Frank Lynn & Associates, Inc.®
MARKET STRATEGY CONSULTANTS

CLIENT Communiqué

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50 Attributes of a High Performing Channel Strategy™

by Jim Fogarty

A company's channel strategy is the primary means through which it creates sustainable value. A well designed channel strategy enables a company to cover and serve its target markets, deliver its value proposition and generate profitable growth which fuels earnings, cash flow and company values. A high performing channel strategy performs well on 50 key attributes that align with eight core elements. Do you know how well your company's channel strategy performs?

Many companies use lagging indicators to evaluate their sales performance… year-over-year sales comparisons, market share, win rates, performance-to-plan, etc. Few companies have a proactive way to determine if their channel strategy is tuned to perform.

FL&A's 50 Attributes of a High Performing Channel Strategy™ defines the critical characteristics of a high performing channel strategy, and we use it to help clients proactively assess their strategy. The tool is rooted in FL&A's 43 years of experience helping thousands of clients solve channel strategy issues across hundreds of business-to-business markets. We use the tool to score a clients' channel strategy against each of the key attributes, identify what limits its performance, and define actions to improve results.

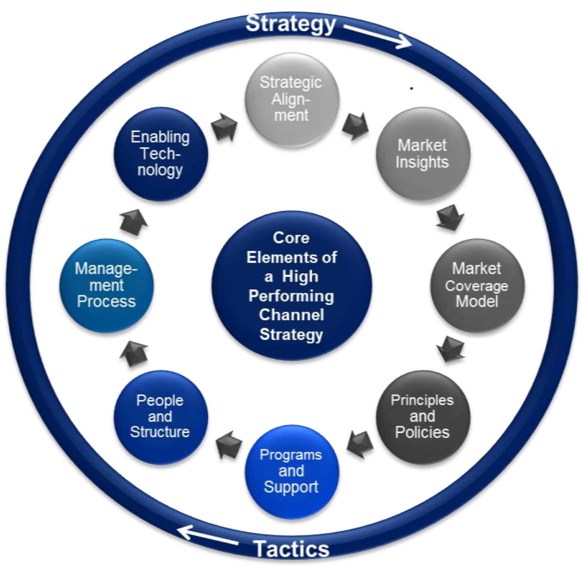


Figure 1: Core Elements of a High Performing Channel Strategy (System)

The Attributes that Drive Performance

A high performing channel strategy is actually an integrated system (see Figure 1). It is designed to align with and enable the corporate strategy, and it is grounded in the dynamics of the market(s) it is intended to cover and serve. While the key elements of the channel strategy are the market coverage model and the related principles and policies, a company can only execute it with the appropriate mix of supporting programs, qualified personnel, structured management processes and enabling technology.

To perform well, a company's channel strategy must score reasonably well against the 50 attributes that align with these eight core elements:

Strategic alignment—the company designs its channel strategy to deliver its growth objectives and to support and enable its strategic growth initiatives (e.g., launch new products; enter new markets; cover and serve target customer segments, etc.)

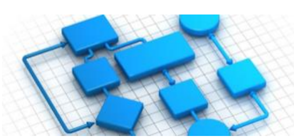
Market map-- the company maintains a comprehensive "market map" which provides insight into the variables that influence the design of its channel strategy. The company estimates the size of the markets it serves, its market share and what limits it; it creates profiles of its target markets; it segments and targets its end customers, understands their buying behavior and channel preferences; and it maintains an analysis of the competitive landscape.

Market coverage model-- the company explicitly and appropriately aligns its direct and indirect sales resources with the critical stakeholders in each of its target markets; its channel structure aligns with the dynamics and economics of the markets it serves.

Principles and policies—the company explicitly defines and consistently follows principles and policies that make its channel strategy effective and efficient such as defining its channel governance model, coverage philosophy, conflict management approach and rules of engagement.

Programs and support—the company has an overarching program structure that defines its requirements for its direct and indirect sales resources and the benefits it provides them; it offers an appropriate mix of supporting programs that enables its sales resources to perform the activities and functions it requires.

People and structure—the company employs qualified personnel, compensates them appropriately, and manages them well.



Sales/channel management processes—the company explicitly defines and executes the processes required to successfully engage and manage its direct and indirect sales resources (e.g., assess, plan and optimize; target and recruit; on-board and ramp-up; train and support; manage and grow).

Enabling technology—the company deploys the appropriate mix of technology to support and enable its direct and indirect sales resources to execute their responsibilities

The Assessment and Output

FL&A collaborates with management teams to conduct the assessment. We interview a mix of management personnel across sales, sales operations, marketing, customer service, human resources, and finance. We review strategy documents, market analyses, sales performance data, sales/channel program information, compensation plans, key processes, etc. to capture the required inputs and perspectives. Using this information, we then score the company's channel strategy against each of the 50 attributes.

Once complete, the assessment tool generates a visual summary of the analysis (see Figure 3). It highlights the strengths and weaknesses of the company's channel strategy and identifies the areas a management can improve (see Figure 4). FL&A collaborates with the team to define the priorities and the supporting actions.

Figure 3: Performance Scores

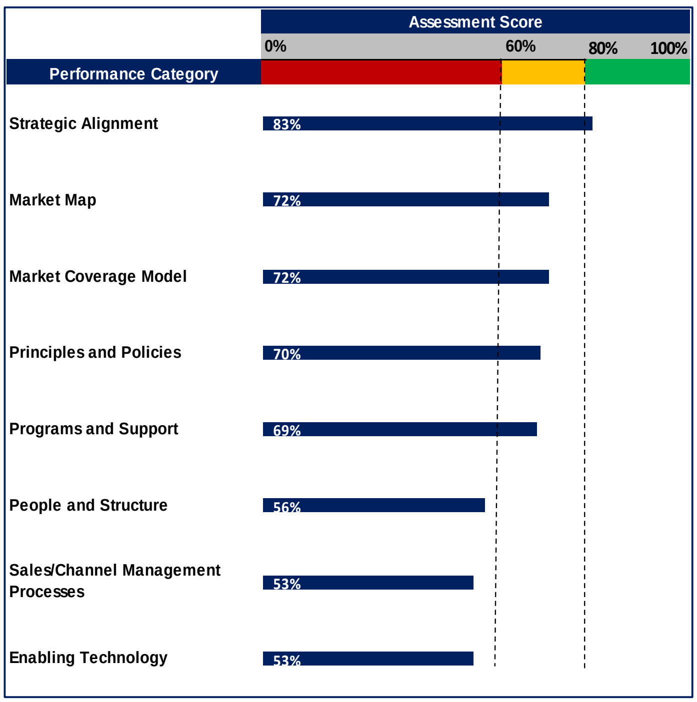
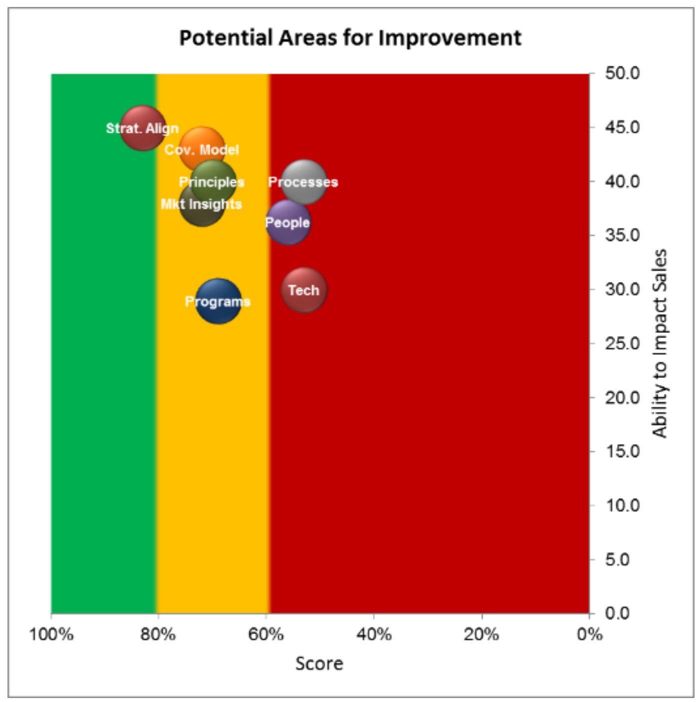


Figure 4: Potential Areas for Improvement



The Actions and Results

Together, FL&A and the client collaborate to define the actions that will generate results in the deficient areas. For one client, a manufacturer of industrial controls aspiring to grow rapidly, the team concluded that it lacked an understanding of its market share and the factors that limit it, an important element of its market map. Through the analysis of its market share, the team discovered that the company needed to: 1) augment its product offering to eliminate a product gap; 2) increase how often its existing distributors quote its products when they see opportunities for them; and 3) recruit new distributors to cover geographic coverage gaps. Through these actions, the manufacturer doubled its market share in three years.

Another client, a manufacturer of building materials searching for "best bet" growth opportunities, realized that it needed a more structured and comprehensive analysis of its market. By creating a "market map," the team discovered that it did not proactively or adequately cover and serve the "remodel" opportunity for its products. By adding distribution to cover this market, the company grew its sales at twice the market rate.

Many of our clients learn through the assessment that their channel pricing programs do not support their channel strategies. Oftentimes, the way they pay their channel partners is inconsistent with the investments their partners make to support them and their partners' actual performance. For example,

- A manufacturer of safety products eliminated "cherry picking" and increased by 4% its "share of wallet" with its best distributors after it introduced a 2% rebate for performance across all six of its product categories
- A manufacturer of industrial products reduced its discount by 8% to a master distributor when the manufacturer drop-shipped orders to the master distributor's customers (the master distributor's "drop ship" business had increased from 10% to 35% of its overall sales)

The 50 Attributes of a High Performing Channel Strategy™ provides a structured and systematic way to evaluate the strength of a company's channel strategy. It eliminates unstructured and subjective assessments and helps teams focus on the factors that drive performance. It enables management teams to objectively identify factors that limit the performance of its channel strategy and define the actions that improve it.

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