

OEMs, Distributors Navigate the Nuances of Modern Channel Management

By Winn Hardin

Growth in the industrial control and factory automation market is exploding. That means more room for participants — and higher levels of competition. If you work for a manufacturing conglomerate, you have the luxury of fielding a global sales force. But that strategy is infeasible for most manufacturers, so they rely on distribution channel management.

Like any successful relationship, the partnership between high-tech OEMs and their distributors requires clear communication, shared responsibilities, trust, and maintenance. A joint effort by both parties can increase customer satisfaction and improve the bottom line for all stakeholders.

Knowledge Is Power

At the most basic level, component and equipment manufacturers expect their distribution partners to hold a certain amount of inventory. In exchange, the distributors get a deep discount and sales leads for their territories. While this arrangement remains at the core of channel management, OEMs are implementing several techniques to modify their product distribution strategies amidst growing demands from end customers.

Changing up strategy, however, requires manufacturers to not only clearly define and communicate their expectations to distributors but also provide the tools necessary to accomplish objectives. For example, OEMs more frequently want distributors to solve a customer's problem, rather than simply sell them a product.

"We have different tiers of distributors, but at the highest level, our premier distributors are expected to have a product specialist who is very strong in applying sensors and has been trained to adequately demonstrate our products," says Mel Ralbovsky, president of sensor manufacturer Baumer, Ltd. (Southington, Connecticut). "We need to make available the training and the opportunities for the distributor to achieve that level of expertise."

Baumer uses several methods to facilitate a two-way street of education, ranging from one-hour training sessions at the distributor's site to weekly 20-minute webinars that focus on a particular product or vertical market. One webinar topic, for example, is Baumer's clean in place (CIP) sensors for environments such as dairies and food processing facilities.

"We teach distributors about solutions that can help them make an appointment and demonstrate the product's value," Ralbovsky says. "In turn, distributors can show their customers how to save money, reduce waste, and improve food safety for the consumer."

Just like the OEMs, customers have high expectations of the distributor. "We no longer can just quote parts and let the end customers figure out how to install, wire, and program them," says Mark Proud Sr., president of The Proud Company (Pittsburgh, Pennsylvania), a distributor of industrial automation technologies. "They are pushing for complete solution proposals, not simply a piece of hardware."

That means customers and manufacturers alike seek high-quality in-house expertise. "It can't be somebody who just took a training class," Proud continues. "To properly support our primary product lines, we have people on staff who are every bit as competent as anybody from the factory."

Paul Burk, president of Steven Engineering, Inc. (South San Francisco, California), has seen a similar trend as a distributor of industrial controls and components. "Especially here in California, with unemployment rates as low as they are, the labor pool shrinking dramatically, and the very high cost of doing business, our customers are outsourcing technical expertise to us," Burk says. "We have diligently worked over the last seven years to develop a team that can speak not only to the products but also newer technologies coming to market."

Managing Expectations

With all the directives placed on distributors to make a sale, manufacturers recognize that they are not the only fish in the distributor's pond — but they strive to become the biggest fish. To accomplish this goal, Baumer uses a data-driven approach.

"We compare historical growth of distributors with a variety of quantifiable metrics such as joint sales activity and number of salespeople," says Corey Loeffelholz, director of channel development for Baumer. "We then do a multiple regression analysis, which is a statistical study that reveals which behaviors of distributors correlate most closely with growth."

In tandem, Baumer has developed its alignment tool, which Loeffelholz describes as a balanced scorecard that indicates the likelihood of success between the company and a distributor. "Any salesperson can make a living by closing their eyes and pointing at their linecard and then selling that product," Loeffelholz says. "It's our job as the manufacturer to make it a really good business choice for that distributor to spend their time selling our products. Using data, we can show them that the probability of growing with us is high."

Just as manufacturers communicate their expectations to distributors, distributors have to manage the expectations of their customers. "From the product side, depending on a customer's needs and how their business is structured, we can completely manage their inventory requirements, or we can just be the person they send the order to and we ship it out that same day," says Burk.

Steven Engineering has found that automating the order fulfillment process leads to greater efficiency for the client. "For example, we can take an OEM customer's forecast for what they plan to produce on their equipment, feed that information into our system, break it down to the component level, and make sure that inventory is available when the customer needs it," Burk says.

"From the technical side, we educate the customer about our expertise and how they can leverage that expertise, whether that's electronically or in person," adds Burk. In fact, he believes that as automated order fulfillment becomes standard practice among distributors and manufacturers that sell directly to customers — along with the growing influence of Amazon and other e-wholesalers — expansive technical knowledge will be critical for traditional distributors to distinguish themselves in the industrial automation marketplace.

Lessons in Marketing

OEMs are not immune to their own sets of challenges, including how to effectively market themselves. As high-tech product makers look to protect and promote their brand, more of them are developing consistent, comprehensive marketing plans — which include linecards, videos, e-blasts, newsletters, and social media presence, among other methods — to push to their distributors.

Smart Vision Lights (Muskegon, Michigan), a designer and manufacturer of LED lighting for industrial applications, is implementing such an approach. "We've had a lot of success providing our distributors with newsletter, case study, and technical content to share with their customers, as well as developing educational programs and seminars to help empower our distributors," says Dave Spaulding, president of Smart Vision Lights. "The result has been a win-win for both sides."

Some manufacturers lay out guidelines, and oftentimes requirements, for distributors specific to marketing. Of the 20 lines The Proud Company represents, about a quarter of them have such conditions — and when followed, have positive results.

"At minimum, they are looking for you to feature their products on your website and in newsletters, participate in local trade shows, and conduct some educational events like workshops or seminars," Proud says. "We can be 300 miles away on Tuesday doing a one-day trade show, and then back on the road to conduct a product workshop on Thursday. These activities are effective, so that's why they've gone from being optional to mandatory for many suppliers."

To navigate the changing winds of channel management in the high-tech distribution market, manufacturers and distributors of industrial automation products must continually revisit and re-establish close partnerships. "If both of our business models fit really well," Ralbovsky says, "we are going to be a lot more proactive together."