The 10 Cardinal Sins of Channel Marketing

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The Cardinal Sins of Channel Marketing

Sin #1

Assuming That Your Dealers/Distributors Will Actively Sell into New Accounts Just for You

Manufacturers often assume that their dealer/distributor channels will: 1) actively sell to all customers who might want their products, 2) provide the levels of customer support that the products need and 3) sell the products at fair margins. Unfortunately, dealers/distributors are in business to sell to customers who buy all the products that they handle, not just customers who buy one manufacturer's products. They focus their selling efforts on these customers because they can spread sales and operations costs over many products by doing so.

Dealers/distributors will rarely call on new accounts just to sell your products, unless your products provide a "foot in the door" for selling other products that they carry. To reach accounts in market segments that dealers/distributors do not call on now, manufacturers usually need different dealers/distributors whose "windows" on the marketplace address those new market segments.

Sin #2

Trying to Take Business Away From Competitors by "Matching" Their Channel Marketing Programs

Trying to "steal market share" by matching competitive channel marketing programs, margins or other compensation is a futile exercise. Why should dealers/distributors prefer to do business with you if they have satisfactory relationships with your competition? Why would they incur the high added risk and added cost of changing suppliers if you will not add value to their business? You would not make a change under those circumstances, and neither will they.

Sin #3

Spending Too Little in Establishing Your Channel Position

A strong channel marketing position is like an annuity; it continues to pay dividends long after the initial investment is made. Manufacturers entering channels for the first time often fail to recognize this fact. This is a particularly common "sin" in high-tech markets where companies under-invest in building strong positions by introducing channel programs that are half-developed. They assume that they can fix the problems with these programs as they go along. Since this damages initial channel "buy-in," this approach is a short road to failure.

The same is true of manufacturers that do not invest in programs to maintain and grow their positions over time. We have seen many companies lose their once-dominant channel marketing positions because of this short-term profit mentality.

Sin #4

Assuming That Your Existing Channel is Able to Market Your New Product

This is a trap into which even good channel marketing companies fall. It usually occurs

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when a manufacturer introduces a new product that requires high market development and customer support into a channel that provides low levels of support for existing product lines.

The existing low-support channel typically wants to capitalize on the sales opportunities promised by the new product and pressures the manufacturer into letting the channel carry it. In order to preserve the sales of its other products in this low-support channel, the company gives in to the channel's pressures. Buyers of this new product quickly recognize that the low-support channel is not capable of delivering the required presale and after-sale technical support they need. As a result, they stop buying the new product from the low-support channel which then reduces prices to recover the lost volume, thus "buying" sales. This move results in little more than lowered street prices—not higher volume.

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The manufacturer then faces loss of market share on the new product, depressed market prices and margin erosion. To top it off, the manufacturer often blames the channel for its inability to market the new product. In the end, no one is happy.

Customers understand the technical support that they need for a new product and will go to the channels that provide that technical support. It is simple: if your channel cannot provide that level of support, customers will not buy your product from that channel.

Sin #5

Assuming That Your Product is Always Important to Your Channel

Your products are 100% of your business. This is not true of your channels. If your products are 20% of a channel's business, you are a "primary" supplier, and the channel will chase customers to sell your products. If your products are 1% of the channel's business, the channel will devote 1% of its sales efforts or less to your products. Members of the channel's sales force will not knock on new doors to find customers for your products. They will not be willing to devote training time to become technically competent in your products. Even among existing customers, they will sell your products only if they are easy to sell. If your products are hard to sell, they might not even ask for orders. It is a hard fact that few channels "live and breathe" your products. They have many other products to manage as well.

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Sin #6

Being "Casual" about Selecting and Evaluating Your Dealers/Distributors

Traditionally, manufacturer and channel relationships have been driven by personal relationships. Because markets are becoming more complex and dynamic, it is now increasingly important to all concerned that the relationship be built on sound, formal business principles. Manufacturers cannot afford to invest in dealers/distributors that cannot support their marketing objectives. Channels cannot afford to invest inventory and training dollars in products that they cannot sell.

Strict business evaluation criteria should be the basis for selecting new dealers/distributors. These criteria should be reviewed annually. Neither party can afford to be involved in a business relationship that does not provide a "win" for both.

Sin #7

Assuming That the Direct Sales Force Will Support Channels "For the Good of the Company"

Most companies that market through both a direct sales force, and external channels encounter this problem.

Management's assumption is that the direct sales force will welcome channel sales since they contribute to overall company sales. Just the opposite is often true. Direct sales forces very often resent channel sales, partially because of a feeling that dealer/distributor sales are, somehow, not "legitimate sales." They might also see channel sales reducing their sales opportunities and their income.

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In order to get the direct sales force and channels to work together, management must link the salesperson's income to channel sales through double compensation, sales credits or some other economic plan.

Sin #8

Creating Economic Conflict across Channels

With the growing proliferation of channels, manufacturers increasingly find that they must market the same products through two different channels. Typically, one of these channels will provide high support at high cost and the other low support at low cost. Conflict results because the low-support channel can and will sell these products at lower prices than the high-support channel. If there are market segments that need the technical support of the high-support channel, the manufacturer must offset this economic conflict. This is usually done through a combination of segmentation and compensation plans.

Sin #9

Pay the Channel to Do the Work, and Do the Work for the Channel

Manufacturers typically define specific performance expectations or requirements that a channel must deliver. Some convey that specific functions or activities are expected in return for the discount/price that is granted to the channel by the manufacturer. These may typically, be defined as stocking your product, getting it specified, providing post-sale support, etc. When a manufacturer drop ships product to a channel's customer, or when the manufacturer takes the lead in calling on a large account to get specified, or when the manufacturer answers customer questions because the channel did not get trained, the manufacturer commits a big sin. The channel's price should change if they do not incur the cost. Otherwise the manufacturer incurs the cost directly and pays the channel as if they had performed the function.

Sin #10

Failure to Recognize the Role of the Channel's Private Label

A channel that sells a private-label product in your product category is a competitor. Why do channels sell a private-label product? First, to have something that competing distributors do not have. Second, because of the perception that the margins are better (which may be accurate). For this reason, channels will focus on their private-label brands at the expense of your branded product. The channel's sales force is usually compensated better on the private brands. It can be a dangerous position for a manufacturer. On a map, it appears you have market coverage. In reality, your product may not be proactively offered for sale.

About Frank Lynn & Associates

Since 1973, Frank Lynn & Associates, Inc. has helped companies like yours examine their market segments and develop approaches to reach them effectively. We bring to each engagement a process of analysis and conceptual tools that help clients understand customer needs and expectations as well as marketplace dynamics. Given this foundation of understanding, client companies can transform their perspectives and become successful market-driven organizations that meet or exceed client satisfaction requirements by identifying sustainable competitive advantages. Our approach stresses qualitative research and starts with an in-depth understanding of buyer criteria and competitive forces.

We allow for active management involvement without overburdening a client. Our solutions are designed with sensitivity to our clients' internal capabilities, and many clients adopt elements of our tools and processes for evaluation and future planning.

Our expertise is grounded in our understanding of customers—when they buy, what they buy, how they buy—and the role of distribution channels in meeting their needs. We build on this foundation to reveal a multitude of ways our clients can achieve strategic success. We have the experience and business savvy you are looking for. We offer you:

- International consulting capabilities—wherever you need it, help is available
- Qualified, experienced and team-oriented people with the skills to get the job done how you want it and when you want it
- Market-driven approach and proven methodologies that get results
- Actionable programs to achieve your marketing strategy
- Experience in offering the same quality of service to both small and large companies

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