Frank Lynn & Associates, Inc.

The Ten Most Compelling Reasons to Rethink Your Channel Strategy

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March 2015

Mark Twain once said, “If you don’t like the weather in New England now, just wait a few minutes.” His point about constant change could also apply to channel strategy. Many companies don’t pay enough attention to market forces that will affect their channel success; hence change sneaks up on them. To stay ahead of these changes, here are the top ten reasons Frank Lynn & Associates has identified that cause companies to rethink their channel strategy.

#10 The Aftermarket

Manufacturers often focus on their main products. However, aftermarket sales of parts, accessories, repair services, professional services, etc. often represent a disproportionately high percentage of profit. Furthermore, aftermarket sales provide an opportunity for an on-going dialogue between the manufacturer (and its resellers) with end-user customers. Many manufacturers don’t realize that they lack best practices throughout their aftermarket supply chain. This is a positive reason to rethink channel strategy. On the defensive side manufacturers might not realize the growing competition they face from generic brands, will-fitters and independent service companies.

#9 Acquisitions

When one manufacturer acquires another it sets off a chain of channel strategy concerns. Should the manufacturer retain all the channel partners or just the best one(s) in a given market? Should all products/brands be sold through all partners? Which of the two vendors’ programs and policies should be kept? Making the right choices here can create a powerful strategic position. The wrong choices or a poor implementation can drive away key partners and key employees.

#8 New Competitors

New competitors have the freedom (or necessity) to explore novel routes-to-market. They don’t have to worry about alienating existing channel partners, often because they don’t have any. New competitors don’t have a cultural bias towards one channel over another. They can quickly exploit new or emerging channels before existing manufacturers can “turn the ship.” To cut off the competitors, market leaders need to consider some unique strategies – a second brand, a skunk-works approach, etc.

#7 Shifts in Channel Power

Relationship power is the ability to influence or compel someone to change their beliefs or actions. Most manufacturers and their channels have settled into a steady, if not always comfortable, relationship where one has the power over the other. But the power dynamic is not fixed. A manufacturer can innovate to gain power, or it can allow its products to turn into commodities and hence lose power. A channel can add more value and gain power or it can merely book orders thereby losing power. Acquisitions can create bigger and more powerful manufacturers. But, they can do the same in the channel. One of the biggest shifts in channel power over the last decade is due to the emergence of huge, powerful, global distributors. Power is a key component of channel strategy and manufacturers need to constantly measure it, track it and devise plans to retain and/or increase it.

#6 New Channels

Entrepreneurs are always looking for ways to improve upon the existing methods of distribution. Through this process they often invent entirely new channels. Probably the best example of this today is online resellers. New channels inevitably rely on a business model that "disrupts" the model used by the incumbent channel.

Consequently manufacturers need to consider if, when and how they should utilize the new channel. This often requires strategic considerations of timing, economics and communications.

#5 New Markets

Even for existing products, manufacturers will seek growth by targeting new markets. Examples of such markets might be new industries, smaller customers, buyers in other countries or users with new applications for the existing product. Often these new customers prefer to buy from new/niched channels outside the manufacturer's existing partner network. For example, small customers often buy from smaller, local distributors. Buyers in vertical markets often prefer to buy from resellers that focus on that industry and add value uniquely designed for the industry. Manufacturers often find that these specialty resellers are outside of their existing channel network.

#4 New Products

Almost all manufacturers have a road map of planned new products. Many of these products are simply upgrades to current models and will likely sell well in the existing channels. However, truly innovative new products often have sales or support requirements beyond the skills of existing resellers (who may actually try to dissuade the manufacturer from recruiting a new type of partner). Knowing when and how to match new products with the right type of partner is a key element of channel strategy.

#3 Changing Economics

Money flows from a manufacturer to its channel in recognition of the role the channel performs -- selling, marketing, inventorying, financing, etc. However, that role can change over time; and manufacturers need to adjust their payout – up-front discounts, back-end rebates, etc. – accordingly. Changing the economic relationship is a very tricky proposition, so manufacturers need to design a fair, understandable and workable structure. A shift in the economic role of the channel is a critical strategic factor.

#2 Excessive Channel Conflict, Insufficient Coverage

Having too little (or even too much) market coverage is a clear signal to revise your channel strategy. Without some channel conflict (two or more resellers competing for the same business), a manufacturer rarely gets adequate market coverage. Therefore, the goal is not to eliminate conflict, but to manage it. Luckily, manufacturers can avail themselves of several economic, policy, organizational and communications tactics that address the problem. Strategically, manufacturers need to determine which of their actions will lead to conflict, how much conflict is acceptable and which mix of the above-cited tactics will work best to calm. On the flip side, insufficient market coverage is also a major indicator of a poor channel strategy.

#1: Shifting End-User Needs

End-customers' needs often evolve slowly. Suppliers, screened by even well-intentioned channel partners, may miss these changes. For example, customers that used to rely on value-added channels for advice and technical support may now be increasingly self-reliant. Such self-reliant customers may switch to broadline distributors, catalogs or online channels where they may discover new brands. This type of shift in end-user buying, usage or support requirements is probably the biggest factor driving the need for a new channel strategy.

To learn more about these 10 factors or to discuss other aspects of your channel strategy you can reach Bob at bobsegal@franklynn.com or 312.558.4808.