QDI Strategies

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20/20 Vision for Marketing Breakthroughs

Will You Fail Your Channels?

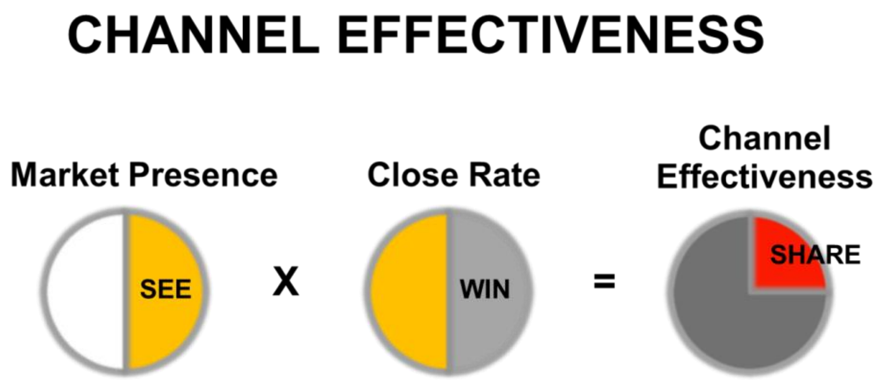
Are You Helping Your Channels Succeed in the Changing Channel and Technology Landscape?

By Steve Bassill

For over 20 years Mr. Bassill has helped companies develop channel strategies that build market power in changing market landscapes.

Learn how best to lead your channels as they evolve into technology solutions providers and marketers

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 and present your products and services often enough (MARKET PRESENCE), and win often enough (CLOSE RATE) to meet your sales objectives. Their performance is your "Channel Effectiveness." The more effective your channels, the greater your share will be of your addressed market.



But in today's market the channel role is often changing rapidly to that of "technology marketing." Many products are bundled into technology driven solutions that require your channels to play new marketing and customer support roles.

As a manufacturer, if your channels cannot or will not do what is necessary to meet these new market needs, you have to make a change. The real question may be, who has to change, "you or the channel?"

In our experience the rapid impact that technology is having on traditional industrial products and equipment manufacturers is accelerating and often react to slower than their customers. As a result, the dealer or distributor who is often in the middle between the manufacturer and customer bears the brunt of these changing marketing requirements.

Manufacturers Are Failing Their Channels

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.

RISK

While we have talked about risks in past QDI whitepapers, the risks that technology creates are somewhat unique.

If we look at the traditional reasons for not making changes we will get a good understanding of why technology is different.

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. Technology is adopted by different segments at different rates, therefore, it is not obvious that "something different needs to be done."

Second, the urgency for a change is not apparent. The sky is not falling. Generally, sales are still growing and profits are acceptable. The technology impact – especially early on – is almost invisible on the bottom line.

Third, and probably the most important issue facing technology marketers is , "the right" decision – what they should be doing differently - is often not apparent. Exactly, what they should be doing to help market and support these technology-enhanced products is the key question facing marketers.

Since they don't know the answer they often fall into channel paralysis. No one in your organization sees a clear enough reason to change, or put resources behind any direction of change.

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 many have been developed a long time ago by the company's most senior executives. Changes may upset these executives.

Second, your sales force hates managing change. 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 that see themselves as competitors.

Third, the organization will nearly have to reinvent itself to effectively serve a new channel or sell technology enabled solutions. 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 EDI capability
- Reduce the pallet's stacking height
- Build a store level support organization
- Change measurements and compensation levels, etc.

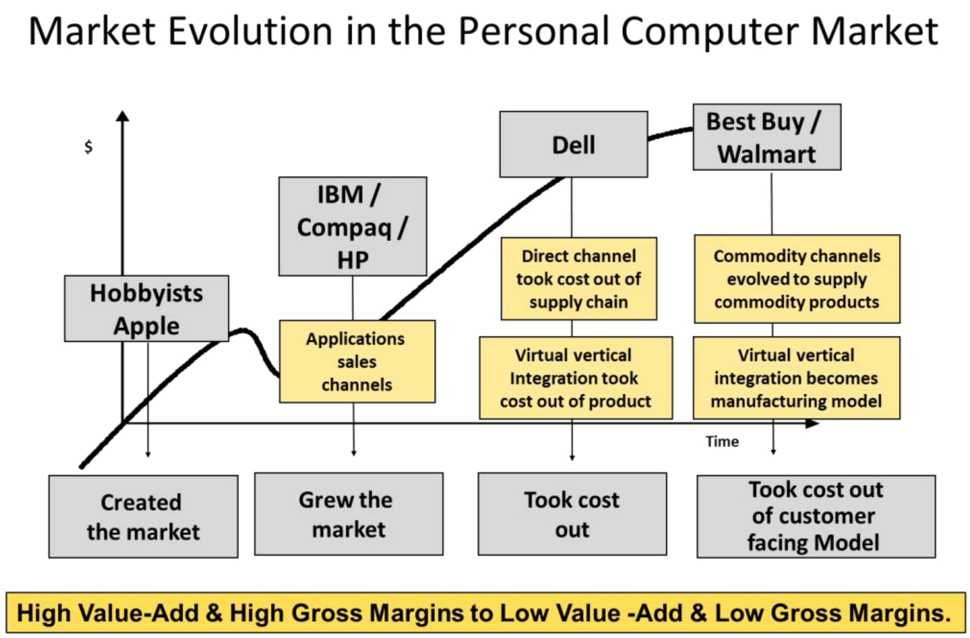
Finally, even organizations that see the need for change often don't have the stomach for the fight. The top executives in these organizations have to be ready for the battle. There will be many obstacles to overcome when making a channel change, both externally and internally. The top executives should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

To survive the battle of today's revolutionary smart products and solutions market requires a substantial commitment to rapid organizational learning on a level not seen in most companies' recent history.

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

CHANGNING REASONS FOR CHANGE

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



The historic problem for managers is that their channel organizations have not evolved with the market. While the market may require a low value added channel, or a high value added channel in the event new technologies are brought to the 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.

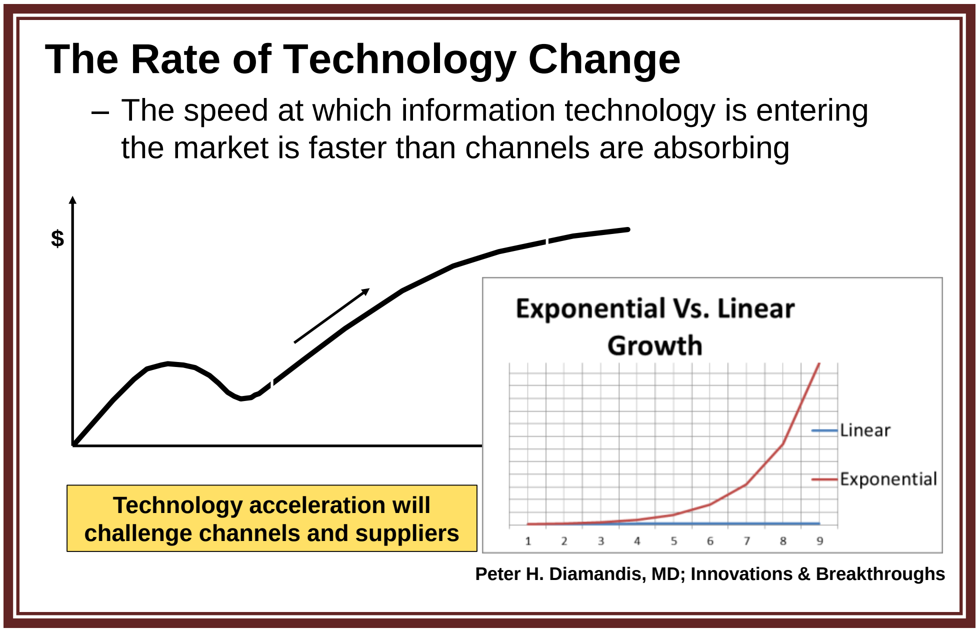
Twenty-First Century Challenges

Two twenty-first century evolutions TECHNOLOGY and DISTRIBUTION ROLE are creating new levels of complication for channel managers.

Technology is playing out in three dimensions within distribution.

1. Information technology: This has been evolving since the days of the mini-computers in the 70's and accelerating with PC's and now smart-phones and tablets. New developments have made it possible to completely computerize inventory and logistics management, thereby increasing inventory turns and reducing inventory investments. The old marketing adage of "filling the distributor's shelves so he will sell your product" is outdated and self-defeating. Information technology also increases the flow of information between

manufacturers and distributors, distributors and customers, resulting in streamlined logistics flows that enable every member of the supply chain to profit from less inventory.



2. Web-technology: The internet and now the cloud have exploded the ability to interact electronically. The net effect is that it makes it easier for customers to connect directly with manufacturers. Does that mean that the value of the distributor as a source of information would be eroded? Certainly that would be an effect, but this access to information has also resulted into customers being less willing to spend time talking to manufacturers or distributors. Some manufacturers worry that the internet is basically turning everything into commodities.

   Customers may simply be saying “don’t waste my time. Tell us only what impacts our businesses.” By brining relevant information and solutions to customers and spending more time helping them solve their problems, distributors are increasing their value to those customers. The web has displaced the old manufacturer-to-distributor-to-customer flow of spec sheets and opened new opportunities for the manufacturer, distributor, and customer to share information and build relationships.

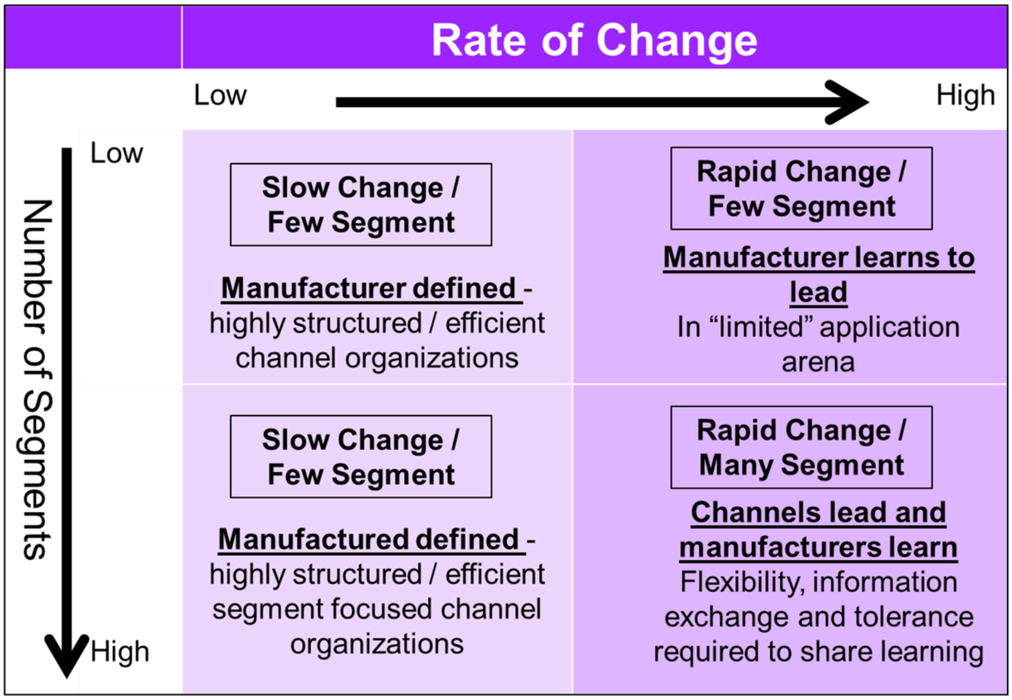
3. Product technology: Smart connected products comprise the third layer of technology which is providing information about product status and use to improve productivity and product life. Because we now have the data that allows us to talk about the specific performance of individual products, such as the number of cycles a valve or positioner has opened, we can make maintenance recommendations based on these measured values rather than industry averages. The result is that these smart products will have a large impact on customer value by enabling customers to extend product life or catch problems before failure, while creating new linkages between customers and suppliers to manage this information. The impact on distribution is that now the channels must understand software, diagnostics, wireless networks, communications protocols and how to get information out of the system.

   The difference between the market evolution of the 21st century and that of the computer market of the last century is that technology is making existing product categories smarter in addition to creating new product categories. So where the 20th century technology explosion created new channels to bring the technology to market, the technology explosions of the 21st century are affecting the existing channels and forcing change at a rate they are not used to and possibly resistant to.

While technology is forcing changes in the fabric of distribution, distribution has changed dramatically to react to the demands of its customers. Simply put, distributors are “experimenting” to learn how to help customers and themselves capture the value from these evolving technologies.

The net effect is that manufacturers are often working with dozens of variations of product / service offerings and marketing models that their dealers are bringing to customers.

Manufactures are usually falling behind because they can’t “learn” fast enough to become the leader in this marketing game. Historically, manufacturers were channel leaders – they helped define markets, products and value propositions which they offered to their channels as business partners. They trained their channels in how to sell and service their products and developed sales coverage and marketing programs to help the channels capture the market opportunities. As the table below shows, when the rate of change is low manufacturers can and do become channel leaders, even in markets with many segments.



But as the rate of change increases, the manufacturer has a much greater difficulty in achieving this role. The manufacturer has to learn fast enough about the customer needs around an application that he can maintain is leadership role in the channel. This is hard enough when focusing on a single narrow customer segment and application.

As the manufacturer and the technology spread across the market to more customer segments and applications, the manufacturer has to exponentially increase his learning efforts if he is going to take the channel leadership role. Most manufacturers simply can't do this. They don't have the resources or culture that lets them get this close to customers and perform a more active role in working with customers to learn what they need and how they are trying to capture the benefits for new technologies.

Manufacturers have to rely on their channels to perform this role, and then work very closely and flexibly with their channels to learn with them and from them. This role requires more time and effort devoted to learning.

This is the time to invest in learning

This historic role exists for very few manufacturers in today's smart products world. Most are playing catch-up and are trailing their channels in brining solutions to their customers. Many don't even know they are behind.

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

- They had the foresight to set bold goals for the adoption of technology within their businesses and support these goals with the resources and culture necessary to change because they realized their existing channel strategy (structure/ organization) would not deliver their three or five year business objectives.

QDI has helped many clients create breakthrough channel strategies by helping clients learn how to adapt in rapidly changing markets. If you need help winning the battle of changing channels, QDI can help. Give us a call today and become a winner tomorrow.

Where Clients Ask QDI for Help	
New Products / New Markets	Develop market insight to <u>speed</u> launch and ramp-up while <u>reducing the risks</u>
Channel Issues	Provide <u>clarity</u> regarding conflict, performance, and go-to-market options
Share Growth	Discover market drivers and determine <u>strategy opportunities</u>

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