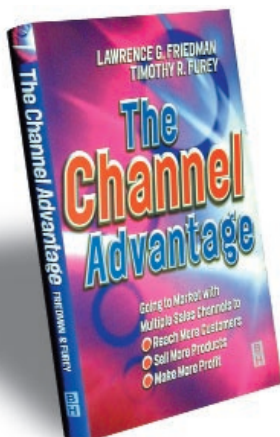


SOUNDVIEW Executive Book Summaries®



By Lawrence G. Friedman and
Timothy R. Furey

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Going to Market with Multiple Sales Channels

THE CHANNEL ADVANTAGE

THE SUMMARY IN BRIEF

Today, many leading companies are putting at least as much effort and creativity into *how* they go to market as into *what* they bring to market. Companies have a wide variety of options for connecting products with customers, from sales forces to distributors, from direct mail to the Internet, and everything in between. Each channel has unique strengths as well as weaknesses. For example, sales forces handle complex transactions well, but are expensive. The Internet isn't suitable for sales that require a lot of training or hand-holding, while using distributors can create sales at the expense of direct contact with the customer.

The use of a single channel limits a company's market performance. If you use only a sales force, you may provide great customer service, but you will be at a cost disadvantage to any competitor using another channel. On the other hand, if you use only the Internet, you will be limited to the sale of simple, low-cost products. In short, no single channel does everything well or competitively. Therefore, your challenge is to choose and integrate the right mix of channels to reach the most diverse group of customers and deliver the right product to each at the least cost. The result: a competitive advantage in revenue growth, market reach, customer loyalty and profits.

To build a channel system that will yield world-class performance and a durable competitive advantage, you must:

- ✓ know which channels you should be using;
- ✓ know how to build those channels into world-class performers;
- ✓ and manage them together as an integrated go-to-market system.

This summary will lead you through each of these three steps. You'll learn how to identify the right channels for your company by analyzing customer behavior and product characteristics. You'll learn how to build the different types of channels, from sales forces to the Internet. Finally, you'll learn the importance of effective channel mix and channel integration.

Turn the page to take the first step in building the high-performance, competitive multi-channel system that will set your company apart from its competitors.



THE CHANNEL ADVANTAGE

by Lawrence G. Friedman and Timothy R. Furey

— THE COMPLETE SUMMARY

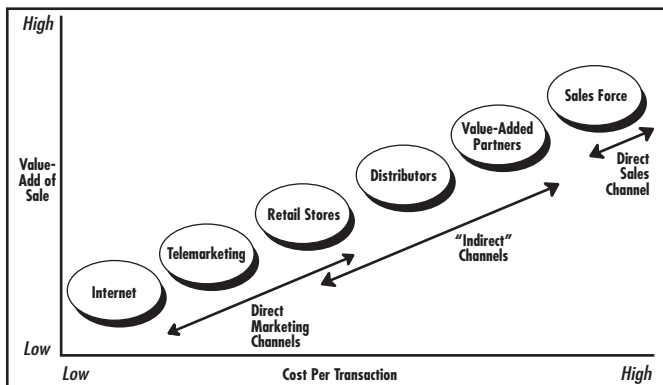
Choosing the Right Sales Channels

Today, the companies at the top sell products that are not substantially different from those sold by the competition. This is because successful and profitable businesses don't try to compete on the basis of product differentiation. They recognize that a new and improved product no longer yields a long-term advantage. As the rate of change has accelerated, a product advantage today is gone tomorrow.

Instead of differentiating themselves through products, top companies differentiate themselves in the way they reach their customers. Companies are achieving strong revenue and market share growth primarily by making it more attractive for more customers to do more business with them through more convenient sales channels. This is the channel advantage. ■

The Starting Point: Product-Market Focus

Before choosing the best sales channel or channels for your products, you need to take a hard look at your product/market strategy — what products you sell to what markets. Don't add new products (and new channels to distribute those products) without considering whether you aren't better off sticking with your current products and pushing further into your present core market. The truth is that sales growth within existing accounts is usually far easier to achieve than through expensive, risky forays into new products or markets. Remember that it's harder and more expensive to get



Sales Channels - connecting products with customers

Source: Oxford Associates, adapted from Dr. Rowland T. Moriarty, Cubex Corp.

Channeling at Dell

Dell Computer makes personal computers that are about the same as its competitors' machines. Yet Dell's sales have grown 53 percent annually over the past three years, far faster than its competitors. During the same three years, profits grew 89 percent per year. Why is Dell outperforming the competition? The answer lies in Dell's distribution channels. At a time when other computer manufacturers are struggling with direct sales forces and distributors, Dell markets its computers in ways customers find attractive. Dell customers can configure and order a system over the Internet, or buy from efficient call centers. Together, these channels allow Dell to reach a varied group of customers where they want to be reached.

new customers than to retain established customers. It's also harder to sell new products than established products. The further a company moves away from its core base of existing products and customers, the more difficult it is to achieve high levels of profitable growth.

Thus, when developing your product/market strategy, start by concentrating on those product-markets characterized by "partially-penetrated" accounts, with low to medium market share.

In other words, customers tend to buy similar products from three to four vendors. Thus, each vendor may have just 25 percent of the total potential sales from that customer — that is, a 25 percent market share.

These low-to-medium market share accounts will yield the greatest profit for the least cost. And don't neglect "dormant" accounts. These customers typically

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Published by Soundview Executive Book Summaries (ISSN 0747-2196), 10 LaCrue Avenue, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corporation. Publisher, George Y. Clement. Publications Director, Maureen L. Solon. Editor-in-Chief, Christopher G. Murray. Published monthly. Subscription, \$89.50 per year in the United States and Canada; and, by airmail, \$95 in Mexico, \$139 to all other countries. Periodicals postage paid at Concordville, PA and additional offices.

POSTMASTER: Send address changes to **Soundview, 10 LaCrue Avenue, Concordville, PA 19331**. Copyright © 2000 by Soundview Executive Book Summaries.

Southwest Demonstrates Product-Market Payoff

Southwest Airlines provides an outstanding example of the wisdom of focusing on the right product-markets. For the last 24 years the airline has been the only carrier to turn a consistent profit. Southwest's strategy has been simple: Focus on short-haul intra-state routes, use less congested airports and set prices low enough to fill planes.

The airline has avoided setting up shop in expensive hub-and-spoke airports and focused on serving high-volume city pairs instead. Those pairs are its core market, and it continues to concentrate on growth within the core. Its target customers are price-sensitive local travelers seeking to get from one city to another as quickly and inexpensively as possible. By eliminating in-flight meals and most advance reservations and using smaller airports and standardized aircraft, the airline delivers what the customer base wants. So successful is its strategy that it consistently wins awards for best on-time performance, least complaints and fewest lost bags.

The Starting Point: Product-Market Focus

(continued from page 2)

are easier to sell to than new customers.

You cannot, of course, ignore new products and new customers completely. But you must weigh the cost against the benefits and concentrate your efforts accordingly. Remember that the cost of acquiring a new customer is three to six times that of retaining an existing one. While new customer growth may drive up sales, they paradoxically drive down overall selling profitability.

In sum, make sure that you are not focusing on new customer acquisition at the expense of increasing your market share of current customers — a more profitable use of your resources.

You must be equally careful in planning new product introductions. Relying too much on a growth strategy that pushes selling new products to new customers almost guarantees lower profitability.

In short, your strategy should develop as follows:

- ✓ first, deeper penetration of existing accounts with existing products;
- ✓ reactivation of dormant accounts;
- ✓ selective acquisition of new customers with market-validated products; and, finally,
- ✓ selective introduction of new products for existing customers. ■

Aligning Channels With How Customers Buy

To get customers to buy more, you must meet them where they're ready to do business, whether in a retail store, on the Internet or in their homes through a mail-order catalog. In evaluating new channel options, the acceptance and willingness of customers to use it is more important than any other factor in a channel's favor.

The first step is to identify your customers' channel preferences and buying behaviors.

Customer Surveys

Use a customer survey to acquire the information or data you will need to know about your customer. This data should include:

- key information about the customer including transaction volume and market segment;
- channel usage and preference, correlated with product or service purchased; and
- customer speculation on what channels will be used in the future.

Analyze your survey results to determine which channels are being used and which customers indicate a willingness to use them. From this list, design a flexible mix of channels that meet customer needs — that are, in other words, aligned with proven buying behavior and key buying criteria.

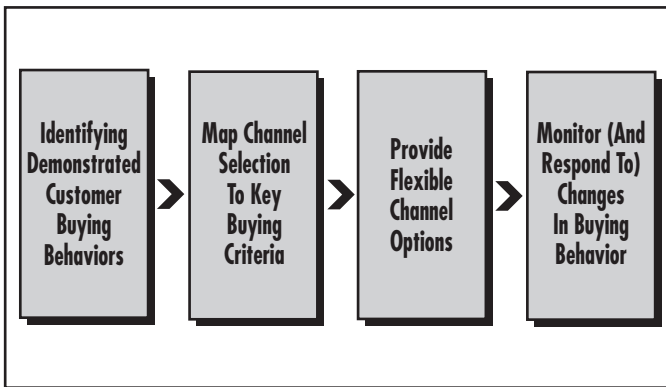
The cutthroat world of the flower business illustrates the channel approach. Customers who value making personal selections and expert advice over price and

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Survey Questions

Your channel survey should answer these questions:

- Who are your current customers?
- What criteria do they use to make a purchase?
- When and how do they do business?
- Do they want to buy different products through different channels?
- Do they buy the same product through more than one channel?
- Do you have different customers with different channel preferences?
- Who will your new customers be and will they want different channels?
- What channels do you need to add to meet customer needs?



Aligning customer buying behavior

Aligning Channels With How Customers Buy

(continued from page 3)

speed buy from retail florists. Those who value speed and delivery flexibility may choose a call center florist. Those who value price, speed and delivery flexibility chose an Internet web site.

Of course, the same customer may value different channels for different flower buying occasions. For an anniversary, when customization rather than price is the main consideration, he might choose a local florist. For a less personal business occasion he might choose the convenience of a call center or web site.

Buying Behavior Is Not Static

You will have to continue to monitor and respond to changes in buying behavior. This is particularly true if you use premium (and expensive) channels to close sales. Over time, customers become less willing to pay for premium channels. Be prepared to move into lower-cost channels as time goes on. ■

Amazon Takes Advantage Of New Channel

Amazon.com sells one of the oldest, lowest tech products in the world over an entirely new sales channel, the Internet. Back in 1996, when the Internet was very new, Amazon.com took the concept of bookselling, self-service and technology, and created a virtual bookstore which reached the market capitalization of Borders Group and Barnes & Noble combined within three years. By recognizing that bookbuyers are sophisticated individuals who like self-service and technology, the company took advantage of an entirely new channel to deliver books at significantly lower cost than competitors with physical stores.

How Product Characteristics Affect Channel Selection

Not every product can be delivered through every channel. Some products are simply better suited for one channel over another. You must consider channel touch when matching product to appropriate channel. Channel touch refers to the amount of customer interaction, service and support provided by a channel. For example, a high-touch channel would be a direct sales force because it is capable of touching a customer frequently, intensely and in many different ways. On the other hand, direct mail and the Internet are low-touch channels that offer virtually no interaction with customers.

A highly defined product that is easily recognizable as useful can usually be sold in any channel. For example, a pencil is a highly defined product whose usage and benefits are obvious. It can be sold in any channel, but the most suitable channel is the lowest-touch channel. On the other hand, a mid-definition product like insurance or business software may need a higher-touch channel to explain its benefits. Retail stores or value-added partners may be appropriate sales outlets. Finally, a low-definition offering such as a professional service can't be sold without education and explanation, and needs a high-touch channel such as a sales force. ■

The Economics of Channel Selection

You can't ignore the economics of channel selection. Why, for example, do almost all retail banks severely limit the hours their lobbies are open? "Banker's hours" aren't an accident, but instead reflect an industry wide effort to force customers to use lower cost channels to transact business. The cost per transaction for a do-it-yourself Internet or ATM transaction is far lower than using a teller.

When selecting channels, don't just select the channels that customers want to use. Select the lowest-cost channels customers will use.

In other words, when choosing channels, first identify every possible sales channel available. Next, use the customer survey information to determine which of those channels customers will actually use. Of those channels, determine which of those are a good fit for your product. Finally, identify which of these are likely to perform well economically by determining the channel's profitability.

You can identify the lowest-cost channel through the channel's profitability, which is expressed in terms of its

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The Economics of Channel Selection

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expense-to-revenue ratio, or E/R. E/R is the average transaction cost divided by the average order size. Say, for example, that you sell home office copiers for \$400. If when you sell them through a distributor, the cost per transaction is \$40, the E/R is 10%. If the same copier costs \$20 to sell through telemarketing, the E/R is 5%. The lower the E/R, the more profitable the channel because the ratio shows that less money is being spent on selling cost for every dollar of revenue.

To determine the cost per transaction needed to calculate the ratio, take the total expense your company incurs to operate the channel and divide it by the total number of transactions.

As a general rule, choose the lowest-cost channel that is accepted by customers and that is a good fit for the product. Using this channel will yield the highest profits. Of course, you also need to make sure the channel you select is capable of producing a target level of sales revenue. Each channel also must be evaluated in terms of its channel capacity. The channel must be able to deliver enough sales to meet targets. ■

Building the Right Sales Channels

Once you have selected the channels that can best deliver high growth and profitability for a product market, you need to develop those channels. Most companies will end up using a combination of a sales force, business partners, telechannels or the Internet. Each channel presents unique challenges and can yield rich rewards. ■

Using the Leveraged Sales Force

The direct sales force is alive and well even in the world of Internet commerce and other technologically driven marketing. They perform a critical function in most organizations. A sales force is still the only channel that can sell complex products and solutions to large key accounts with a high degree of control over the sales process. For companies whose market includes such accounts, a sales force is indispensable.

Because sales forces are an expensive way to make sales, companies are redesigning them to maximize the opportunity for profit. That means that sales forces are no longer expected to chase every account. In a multi-channel system, other channels can often deliver sales at lower cost. By limiting sales force participation to the kinds of complex transactions that require high-end field represen-

What a Leveraged Sales Force Looks Like

- Large account focus
- Complex, customized product focus
- Fewer accounts per representative, but with higher per account expectations
- Focus on the right call and the right deal
- Use inside sales to leverage time and energy
- Integrate field sales with other channels
- Training in skills to grow large, complex accounts
- Emphasis on partnering with key customers
- Compensation is realigned to reward key account development and discourage low-end selling

tatives, companies are leveraging their sales forces to maximum benefit. Their time and energy is spent focusing on the most important market opportunities.

Sales forces must be pushed away from chasing every account and into cultivating key accounts. Smaller accounts or products that don't require high-touch selling must be redirected to other channels. The traditional sales training emphasis on aggressively closing sales doesn't work. That approach makes sense if the goal is to sell as much product as possible into as many accounts as possible. But that's not the way a leveraged sales force works. Instead of emphasizing closing any and all sales, salespersons must learn to use problem-solving skills to develop a partnership orientation with customers and the ability to work collaboratively with other channels.

Five Principles

A leveraged sales force is built around five principles. First, you must focus sales activity on large account acquisition. Don't let the force spend too much time with existing customers and small transactions. They need to get out there and acquire new, major accounts. One trick is to stop assigning the sales force to a geographic area. Instead, assign salespeople to a minimum **account size, sales complexity and growth potential.**

To help sales reps focus on the right accounts, be sure to define what you mean by "right." Articulate at least two or three concrete characteristics of the "right" account. You must also reduce the number of accounts per representative.

Second, the sales force must use other channels to offload "low value" selling tasks. Let the sales force be responsible for account planning, customer negotiation

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Using the Leveraged Sales Force

(continued from page 5)

and sales closure. Give other tasks like lead generation, proposal writing, order fulfillment and post-sale support to others. For example, lead generation may be better and more economically done by a telemarketing group.

Third, provide extensive technological support to field representatives. Computers and up-to-date business planning software are essential. You must also provide appropriate information to the reps. The focus of that information should be industry news, key account events and business development opportunities.

Fourth, redesign sales force training programs to emphasize large account acquisition and penetration. Teach sales representatives to conduct needs analysis for customers. Reps must stop using aggressive closing techniques and instead learn to develop and court large accounts.

Finally, align performance measurements and compensation with a large account focus.

To refocus attention to larger accounts, you may also need to redesign the compensation structure. You can, for example, discourage retention of small accounts by eliminating commission payment for them. ■

Using Business Partner Channels

A business partner might be a giant multinational company or a housewife selling home baking equipment to her friends. Partners include manufacturer's agents, brokers, wholesalers, retailers, distributors, resellers and value-added dealers. They are intermediaries who sell, support or build a manufacturer's products for its customers in return for a commission or other payment.

Using a business partner is using an indirect channel to reach your customers. When used correctly, business partners can help a company penetrate deeper into dispersed markets and reach more customers, thus growing revenue and market share.

Generally, using a business partner is less expensive than using a sales force. The trade-off, of course, is control and direct contact with the customer. There are seven best practices you should apply to a business partner alliance. These are:

Define the scope of the channel by determining how many partners you need. Some factors to consider are how many partners the market can accommodate. Remember, each partner will have to benefit economically from the partnership. If you sign up too many partners, there may not be enough profit to sustain partner efforts.

Amazon.com Associates

An example of the use of partners to generate leads is Amazon.com's associates program. Through the program, companies or individuals with Internet web sites can set up web sites reviewing or recommending books. Review readers then click through to Amazon.com. The associates' function is strictly to generate leads. In exchange, they receive a portion of any sale resulting from the lead.

Define the partners' role. Will they provide leads, sell or perform a support role after the sale?

Make sure channel policies for your partners are complete, clear and written.

Build a strong base of partners. You must carefully recruit appropriate partners. Create a perfect partner profile and use it to screen candidates.

Build a strong channel support infrastructure, including marketing support, advertising allowances, opportunities for co-branding, opportunities for training and sales promotions.

Measure and manage partner performance. Although partners don't work for you directly, you can still measure their usefulness. Set realistic expectations, and cut loose partners who aren't up to par.

Get good channel feedback. Partners may come up with some of your most promising innovations since they observe firsthand what customers want. ■

Telechannels and Strategic Call Centers

The telechannel, that is, using a telephone-based channel, is a versatile and potent way to do business as well as a low-cost channel. Generally, telechannels are designed to increase revenue growth, reduce selling costs and improve customer satisfaction.

There are five telechannel applications. These are telesales, telecoverage, teleprospecting, customer service, and technical support. Using the telesales application, orders from catalogs or other advertising are closed over the phone. Telesales staff may also do outbound calling.

When the application is telecoverage, the phone team maintains and nurtures key account relationships as support for a field sales force. Duties may include reactivating and reestablishing relationships with dormant buyers. Telecoverage is very cost effective since team members can be anywhere.

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GEICO

GEICO is an insurance company that saw the advantages of a telechannel and used that advantage to sell low cost insurance to thousands. Originally a small insurance company for government employees, the company became a market leader with a campaign proclaiming, "Give us 15 minutes and we could save you hundreds of dollars." GEICO built eight call centers and began selling insurance over the phone rather than the traditional face-to-face way. The company is able to offer low cost insurance because it has lower overhead and because it can check an applicant's driving record online while on the telephone. Poor risks are quickly screened out.

Telechannels and Strategic Call Centers

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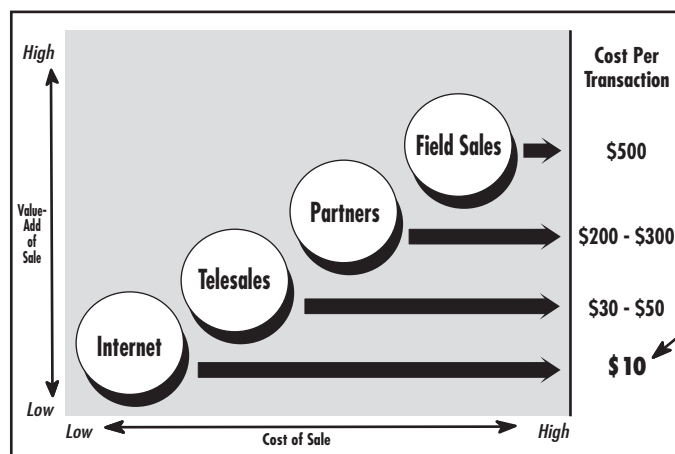
Teleprospectors generate and qualify new leads for closure by another sales channel. Using telechannels to provide customer service and technical support is also very cost effective.

A company developing a call center to perform telechannel functions would do well to create a strategic plan first. The plan must clearly identify the telechannel business objective. For example, is the goal to retain customers or to cultivate new ones? Will the center close sales, or simply pass prospects on to another channel? Obviously, each telechannel serves a different goal. Be sure to allocate adequate funds for appropriate technology. The plan also must determine how the call center will coordinate with other channels such as the sales force or business partners. The plan also needs to outline how customers will be driven to the telechannels. Customers need to know when they should call their sales rep for support and when they should call the center. They also will need to be told why they should call the center. ■

The Internet as Sales Channel

A few years ago the Internet wasn't a sales channel at all, but a research tool for academics and a communication tool for the Department of Defense. Its original purpose was to ensure that during a nuclear attack the military would be able to continue to communicate. Today the Internet is developing into a low-cost sales channel at a dizzying pace.

As a sales channel, the Internet may be able to provide the lowest cost per transaction of any channel. Typically, an Internet channel costs only a quarter that of other channels. Advantages of using the Internet to



Transaction cost by channel — industrial products: \$2,000-\$5,000 sale (aggregated from industry data — manufacturing, chemicals, paper, 1996)
Source: Oxford Associates

go to market are many. The Internet provides expanded market reach by reaching an unlimited number of people at the same cost as reaching a few. It costs no more to reach a million than it does to reach a thousand.

The real power of the Internet may well turn out to be in business-to-business commerce. Even large accounts can benefit from a combination of self-service, lower prices, 24-hour access, product training and pushbutton connections to another channel like a call center. But the most important factor may well be that buyers like this new channel. It offers them fast, efficient service, as well as the ability to do their own research and purchase on their own schedule.

Doing Business on the Internet

As an e-commerce channel, the Internet can be used in four distinct ways. It can:

- ✓ serve as a customer awareness-building site, providing basic information about your company to stimulate interest in your brand;
- ✓ serve as an open market catalog center, allowing customers to purchase directly online;
- ✓ provide a secure, customized Extranet for key cus-

(continued on page 8)

How Customers Use the Internet

Today, customers use the Internet to accomplish four things. They visit web sites to learn about companies and their capacities. They also want to get detailed information about a company's products or services. They want to buy online, paying electronically. And finally, they seek out a web site for help with a purchase after the sale. Your web site must eventually provide solutions for all these customer needs.

The Internet as Sales Channel

(continued from page 7)

tomers and suppliers where contracts can be reviewed and where orders can be placed, tracked and confirmed; and

- ✓ serve as a business partner “portal” to broaden exposure.

To take advantage of the Internet, you must start building an e-commerce strategy. Most companies can begin by using the Internet to serve the low-end segment of their markets. The site should be built and deployed in phases. First, put the information technology infrastructure in place. Then design the content, accounting for operating costs for maintenance and updating. Finally, realize that there will be costs associated with driving customers to your web channel just as there are for driving traffic to other channels. That may mean purchasing advertising in traditional media, featuring the www address on all other promotional material, registering with search engines and advertising at other sites. ■

Managing Channels for High Performance

By now, you should be convinced that using one channel to reach your customers is probably not the way to go. But having chosen and developed multiple channels is only the beginning. Now you must learn to mix and integrate the channels you have chosen for maximum impact on profitability. ■

Channel Mix and Channel Integration

The key to success is both channel mix and channel integration. Channel mix refers to a company’s coverage of the market with multiple channels. Channel integration is a measure of how well the channels work together. When designing your channel mix, guard against having independent channels chase the same sales.

This is where proper channel integration is important. Channel integration uses different channels to perform different functions within a single sales process. Examples of channel integration include office supplier Staples’ use of a direct mail operation to drive customers to a call center as well as stores and Oracle’s use of educational seminars to build interest in software solutions.

To achieve successful channel integration, you must assign tasks to different channels, manage channel hand-offs and assign appropriate account ownership

across channels. It is crucial that hand-off procedures be in place and that every hand-off be documented. You must also ensure that each channel receiving a hand-off knows what to do next to move the customer from lead to closed sale.

Investing In and Across a Portfolio of Channels

A key task in channel integration is the allocation of your resources to different channels. Suppose, for instance, that you have \$30 million to spend on sales and marketing this year. Do you create a new call center, invest in a sales force, seek new partners, experiment with the Internet or buy a few Superbowl ads?

In fact, on what basis do you make the decision? Should you consider:

- the anticipated revenue contribution of each channel;
- the expected cost of each channel;
- funding levels carried over from last year; or
- a gut feeling about where to spend the money?

The bottom line is that as your company expands its channel mix, it must learn to manage those channels collectively as a go-to-market system. Tradeoffs must be made between competing channel needs, and resources put to use in the best places.

Start the process with a top-down approach. The starting point is projected revenue for each market segment. Map these revenue predictions against what coverage each channel can expect, and you get the revenue forecast per channel. Using that, you can calculate the channel E/R. Allocate your resources accordingly. ■

Measuring and Managing Channel Performance

In addition to managing the cost of a multi-channel system, you must also manage its performance. Sound performance management is essential for any company working with several channels. Performance must be measured against expectations. It isn’t enough to design a go-to-market system. Once in place, you need to know whether it is performing as promised.

The first step is to define and articulate a set of overall (cross-channel) sales objectives. Next, break down those objectives by channel and let those responsible for meeting those objectives know what they are. Then, develop very specific channel objectives for meeting those goals. For example, translate goals into concrete measures like “increase the average order size” and “make more sales calls.” Finally, review the results against the goal and realign as needed to improve channel performance. ■