

TOOL KIT >

## ◦ Using Channels to Serve Your Customer

### Tips on Building a Channel Strategy Aligned to Your Customer

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Whether you lead a startup or an established firm, marketing strategy can be key to your company's success. Marketing often bears the responsibility to grow the company's top line—by reaching new customers, expanding what current customers buy, or introducing new products. Marketing's expertise is thus focused on demand generation—to drive the intensity, timing, and composition of customer demand in pursuit of the company's mission. Successful growth relies on the creation, maintenance, and expansion of markets with existing, modified, or new product lines. A complete channel strategy must be incorporated into these marketing efforts.

Companies often believe that there is only one way that customers will buy their products, say, through direct field reps. Because of this philosophy, they are unwilling to sell their products through other channels such as distribution, mail order, or value-added resellers (VARs). Our experience suggests that this approach sometimes overlooks an important step. When companies have a clear understanding of which products and which customers need to be brought together, channel management begins to take on a strategic role affecting the bottom line. This article provides tips on how to build a channel strategy to meet your customer needs.

#### ◦ What is a Channel?

Before we go too far, let's get a definition of "channel" on the table. Channels include corporate resellers, field and direct sales, mail order, retail, telesales, VARs, and the Web. The right channel connects the right products with the right customers. It is the cornerstone of an effective high-growth strategy.

A channel is like an army. Its mission is to assault competitive strongholds, defend the company's turf from attacks by the enemy, gather intelligence, and capture new territory. The weapons it uses are product knowledge, customer knowledge, price, service, persuasion, and support. Like any army, it will be effective only if it is provided with training, logistics support, and the proper equipment.

#### ◦ Where does each Channel apply?

A corporate channel strategy needs to be reevaluated on a regular basis. The creation of new products, or the expansion into a new market segment, requires a company to examine whether it has an effective pipeline to connect the offer to the customer. *Table 1* provides an example of situations your marketing team might face.



Different channels play a key role in supporting the three stages of demand generation and the three types of customers. For example, let's take the situation in Table 1, using an existing product offer to grow the customer base. In this case, you are looking for channels within a new territory that will carry your brand into a new area. This model involves identifying your requirements and recruiting partners who are committed to expanding your reach. In another case, where you are designing a new product to appeal to an existing customer, you'll want to look at whether the current channel can support this new product line. Your channel objectives in that situation are to validate that your existing channel is capable and, if so, prepare that channel to sell this new line effectively. You should customize your specific channel strategies and tactics for each situation.

If you have more than one product, you should look at each as an individual offer. A new product requires a focused effort to drive demand. Too often, we have seen companies with existing channels introduce a new offering with no modifications in approach. When the company's channels are not well aligned to its customer needs, none of the participants wins. Channel partners do not have appropriate incentive, customers do not know what they need to buy, and the vendor does not achieve its market objectives.

Rubicon recently advised a company in this situation. This established firm had access and success with a broad channel set. Its products ranged from highvolume products for the consumer market, which had their own market pull, to new introductions of more technical products. Because the vendor already had a successful channel for its core product lines, it simply allowed that same channel to sell the new product. This required the least effort on the part of the vendor. However, the new product had entirely different requirements for the sales process. It required displacement of a competitor, and a high learning curve for the user to switch from an industry standard. Those capable of providing the more advanced training and support needed for customer conversion could not afford to do so; there was insufficient margin. And those who could reach a broad audience were not able to provide the pre-sales infrastructure the customer needed to consider the product.

Situations such as this one can be remedied with appropriate channel strategies. Here are three steps to consider when your are planning your channel strategy: (NEXT PAGE)

Table 1: The relationship among demand generation, product, and customer status.

		PRODUCT		
		Existing	Modified	New
CUSTOMER	Maintain	Sell more to existing types of customers Penetration	Modify products and sell to existing customers Product modification	Design new product that will appeal to existing customer New Product Development
	Grow Base	Sell products to customers in other geographies Expansion	Offer and sell modified products in other segments Market Expansion	Design new products for prospects in other geographies Geo Targeting
	Create New Customers	Sell existing products to new types of customers Segment Invasion	Offer and sell modified products to new types of customers Line Extension	Design new products to sell to new types of customers Diversification

## ◦ Step 1: Study the Customer

The first step in a channel strategy is to evaluate what your customers want. The goal of studying the customer is to understand both overt and hidden channel preference and buying behavior.

Customer research has to capture what Rubicon has termed “the full purchase cycle.” This includes where customers are learning of the offer, how they evaluate the purchase, where they currently buy, and where they plan to buy in the future. Given the ever-changing dynamics of the market, it is important to study both current and near-term decision criteria and patterns.

This customer research must be done with an open mind. Many vendors believe they already understand the customer and do not need to understand the customer’s specific buying patterns. To test a similar hypothesis and examine whether further research was needed, Rubicon recently studied a set of prospects that a vendor was convinced would purchase in the fulfillment channel. Rather than learning that the “product sold itself,” Rubicon discovered that the customers had a very high need for training, and needed infrastructure support to adopt the technology solution. In fact, when given the choice of where to buy the product, 74 percent responded that they would never buy in the identified channel.

Studying the customer must involve a formal process to decide who will be studied. We advise companies to choose customers beyond the “inner circle.” Often, sales people know their top 20 customers well, but not the broader set. We believe that listening to the broader set allows for better pattern recognition. Some might ask, “But what about the 80/20 rule?” It is true that sometimes a small set of customers can represent a fairly large share of the revenues. However, designing a channel model around this set could restrict product flow. We suggest that by growing the overall customer base, revenues through an effective channel program would lead to more customers that yielded higher revenues.

As you look at who to study, be sure to include current customers, competitors’ customers, and prospective customers, to best understand their response to your offer. Typically, a set of 20 to 50 customers per executive study is enough to get direction.

Also look at parallel purchases. For example, if data reveals that customers always purchase a certain technology when they buy new hardware, you’ll want to spot that pattern. By knowing that a particular technology or vendor is being installed, a company could then refine the selection criteria for channel recruitment. If channel recruitment is refined to those most likely to make the sale, a vendor’s investment will be most effective.

To conduct your study, Rubicon advises 1:1 interviews with senior decision makers, as these result in the highest-quality research. Focus groups or telemarketing do not provide the insight for innovation. (See *Sample Questions in Appendix A*)

And, finally, when you are studying existing customers, study how trends are moving—how they buy today and what might be missing that would cause them to buy elsewhere later. You will want to understand any shifts before your competition does.

## ◦ **Step 2: Frame Your Findings**

Framing the results is just as important as doing the research. Often, patterns, trends, or insights can be gained by the way the information is sorted and assembled.

When your interviews are completed, you'll have data that suggests where customers buy, how much they pay, where they shop, and what criteria they use in vendor selection. For example, the data might reveal that a recently acquired customer learned about you through a specific channel. Companies typically want to allocate their resources only for the buy portion of the cycle. Understanding the full purchase cycle can allow them to know where to allocate resources.

Two views of data that Rubicon collected for a client are presented in this section. *Table 2A* compares where customer sets go to shop with where they actually purchase. This client sells its key product both to the consumer and business markets, and uses all seven of the key channels in its sales efforts.

In this example, the company was surprised to learn that its mediumsized customers were shopping and sometimes buying at retail. Rubicon worked with the company to strategize ways to use that new information. Directly subsidizing end-caps and other retail displays could immediately improve the retail experience for those customers and consequently improve sales through that channel.

## ◦ **What does the customer seek from the channel?**

Another key piece of information is what does the customer seek in a channel—the customer's buying criteria. *Table 2B* shows the buying criteria our example customer was seeking from each channel. The client who learned this data could evaluate which products had specific requirements, and where those requirements were met through the channel. Rubicon worked with the company to optimize the sales tools provided to fulfill those customer criteria— and thus increase revenues.

In this example, most of this client's customers that purchased through VARs considered training to be their most important buying criterion. Therefore, this vendor's ability to offer a viable training program for the VAR channel is very important.

To build complete channel strategies, companies should frequently check their assumptions of customers' purchasing behavior. With the speed of change in the high-technology sector, Rubicon recommends a review annually and whenever a new product is announced. Sometimes, marketing teams think they already understand the situation. However, we cannot stress enough how important it is to check current assumptions and the information on which you are basing decisions. Dollars spent supporting incorrect assumptions are wasted.

Table 2A: Shopping v. Buying Patterns of a Company's Customers

		CUSTOMER			
		Consumer	SOHO	Mid-Size Business	Large/ Enterprise
CHANNEL	Corporate Reseller			SHOP/40% BUY (PRICE POINT SENSITIVE)	BUY
	Field Sales/ Direct				SHOP/BUY
	Mail Order	BUY	SHOP/BUY		
	Retail	SHOP	BUY	SHOP/10% BUY (BELOW \$250)	
	Telesales		SHOP/BUY		
	VAR		SHOP	BUY	SHOP/BUY
	Web	SHOP/BUY			SHOP/10% BUY

Table 2B: Buying Criteria by Channel

		CHANNEL						
		Corporate Reseller	Field Sales/ Direct	Mail Order	Retail	Telesales	VAR	Web
BUYING CRITERIA	Training							
	Customization							
	Installation to Spec							
	Delivery Time							
	Ordering Ease							
	Price							
	Support							

- = High
- = Medium
- = Low

### ◦ **Step 3: Develop Recommendations**

After customer research is completed and sorted, some vendors believe that they have all the answers they need. After all, many successful sales and marketing people got that way simply by being highly attentive to the needs of their customers.

After you have had a chance to review all the input, it is time to build a set of robust recommendations. Those will be customized to each situation. You will want to consider these critical product and company elements of the channel plan:

- **Sales Goals and Objectives.** How much are you relying on this product to help the company?
- **Alignment to Company Goals.** Is this product a low-revenue leader to a larger product line? Would a richer channel program be a more attractive starting point?
- **Competitive Situation.** Given the market landscape, is a competitor vying for the attention of this customer? If so, can your channel alignment and program help block the competition from winning? Building a channel plan is complicated. A channel program too focused on what the channel wants could financially impact the bottom line. But meeting the wants of the customers could mean trying to “be all things to all people” and not really pleasing anyone. Offering the customer or channel partner too much can leave you with a channel strategy that will not meet revenue objectives.

### ◦ **The bottom line**

The most successful channel program considers both customer and channel needs, and the only way to know what those are is to understand the unique situation at hand. Unless you optimize for the mid-point of what the customer and the channels need, you will end up either giving too little, resulting in inaction and dilution of desired behavior, or giving too much, forcing you to recalibrate within months. Either way, both customers and channel partners could view your program as declining, not growing—leaving the door wide open for your competition.

A successful channel plan can significantly impact the bottom line. Customer input must be a key part of designing an innovative program that meets market needs.

#### APPENDIX A: **Sample Questions For Customer Profiling**

- What products is the customer buying today?
- What does the customer plan to be buying 12 to 24 months out?
  
- What are the customer's stated business needs?
- How does the customer perceive that your product solves those needs?
- Does the customer have substitutes (such as a similar product or a manual method) to your product solution?
  
- How does the customer buy today?
- What kinds of purchasing processes does the customer have?
- Which channels does the customer use for research and for actual purchases?
- Does the customer buy from parallel channels?
- Why or why not? (Typically, customers have multiple channels available but use some only for research, limiting actual purchases to a few.)
  
- What factors drive the decision to buy from which channel (e.g., price, quality, speed, service and support, training, 24/7 access)?
  
- How much did the customer recall paying?
- Was the product perceived as a good value?
  
- What is the role of e-business and e-commerce in the customer's current and near-term purchasing activity?
  
- How does the customer see you against your competition?
- What image does your brand bring to the customer?
  
- Where could you improve in order to win business from new customers and more business from existing customers?
  
- Are your products packaged and priced right for broad customer acceptance?
- How could you change your pricing and product-bundling strategies?
  
- What stops the customer from adopting more units of your product?
- Does the customer have any recommendations for immediate wins?

### **About Rubicon Consulting**

Rubicon Consulting partners with leaders who want to grow their high-technology businesses with strategic marketing services. Specializing in go-to-market strategies allows Rubicon to develop marketing programs, channel plans, product positioning, and customer targets. We help clients to design, develop, and implement custom, practical solutions that work.

Rubicon Consulting is the brainchild of Nilofer Merchant, a 15-year veteran of delivering marketing strategies for world-class companies including Apple, Autodesk, Adobe, VALinux, and others. The garnered experiences led to the acquisition of knowledge, models and practices. In time, with sufficient insight, we've developed the ability to predict the outcome of actions accurately. We bring an unbiased, wise, practical, and fresh perspective to your business. Call us if you could use this.

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