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MARKET STRATEGY CONSULTANTS

A Strategy For Growing When Your Existing Channels Won't

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Client Communique
Winter 2004

One of the most common sales challenges that companies face is how to overcome the reluctance or inability of some dealers to grow, and the resultant "drag" they create on the manufacturer's plans to increase revenues. Most often, these dealers are independently owned and represent either a first generation owner who feels he/she is too old to invest and take risks, or a second generation that doesn't understand the business or what to do with it.

This situation presents a quandary for the manufacturer: you want to grow sales by adding new sales channels, but you don't want to alienate your existing dealers and risk losing the revenue they generate. Many companies take the easy way out: they avoid a confrontation and attempt to fix the existing dealers.

Trying to fix existing dealers is certainly one element of a solution. But if you analyze the market, you will likely find that the buying behavior of your end customers has changed and that new channel players have emerged to meet their needs. The analysis will also show that it is unlikely you will reach your growth goals without the addition of new channels.

Understanding Begins With Asking the Right Questions

You can add clarity to the debate over whether to add new channels to your existing dealers by asking yourself four key questions:

1. How will you expand around existing dealers?
2. How will you maintain existing volume while you attempt to expand around existing dealers?
3. Do you need to shrink the number of dealers and the volume in order to eventually grow?
4. How will you work with the subset of existing dealers that are capable of growing?

Answers to the above questions will give you the information and confidence you need to move beyond "sticking with the channel that got you to where you are today" and is creating a drag on your revenue growth.

Results Come From Focusing on Customer Expectations

Manufacturers achieve additional revenue growth when they meet the needs and expectations of more end users. When the manufacturer utilizes dealers, distributors, or other channels to serve end users, the channel must meet (or exceed) customer expectations in order for the revenue growth to be achieved.

Customer needs and expectations change over time as products and markets mature. Often manufacturers find that their traditional dealer network delivered growth when the market was growing and the end users needed the technical support, service, or education that the traditional "specialty dealer" provided.

As the growth slows, and user expectations become focused on logistical needs like availability, timely delivery, ease of ordering, new/different channels emerge that are better equipped to meet these new end-user expectations. These new channels tend to be large, national distributors, chains, or catalog houses that have lower cost structures than the traditional "specialist" channel.

If this characterizes your market, you face a dilemma. You value the current revenue delivered by your existing channel and you value the growth that can be generated by a logistically-focused channel.

The best way for manufacturers to achieve additional growth, and not put revenues from existing dealers at risk, is to develop separate, concurrent programs for the two channels.

Existing Dealer Program. You should provide existing dealers with programs that make them feel valued and prevent them from defecting. These programs will support what these dealers do best (technical/application support, education, etc.) and will not steer them into doing things that are not in their best interest.

An important consideration here is to determine which dealers represent the subset that can grow and are worth investing in (See Figure 1). Care should be taken to not spend much time with non-growables. While your sales force may believe this is where they are most needed due to poor performance, non-growable dealers will not change to help you achieve your growth goals. You should also avoid the temptation to spend the majority of your time with self-growing dealers -- they will continue to make their contribution with or without your help! The best return on your sales efforts and program investments will come from focusing on the growable dealers.

Growable dealers in your existing network need programs that provide support to their value proposition and their economics. They need preferred access to your new products. They may need extended payment terms or more flexibility with returns because of the products they offer. Other types of programs that will appeal to existing dealers include ways to increase margin dollars and value-added activities that can help them improve their efficiency -- like training for greater sales effectiveness, better financial planning, better inventory management tools, etc.

New Channel Programs. Your new channel partners should be provided with programs that let them know that they are the future, that you value the role they're playing, and that you want to work with them to develop the market/new customers.

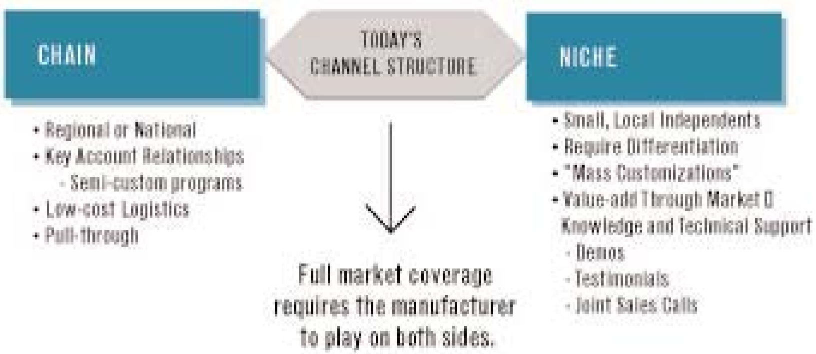
Programs for the new channel will require a totally different model than you're using with existing dealers -- including differentiated products, pricing, sales/service support, etc. Figure 2 illustrates some of the key differences in the models used for today's newer "chain" channel vs. existing "niche" dealers. Most notable are the requirements of the "chain" channel for more of a national, key account

Figure 1 – Segmenting Dealers by Growth Potential

Segment	Growth	Your Influence	Your Role
Self-growing	High	Moderate	**Facilitator:** • Do not hinder • Provide information/expertise
Growable	Medium to high	High	**Coach:** • Assist sales/marketing • Resolve problems
Not growable • Sustainable	Little to none	Low	**Coordinator:** • Limited support/maintenance
• Not sustainable			**Terminator**

relationship with the manufacturer (vs. a dealer's need for a customized relationship) and for assistance with low-cost logistics (vs. a dealer's need for market knowledge, technical support, etc.)

Figure 2:
Multiple Channel Strategies Will Be An "Ante"



When considering new channel partners, you must realistically characterize the behavior(s) of your existing channel members. Where behaviors are destructive and/or are negative to the point you cannot recruit the new channels that will help drive growth, you may have to selectively reduce the number of existing channel members in specific markets. It is true that, sometimes, you must first "shrink" in order to grow.

Manufacturers who are successful in managing a multiple channel strategy are the ones who succeed in giving their channel partners (old and new) the impression that they are providing so much value (brand name recognition, market knowledge, logistical efficiencies, etc.) that the partner can't afford to defect. This is often referred to as a manufacturer's "black box" advantage.

Summary

A multiple channel strategy, which includes the need for different existing and new channel programs, will enable you to achieve your planned revenue growth without risking the defection of your existing dealers or losing the revenue they represent. The most important element of the strategy is to understand the needs of each channel -- based on the role they play in support of your product and in meeting the needs of end-user customers -- and to make each channel feel valued for the role they are playing in your market success.

Frank Lynn & Associates can help you develop a multiple channel strategy that will enable you to grow revenues when your existing channel won't get you there. To receive a copy of Frank Lynn & Associates' Growability Scale, a diagnostic tool that will help you segment your dealers into groups that are non-growable, growable, and self-growing, contact John Henderson at 312.558.4828 or hendy@franklynn.com.