

Walking the Channel Tightrope

EXECUTIVES OFTEN HAVE TROUBLE WITH NUANCE. WITH THE GRAY AREA. LEADING THE TROOPS IS DIFFICULT WHEN MARCHING ORDERS ARE QUALIFIED BY PHRASES SUCH AS "RELATIVE TO", "WITHIN LIMITS", OR "BALANCED APPROACH".

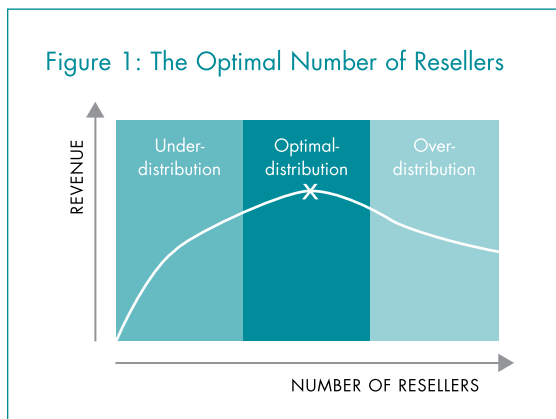
However, in the world of marketing, particularly channel marketing, balance is everything. Like an aerialist walking a tightrope, channel marketers must constantly strike a balance between too little and too much.

Let us look at some examples:

Market Coverage

At Frank Lynn & Associates, we've seen many companies looking to expand into indirect channels for the first time. With no channel partners to start, the sales or marketing executive frequently tells the field team to start recruiting partners, the more the better. (Hopefully, the company has at least created a list of desired partner capabilities to somewhat target its recruiters). However, as shown in Figure 1, at some point the company passes the optimal number of partners.

To the left of the optimal point the company is under-distributed. With too few partners, end-customers are making purchase decisions without ever being visited by one of the company's channel representatives. Sales are sub-optimized.



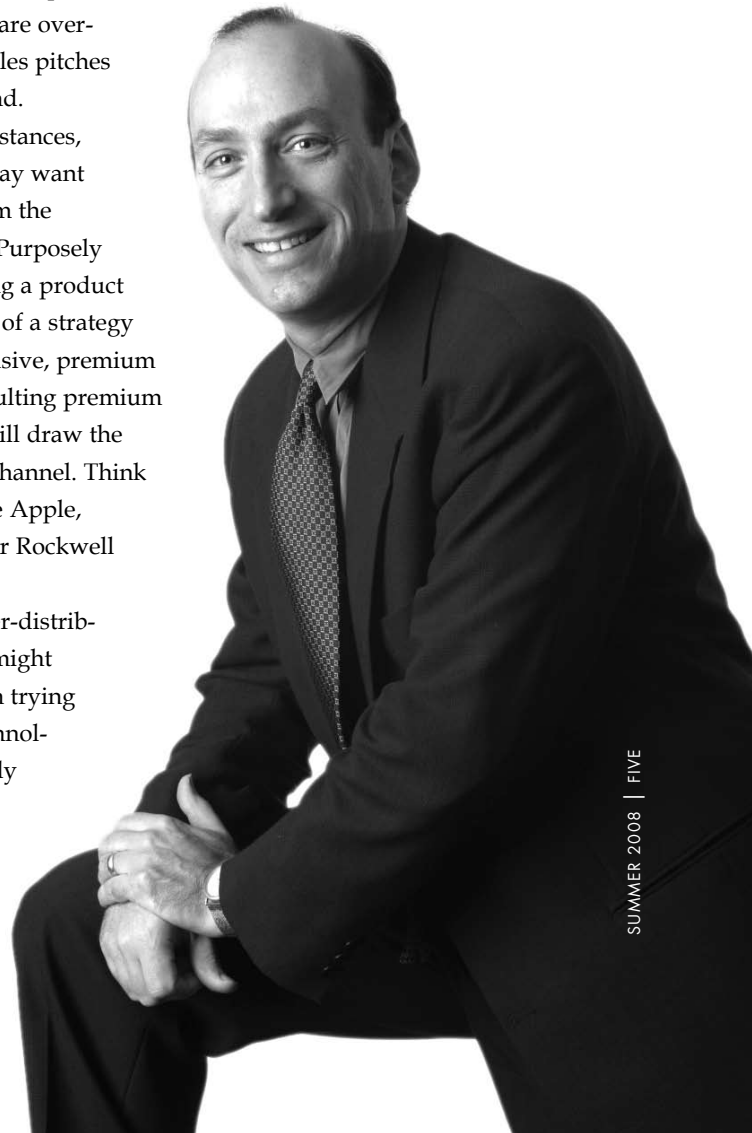
To the right of the optimal point the company is over-distributed. The end-customer is bombarded by calls from the company's channels. What's wrong with this? The channel partners will quickly realize they are in a crowded market, and lacking any other source of differentiation, will begin to lower prices. A lower price may tarnish the

manufacturer's brand. A lower price will cause the channel partners to ask the supplier for a bigger discount, beginning a viscous, downward spiral. Ultimately, channel partners will abandon the brand. Thankfully, this may bring the manufacturer back to the optimal point . . . but, often with a set of disaffected, second-tier channel partners.

Simplistically, the goal of the manufacturer is to balance the number of partners (supply) with the number of customers (demand). To find the optimal point I often use the rule-of-two. If the average customer meets two partners selling the same brand, that is often the balancing point. Fewer than two partners implies that maybe 20-30% of customers are seeing no partners of the manufacturers. More than two partners, implies that many customers are overwhelmed with sales pitches for the same brand.

In rare circumstances, manufacturers may want to veer away from the balancing point. Purposely under-distributing a product can often be part of a strategy to create an exclusive, premium position. The resulting premium brand position will draw the customer to the channel. Think of companies like Apple, Bose, Mercedes or Rockwell Automation.

Purposely over-distributing a product might make sense when trying to establish a technology standard early in a market life cycle. Novell accomplished this in the networking market (until



eventually Microsoft was able to break the Novell standard by linking its networking product to its dominant operating system).

Channel Programs

Manufacturers also must consider the concept of “balance” in the structure of their channel programs. For a successful channel strategy, the devil is in the details. The details can include programs such as lead generation, co-op advertising, discounts and rebates, training or certification, business plans, joint selling efforts, demo units, SPIFs, contests, deal registration, channel advisory councils, newsletters, portals, etc. Even for a company with a single operating division, the structure of its channel program can quickly become overwhelming – internally, and to the channel partners. Now imagine a channel partner considering doing business with a huge, multi-divisional supplier like IBM, Kraft, or Emerson Electric.

Therefore, walking the tightrope of channel programs involves balancing the need for a comprehensive set of support activities with a simplified process that harried channel partners can understand. Too many programs and the channel ignores the brand altogether. Too few programs and the channel doesn't see enough support to justify pushing the brand.

Channel Compensation

Indirect channels are highly motivated to sell products and brands that carry higher margins. Manufacturers can provide higher margins for their channel partners in two ways. First, they can create a premium brand that delivers real added-value to the customer – the Apple iPhone is a good example. A premium brand allows the channel to charge a higher price. Second, the manufacturer can offer channel partners deeper discounts, rebates and other forms of compensation. Hopefully, the supplier ties this additional compensation to some higher level of channel performance.

The margin, the difference between what the channels can charge the customer and pay the supplier, is a critical source of motivation. However,

manufacturers must take a balanced approach. Providing the channel with too little margin will cause the channel to push another brand or product category. Providing the channel with too much margin means the manufacturer gives away its own profit.

Share of Partners Business

Many manufacturers want to maximize their share of the channel's business. In some cases, suppliers will insist the channel not carry competing brands. In these exclusive arrangements the vendor will have 100% of the channel's business – in this one product area. But, of course, most channels will sell other product categories. A distributor of valves may give all its business to one vendor; but the channel also sells pipes, fittings and other plumbing products. Valves may only be 10% of the channel's business. This might be a workable model. But, if valves were 80% of the channel partner's business, the owner might be reasonably nervous. What if the supplier goes out of business? What if the supplier reduces its discounts? Channel partners often don't want any one supplier to represent more than 20-30% of their overall business.

So, from a vendor's perspective it must strike a balance. Too low a share of the channel's business and the vendor will have no clout. Too high a share of the channel's business and the partner may purposely pick up new suppliers. In some extreme cases, the legal system might rule the channel is really a de facto employee of the supplier and force the supplier to pay healthcare and other benefits to the channel partner.

SUMMARY

The gung-ho executive who expects to lead a sales and channel team to success needs to realize that more (nor less) isn't always better. Marketing and sales executives should think about strategy as a tightrope. As a balancing act. Set expectations on the high side, and the low side. Provide incentives for staying within the range, not pushing to the extremes. Ultimately, employees and channel partners will recognize a superior leader who grasps the subtleties and nuances of a market rather than someone who thinks in black and white.

Pat O'Connell Schmakel Joins Frank Lynn & Associates



John Henderson, President/CEO of Frank Lynn & Associates would like to announce a new and vital executive member to our team.

Beginning July 1, 2008, Pat O'Connell Schmakel will join Frank Lynn & Associates as a Principal, contributing her extensive knowledge and resources in strategic planning, organizational change, and leadership development.

Since 1984, Pat actively operated a private consulting firm, serving a diverse group of industrial companies, service firms and non-profit organizations. Her core capabilities include organizational and leadership change alignment, strategic planning facilitation, executive meeting facilitation, leadership training, and organizational development.

Pat served as Associate Professor of Leadership Studies for the Masters of Organizational Leadership Program at Lourdes College from 2002-2008. She holds a B.S. in Business from Miami University, and her M.B.A. then Ph.D. in Educational Psychology, and Human Resources Development from the University of Toledo.

A common thread in Pat's consulting assignments is to empower business leaders and managers to boldly and authentically transform their organizations. She succeeded in applying the practical application of leadership and organizational theory to transform real-life corporate problems to growth and profit opportunities. Pat's consulting experience suggests that it is common for organizations to appear to be performing well yet still suffer potentially fatal flaws in constructive communications, team understanding, and leader-follower relationships.

Based on her analysis of these needs, Pat tested and developed a powerful tool called *The KaleideScape Process*, which

- Provides a customized meeting and planning facilitation process for a team, division, or organization.

- Converts diverse input from team members into a patterned thought process which in term builds powerful group consensus.
- Involves all team members in discussions and decisions to drive cross-functional and multi-level organizational decision making.
- Emphasizes the development of "compelling business logic" to solve core problems and develop plans to break paradigms and accommodate diverse leadership and communications styles.

Simply put, Pat improves group understanding and buy-in of strategic needs and direction, then helps individuals and teams align themselves to get things done.

Pat's expertise in strategic thinking and meeting facilitation promises to be extremely transformative for our clients. Her proven processes and corporate experience will improve executive alignment, and team work among managers resulting in more successful implementation of core business strategies. More effective implementation of strategic goals will ultimately drive sales and market share growth for clients.

Pat has served many of Frank Lynn's customers over the years. Clients describe her as "facilitator par excellence" and the *The KaleideScape Process* one of the best they've used for strategic planning and leadership development.

Simply put, Pat improves group understanding and buy-in of strategic needs and direction, then helps individuals and teams align themselves to get things done. When people at all organizational levels rally around a common understanding about goals and rationales, they pull together to achieve tangible and measurable results.

To contact Pat, call 312-558-4810 or email poconnell@franklynn.com.