

# QDI STRATEGIES

20/20 Vision for Marketing Breakthroughs

## Will Your Channels Fail You?

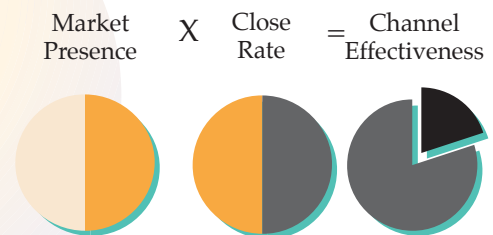
by Steven D. Bassill



Mr. Bassill is president of QDI Strategies, Inc. and has spent the last twenty years consulting to businesses in North America and Europe about strategic marketing issues. He conducts workshops and seminars for clients in all aspects of market-driven management.

For you to meet your three and five year business objectives, your distribution channels must be able to do their part of the job. They have to see enough market opportunity, present your products and services often enough, and win often enough to meet your sales objectives. Your channels' performance is your "Channel Effectiveness." The more effective your channels, the greater your share will be of your addressed market.

### Channel Effectiveness



If your channels cannot or will not do what is necessary to meet your business objectives, you have to make a change. However, changes in channel strategy are among the most difficult business decisions for managers to make and execute.

The reasons for this are many, but can be classified into two categories - risk and conflict.

### In This Article

Questions to assess your channel effectiveness. Will yours fail you?

# 20/20 Vision for Marketing Breakthroughs

## Risk

First, the need to make a change is often not obvious. Markets are not homogeneous. Thus, changes happen at different times to different market segments.

Second, the urgency for a change is not apparent. The sky is not falling. Generally, sales are still growing and profits are acceptable.

Third, the “right” decision is often not apparent. How well will the new channel strategy work? What will we lose by implementing it? Will the gain be great enough to offset the loss?

## Conflict

First, when you make changes in your distribution, you can be sure someone will be unhappy. You will either upset the existing distributors or customers who have to change the way they buy because you changed the way you sell. Additionally, some of these channels may have been developed a long time ago by the company’s most senior executives. Changes may upset these executives.

Second, your sales force hates the role. As one sales manager said when he had to implement a channel change, “I’m scared to death, but I know we have to do it.” Often, the change creates a conflict situation where the sales manager has to work with both the old and the new channels who see themselves as competitors.

Third, the organization will nearly have to reinvent itself to effectively serve a new channel. In one case, a company moving from traditional wholesalers to mass merchandisers had to make the following changes to even have

a chance at success:

- Change the pallet size
- Establish an EDI capability
- Reduce the pallets’ stacking height
- Build a store level support organization
- Change measurements, compensation levels, etc.

Finally, even organizations that see the need for change often don’t have the stomach for the fight. The top executives in these organizations have to be ready for the battle. There will be many obstacles to overcome when making a channel change, both externally and internally. The top executives should expect to face daily conflict. The battle will be difficult. The temptations to back off of the change will be great. Staying the course takes courageous leaders.

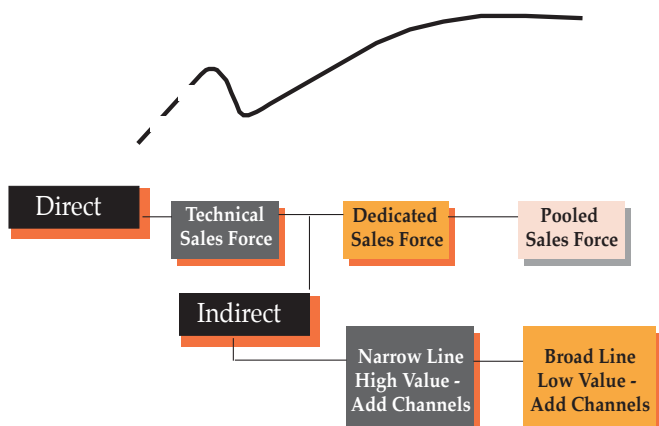
Regardless of the risk and conflict, at some point in time, this is a decision all managers have to face. In fact, the managers who face the decision sooner, rather than later, are the ones who ultimately are the big winners.

The reason channel changes are required is well known. Markets evolve over time. As the markets evolve, the customers know more and more about how to buy, use and support the product. As a result, the channels’ roles have to change. As shown in the exhibit on the next page, the change is an evolution from high value add and high gross margins to low value add and low gross margins.

The problem for managers is that their channel organizations do not evolve with the market. While the market may require a low

# 20/20 Vision for Marketing Breakthroughs

## Channel Decision Making



value added channel, or a high value added channel in the event new technologies are brought to market, the average distributor, sales representative or retailer does not change. Instead, they find other things to sell which require the same type of selling they always did.

The result is that your product line, if still in those channels, will start to lose market share. Since markets do not all change at the same time, it may be hard to determine that a fundamental shift is taking place in the market. You lose share gradually, not all at once. Thus, it is difficult to determine that a change is really necessary.

### Some Managers Make the Change and Others Wait Too Long

What separates the companies that are the leaders in channel change from the followers? Discussions with executives who have made these difficult decisions determined that there is only one reason to make a channel change.

- Their existing channel strategy (structure /organization) would not deliver their three or five year business objectives.

One of these executives had even posed the option to his management team, “We have a choice - to forego our bonuses and pension contributions or to make this change. What do you want to do?”

Another said, “We had tried everything to grow our business - new products - major marketing programs - promotions, etc. Nothing worked. We had to make a channel change.”

In both cases, the companies that took the lead in breakthrough channel strategies, asked the right questions and went into the market to find the answers. They undertook extensive market evaluations. When they had to make a decision, they had the data to be confident in their decision.

So what are the right questions?

QDI has helped many clients create breakthrough channel strategies. The questions we have clients ask themselves help them determine:

- What do their channels have to do to meet the company’s business objectives?
- What does the company have to do to meet its objectives - in terms of product development, channel management and support?
- What changes in the market will reduce or increase their channel’s capability to deliver the market objectives?

QDI developed three sets of questions for clients to answer in making channel strategy decisions.

- The first set of questions asks a company to assess its channels’ effectiveness; their present performance and how that will

# 20/20 Vision for Marketing Breakthroughs

change over the planning period.

- The second set of questions asks a company to identify what it plans to do to assure the channels' performance.
- The final set of questions asks the company to assess the marketplace to determine how changes in the end-user market will change the distribution channels structure.

These questions are similar to “peeling more and more layers off the onion.” The first layer is your best projection of channel performance and why you believe channels will perform as you project in the future. The second set of questions asks you to identify what you will do to assure the channels perform as you projected.

The third set of questions asks you to look at the end-user market to potentially challenge your first set of assumptions about channel effectiveness. As you move through the question sets, you are forced to collect more and more market-based information to support your beliefs.

## QDI Strategies' Channel Assessment Questions

How effective are your channels today and how effective will they be within the planning horizon - how much of the market do you see for your product and how often do you win with your product?

- Where are you today?
  - What is the present size of your addressed market (the market size for the products / services you sell today)?
  - What is your present level of channel effectiveness?

- What % of the market do you see - are your products being presented to the customer - to the right person in the customer's business?
- What is your channel's close rate - what % of the time do they win the sale?
- What role does the distributor play in marketing your product today?
- What percent of sales and profit does your product account for within the distributor's business?
- Where do you expect to be in 3 to 5 years?
  - What will be the size of the addressed market (the market size for the products / services you sell today)?
    - How much did it grow per year?
    - What did you do to grow it?
  - What will be your channel's effectiveness in 3 to 5 years?
    - What % of the market will you see - present your products to? Have the influencers and decision makers changed?
      - Will this change over the planning period?
    - What will be the channel's close rate - what % of the time will you win the sale?
      - Will this change over the planning period?
  - What roles will the distributor play in marketing your product in the future?
  - What percent of sales and profits

# 20/20 Vision for Marketing Breakthroughs

will your product account for within the distributor's business? If it has increased or decreased, explain.

- Have you projected growth in channel effectiveness that is inconsistent with the historic trend?
  - What is the growth rate of your sales through your channel organizations?
  - What is the growth in the number of channels outlets you have - in the total sales volume of your channels?
  - Have you projected that your product line will become a larger portion of your channels' sales, a smaller portion, or the same over the planning period?

What will you do to assure the performance of those channels?

- What will you do to assure you maintain the level of effectiveness you projected?
- What product line changes, if any, will you make to assure your product line addresses enough of the market to meet your objectives?
- What will you be doing to grow the market for your products - more applications - more end-user segments?
- Will your present channels be capable and motivated to market the products you introduce?

How do you expect market behavior and structure to change over the planning period?

- How has the channel structure changed over the past five years and how do you expect it

to change in the next five years?

- What channel members are growing / shrinking?
- How is your position in these channels changing?
- Which segments comprise the bulk of the market today? How do they buy? What channels do they use? Who is involved in the purchasing process? What are the decision criteria they use? How is this changing? What impact does this have on your channel's effectiveness?

Channel decisions are difficult to make. The easiest decision is to remain the same. This is a trap. When you put a frog into a kettle of water and gradually increase the temperature, the frog doesn't try to get out until it is too weak to do so. When you drop a frog into boiling water, he jumps out. This is the trap for distribution. Market changes are gradual. As a result, the need for channel changes is gradual. Before you know it you don't have the strength to make the necessary changes to compete effectively.

What's the solution? Regularly assess your channel's ability to deliver your objectives. Make channel effectiveness assessments a regular part of your planning process. Ask yourself, "Is your bonus at risk?" If it is, it's time to make a channel change. Don't let your channels fail you because you failed to make the tough decisions.

For help in channel assessments and channel planning, QDI Strategies offers a variety of services:

- Channel Assessment Workshops with your management team (up to 20 participants)
  - Use your organization's "knowledge base"
  - Evaluate where you are now using QDI's "Channel Effectiveness" models
  - Develop group consensus of where you will be in 3 to 5 years
  - Compare that to your goals to determine if your channels will be able to deliver your objectives
  - Look at channels, products and market structure to assess the ability of your channels to deliver your objectives
- Market structure and channel position research
  - Primary research which quantifies market structure - how much volume goes through each type of channel from which customer segments
  - Research that measures the changes in market volume by customer segment and the impact of these changes on channel volumes

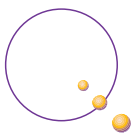
- Research that evaluates changes in customer behavior and the impact of these changes on channel volumes
- Research that measures your position and performance in the channels and how this is changing
- Research that identifies your competitors' actions and how this has changed over the past five years.

### **About QDI Strategies, Inc.**

QDI Strategies, Inc. is a marketing consulting firm that specializes in helping companies make breakthroughs in product, brand and channel strategies. Our consultants have helped clients to develop and implement breakthrough decisions across numerous industries over the last twenty years. This experience provides you with the expertise to develop market-driven answers to your business issues.

### **For More Information**

If you would like to receive additional information on identifying and harvesting new technologies, or would like to arrange an informative presentation, contact Steve Bassill at 847-566-2020.



#### **QDI STRATEGIES, INC**

1580 S. Milwaukee Ave. Ste. 620

Libertyville, Illinois 60048

Tel 847-566-2020

Fax 847-281-9723

© 1998 QDI Strategies, Inc.