders, order tracking, asset management facilities, and individual support tools. Components manufacturers offer services such as online design and specification to their customers, as well as high levels of technical support. Customers recognize the value of these services and that strengthens customer relationships giving a direct sales operation a powerful differentiator.

Consider a Multichannel Strategy

You have a choice of sales channels. It is important to recognize that no single channel is right for every market scenario.

What to Avoid

You Choose the Wrong Channel

Most companies that develop a new product assume that their existing channels to market will take on the new product and sell it. Perhaps your existing product line is important to some of your channel partners—they may dedicate a large proportion of their resources to selling your product. But if you introduce a new product, it may not achieve the same position in your existing channel. If your product does not fit or, if it gets less support, there may be other channels that are a better fit for your new product.