

# QDI STRATEGIES

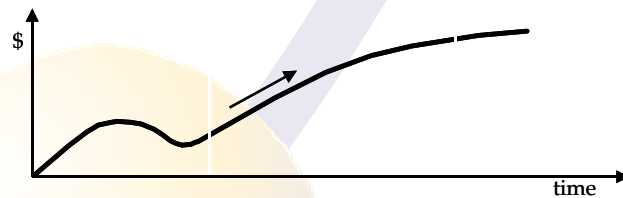
20/20 Vision for Marketing Breakthroughs

## Riding the Wave: Channel Strategy Alternatives

By Steven D. Bassill

The reasons for channel change are well known: either the market evolves to require a new channel model, or the marketer creates a new initiative to grow his or her business.

### Market Life Cycle as Driver of Channel Roles



#### Introduction

- Technology focus
- Innovation buyers
- Competition is from nonequivalent solutions
- Channel role - Very high support technical sale

#### Development

- Application focus
- Performance buyers
- Rapid growth
- Many competitors
- Channel role - Applications focused sales expertise - lots of market coverage required

#### Maturity

- Account focus
- Price buyers
- Slow growth
- Commodity orientation
- Channel role - Low cost market presence and logistical efficiency

Customers learn more about how to buy, use and support products as markets evolve, causing the channel's role to change. The figure above illustrates the evolution from high value-added, high gross margins to low value-added, low gross margins.

The problem for managers is that channel organization does not necessarily evolve with the market. In the event that new technologies are brought to the market, creating the need for new, high value-added

### In This Article

*Should you consider a leverage partner for your channel strategy?*

# 20/20 Vision for Marketing

channels, the average distributor, sales representative or retailer remains the same. Instead of changing their strategy, they find other things to sell that require the same type of selling they always have. This results in lost market share.

Since markets do not all change at the same time, it may be hard to determine that a fundamental shift is occurring in the market. Share is lost gradually over time, making it difficult to determine that a change is necessary.

If your marketing strategy is driving the change, then you should be most sensitive to the impact of your channel strategy. You should consider what makes you assume that your present channel strategy will be effective reaching new customers with new offerings.

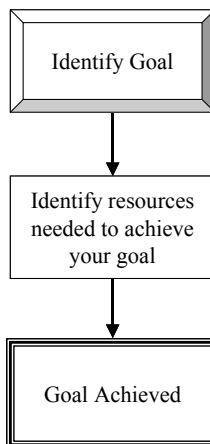
Whether the market is slowly changing or you are driving change, you should consider the following two questions:

1. What organizational, channel and support resources are needed to “see and win” your targeted market share?
2. What options are available to “leverage” your resources?

***A leverage partner can increase the adoption of your product or dramatically reduce the resources needed to meet your market share objectives.***

## Channel Strategy Scenarios

Channel strategies can often be grouped into two scenarios. The first is a linear or “work hard” strategy.

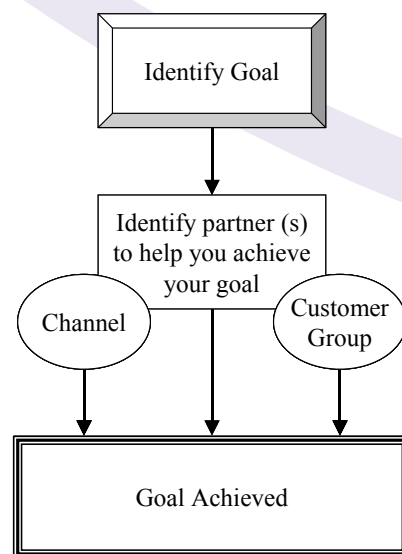


### Linear Strategy

A linear strategy identifies a goal and then pulls together the resources to achieve it. Sales force deployment often follows this logic. For example, if you have 400 targeted customers, each requiring four sales calls per year, you need the capacity to make 1600 sales calls. If each sales rep can make 400

calls per year, you would need four reps.

The second scenario is a leverage strategy. This strategy looks for a partner or partners who have a vested interest in promoting a solution that incorporates your offering. The leverage partner could be a channel that can dramatically expand your market coverage, or a customer group that promotes the adoption of your solution because it is in their best interest.



### Leverage Strategy

To find a leverage partner and understand the leverage you can apply to the relationship, you need to consider a different set of questions:

**1. How could customers benefit from the use / adoption of your products?**

- ⇒ Who are the early adopters or who would like some level of exclusivity for your product?
- ⇒ Are there customers who would gain an advantage if your product became an industry standard?

**2. How could channel partners benefit from the use / adoption of your products?**

- ⇒ Can the adoption/sales/integration of your products give any channel a competitive advantage?
- ⇒ Are channels evaluating solutions similar to yours and looking for strategic partners?
- ⇒ Will channel exclusivity provide you greater market access than if you had open distribution?
- ⇒ Can you leverage other brand positions through license agreements to accelerate adoption of your product/service?

The leverage option fundamentally asks what benefit a channel could perceive that would cause it to behave in such a way as to dramatically increase its market performance.

Regardless of whether you select a leveraged or linear strategy, your strategy is only as effective as its implementation. Like strategy, implementation is under your control.

***Don't allow your channels to fail you simply because you failed to make the tough decisions at the appropriate time.***

## **Ensuring Channel Performance Is Your Job**

- ◆ What will you do to ensure that the level of effectiveness you projected is maintained?
- ◆ What product line changes, if any, will you make to ensure that your product line addresses enough of the market to meet your objectives?
- ◆ What training programs will you introduce to ensure that your channels will effectively market your products?
- ◆ What will you do to grow the market for your products, i.e., more applications and more end-user segments?
- ◆ What will you do to ensure that your channels are motivated to market your products?
- ◆ How would you change compensation, measurements, etc., to ensure that the reward systems support your business objectives?

## **Finding Out How Your Channels Will Deliver**

Channel decisions are difficult. The easiest decision is to allow things to remain the same. This is a trap.

If you place a frog into a kettle of cool water and gradually increase the temperature, the frog will not try to escape until it is too weak. On the other hand, if you drop a frog into a kettle of boiling wa-

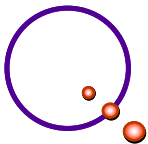
ter, the frog will immediately jump out. This is comparable to the trap for distribution: market changes are so gradual that if you're not careful, you'll wind up like the first frog.

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 my bonus at risk?" If it is, then it's time to make a channel change.

## QDI Can Help You

For help in channel assessment and channel planning, QDI Strategies offers a variety of services including our channel assessment workshops in which we help your management team:

- ◆ Utilize your organization's knowledge base
- ◆ Evaluate your current condition using QDI's "Channel Effectiveness" models
- ◆ Develop a group consensus of where your organization will be in 3 to 5 years and compare this to your goals in order 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



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We also provide research that:

- ◆ Identifies market structure and your channel position
- ◆ Quantifies market flows, specifically how much volume goes through each type of channel by customer segments
- ◆ Identifies changes in market volume by customer segment and its impact on channel volumes
- ◆ Evaluates changes in customer behavior and their impact on channel volumes
- ◆ Measures your market power relative to your channels and the cost of changing that power position
- ◆ Analyzes competitive channel structures and strategies.

## 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 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 channel management, or would like to arrange an informative presentation, contact Steve Bassill at 847-566-2020.