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connecting your dots

A 6-phase plan for capturing a competitive edge by building better channel partnerships

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FEATURE STORY "Connecting The Dots"

This article is excerpted from the booklet "Channel Partners" by Gregg Taragos Ph.D., a Minneapolis-based business consultant, who works with corporations to develop partnership, manage change and improve performance for executives and line managers.

A decisive competitive edge goes to companies that pay attention to how they go to market. This 6-phase process helps you create distributor channel partnerships that produce happy customers and increased profits.

Signs of a strengthening relationship
Shared goals can only be accomplished through strong business relationships. What characterizes a strong relationship in a distribution channel?

A high level of trust. Trust grows when each party looks out for the other's interests. Partners who trust each other understand each other's business, dedicate resources to serve each other, serve customers better and generate more profit.

A common understanding of marketplace issues. This is built on shared information about the industry, the market and end-user customers.

Joint business activities. Research in a number of industries shows that, among other factors, joint planning and reviews and high levels of communication separate the best partnerships from average ones.

Shared resources and best practices. The entire channel benefits when a firm draws upon a strategic partner with access to specialized resources for delivering a product or service.

"YOU DON'T TRUST ME!" It's a common complaint in any relationship gone awry – one that is echoed in lovers' quarrels, parent/teen conflicts and employee/manager confrontations.

Relationships between manufacturers or service suppliers and their distributor partners are no different. Conflicts over longstanding issues often lead to broken trust. But in a business world that's changing at a breathless pace, a manufacturer cannot afford to become unresponsive to the needs of its distributors or dealers. Stand still a moment too long, and the business may be pulled out from under you by a more agile competitor.

Successful partnerships require deliberate efforts to build – and often to repair – the trust that is critical to any relationship.

Companies in many industries are proving that channel partnership is more than just a theory. "Through the years, both sides have determined that there has to be a real collaborative effort between everyone in the channel in order to be successful." An essential step toward creating more effective manufacturer/distributor partnerships is increasing trust between all sides. Many companies are reluctant to share marketing strategies and even sales results with outside partners, but a channel partnership cannot reach its true potential without high levels of trust and sharing.

"It's not the first thing that our customers are thinking about when they engage us to do something. They're thinking about a specific business issue like increasing sales or providing custom training, but it all falls under the big umbrella of creating better partnerships," Foster says. "The responsibilities are more blurred than they used to be in terms of how products are being supported through the channel.

Manufacturers and distributors realize that they are mutually dependent upon each other."

Executive Summary:

Profitable partnerships

Distribution channels – or "channel partners" – are vital to success in today's market-place. Successful partnerships require deliberate efforts to build the trust that is critical to making them work.

The objective: True channel partnership is a process that promotes open and direct dialogue among key stakeholders in a distribution channel. The process brings together various channel members to help them agree on strategies and put systems in place for achieving those strategies.

The method: Partners must work together to create success. Competitive threats are down-played as channels find ways to partner in existing markets or to enter new markets in order to increase profits for the entire enterprise. Programs are linked for maximum impact. Communications, measurement, training and rewards are components of a whole system, not stand-alone programs.

The results: Success measures are agreed upon up front. Results, in terms of both behavioral change and financial gain, are deliberately measured. Cost reductions and service improvements result in bottom-line wins throughout the channel.

Decisions regarding channel strategies often are made at senior levels, yet mid-level sales managers would do well to learn as much as possible about their distribution system. Even a well-managed, assertive sales team can be derailed by poor channel partnerships. In that case, an internal sales team may unfairly shoulder the blame for falling short of sales goals. Managers who fully understand how their products or services go to market can recommend changes to senior executives with greater confidence.

Business consultant and distribution channel specialist Gregg Taragos has created a six-phase process for building more effective channel partnerships. Taragos has helped notable companies such as Navistar and Motorola build better partnerships with their distribution channels. Before breaking down that process, however, it's important to clarify just what we're talking about when we talk about channel partners.

The distribution channel is generally thought of as the chain of businesses whose purpose is to transfer products and services from the manufacturer to the end user. Examples include consumer goods manufacturers and their distributors, original equipment manufacturers (OEMs) and their resellers, and insurance companies and their brokers.

True channel partnership is a process that promotes open and direct dialogue among key stakeholders in a distribution channel. The process brings together various channel members to help them agree on strategies and put systems in place for achieving those strategies.

Traditionally, manufacturers have been reluctant to form partnerships for fear that their information would fall into the hands of competing manufacturers – or competing dealers, in channels where dealers compete with each other. These competitive threats are being downplayed as channels find ways to partner in existing markets or to enter new markets in order to increase profits for the entire enterprise. This requires that both parties let go of a bargaining mentality in favor of shared goals.

Four levels of channel relationships

The primary goal of channel partnership is to increase the value that customers (end users) receive, which in turn builds customer loyalty and improves profit for the entire channel.

Taragos has identified four levels of relationships that characterize distribution channels, each identified by the amount of trust and the level of collaboration with which they conduct joint business activities.

On the low end is Transactional, which is defined as a working relationship in which the manufacturer and distributors/dealers focus solely on the timely exchange of basic products for competitive prices. Little or no attention is given to how service can be used to differentiate the product in the market-place.

On the high end is Full Partnership, which is based on communication, commitment, competence and trust, allowing partners to link programs together to create mutual gain.

Channels operating at this level are jointly funding a variety of channel-wide initiatives with high levels of participation and demonstrated results, such as learning initiatives, formal evaluation and incentive pro-grams.

The middle levels, identified as Preferred and Mutual Benefit, are stages that channels preferably pass through on their way to creating Full Partnerships. Channels progress beyond a transactional relationship and toward Full Partnership as they focus on two areas:

- Building a higher level of trust.
- Collaborating on joint business activities that deliver value to the entire channel.

The six-phase process developed by Taragos can help businesses progress toward a more collaborative relationship. These are described as phases rather than as step-by-step directions because the process will not look the same for any two distribution channels. Some phases may overlap or take place in a slightly different order.

PHASE 1: [STRATEGY]
Keep the goal in mind.
Who: Manufacturer

In order to evaluate channel relationships and make sound decisions about resources, the manufacturer needs to put channel programs on hold, step back and evaluate its overall channel strategy. Three guidelines will facilitate this process:

Decide why you want to build a partnership. A partnership cannot attack several goals at once. Agree on a main objective and focus on achieving it.

Get the right people involved. The tendency is to issue an open invitation to members of the distribution network. A more effective approach is to determine methodically which distributors/dealers are capable of and interested in achieving the channel's specific business objectives.

Identify a champion. Top leadership must demonstrate commitment to the channel partnership and, just as important, one person must be responsible to drive the partnership from beginning to end. The champion should have a clear commitment to support the initiative and should understand the relationship between the initiative and the company's business objectives.

Channel initiatives that begin without clearly defined strategic intent and a visible champion often result in raised expectations, forgotten commitments and a decreased level of trust.

PHASE 2: [COLLABORATION]
Build collaboration through dialogue.
Who: Manufacturer and distributors/dealers

Much of what is called partnering in the distribution channel today consists of haphazard efforts that fail to address the channel as a comprehensive system.

Channel partnerships will be successful to the extent that stakeholders have a well-defined structure for acknowledging their concerns and a system for achieving the goals of their partnership.

CASE STUDY

Selling a channel on collaboration

A MANUFACTURER OF building products has seven dedicated distributors, each supplying 15 to 25 small dealers. The distributors enjoyed considerable success selling the manufacturer's main product line. As the manufacturer developed new products, it faced a dilemma: How could it convince these complacent distributors to market the new products as aggressively as they sold the proven product line?

The manufacturer invited the distributors to a conference and presented its new-product strategies, showing distributors how they could grow their businesses. The distributors agreed to promote the new products within certain parameters. The partners then discussed specific programs that would help them accomplish the agreed upon goals.

The distributors' seven principals formed a council, which now meets quarterly and has the authority to make major decisions, including vetoing new product ideas from the manufacturer. A facilitator, sponsored by the manufacturer, attends the council meetings, as does the manufacturer's champion.

The council has designed channel programs that include training, incentives, dealer standards and rewards. For each program, each partner is required to show how the program will benefit the other partners. Results are tracked and programs are modified based on shared information.

The council is now an integral part of the way this channel conducts its business. Distributors, who attend the council at their own expense, would not think of missing a meeting.

The most successful collaboration takes place when manufacturer and distributor/dealers meet away from their daily responsibilities and discuss what they want to accomplish. A channel partnership conference provides an ideal forum for doing that.

Traditional attempts at channel conferences often center on entertaining the participants in hopes that they will put aside their differences on the golf course or over cocktails. Taragos recommends a conference design that is dramatically different.

Successful conferences typically involve a cross-section of 20 to 60 participants in collaborative dialogue. Each conference lasts two to three days and is repeated as often as the objectives of the partnership require.

Members of a channel partnership should emerge from a channel conference with recommendations and specific action plans for implementing joint business activities. These may be short-term projects with immediate impact, or pilot programs to develop joint capabilities that support longer-term objectives.

PHASE 3: [ALIGNMENT]
Determine the best way to get started on joint business activities
Who: Manufacturer

The initial channel conference helps establish consensus and a higher level of trust. The parties can then turn their attention to accomplishing the joint activities that both agreed will more effectively meet customers' needs. These activities are targeted to improve business performance during the next one to two years.

The manufacturer has responsibility not only for following through to achieve quick wins, but also for gaining support from key business functions to meet the channel's expectations. In other words, the channel's joint business activities must fit the manufacturer's internal business strategy across functional areas such as sales, marketing, training, manufacturing, logistics and parts.

PHASE 4: [RESOURCES]
Decide collaboratively how to pay for joint business activities
Who: Manufacturer and distributors/dealers

In Phase 3, the manufacturer made sure that the necessary internal capabilities were in place to make the initiative(s) a reality. Now, the partners must look at the resources available in order to determine how to allocate resources, find creative ways to share expenses, and determine which initiative should be put in place first.

Decisions regarding how to allocate resources can be complex since initiatives usually are not one-size-fits-all. Taragos emphasizes the importance of making commitments to each other and communicating them throughout the channel.

When channel members have a voice in how resources are allocated, they are more likely to commit to the joint initiative.

PHASE 5: [IMPLEMENTATION]
Connect people and processes
Who: Manufacturer and distributors/dealers

Now it's time to design the specific initiatives. Change initiatives may focus on new technology (field salespeople need new laptop computers); on behavioral change (dealership employees need training on new products or customer satisfaction skills); or on marketing or promotional efforts (the manufacturer needs to launch a new product successfully).

Be sure to communicate objectives and behavioral changes to all levels of the organization that are expected to participate. An office products manufacturer launched a Web-based marketing campaign to help its distributors – small businesses – sell more of the manufacturer's products. On the manufacturer's Web site, the small-business owners could download high-end marketing materials that they could not afford to produce independently.

The manufacturer, however, did not get the broad-based support of the small businesses for the program, nor did it adequately communicate with them about this unique marketing opportunity. As a result, the Web site attracted little activity, and a well-designed marketing program produced minimal returns.

PHASE 6: [RESULTS]
Evaluate the results and use them to refine the program
Who: Manufacturer and distributor/dealers

When results are not measured, enthusiasm for an initiative wanes. If channel members – from top managers to frontline workers – do not understand the value that collaborative efforts are adding to the channel, there is little incentive to contribute personally to the efforts.

What's more, results are an important tool for refining the program. As the partnership grows and develops, new initiatives benefit from what was learned from earlier initiatives.

Results measurement should be built into the design process for each program. Too often, companies consider results as an afterthought, only to find that they cannot evaluate the initiative because they have weak data, the wrong data or inadequate communication with those who own the data.

Managers should be involved from the beginning in defining success measurements for the entire system of linked activities, such as promotions and training or marketing initiatives. Be sure to show how joint business activities benefit both sides of the partnership. The tendency is to focus on market share without showing how dealers benefited from the initiative(s). The ideal is for partners to interpret the results together.

In a rapidly changing market-place, distribution channels don't have time for the transaction-based mentality that has kept members competing for scarce resources and guarding information from one another. Power shifts, mergers and alliances, new technologies and sophisticated selling strategies are all coming together to create new systems that won't pander to old fears – or wait for out-moded channels to catch up.

Manufacturers who are able to capitalize on these changes by developing channel partnerships will be able to differentiate their brands, offering better service and other value-added benefits that their competitors can't replicate.If the trust in your channel is on shaky ground, take heart, says Taragos. Find your key stakeholders – inside and outside your organization – and start to compare notes. Chances are you'll find that you have more in common than you think.