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Channel Strategy—Big Topics for 2017

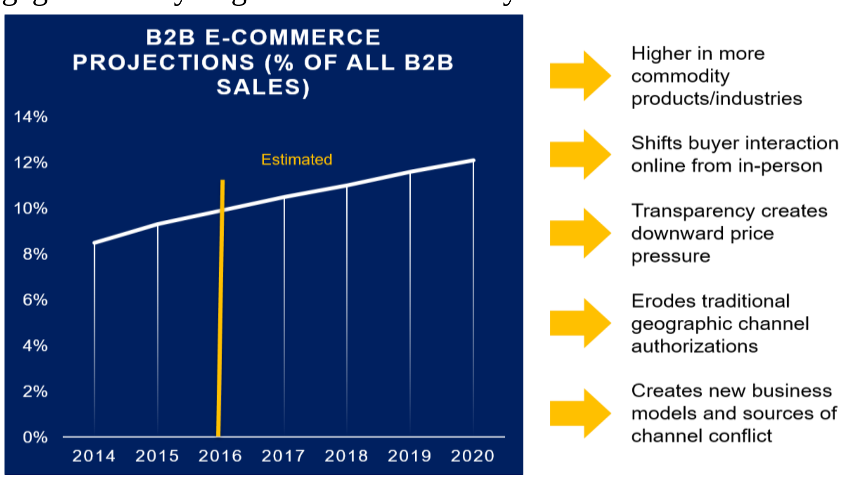
by Bob Segal

The last two months of the year are odd times for B2B channel marketing and sales executives. They have one eye focused on attaining their yearly goals, and the other on fine-tuning their channel plans for the next year. Recently, we conducted an informal survey of our clients asking them to name the biggest topics they see impacting their indirect channel revenue in 2017 (and two years beyond). The results (see "Survey Results--Top Trends") show a remarkable variation. We sorted and sifted this data to focus on five trends that strike us as integral to channel success in 2017.

These topics were: online selling, consolidation at all levels, acquisitions, shifting demographics, and the impact of new technologies. To help executives get a jump start on 2017, we will explore each of these issues and highlight ways for executives to manage them.

Online Selling

Frank Lynn & Associates estimates that B2B online selling (exclusive of EDI) has passed the 10% mark and will become an unavoidable channel to consider in 2017. Most B2B online sales takes place on the websites of traditional brick and mortar sales channels. This channel includes smaller, specialty distributors that have set up an online store, and large distributors, such as W.W. Grainger, that have transmuted their catalog operations into a multi-channel sales operation. However, manufacturers also need to consider where pure online players such as Amazon Business (formerly Amazon Supply) will play a role. Manufacturers even need to determine if, how and under what rules of engagement they might sell online directly to end-customers.



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The growth of online selling raises several policy concerns.

For those manufacturers involved in selling less-differentiated products, online sales is likely already much higher than 10% and could become the dominant sales channel in 2017 or 2018. For other manufacturers online sales channels, even if not dominant, creates greater price transparency. In either case, the proliferation of information online is causing downward price pressure across all channels.

As traditional channels increasingly sell online, across the country or even internationally, geographic authorizations lose their effectiveness in managing channel conflict. At the same time, new online channel models become new sources of such conflict.

Online selling also shifts the traditional buyer interaction from in-person to on a screen. Research indicates that 74% of B2B buyers conduct more than half their research online before talking to a salesperson. Manufacturers therefore will need to re-allocate resources and learn how to create online “pull” to compensate for less channel “push.”

To deal with the promise and the peril of online sales, we recommend that manufacturers take the following steps:

- Increase your customer research. Make sure you understand how customers are searching, shopping, buying, and being supported online
- Re-segment your customers based on their evolving buying patterns (see the point above)
- Develop new conflict management strategies. These can include restrictions on which products are authorized for online sales, pricing restrictions on online sales, etc.
- Re-structure your channel program with new requirement and benefits that reflect your expectations of channels in an online sales world

Consolidation

The 20:80 rule is finally catching up with distribution. This is where a manufacturer finds that 20% of its distributors represent 80% of a manufacturer’s sales. Lately, we have even seen examples of a 5:80 rule. Consolidation is a result of acquisition activity at the distributor level. However, that in turn has resulted from financial, technology, and other emerging sources of economies of scale. Smaller distributors are increasingly finding that they simply do not have the ability, or in some cases the desire, to maintain their independence.

Manufacturers can benefit from channel consolidation. Dealing with a smaller number of channel partners can be more efficient. Larger channel partners can more easily stay up-to-speed with manufacturer’s IT initiatives.

On the downside, however, consolidated channels represent a real threat. With large channel partners, a manufacturer will have less power to push through its preferred programs, pricing, etc. A large distributor, for example, might not add as much value as a small, technically-proficient specialty reseller, but still demand excessively high discounts. With the consolidated distributor representing such a large share of the business, a manufacturer would be hard-pressed to reject such a demand. In such a case, the smaller specialists might look for a different supplier, reconfigure their business or simply close up shop – leaving a gap for the manufacturer.

To deal with the challenges of consolidation, manufacturers should consider several strategies:

- Make their own acquisitions to consolidate share and build counterbalancing power at the manufacturer level
- Beef up direct communications (e.g., "pull" marketing/selling) to end-customers. The goal here is to bring customers into a distributor unwilling to change brands if suggested by the distributor
- Double-down on R&D to bring innovative products to market that distributors "must" have, thereby diminishing their negotiation clout
- Introduce services. The rise of cloud computing and the Internet of Things (see later section) creates opportunities to offer services directly to customers thereby "locking" customers in for the supporting physical products [clarify]

Acquisitions

As a "big topic," acquisitions are closely linked to the consolidation issue discussed above. They are a potential strategy to offset the growing power of large resellers. To implement such a strategy manufacturers first should look within their channels to identify other major suppliers as potential acquisition candidates. In addition to the usual screening characteristics – availability, financial health, acquisition price, cultural fit, etc. manufacturers should look at candidate firm's channel programs and positions. Does the acquisition candidate have a significant share of the channel's business? Are the manufacturer and the acquisition candidate competitive in the channel or complementary? Does the acquisition prospect sell through other channels and are those a good or bad fit with the acquirer's channel strategy? How large are the potential channel program cost savings or upside revenue synergies?

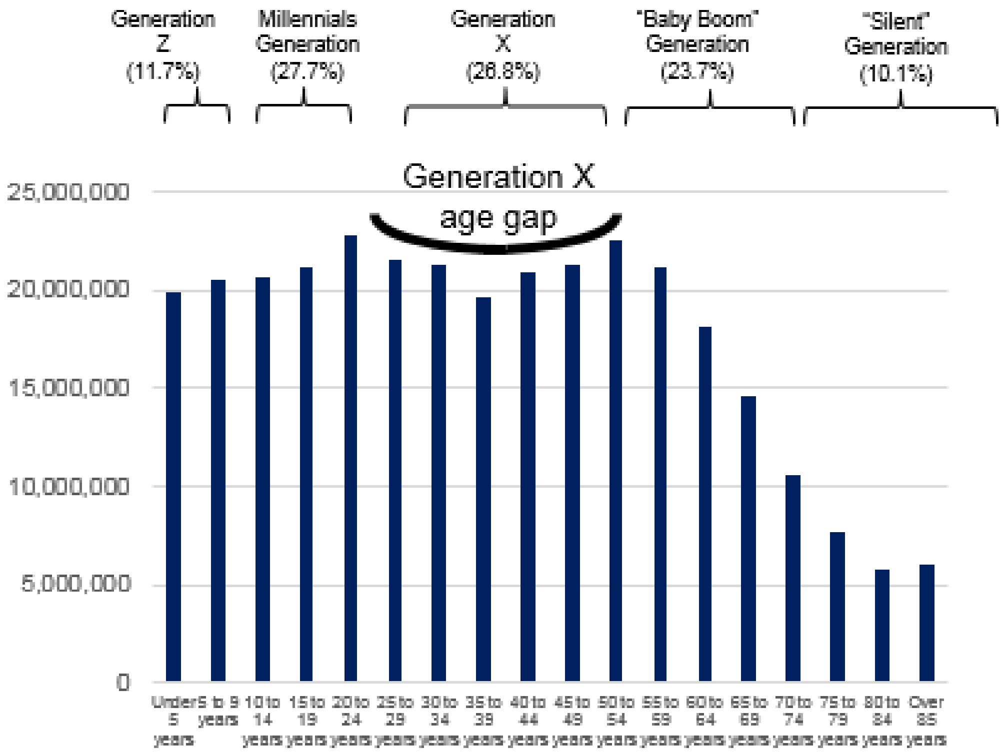
From a tactical, post-acquisition perspective an acquirer's first step should be the creation of a channel integration team. The team should determine whether and how to rationalize and/or harmonize channel strategies, channel programs and channel organizations, and determine which brands to sell in which channels.

Channel program rationalization can take many forms. The company can create a single, combined, new channel program by taking the best components from each company. It can gather all channel partners under one of the two firm's existing programs. Or it can run each program separately, at least for a while. Similarly, the acquirer needs to decide whether to keep all channel partners from each program or skim the cream of both crops. The acquisition team also needs to decide whether all partners can sell both brands (assuming the company keeps both brands). Lastly, the team will need to reassess geographic, industry, or other authorizations.

Shifting Demographics

Demographic changes will have a significant impact at all levels of the market – the manufacturer, the channel and the end-customer. Demographics are the easiest trend to predict, although future federal immigration policy remains a wild card.

Among the big issues here is the Gen X gap – as Baby Boomers, with their considerable experience, retire there are insufficient Gen X'ers to replace them. Sporadic labor shortages have cropped up, visible in the trucking and construction industries particularly. Shortages could continue despite a growing US population, due to a continued decline in the rate of the population growth.



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As Millennials spill into the workplace their unique characteristics may drive other changes. While some people expect Millennials to adapt to the existing workplace, it is more likely that manufacturers will need to make some accommodations. Strategies manufacturers can consider as they look towards 2017 include:

- More attention on employee recognition and praise
- Mentorship for Millennial employees
- More flexibility in channel marketing and sales positions
- Greater emphasis on meritocracy in channel marketing and sales positions and in rewards at the channel level
- Larger investments in mobile and other data-rich technologies to support the channel
- Promote channel roles as “meaningful.”

Lastly, manufacturers will need to continue to deal with an increasingly diverse workforce, particularly with the growth of the Hispanic population.

New Technologies

Many new technologies are entering the channel management sector. We believe the three most likely to impact channels are sales enablement, data analytics [third one?]. With the growing complexity of products, services and solutions, salespeople in the channel can become quickly overwhelmed trying to find and make sense of all the information vendors make available. Sales enablement allows channel personnel to describe a particular deal and receive only relevant, up-to-date information, delivered in a format – PowerPoint sales presentation, proposal document, technical paper, etc. – appropriate to the selling situation.

Despite all the hype, the Internet of Things is well-along the path to the forecast of 50 billion interconnected "things," including lighting fixtures, pumps, medical devices, automotive components, etc. The channel challenge here for manufacturers is two-fold. First, are channel partners technically capable of selling and supporting the connected devices that will make up the Internet of Things (IoT)? Second, do channel partners expect to offer IoT related services – optimization, monitoring, etc. – and, if so, will they be in conflict with manufacturers that expect to offer their own IoT services.

To address the first challenge manufacturers will need to increase channel education or find more technically-savvy integrators, value-added resellers or small OEMs to support or supplant the existing channel. The second challenge may be even more problematic, however, one approach will be for manufacturers to work with channel partners to offer jointly-developed and delivered services. For example, a manufacturers might develop an operations center to monitor IoT devices, with the channel responding as needed during traditional working hours, and the manufacturer using its global footprint to address problems during other hours.

2017 promises to be a year of significant challenges and change. The five "big topics" addressed here are diverse in nature, requiring manufacturers to closely monitor the channel and quickly develop new programs as the timing and scope of these topics becomes clear. Therefore, "business as usual" will not be a winning strategy for 2017.

To discuss these "big topics" and consider appropriate strategies please contact Bob Segal at 312.558.4808 or by e-mail at bobsegal@franklynn.com

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