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20/20 Vision for Marketing Breakthroughs

Building a Clearer Market Vision:

How to Achieve Channel Transparency

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&

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For over 15 years Mr. Bassill and Mr. Barr have lead QDI to help companies develop channel strategies that build market power.

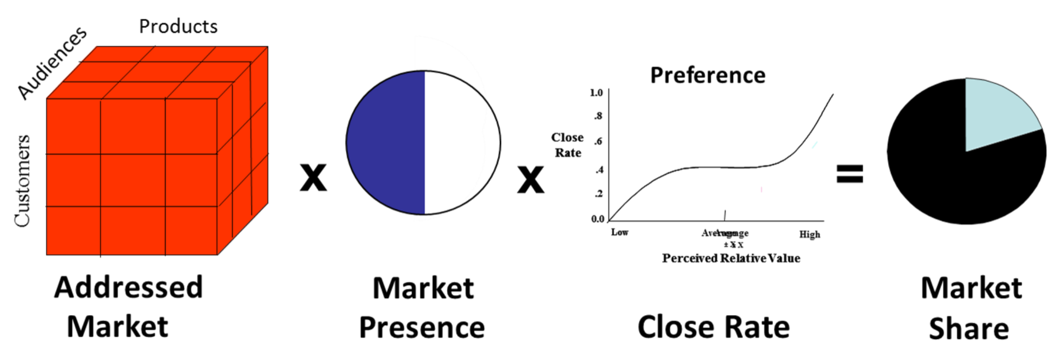
Market transparency is vital for market success and channel performance. Learn how to achieve transparency in your business.

It's easy for organizations that market through independent channels to have impaired market vision. The channel sees and interacts with the customer. The feedback marketers get from their channels is often sporadic, sometimes self-serving and seldom structured to provide enough clarity to make decisions.

You can change this by increasing the transparency within your channels. Transparency is a measure of the marketer's ability to see and understand the market. Transparency requires more than "won / lost" reports. It requires shared understanding and insights about market opportunity and the marketer's / channel's performance.

The goal of transparency is to understand your position (and your channel's position) in specific market segments. QDI uses its Market Effectiveness Model to build this understanding. Your market share is a function of your performance in three marketing dimensions:

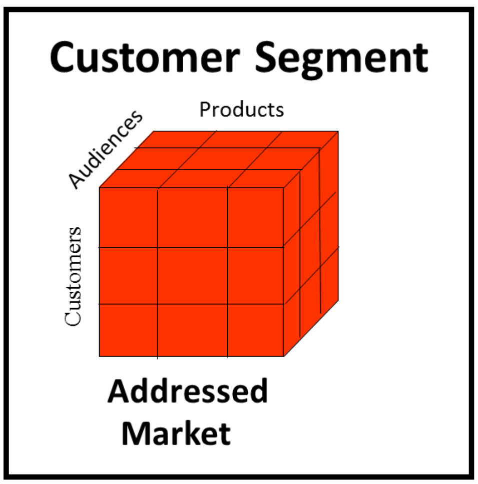
QDI's Market Effectiveness Model



1. Addressed market: Do you have the products that specific customer segments will buy? Addressed market is a measure of the portion of the market for which you have the necessary features, performance, price points, etc., to appeal to your target market.

2. Market presence: Do you have the channel (dealers, sales people, stores…) presence to the sale when a customer is in the buying process? Market presence is a measure of the portion of the addressed sales opportunities in which your product was considered by the purchaser.

3. Close rate: How often do you win the sale, when present? Close rate is a measure of the portion of the time that when present, you win.



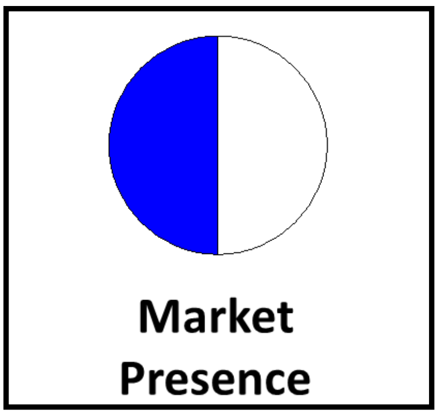
For each market segment (i.e., "college freshman computing buyers") we are trying to define an ADDRESSED MARKET. Your Addressed Market defines the portion of that market where your products / services meet customer requirements. An Addressed Market is defined by:

1. Products – specifically the types of products that customers in this segment buy (you may have 100% product coverage or less than 100%). You need to understand your product coverage for each market segment and the total revenue and unit volume that this segment makes up.

2. Customers - a specific number of customers who purchase these products. You also need insight about the concentration of market purchases by these specific customers.

3. Audiences – who are the decision makers in your specific targeted customer group?

For each market segment, such as "college freshman computing buyers," you should be able to define your market presence. Presence essentially answers the question, did the customer consider my product / offer when he was making his purchase decision? Being present to the customer's business is not the same thing as being present to the specific decision-maker. Presence looks at the audience who impacts a decision to buy your product within a customer's business. Have they been exposed to your offer? There are three dimensions to presence:

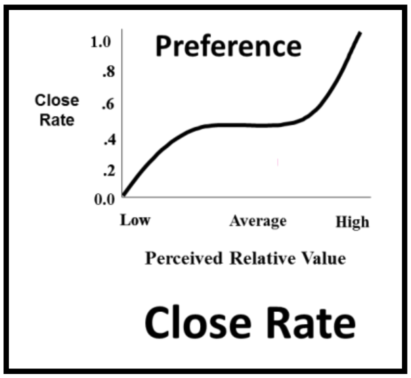


1. Channel Presence: What percent of the customers or volume of purchases do you have sales presence to? Does your dealer or direct sales force call on these customers frequently enough to have a chance to see specific sales opportunities? Do the target customers shop at your channels to purchase this type of product?

2. Product Presence: Will your customers see, or be presented your product when they are researching what they want to buy? More and more customers in both consumer and business markets are doing their research via the web before they ever engage with a sales representative. This is especially true when customers are looking for new product categories or solutions to problems. If you are not present in the research process, you may never have a chance to be present to the actual purchase decision.

3. Purchase Presence: Will your customers see, or be presented an offer to buy your product when they are ready to buy? In retail markets proper placement in the store is required for customers to see your product. In B2B markets, purchase decisions are made in many different ways, from face to face sales contact to online auctions. Is your product, pricing and purchasing terms presented to the customer who is making the purchase decision?

Did the market segment, "College freshman computing buyers," purchase your product?



If half of these buyers purchased your product, your close rate would be 50%, assuming each of those buyers considered your product when they were making a decision. Close rate is primarily used as a measure of how often you win the sale when you are present to the sale and the customer made a decision to purchase a product.

However, there are two definitions of close rate that you can use to gain insight about your business performance. The first definition is "the number of times you win a sale, versus the number of times the customer chooses to purchase a product similar to yours." This definition looks at your performance versus competitive offerings. When using this definition, there are two key perspectives to consider.

1. If your close rate is too low you may be losing the interest of the sales force. Typically, close rates less than 25% are dangerous, as the effort to sell the product may be too great in comparison to the expected return.

2. Your close rate could also be too high. You may have a problem in this situation if you are only presented when the sales representative knows he will win the sale. He could be "cherry-picking" your product line, resulting in a much lower market presence and share than you could have had if your offer was presented whenever there was a reasonable chance to make a sale.

The second definition of close rate expands to "the number of times you win a sale, versus the number of times you compete for the business." In this definition you are including customers who made a decision "not to purchase" any alternative in your product category. This definition is particularly meaningful when customers have the alternative of not buying because they believe they can address their need internally, or feel they don't have to do anything at this time. Businesses selling services often face this challenge as the customer does not see enough value to justify purchasing the service.

While understanding your "quantitative" close rate - how often you win a sale - is important when using either definition of close rate, it is more important to understand why you have the close rate you do, and what you have to do to increase it.

There are two broad reasons for low close rates: (1) low value: your benefits relative to the cost of your product or service are lower than the customer's alternatives, and (2) low perceived value because your value has not been adequately communicated to the customer.

QDI expresses these two dimensions of value in the formula below where:

$$\boxed{Value_P = B_P / \$C_T}$$

- $Value_P$ = Value perceived

- B_P = Benefits perceived, which include:
    - Product (or service benefits when selling a service) benefits – which are the inherent performance benefits of the offering
    - Service – the ease of doing business together
    - Relationship – the personal relationship between the seller and the buyer
    - Brand – the connotation that the brand has in the customer's mind

- $\$C_T$ = total costs perceived which include:
  - The product purchase price (net after discounts and rebates)
  - The cost the customer incurs in purchasing and using the product, which can be significant if there is a high learning curve cost
  - The risk that the customer perceives in making this purchase decision which includes both a product risk and a vendor risk. In some cases a bad purchase can cost the buyer his job.

As a marketer your transparency questions become:

1. How do you know if you have the products that specific customer segments will buy? Are you getting specific customer feedback through your channels that will help you see changing needs, or do your channels block your vision?
2. How do you know if you have presence to the sale when buyers are ready to buy?
3. How do you know how often you win when you are present to the sale, and if not, why not?

Marketers and their channels need to jointly understand what the issues are before they can decide how best to address them with their "combined" resources.

QDI's Market Effectiveness Model not only provides insight about your markets, but it also provides clarity of understanding about market behavior and performance often lacking in most organizations. Both marketers and their channel partners need to understand their collective position in each market segment they are targeting. Maybe a low market share is a function of low product coverage in a segment. Maybe it's because of a low close rate. Maybe it's because the distributors or dealers don't devote enough effort to be present to this business. Marketers and their channels need to jointly understand what the issues are before they can decide how best to address them with their "combined" resources.

This is an exercise that should be completed with a subset of your channel partners annually. Each channel member may want to assess their performance on a regular basis. Marketers don't need a "census" of channels to gain the market insight, but they do need channels that represent the markets they are targeting. Likewise, every channel should participate in this exercise at least once every three years.

QDI routinely talks to manufacturers who are NOT getting a clear market vision from their channels. Recently an OEM made the statement, "After 30 years I have come to the conclusion the dealer advisory meetings are a waste of time." The owners of dealer organizations had told the manufacturer what they needed and based on this input the manufacturer updated products and launched a new product line. Yet when these were offered to dealers, the dealers got the price point wrong or their organizations wouldn't spend the effort required to support the new product line. The net effect was a failed launch.

Another OEM was experiencing significant market turmoil. His channels were expressing their concerns about the turmoil that they felt was being caused by the OEMS's actions. They wanted to know the OEM's intent. Yet in planning the next dealer advisory meeting, the top issues submitted by the dealers were tactical product and program questions, not questions that addressed these core strategic issues.

Most firms recognize the ownership, management, sales, and operational links they have within their channels change. Most marketers have created the outbound programs to communicate with the channels and to build relationships with new players within these organizations. However, few organizations have inbound programs or the market transparency to see the marketplace issues that drive business performance through the eyes of each of these channel groups. As a result, too many companies have today's tools focused on yesterday's issues or focus resources on the wrong market opportunities.

Too many companies have today's tools focused on yesterday's issues

Market transparency is necessary to thrive in today's changing markets. Both marketers and their channel partners need more effective dialogs about the drivers of market performance for both of their businesses.

Are you concerned about whether or not customers have the right perception of the value of your products? Is social media helping or hurting your product perception? Are you looking to increase your penetration in select market segments? Are your channels truly in a position to win with these customer groups? If you want to explore how to create market transparency in your channels to achieve a Clearer Market Vision, give us a call.

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

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