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DISTRIBUTORS: FRIEND OR FOE?

Should we use distributors or other channel partners?

The Chief Sales Officer (the CEO in most organizations) has multiple roles to play in organizing and managing a sales program. Among them is making the decision whether or not to work with a distribution partner. Then, if a partner is warranted, they must choose the right partner.

OVERVIEW

There is a natural love-hate relationship that can develop between providers and distributors. It can also be a competitive-cooperative relationship. At best, the needs of both entities must be considered by the leaders of both parties.

A manufacturer, software provider, service provider or other entity may elect to use a distributor – a channel partner – for different reasons. Meanwhile, the channel partner will choose providers who best match their corporate strategies. When this is structured as a win-win, it can work well – at least initially. Over time, however, both parties in the relationship will see their market, industry, technology, processes and /or demographics change. That is when contentions can develop and, occasionally, legal actions begin.

“Whenever there is duplicity in the channel, there will be contention in the channel.”

– Chuckism #49

BENEFITS FOR PROVIDERS

The most common reasons why providers such as manufacturers and software companies elect to use distributors include:

- **Sales** – the provider knows how to produce their product or service but they may have less expertise in taking their offering to market. Meanwhile, distributors are entrenched in their markets, know who the key buyers are and can help the provider with a faster start-up. Their reps are trained and experienced.
- **Geographic Expansion** – when a provider wants to widen their market, a distributor in the area can help them break into the new market.
- **Industry Expansion** – there are industries where the incumbents (existing providers) are entrenched and assistance is needed to move past them. Distributors usually have relationships with some of the provider’s targeted accounts and also have knowledge of other accounts.
- **Organization** – by having someone else manage the sales process, the provider does not have to develop a sales culture, process, compensation program and other elements of running a professional sales organization.
- **Market Knowledge** – taking a new or improved offering to market can be tricky. A professional distributor can not only make the best first impression in front of the customers; they can usually help the provider determine where the low-hanging fruit is.

ISSUES FOR PROVIDERS

While a distributor provides a faster entry into markets and industries, their help comes at a cost.

- **Financial** – distributors will represent products and services that contribute to their bottom line, not just their top line. Their cut may seem steep to the uninitiated.
- **Reputation** – the channel partner’s reputation becomes the provider’s reputation. Whatever the distributor says, and the way they say it, reflects back on the provider. Customers typically do not see a representative from the provider; they only interact with people from the distributorship.

The provider must manage the message

- **Messaging** – the provider must manage the message. Even when the distributor is doing the communicating, the message remains the responsibility of the provider. In the past,

the distributor would ask for sell sheets, include them with the sell sheets of every other offering they represent and only pull them out when it occurred to them to do so. Today, creative messaging is needed and many of the more sophisticated distributors require them.

- **Control** – the distributor rep, and to some degree the distributor principals, determine when and how the provider will be represented. The provider may have to offer incentives (SPIFFS) to gain more selling time and the incentive will need to be better than the ones offered by other providers.
- **Priorities** – the distributor determines their level of support for the provider's offering. If the distributor includes provider's products or services merely to fill out their line, the training and other support for the offering may be lacking.

BENEFITS FOR DISTRIBUTORS

Distributors want and need the right offerings in their mix. Different distributors have different definitions of what the right offerings need to be. When selecting a distributor, consider whether they will be a primary or secondary partner.

- **Primary** – the distributor represents offerings like the provider's regularly. For instance, a new Client Relationship Management (CRM) software company that wants to take their new offering to market will want a primary distributor. In this case, the distributor/channel partner would be entrenched in the right-sized accounts and would be selling other automation software programs, such as ERP's.
- **Secondary** – the distributor represents dissimilar offerings but would like to have the provider's offering to round out their line. For instance, most companies want to improve their sales and a CRM is an effective tool for making that happen. A distributor that represents office furniture may want to have a CRM in their mix to supplement their sales. They would focus on furniture and offer the CRM as an "oh, by the way".
- **Messaging** – distributors typically do not have the resources for developing an effective marketing program for every line they carry. They can benefit greatly by representing providers that include sophisticated, current and useful messaging materials.

- **Training** – providers are in a position to provide training to distributors. This can include sales as well as product training. Some providers will bring in professional sales training to their distributors as a part of their value-added services. This can be of greater value than other SPIFF's since it can impact the sales of every product or service the distributor represents.

ISSUES FOR DISTRIBUTORS

Just as providers are at the mercy of distributors, distributors are at the mercy of the performance of the providers they represent. Quality and delivery issues are the most common sources of heartburn for distributors. When selecting the providers they will represent, distributors initially look for several factors.

- **Viability** – is this an offering that will have a positive ROI for the distributor? There are a few remaining distributors that still use the show-up-and-throw-up approach to selling: showing the prospect as many options as possible and hoping something will stick. Instead, most are seeking those offerings that will help their reps make the most of every customer contact.
- **Messaging** – the easier it is for the distributor's reps to communicate with their customers, the more effective the distributor-provider relationship is going to be. A sell sheet may not be enough. Providers who can offer tools, such as TCO or ROI calculators to help justify higher price points are valuable. Audio and video support for rep training and for customer demonstrations can shorten sales cycles and reduce selling costs.
- **Support** – quality and delivery must be best-in-class. The distributor's reputation rides on the performance of the provider.
- **Contention** – there can be contention between the provider and the distributor when the provider attempts to sell directly to the end users. Providers may determine that larger accounts are best served directly and reserve the better opportunities for themselves. Therefore, the best accounts will be house accounts. The distributor realizes that if they close a large account or grow an account up to a certain level, they may lose it. They also recognize that the most lucrative opportunities may be off-limits to them.

“Relationship selling is a redundant term; all selling is relationship selling.”

— Chuckism #20

Companies do not do business with companies; people do business with people. Relationship selling is a redundant term. The question that has to be addressed is, what is the relationship built upon?

If the initial sale is made by offering the customer a lower price, the relationship is built on price. To maintain the relationship, the vendor must always have the lowest price.

If the initial sale is closed based on features and innovations, the incumbent must continue to offer the latest features and innovations.

When the sale is built on value, the buyer must be convinced that the value they are receiving from the vendor is higher than the price they are paying. These buyers are less susceptible to new offerings that merely have lower prices or new features.

The provider-distributor relationship must be built on the same values. This is an ongoing process. Provider values and strategies may change. Distributor values and strategies may change. Open communication and practical relationship criteria – including exit options – are essential.

THE RIGHT REP

A critical part of the selection process when choosing a channel partner is the quality of the reps on their team. Customers will interact with the rep; so their relationship will be with the rep. The provider has options. There are reps who have twenty years of experience and there are reps who have one year of experience twenty times over. The provider must confirm that the best presentations of their offerings are being made in front of the customers.

- **Seasoned** – the rep has been selling the same or similar lines for a long time. ADVANTAGES: they know the market, industry and who the players are. DISADVANTAGE: they may be selling in an outdated way and may not be as effective at bringing in new accounts.
- **Innovative** – the rep keeps up with the latest sales processes, demographics and technologies. ADVANTAGE: they usually make a more effective use of time

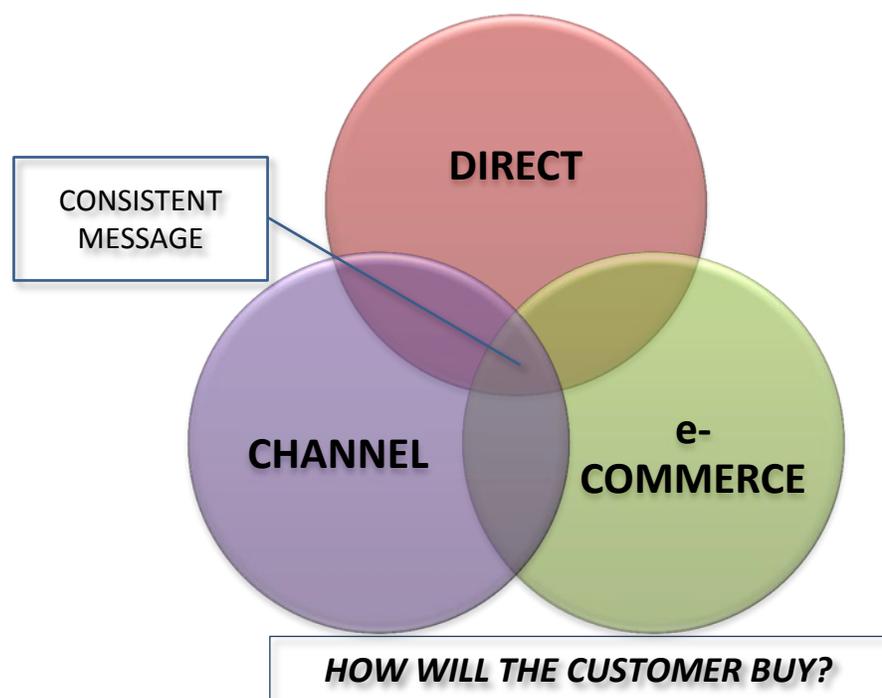
(theirs and the customer's), they sell more efficiently and they are less likely to sell on price. DISADVANTAGE: they can be mavericks and difficult to manage.

- **Strategic** – the rep can patiently develop and execute a formal account plan. ADVANTAGE: they are most effective at selling to the executive level, circumventing price-conscious buyers and focusing on applications/solutions, not features and benefits. DISADVANTAGE: this typically involves longer sales cycles.

CONTENTION

Many organizations use a blend of direct and indirect sales approaches to their markets. A third, growing approach is the use of e-commerce. Some issues to consider when developing multiple approaches include:

- *Will customers hear mixed messages?* When the customer can buy at a lower price from a distributor or through e-commerce, the provider will find it increasingly difficult to sell on value.
- *Can the rep adapt to changes in the market?* A bag of doughnuts is not the right way to open sales calls today; is the rep open to updating their selling skills?
- *Can the rep adapt to the changes in technology?* Few products and services are immune to the influences of existing and emerging technologies. Some people reach a saturation point in embracing new innovations.
- *Can the rep sell to the provider's target accounts?* The rep who has enjoyed sparring with purchasing agents during their career may not be equipped to sell at the executive level.



SELECTION

The courtship between the provider and the distributor is best accomplished thoroughly, deliberately and analytically. The goal is to create a win-win scenario. A desperate party may intentionally or unintentionally make commitments that cannot be met. Desperate people may jump too quickly when sales opportunities are needed. Even though the goal is to create a long-term, mutually rewarding relationship, an exit strategy – a “pre-nuptial” for business – needs to be in place. Whenever either party finds that the relationship is no longer viable for them, the dissolution of the relationship can be managed according to previously-established guidelines.

DEVELOPMENT

Relationships are dynamic; not static. Changes happen in process, technology, and other categories. There is a need for ongoing activities to further the quality of the provider-distributor relationship.

Fortunately, many options are available today to help refine the provider-distributor relationships.

- **Product Knowledge** – as the provider updates their products and services, the reps presenting them to customers need to be kept informed. The more informed the reps are the more confident and competent they will be in selling the offering. Online product training is more sophisticated now. Reps can take the training at their convenience, from anywhere. Accountability is available to determine who successfully completed the training. Webinars are another viable solution as long as they are recorded and made available to reps who could not attend. Keep in mind, however, that other providers will be vying for mindshare with the same reps in the same firm. The provider’s training must be professional, high quality and accessible.
- **Applications** – understanding how the product or service has helped other customers will give the rep ideas about where to find their next new opportunities.
- **Justifications** – cost justification for higher-priced alternatives can be difficult for some reps to explain. Providing the reps with examples of how others have cost justified the offering will be valuable tools for the reps.
- **Best Practices** – since most distributors enjoy protected or exclusive territories, sharing best practices between them can benefit everyone. Providers can use blogs, Q & A and FAQ sections on their web sites.

When the provider-distributor relationship becomes strained, it is time to upgrade it rather than try to restore it.

- **Begin with an open and candid discussion**
 - What is working
 - What needs improvement
 - What were the driving forces that created the strain?
- **Reset expectations**
 - Clearly stated provider expectations
 - Clearly stated distributor expectations
- **Negotiate the differences**
- **Establish new benchmarks**
 - Written
 - Quantified
 - Dated
- **Participate in joint training sessions whenever practical**
 - Product knowledge
 - Applications (usage)
 - Soft skills: sales, service, etc.
- **Set times for reviews**
- **Agree on exit strategy, if needed**

There are different types of distributors; each has its own advantages and disadvantages.

- **Selling Distributor** – also known as manufacturers’ reps, these organizations are primarily selling organizations. They consummate sales, own the customer relationship and provide customer service. Billing may be managed by the provider or by the distributor. **ADVANTAGE:** all sales activities and expenses are managed by the distributor. **DISADVANTAGE:** the provider has limited control over targeted accounts and messaging.
- **Stocking Distributor** – in addition to selling, the stocking distributor also carries inventory and takes responsibility for delivery. Stocking distributors are also more likely to manage billing. **ADVANTAGE:** the provider usually ships

directly to the distributor in larger quantities rather than making multiple, smaller shipments. **DISADVANTAGE:** the stocking distributor typically requires a larger percentage of the sale (which can be offset by reduced costs for the provider).

- **Master Distributor** – a master distributor manages other distributors who may or may not be stocking distributors. **ADVANTAGES:** the consolidation of distributor information and direction can relieve the provider of many activities. **DISADVANTAGE:** everyone in the supply chain must be compensated so the net profits for the provider may be lessened.

SUMMARY

Distribution can be a valuable tool for initiating or growing sales. It is beneficial for providers who want to expand geographically, or into new industries and when they want to test new markets and opportunities. There are many advantages and disadvantages, so a thorough analysis should precede implementing a provider-distributor relationship.

“In the history of recorded time, no customer has ever said, ‘Your price is too high,’ and meant it.”
– Chuckism #6

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