Channel Partners:

Strategic Channel Management

Through Partnerships

Gregg Taragos Ph.D.

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By Gregg Taragos Ph.D.

Summary

Changes in the distribution channel and the increasing need for differentiation has led many companies towards the development of strategic business relationships with their channel members. A channel partnership process to build relationships is described. A case study is used to illustrate how a company and its channel member's implemented mutual objectives to establish and recombine services that led to increased market share and a stronger competitive position.

Introduction

Purchasers of standardized commodity products find that there is generally little differentiation across offerings in the buyer-seller relationship. Given the current marketplace and competitive environments characterized by rapidly changing customer requirements and constant demands for improved performance, companies' ability to differentiate themselves has become paramount. Organizations competing in industrial, as well as consumer markets are looking to their manufacturers to help them achieve stronger competitive advantage by providing higher quality products, improved services and efficient distribution systems.

The purpose of this article is to (1) Discuss some of the trends and issues within distribution channels. (2) Outline a process to build strategic channel relationships through partnerships. (3) Describe the application of the process to establish joint business activities between a major manufacturer and its channel members.

Channel Partnership Trend

Marketplace similarities in product quality and prices are a relatively common occurrence. Intense competition, increasing customer expectations for heightened product value and the condensing of product life cycles are requiring companies to pay more attention to business relationships in order to maximize. One means for companies supplying products to their channel is to differentiate themselves from their competition by establishing close partnership relationships across their distribution channel to help respond to these changing marketplace needs. A channel partnership is a business-to-business relationship within the distribution channel that establishes mutual objectives and commitments to address marketplace and operational issues resulting in joint benefits and returns.

Traditionally, relationships between companies and their channel members have been established and maintained using an array of approaches ranging from adversarial and control-oriented methods to those emphasizing building of collaborative relationships. Although powerful companies can, and often do, use their strength to win concessions from their vulnerable counterparts, the use of fear and intimidation is clearly a questionable way to effectively manage business-to-business relationships. (Kumar, 1996)

A current trend in business-to-business relationships is clearly toward a much more collaborative approach. Surveys conducted with more than 3,000 U.S. and European executives and more than 1,500 manufacturer-retailer relationships in industries such as automobiles, computers, consumer packaged goods, earth moving equipment, replacement tires, lumber, semiconductors, telecommunications and vehicle leasing have indicated that partnerships will continue to be emphasized. Partnerships are increasingly more important because of magnified competition and ever-increasing customer expectations for heightened product value.

Indicators of Successful Business-to-Business Relationships

High Levels of Trust

When both sides trust each other, they can share information, learn about how to enter into joint activities and respond to changing customer and marketplace needs. This may involve sharing information systems, resources, training, selection, marketing/competitive intelligence, and personnel capabilities or dedicating people in new ways to serve each other better.

Trust is stronger than fear, Kumar suggests a company cannot build trust while seeking to retain or increase its leverage power over a partner. Partners who trust each other generate more profits, serve their customers better and are more adaptable.

There are both advantages and limitations to trust relationships within the distribution channel. A comprehensive study by Kumar (1996) explores the relationship between the manufacturer and over 400 retailers in the automobile and parts industry. He found that retailers who had a high level of trust in their manufacturer generated 78% more sales than those with a low level of trust. Kumar also found that retailers who trusted the manufacturer were rated as performing 11% better by manufacturers on performance.

Joint Business Activities

Recent research across business journals makes a strong case for the redefinition of customer-supplier relationships based upon joint planning, information sharing, alignment of accounting, measurement and rewards systems and openly sharing resources as a means of meeting current marketplace demands. We conducted a comprehensive assessment to identifying key characteristics separating the best and average partnerships. The best partnerships conducted more joint planning of programs, products, services and marketing, annual joint reviews of performance, high utilization of all forms of communications (i.e.; distributor-supplier visits and trade shows), increased customization of products and low frequency of pricing problems.

Effective partnerships apply shared planning and business strategies that facilitate mutual cooperation and jointly coordinate activities addressing products, promotions, policies/programs, price, distribution, marketing communications and field sales support.

Shared Resources and Innovation/Best Practices

Partnerships that share resources and innovation/best practices are often formed to reduce risks and costs associated with expanding into a new product or service line. This can be done by drawing upon strategic partners to access specialized resources to deliver a product or service that could not have been brought to market by one party alone. The result of combining resources for the production of a single product or service is better customer access.

Building Channel Partnerships and Relationships

Traditionally, sales and marketing organizations recognize and meet with top distributors and dealers to recognize their contributions. They combine one-way presentations, conducted by the manufacturer on new products and programs, with entertainment — the emphasis being on entertainment. During these events there is typically not an open exchange of information or effective documentation of ideas generated during the session.

Ways to Build Trust

Experts on trust, outline a simple premise for building trust/ They suggest that both parties non-judgmentally listen to each other's issues and concerns, freely exchange ideas, share information, and demonstrate a willingness to be open to influence.

However, creating an opportunity for the manufacturer or supplier to effectively listen and exchange views can be major break in tradition for many sales and marketing organizations when they conduct their annual meetings or conferences with key resellers. A common post-conference evaluation theme of a recent partnership conference conducted for a major electronics company was clearly stated by a participating reseller: "This is really different, they actually asked about the future and came back and said how they would enact our suggestions."

When asked how that was different from other conferences, the response was: "They usually ask us for ideas for an hour or two and then we spend the rest of the conference hearing one-way lectures on how they are going to execute their strategies, disregarding anything we said." Conducting a channel partnership conference where the manufacturer actually listens understands and documents issues and ideas from their channel members establishes a new relationship between people. The channel member comments illustrates the qualitative difference in perceptions of relationships based on an open exchange of ideas versus dictated policies.

The manufacturer can also build trust by providing industry data, company performance and market share information, or by simply offering information that their resellers are interested in and can act upon for mutual benefit. The key to making the information useful is to discuss, interpret and apply the data in meaningful ways to meet future needs. This approach creates an environment where both parties can jointly establish a framework to understand and communicate coherent needs and clear rationales for future policies and decisions.

A Process to Build Partnership

Partnerships involve the formation of relationships between individuals or organizations that can be industry or market focused. The members of a partnership are primarily concerned with improving the quality of the product or service they provide, in order to better serve their mutual customers. One simple reason for identifying ways for companies and their channel to work together is to define the joint benefits of gaining a greater share and scope in their mutual markets for which they sometimes compete. Partnerships focus on efficiencies in serving existing customers, but more importantly on expanding the size of the pie rather than on competing for the biggest piece of existing pie.

We have applied a partnership process with a number of major manufacturers and their distribution channels (Figure 1). The process begins by determining the readiness and willingness of leadership from both parties to commit to exploring ways to develop their working relationships. An assessment of the suppliers' strategic intent, values and readiness to initiate a change is conducted. The assessment is typically completed by discussing the process with key customer and supplier stakeholders through individual interviews, leadership team meetings, and reviewing survey and market data. Upon completion, it is determined whether there is a clearly defined champion within the supplier organization has influence and access to the resources required to initiate and lead the process over the ensuing eighteen to twenty-four months. Without clear up-front leadership, the only real outcome is raised expectations, forgotten commitments and a decreased level of trust.

Once the intent and scope of the partnership approach are identified, a customer and supplier partnership conference is planned and conducted. The conferences are typically two to three days in length and are often repeated on a monthly basis dependent on the objectives of the partnership. The sessions engage a cross-section of 20–60 company and channel representatives in collaborative dialogue. The conference focus is on establishing a common understanding of current marketplace conditions, defining a future partnership relationship, product and service analysis, drafting recommendations to meet joint expectations, identifying the best ways to get started, and creating specific action plans. Getting started may include some short-term quick wins that will have an immediate impact as well as potential pilots to develop joint capabilities that support longer-term objectives and measures.

Once the recommendations are established, they are used to align or redefine the suppliers' operational plans. Based upon the jointly established priorities, the manufacturer allocates resources and reports on the specific commitments and resource allocations to their distribution channel members, typically at reseller councils and national meetings.

Implementing the agreed upon commitments requires a process that informs and engages a broad base of stakeholders and integrates their common thinking into "doable" and measurable, system-wide recommendations. These recommendations often target developing capabilities of human resources across the supplier and customer organizations. Dependent upon the specific objectives and design of the partnership, they can involve a wide range of joint activities from information sharing and certification systems to marketing and branding strategies. Progress on implementation is initiated and then monitored based upon measures that indicate completion of identified commitments. The review of progress is usually managed by an Executive or Steering team and discussed at semiannual internal operational and/or Dealer Council meetings.

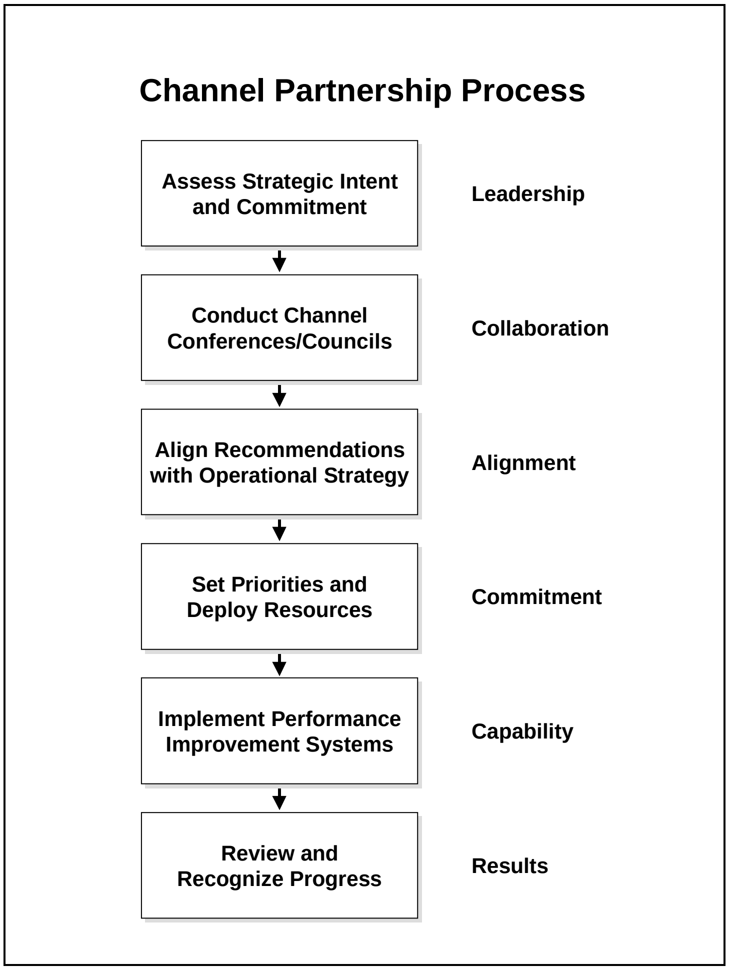

Figure 1

Application of the Partnership Process

We have applied various partnership designs based on the partnership process just outlined, across a number of industries including consumer electronics, computer peripherals, petroleum, heavy equipment and telecommunications.

Leadership of a major electrical manufacturer wanted to make a significant commitment to increase the attractiveness of product offerings and market share with building contractors in a previously untapped residential market. The manufacturer is a market leader in a stable industry with little product differentiation. Management wanted to discover the product and service issues that mattered to contractors in response to end-user needs. In addition, they placed significant value on using a team approach to increase contractors' business success and resulting market share. They made a clear commitment to pursue partnerships with high performing electrical contractors to differentiate themselves in a market where they had a relatively small share.
To initiate the partnership, three sequential two-day conferences were held over a four-month period in five regions across the United States. Manufacturer representatives and contractors met to discuss issues contractors had with electrical equipment offerings, to identify and share best practices as well as assess their operational and training needs necessary to improve contractors' business performance.

Based upon customer/contractor recommendations, the manufacturer held national conferences with all five contractor councils, provided training packages and materials in response to identified needs, increased the availability of marketing materials and co-op advertising opportunities, published and shared best practices. In addition the Senior Vice President of Sales reoriented the availability of field sales support and shifted the sale force orientation from a transactional to a customer-driven consultative approach.

Based on the identified benefits and continued potential of the process, contractors established ongoing self-managing councils. All five councils continue to meet three years later on a quarterly basis. Testing of new product and promotional ideas with contractor councils has resulted in changes that have significantly increased sales. Perceived value for manufacturer product in the channel is strong and distributors are loyal to products at high price points, despite the general commodity-orientation of the business.

Conclusion

In a marketplace where high quality and competitive prices are a requirement for doing business, the need to differentiate an organization's product and services in response to customer and marketplace needs has become critical. One effective way to meet this expectation is for companies to work collaboratively with channel members to identify joint strategies to provide value to their customers.

Traditionally the relationship between companies and their channels have not supported the joint development of cooperative strategies to creatively meet end-user needs; however, recent application of partnership strategies has a history of demonstrated success. The development of these partnerships must respond to the unique needs of both parties and use a process driven approach.

Applying principles of a partnership process can be used to help insure that there is leadership commitment toward improving customer-supplier performance, guide the design of face-to-face interactions between key stakeholders, align customers/channel recommendations with the manufacturer's operational objectives and effectively allocate resources toward developmental efforts. The results of research on partnership strategies across industries suggest that there are clear opportunities for improvement in market share, internal operations and financial performance for both the customer and supplier. As Kumar (1997) suggests, in the future highly productive partnership relationships between a company and the resellers in their distribution channel may well be a given where it is currently the exception.

Gregg Taragos, Ph.D. has spent 10 years implementing organization change strategies, strategic planning, organization design and team building for executives and line managers. Implementation of the "Channel Partnership" process has been made across industries including consumer electronics, automotive, manufacturing, petroleum, computer peripherals and heavy equipment. He can be reached at greggwt@aol.com, gregg@org-designs.com

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