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MARKET STRATEGY CONSULTANTS

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ABOUT THIS ISSUE

In this issue of the Client Communiqué, the cover article examines organizational or "governance" aspects of a "go-to-market" strategy. The article addresses four critical organizational functions and suggests a model for determining who in the company should lead each area. Separately, we consider how to balance push and pull marketing techniques to create higher mindshare with distributors, dealers and other channel partners. Finally, we offer strategies for entering new countries, looking at the fast-growing Brazilian market as an example.

WHAT'S INSIDE

BY JAMES FOGARTY

Channel Governance—Striking the Right Balance to Drive Market Performance

COMPANIES EMPLOY A VARIETY OF SALES CHANNELS TO COVER THE MARKET AND DRIVE THEIR MARKET SHARE.

Many companies with broad product portfolios and diverse target markets sell through a mix of sales channels such as direct salespeople, specialty dealers, broad-line distributors, catalogs, the Internet, etc. As product portfolios and customer bases expand and evolve, so does the complexity of developing and executing a go-to-market strategy.

Companies must perform four critical functions to develop and execute a successful go-to-market strategy—channel governance, channel marketing, channel management, and channel sales. Without proper ownership and execution of these functions, companies default to ad hoc and inconsistent strategies, policies, and programs. As a result, they sub-optimize their market coverage, market share, and profitability.

The Four Functions Defined

1. The channel governance function creates the overall go-to-market strategy and the policies that support it. The strategy statement defines the target markets and end customers, value proposition, sales process(es), type of direct and indirect sales resources and, ultimately, the sales engagement model. The supporting policies cover a range of topics such as the company's channel philosophy (open, selective, exclusive), channel authorization approach (by product, geography, vertical market, etc.) and channel compensation model.
2. The channel marketing function creates and implements all of the programs that support the go-to-market strategy (e.g., marketing communication pieces, sales tools, training, etc.).
3. Channel management involves analyzing the opportunity in each geographic region, determining the appropriate mix and number of channel partners to authorize in them, and managing the supplier's relationships with its partners on an ongoing basis.
4. Channel sales involves working with the channels' sales representatives and creating target account lists and account plans, conducting joint sales calls, and supporting the partners' marketing and sales events.

The Governance Dilemma—Who Calls the Shots?

Of the four functions, we find that channel governance is particularly problematic, especially as the breadth and complexity of a company's product portfolio, customer mix, and organization structure increases.

Consider a hardware manufacturer that has multiple product divisions. A president manages each division and each one has complete profit and loss responsibility. Each president manages all of the resources required to manufacture, market, sell and support their division's offering including the sales forces.

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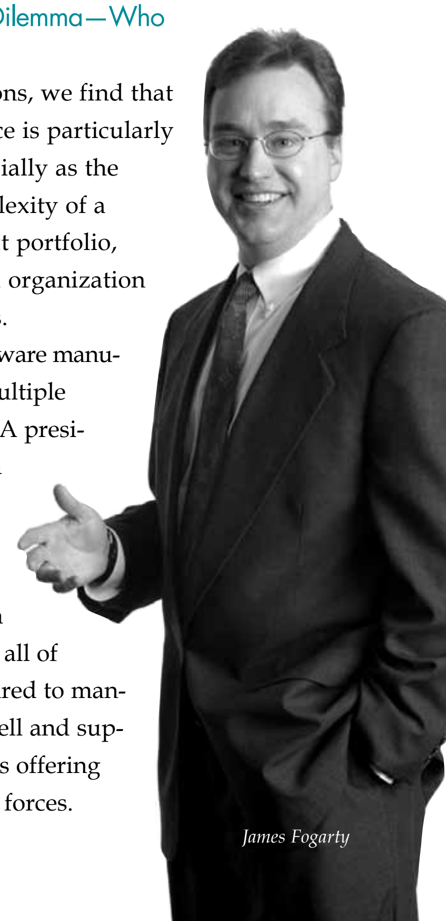

James Fogarty

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While this approach has many benefits; such as, engendering an entrepreneurial culture and fostering product knowledge and expertise, it also has drawbacks; such as limiting the company's ability to cross-sell or leverage its entire product portfolio across all sales channels, influencers and end users that are common to all of the divisions.

To illustrate the latter point, while the hardware company's divisions make different products, they market and sell them through similar distribution channels. Nevertheless, each division independently decides which distributors to use, designs its own programs to support, motivate and reward them and employs different sales representatives to manage the relationships.

Consequently, each distributor has to work with several sales reps from the same company and manage several programs rather than just one. While the distributors benefit from each representative's expertise, they cannot rely on one of them to address or resolve issues that cut across the divisions (e.g., varying authorizations, discount levels, special pricing policies and terms and conditions). The redundancy and inconsistencies often frustrates the distributors and increases their cost of doing business.

From the manufacturer's perspective, as the breadth of its product portfolio and the number of common distributors increase, the effectiveness and efficiency of its approach decreases. Given the circumstances, how does the company decide if it should continue or change its approach?

Determining the Governance Approach

The right approach depends on how the company should align itself along three key dimensions:

1. Centralization versus decentralization—should the company centralize its channel governance or keep it decentralized? This decision hinges on the level of net benefits that the company can enjoy by coordinating its activities relative to the net benefits it receives from operating independently.
2. Marketing versus sales—should the company embrace a shorter-term, deal-oriented approach (sales-led) or a longer-term, market-oriented approach (marketing-led)? The right answer depends on the market dynamics.
3. Global versus local—should the company develop, implement and manage its channel program on a global or local basis? This decision depends on a combination of customer, channel and market dynamics.

To Centralize or Decentralize, That is the Question

There are a number of variables that influence whether a company should employ a more centralized or decentralized channel governance model. For example, to what degree do the different divisions share common customers and channel partners? To what degree can the supplier manage the risk that centralization might provide distributors with "reverse leverage," for example, to argue for volume discounts? What level of savings can the supplier enjoy if it coordinates its activities?

If there is a high degree of commonality and the company can benefit from coordination, then a more centralized approach is appropriate. If the opposite is true, then a decentralized approach is best (see Figure One).

Sales or Marketing—Ready, Fire, Aim or Ready, Aim, Fire?

Similarly, there are a number of variables that influence whether a sales or marketing orientation best serves the governance approach. For example, how diverse is the end-user landscape and the mix of sales channels that serve them? How complex are the sales processes that the sales channels must execute? How dependent are the sales channels on

Figure One—Centralized or Decentralized

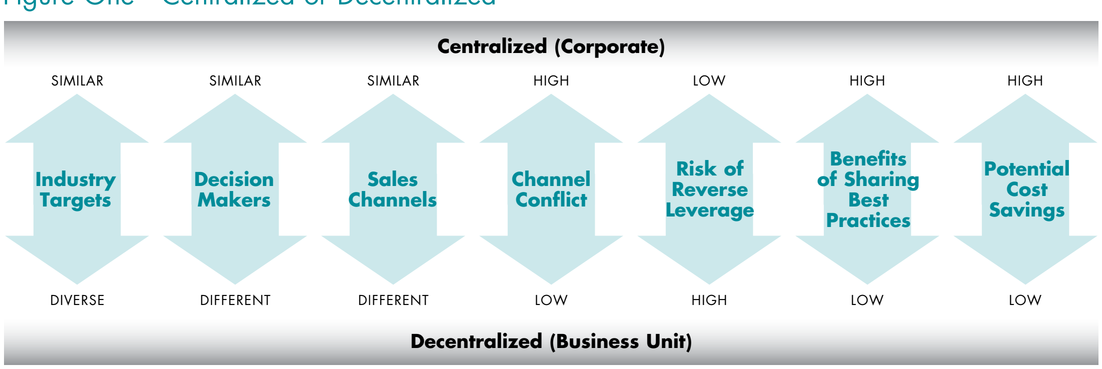


Figure Two— Marketing vs. Sales

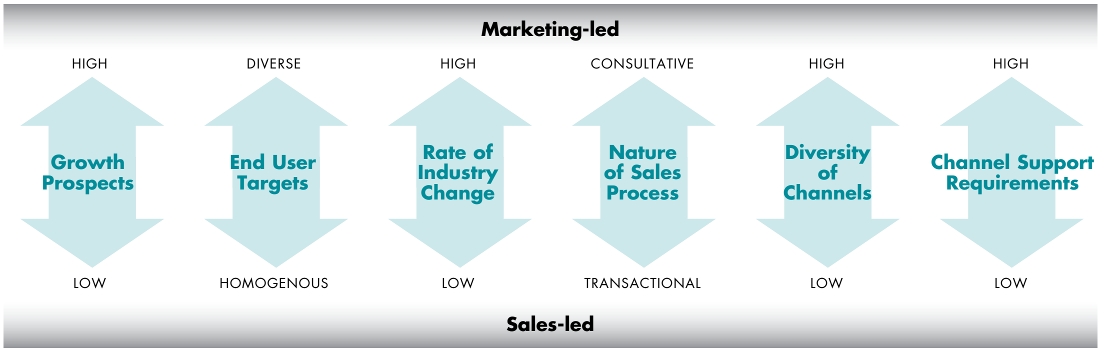
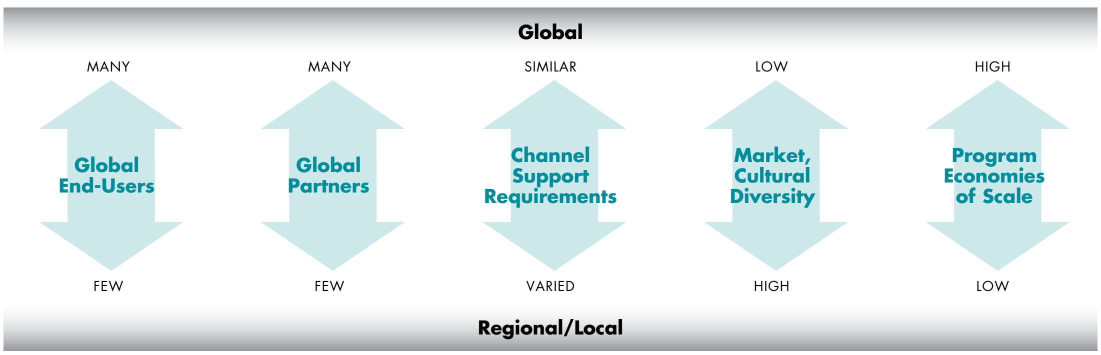


Figure Three — Global vs. Regional/Local



the supplier's marketing and sales support?

If the situation is dynamic and complex then a marketing approach is more effective. If it is not, then a sales-oriented approach is the better choice (see Figure Two).

Global or Local— Uniform or Unique?

Companies that operate across country borders must decide whether they should make strategy, policy, program and operational decisions on a global or local basis. The right approach depends on a number of dynamics such as: Do customers and channel partners cross borders? Are the markets that the company serves culturally diverse or homogenous? Can the company enjoy economies of scale?

If customers and channels operate globally and the markets are relatively homogenous, then a global orientation is appropriate. If the key stakeholders operate locally and the markets and cultures are highly diverse, then a local orientation is best (see Figure Three).

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Figure Four—Sales- or Marketing-led

CATEGORIES OF CHANGE			
	Coordinating Mechanism	Programs/Process/Policy	Structural
Rationale	Used to facilitate coordination within an existing structure	Used to codify changes within an existing structure	Used to make systematic changes
Level of Formality	Low →	→	High
Degree of Change	Low →	→	High
Examples	Marketing/Sales Ececutive Council	Joint Account Planning—Corporate and Field Level Harmonizing Channel Programs	Key Accounts Group Unified Sales Management Pooled Sales Force Marketing Company

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Implementing a Different Governance Approach

When a company decides to transition from a decentralized to a more centralized channel governance approach or from a sales-oriented to a marketing-oriented approach or from a global to a local approach (or vice-versa), it can implement the changes in one of several different ways—through coordinating mechanisms, new programs or processes, or new organization structures. As illustrated in Figure Four, the rationale to deploy one approach versus another varies as do the means to do so.

Each approach also implies a different level of formality and degree of change. For example, new programs or processes are less formal and easier to implement than new organization structures. The right approach depends on the level of benefits that the company will enjoy from the change, the time/risk/cost associated with making it and the degree to which the organization will accept it.

SUMMARY

The Importance of Channel Governance

A company's success in the market depends on how well it defines and executes its go-to-market strategy. Since the channel governance function defines the strategy, it is critical to do it well. When a company does not strike the right balance between coordination and autonomy, marketing, and sales and global or local decision making, then it sub-optimizes its marketing and sales efforts.

Frank Lynn & Associates has helped many clients refine their channel governance approach, and we would be happy to discuss your situation. If you would like to do so, then contact Jim Fogarty at jfogarty@franklynn.com or 312.558.4803.