

Leveraging Channels for Organic Growth



Introduction

With the high prices of M&A deals but the persistent need to hit one's numbers, many U.S. companies are starting to focus more and more on organic growth.

Framework For Channel Driven growth

There are many possibilities for organic growth, but unless your company is experiencing dramatic market growth, there are no easy options.

Start With the Customers

RS US has worked with many clients over the years to develop innovative strategies and tactics for organic growth.

Reconsider Channels

Distribution channels are an excellent starting point. Companies can gain significant leverage with a more effective channel strategy for not only their current offering, but also new products and services.

Channel Segmentation

Customer Channel Mapping

To learn about RS US ideas for channel-driven growth and two case studies that illustrated how we successfully applied those ideas to real-life

"Gap" Analysis

situations... [Read on »](#)

Implementation Challenge

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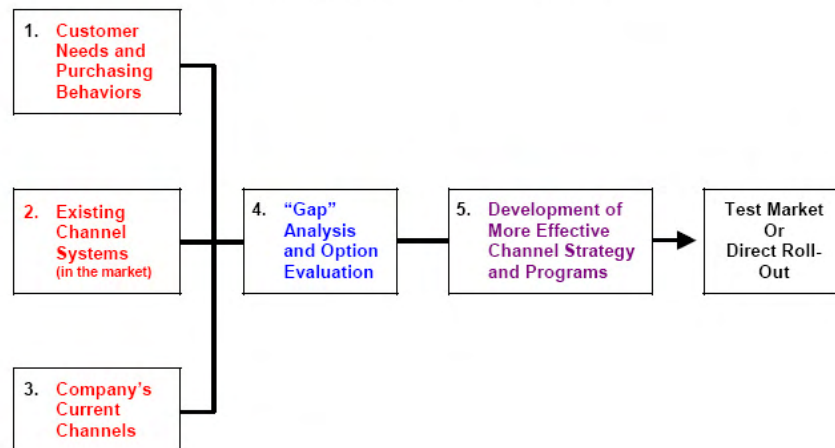
Channel-driven growth means that your company and its channel partners work together to “win” with the customer (re: end users, OEMs, and resellers) and realize significant growth. And it is just that – a joint effort, and therefore both your company and its channel partners must commit to and invest in this effort and be held accountable for implementation.

Here is the basic framework for channel-driven growth:

- Start with an understanding and analysis of customer needs and purchasing behaviors
- Then segment distribution channels (both your channel partners as well as competitor partners or even new channels) based upon each channel’s ability to “see” customers and meet their needs
- Conduct “gap” analysis of how well/poorly your company and its current channel partners “see” and serve customer needs
- Incorporate your company’s current market position, business objectives, and management resources and constraints in this analysis
- Develop more effective channel strategy and programs to “fill the gaps” and thereby 1) help your channel partners grow, 2) gain channel mind share and push, 3) gain share within existing channel partners... possibly exclusivity, 4) add new channel partners (if appropriate), and 5) realize significant organic growth

The graphic below illustrates the process for implementing this framework.

Process for Channel-Driven Growth



Channel-driven growth is successful because it focuses on: development of a well thought out plan; leveraging the coverage and relationships of channels to deliver a high ROI; and growth, which is everybody’s goal and a tonic that cures many ills.

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Nearly all companies have redefined “customer” to include end users, OEMs, and resellers that purchase from their channel partners. They have included “influencers” (e.g., contractors, design engineers, consultants, etc.) within their marketing efforts. And they realize the importance of understanding customer needs, purchasing behaviors, and future trends. These companies know that to win in the marketplace they must win with customers. situations...

There are three major customer-related issues:

- Who makes the brand decision?
- What are the relevant customer segments?
- Where are customers headed in terms of their needs and purchasing behaviors?

Who makes the brand decision varies by market and sometimes by purchase scenario within a market. There are markets/purchase scenarios where the customer is the primary decision maker for the brand, and those where the distribution channel is the primary decision maker. There are numerous factors that affect where the brand decision lies: how the product is sold (separately or embedded with another product or system); uniqueness/ importance of product performance; customer sophistication; importance of non-product attributes; etc. The answer to this question has important implications for your company’s channel strategy and programs.

As discussed in a previous RS USA article on vertical marketing, “What Is Your Vertical Leap?”, there are a myriad of customer segmentation schemes. Ultimately companies must develop segmentation that describes meaningfully customer needs and purchasing behavior and provides a solid foundation upon which to build a channels (and marketing) strategy. Needs-based segmentation is the best approach, but it can be more complex. Sometimes there are simpler segmentation schemes that are essentially “short-hand” for needs-based segmentation and, thus, still work.

Markets are always changing. Companies that realize and capitalize upon change can be BIG winners. Thus, any analysis of customer needs and purchasing behaviors should consider where customers are headed.

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To really drive organic growth by leveraging channels, your company cannot stay with status quo but needs to reconsider channels. This means taking a fresh look at your channel strategy and programs, conducting thorough analysis, and being willing to entertain “something different.”

Channels marketing is not only complex, but often frustrating. Channel partners are independent organizations with their own business agendas and goals, and even company sales reps, while not independent, often have their own power bases and must be managed carefully. It would be easier to just consider options involving your company’s current channel partners, but this could mean missing out on a better, albeit more challenging, option.

There are five major issues for reconsidering channels:

- What are the existing channel systems that “see” and serve customers?
- How do those channel systems map onto (or align with) the customer segments? How well/poorly does each channel system serve the various customer segments?
- Are there any customer segments that are poorly served (i.e., not well-served by any channel system)?
- Where do your company’s current channels fall within the existing channel systems, and how well/poorly do your company’s channel partners “see” and serve the various customer segments?
- How is your company positioned within its current channels? What is required to be successful with other/new channels?

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The starting point is to develop a complete picture of all existing channel systems (in the market) and then profile/characterize/ segment the various channel systems. Channel segmentation is required to address the mapping issues, and like customer segmentation, there are lots of ways to segment channels.

Many companies segment their channel partners based simply upon geography, especially for international markets, and so they have a distributor (or set of distributors) for Chicago, ditto for Seattle, etc., and often one for various countries around the globe. Typically this is done because the total market is a collection of local markets and each local market has a distinct set of channels. In some cases suppliers have established exclusive distribution to gain push/support for highly technical product line or unknown brand/supplier.

Channel consolidation, however, is putting pressure (and in some cases blowing up) geographic segmentation of channel partners. Bigger channel partners (a.k.a., chains) run their businesses more aggressively, have more complex – and usually more centralized - decision-making processes for brands/ suppliers, and make it harder for suppliers to gain/maintain mind share. Independent channel partners still play a role in many markets, but their share has typically decreased, and they have had to “raise the level of their games” to survive.

One way companies have responded is by establishing sales forces and programs targeted at corporate management of the chains. Some companies keep their traditional, geographically defined sales force and programs and add the corporate sales force and programs as a “lay over”. Other companies scrap the geographically defined sales force and programs (for select chain accounts only) and create a whole separate account team for each chain. RS USA calls this key account segmentation.

And there are other ways companies segment their channel partner network: applications/ customer type (e.g., a utility distributor); authorization to sell certain products, or sales and marketing approaches (e.g., traditional dealers vs. catalog houses/Internet resellers). These other types of segmentation are, in RS USA’s opinion, a step forward since they focus more on customer needs.

To handle all the different segmentation schemes RS USA utilizes the served market concept – a proven concept to profile/charac-terize/segment channels. It consists of five factors by which to describe and segment channels:

- Geographic coverage
- Product and service offering
- Marketing and sales approach
- Account base (e.g., job titles called on, purchase scenarios seen)
- And, degree of value add.

The served market factors are in synch with descriptors for customer needs and purchasing behaviors and thus facilitate mapping/ alignment of customers and channel systems. [Read on »](#)

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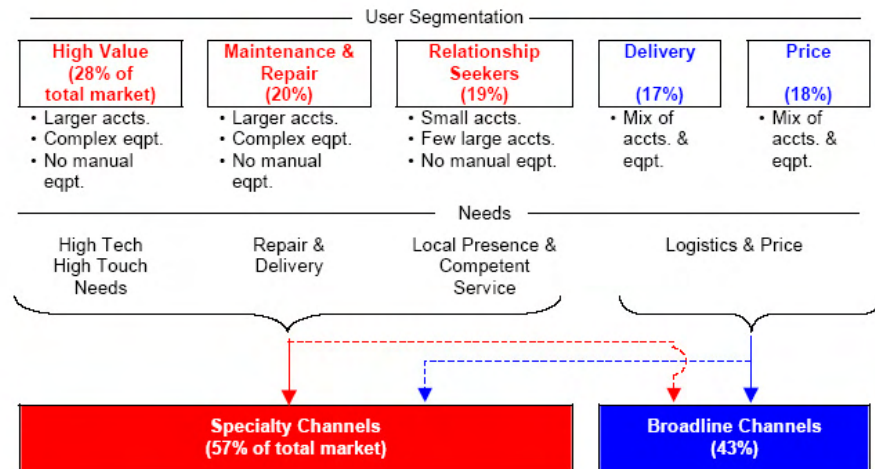
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A fundamental tenet of channels marketing is the channel system that serves customers “best” is the channel system that will “win.” And therefore, if your company seeks to “win” then it must be well positioned in those channels systems that best serve targeted customer segments. To identify the winning channel system for each customer segment, then the various channel systems must be mapped onto the customer segments.

Illustration of Customer-Channel Mapping



In some cases there are customer segments that no channel system serves well, and hence these customers are poorly served. This means there is an opportunity for a new channel system to be created/formed, serve those neglected customers better, and thereby win. It also means an opportunity for companies that realize this opportunity and can participate in this new channel. There are numerous examples of new channel systems that transformed markets and resulted in dramatic growth for participating companies, e.g., manufacturers going direct, Internet resellers, Wal-Mart, and Dell.

Lastly your company must address the issues related to its current channel partners: where your company’s channel partners fit within the existing channel systems; how well/poorly those channel partners serve the various customer segments; and how your company is positioned with its channel partners? The answers to these issues provide valuable input for the “gap” analysis and fresh insights about your company’s channel opportunities.

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Your company then analyzes the customer and channel results to identify “gaps” in its channel coverage and performance, and develops options for channel-driven growth. As you can imagine this analysis is broad in scope, but the channel options fall into one or more of the following categories:

- Develop programs that enable current channel partners to capture more of your company’s targeted customer segments
- Develop programs to strengthen your company’s position within its current channel partners
- Add/change partners within current channel systems
- Add partners in other channel systems (i.e., ones in which your company has no/little presence)
- Develop and establish a new channel system

All of the options generated must be evaluated in light of your company’s objectives, expectations, and resources.

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Now that your company has a plan for channel-driven growth, it is time to implement it. As mentioned, channels marketing is particularly challenging, but if done right, it can be very rewarding.

The biggest challenge is working with current channel partners, and there are many good reasons for this:

- Typically a company has a significant portion, if not all, of its sales going through current channel partners – Don’t kill the goose laying the golden eggs, especially when we have our numbers to hit!
- There is a history between the company and its partners – We have never done it that way; we did that, and it failed; or we don’t trust you to do it right, and therefore we’re not buying in.
- Channel partners may lack resources required for implementation, necessitating more investment by the company – our channel partners don’t have enough skin in the game; we, the supplier, have all the risk, and they get all of the reward!
- Channel partners may lack desire for change– they have made their money, own a lake house and a boat, and aren’t really interested in such a big change and commitment.
- There is risk of conflict if new channel partners need to be added – I, the current channel partner, should have that opportunity since I have helped the company build this business; how does the company manage channel conflict if and when they add channels?

If your company really wants to realize significant organic growth, they have to face and overcome one or more of these hurdles, and... the good news is: it can be done. Later on we’ll show you two case studies in which RS USA helped clients and their channel partners to overcome these hurdles and implement programs for channel-driven organic growth.

From RS US’s experience there are four basic principals for overcoming these hurdles and achieving a successful implementation:

- Do your homework and have an in-depth understanding of customer purchasing behaviors and channel segmentation (See previous section) – there is no more powerful rationale than “we have to do this to win with the customer and grow”.
- Communicate clearly and consistently what you have learned, your proposed program, and the rationale
- The proposed program should be quid pro quo and involve a commitment and reward for both the company and its channel partners - or else why do it?
- Know well the company’s risks... what happens if?

By following these principles a company will not be able to eliminate its problems, but they can certainly manage/address them more effectively. [Read on »](#)

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Situation

- Leading supplier (Company A) of a consumable product which runs on industrial machinery
- Had developed market from infancy through network of specialty distributors capable of selling/maintaining equipment to drive new applications as well as sell consumables
- 3 major broadline distributors entered market through acquisitions of specialty distributors and began to take share through low price and logistical excellence
- These broadline distributors approached Company A and demanded the brand on a national basis or else they would go to a competitor. Should Company A acquiesce, hold firm maintaining status quo, or do something else?

How Did Channels Align with End Users?

There was a clear alignment of end-user segments and channel types:

- End users that needed/expected more than price & delivery → specialty distributors → channels where Company A was strong
 - ♦ More than price & delivery involved: technical knowledge/support; maintenance & repair service; or business knowledge/support
- End users that needed/expected price & delivery → broadline Distributors → channels where Company A was weak

Furthermore, the market trends were not favorable for Company A. The price & delivery end users represented 35% of the market and were growing at double-digit CAGR to nearly 50% the market.

In other words, Company A was strong in a declining channel and weak in a growing channel. What to do?

Embrace Change and Take Action

Some within Company A felt that the company should be loyal to their long-time partners, the specialty distributors, and help these distributors to respond to this market change. While RS USA agreed that specialty distributors would still play a role, we concluded that the broadline distributors were best positioned to serve the price & delivery segment and Company A needed to take action to win in the future.

RS US recommended the following actions:

- Partner with 2 of the 3 broadline distributors – in return for Company A dropping one of the broadline distributors, the other two distributors agreed to make Company A their primary brand and made significant investment to stock and promote Company A brand and products.
- Still retain specialty distributors but establish a 2-tier distribution program to ensure these distributors are properly supported and end-user needs (those that valued technical knowledge/support, maintenance & repair service, and business knowledge/relationships) were met.

With this new channel strategy, Company A gained 6 share points in 18 months

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Situation

- Leading supplier (Company B) of construction products, with 10 different product lines or categories
- Had broad channel coverage, >80% of all distributors buy from this manufacturer
- Had leading share in 5 of its lines, although one line, Widgets, only had 5% market share
- Furthermore, there was a major competitor who dominated the Widget market
- Company B wanted a new marketing strategy for the low share line Widgets – after years of marketing programs (incentives, product line expansion, pushing on reps) they had not seen an increase in sales

It’s The Channel!

When Widgets are purchased from distributors, <10% of the sales were “hard spec’d” by the end-user (i.e., a certain brand is specified), and 60%-65% of the sales involve “no spec” (i.e., size/features, but no brand, are specified). The remaining sales involved “soft spec” (i.e., leading brand mentioned generically, and customer accepts other brands) and custom orders, which were <5% of sales

In other words, the distributor really controlled the brand spec in the Widget market, and thus, it was the distributor’s preference (more than the preferences of end users and contractors) that counted.

See A Lot, Don’t Get Much

While there was considerable concern about Company B’s product line, RS US found that, generally speaking, their Widget line was competitive. The real problem, RS US’s analysis determined, was distributor-related.

Company B had relationships with >80% of the distributors in the market, but only <20% of those distributors actively sold Company B’s product line. Furthermore, many of the distributors who actively sold B Widgets were smaller distributors, not the larger distributors who really drove Widget volume in the market place.

So Company B’s sales force “saw” a lot of distributors that sold Widgets; however, Company B “got” very little. Could Company B “get” more? Not easy given the market leader’s dominance and Company B’s past experience, but RS US believed it was doable.

Grow By Expanding Selectively

In nearly all markets there were large distributors that would be “open” to a deal with Company B. These distributors typically stocked and sold the market leader’s brand/products, and while they were treated well, they were not one of the preferred distributors. Furthermore, these distributors typically had a good relationship with Company B on other product lines.

Here was Company B’s opportunity. To capture this opportunity, RS US recommended that Company B expand distribution for Widgets, but to do so selectively, and we provided specific criteria to identify and qualify the “best fit” distributors in each local market. With this plan, Company B could now achieve their 2X goal for growing Widget sales.

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| Introduction | Call Us to Talk Channel Opportunities |
| Framework For Channel Driven growth | If your company seeks organic growth, then consider a new (and more effective) channel strategy and programs. Many U.S. companies have not realized the full potential of indirect channels – in the U.S. as well as in international markets – and that is a lost opportunity. Furthermore the benefits of a new channel strategy and programs are long-term and result in not just growth, but profitable growth. |
| Start With the Customers | |
| Reconsider Channels | |
| Channel Segmentation | |
| Customer Channel Mapping | If you would like to learn more about our process for channel-driven growth, please call one of RS USA’s principals – Dick Kerndt, Mark May, Bill Coulter, or Richard Barnes - at (312) 368-0800. |
| “Gap” Analysis | |
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