



## *National Conference on Health Communication, Marketing and Media*

### **Developing a Collaborative Distribution Channels Strategy**

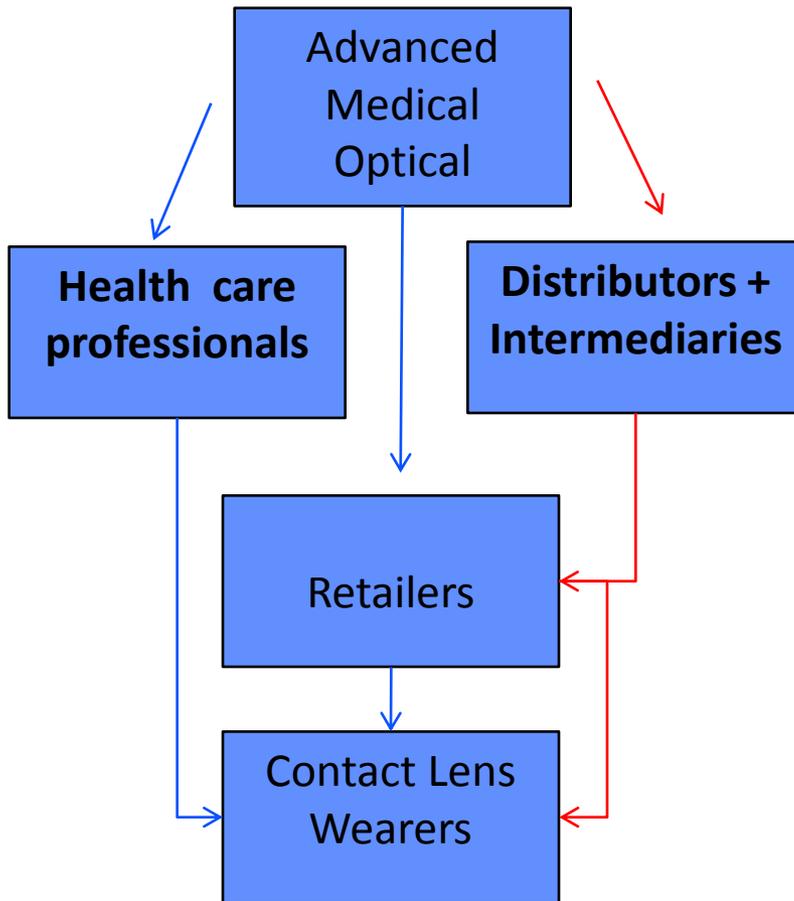
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# A Marketing Channel

- Is a set of interdependent organizations involved in the process of making a product or service available for use or consumption
- There are a number of different channels one might explore since there are different flows to consider—
  - Information flows, flow of goods, money, etc
- Might be considered somewhat different in a health care context but the goal is the same and the same principles apply

# An example



- $\frac{1}{4}$  of all wears with infections required corneal implants
- Recent CDC survey showed that  $\frac{1}{2}$  of users did not know about the recall
- 57M distributed world wide and 28M in the US
- Red is flow of product, Blue is flow of information
- how does CDC reach/educate physicians and users

# Channel Management Challenge

*Find the best combination of channels that supports the business strategy by:*

**Balancing responsiveness to customer**

**...with total channel cost incurred**

**...while retaining adequate control**

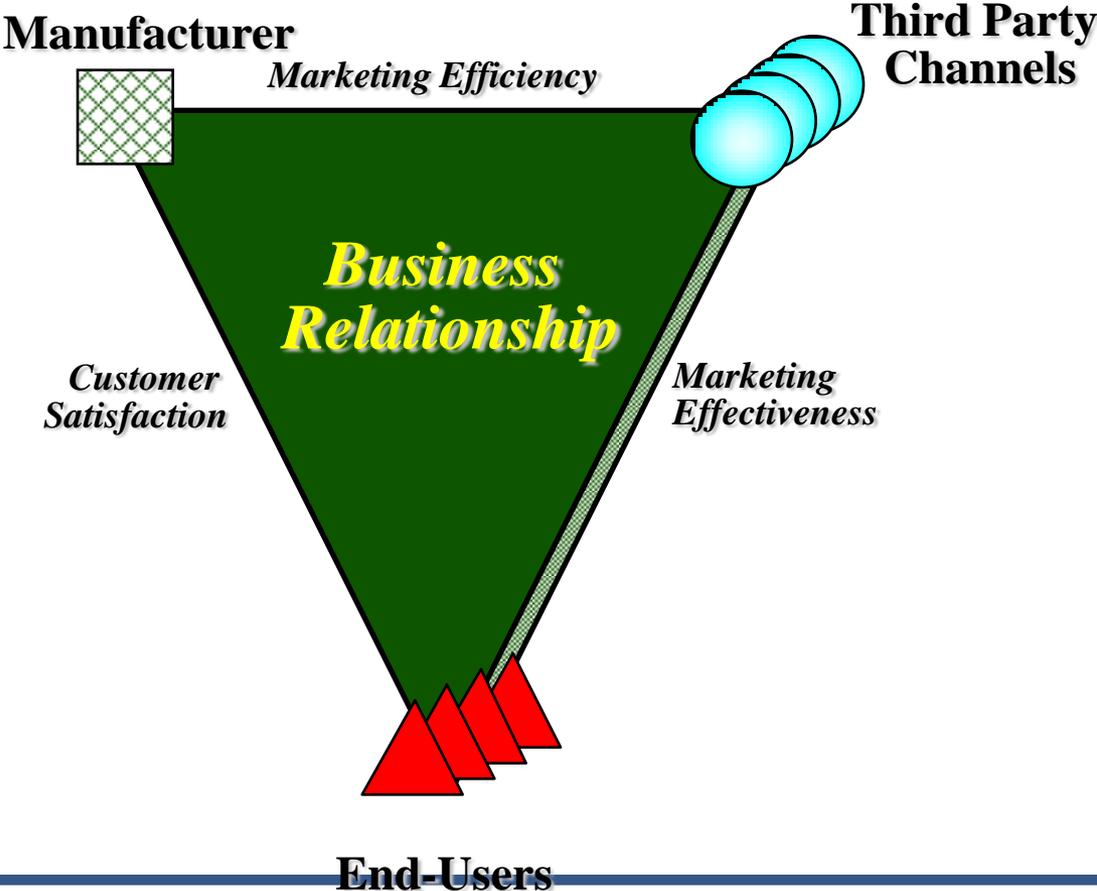
**...to ensure satisfactory cooperation**

**...among all levels in the channel network**

# General Rules To Observe

- Consolidation continues
- Channel conflict is omnipresent. Manage it BUT achieving cooperation is more important
- If the business case is not solid, all engines stop!
- Channel strategies take time and patience. Plan for both
- Partner Relationship Management – oversold and under deliver
- Growing power of channel intermediaries
- Importance of value chain analysis
- Remember the ***monkey law of business***

# The Marketing Delivery System



# Designing Customer Driven Marketing Channels

1. Assess the value of potential channel outputs to end-users.
  - What services to end-users want?
  - How much are these services worth?
2. Examine performance of existing distribution system
  - How does the existing system stack up?
  - Conduct a SWOT analysis by market segment served
  - Measure level of customer satisfaction
3. Identify major resource constraints.
  - Look both internally and externally
4. Find and target service gaps for corrective action.
  - There are issues relative to fit.
5. Rethink channel processes and functions

# Designing Customer Driven Marketing Channels

6. Select and implement the reconfigured distribution system.

What kind of channel should be deployed?

What is the channel design that performs effectively, at low cost, with desired results?

7. Support the distribution system

# Trade –offs to consider

1. How much market coverage does the channel offer?
2. How much market opportunity can the *manufacturer* capture?
3. What are the costs and margins? Can the channel be profitable?
4. How much control can be exerted over the channel? Is it sufficient?
5. Is there commitment among the channel members? What is the share of mind?
6. Does the channel partner have the capacity and skills needed to market the products/ services ?

# Designing the Channel Strategy

The process follows closely the steps used to develop a competitive strategy. The difference is that the channel strategy *supports the business strategy* and *enhances the effective delivery of the customer value proposition*

One looks for

- **Effectiveness**      meets customer requirements
- **Coverage**            can the customer find and appreciate value in the offering
- **Cost efficient**      can the company justify trade-offs in cost to gain effectiveness and coverage
- **Adaptability**        can the channel design accommodate innovation and other changes

# Channel Management's Dilemma– Oops, we have problems

- Unhappy users
- Costs are increasing in the channel but service and quality are not
- Shares are falling and growth opportunity has diminished
- Unexplored new channels-- re-define standards and expectations
- Competitors are gaining in finding better ways to market

# Channel Management's Dilemma– Oops, we have problems

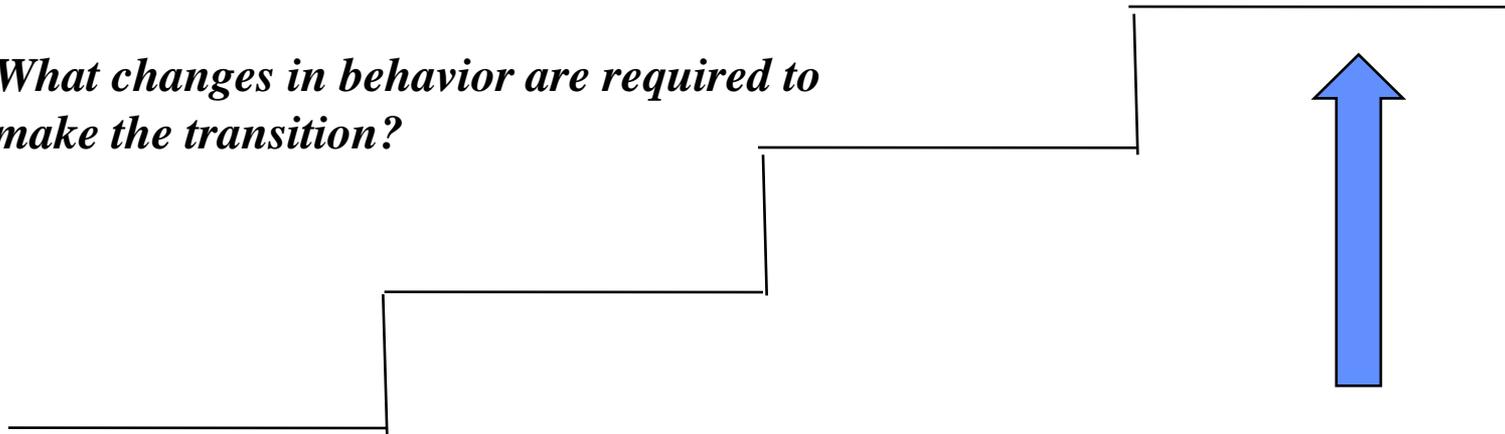
- Gaps in market coverage-- channels tend to serve segments and sometimes cracks appear
- Pricing exceptions have become the rule
- System economics fall apart--
- Complacent intermediaries--
- Relationships with distributors are deteriorating
- Information systems mandate changes-- improves interface

# From channels member to channel partners

- Does the relationship pass the Ford Taurus test?
- Think of a step function

Collaborative channels -- commitment driven

*What changes in behavior are required to make the transition?*



Transactional channels -- compliance driven / show me the money

## *Channel Partnership Guidelines*

#1. Be honest and accurate—even if its painful.

If you are dishonest or withhold information even one time, your future messages will be closely scrutinized and viewed with suspicion. But tell the truth consistently, and your distributors will begin to respect and trust you. When you have bad news, make sure your channel hears it directly from you.



## *Channel Partnership Guidelines*

#2. Listen to and carefully consider channel member opinions before you make a decision.

Leaving channel members out of the decision process

- May mean making a decision without crucial information;
- Sends a clear message of a lack of respect; and
- Jeopardizes future cooperation.



## *Channel Partnership Guidelines*

#3. Carefully think through any policy or procedure before it is implemented.

Distributors are in constant contact with each other. They inform each other of the latest positive or negative manufacturer developments.



# Building a successful channel partnership

- Pre-planning (start with the customer)
  - Who is the end user? How many? Where are they located and what are they about? (describe and understand needs)
  - How does the customer buy today?
  - What do they look for in a channel (i.e., support, financing, complementors, information, etc )
  - Can we build a presence in the minds of the customer?
- Identifying potential channels
  - Who is available? Do they align with our customers/clients?
  - Can they meet the challenge of being a partner? Commit resources? Share our vision?
- Beginning the partnership
  - Are goals being met? If not, why?
  - Are they working with us in the spirit we intended?
  - Do we have the attention of senior management?

# **Channel Selection Criteria**

## **Financial Health**

- **projected revenues**
- **years in business**
- **credit history/rating**

## **Sales Strength/Performance**

- **number of sales personnel**
- **personnel expertise and trainability**
- **general sales performance**
- **growth potential**
- **post sale follow-up**

## **Market Coverage**

- **market served**
- **frequency of coverage**
- **breadth of coverage**
- **loyal installed base**

## **Reputation**

- **leadership**
- **technical competence**
- **degree of influence over customer**

## **Customer Service**

- **extended hours**
- **convenient locations**
- **problem solver**
- **support services**

## **Image**

- **relationship and compatibility of product lines**
- **strategy – match between M and reseller**

## **Channel Support Elements**

- Training**
- product/sales training support
  - job aids
  - develop "expert source" relationship
  - on line support systems

- Communications**
- joint advertising/sales promotions
  - program follow through
  - promotes distributor/M image
  - demo centers
  - co-marketing (joint calls)

- Compensation**  
(Commissions/Incentives)
- efficient ordering procedures
  - reliable sales tracking measures
  - timely compensation payments

- Customer Service**
- provide customer follow-up
  - provide interface points for problem solving
  - technical support

- Program Administration**
- maintain ongoing communications
  - provide program status enhancements
  - promote programs and relationship
  - provide timely, consistent response

# Channel Management

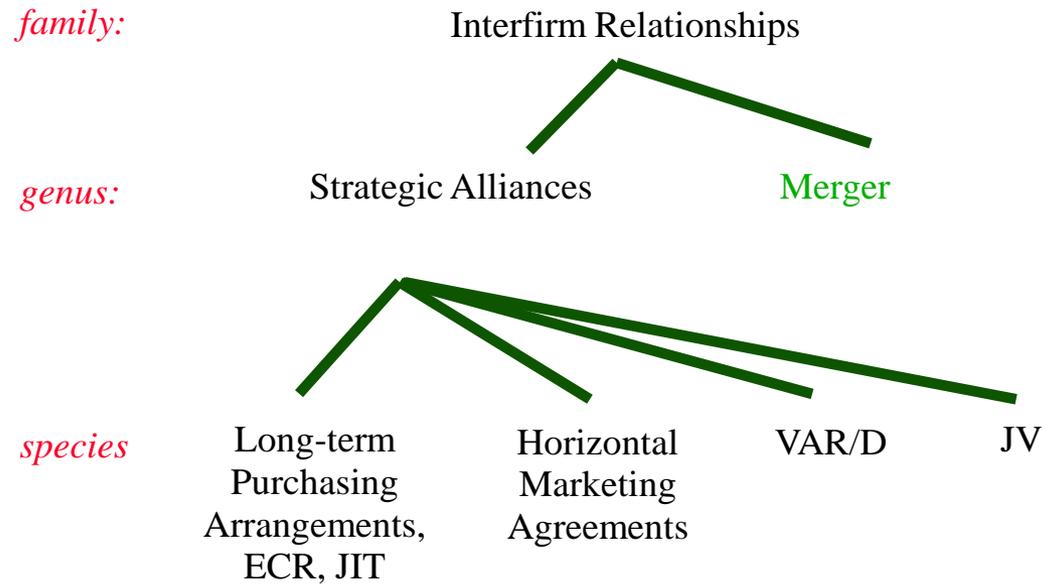
*To ensure success, an infrastructure must be in place:*

- Channel selection process
  - Sales support/training
  - Compensation/reward/recognition system
  - Cross-channel conflict management
  - Advertising and promotion participation
  - Tracking and measurement system
  - Well-defined lead referral system
  - Partnership attitude
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# DEFINITION OF ALLIANCES

- Alliances are close, collaborative relationships between two or more firms with the intent of accomplishing mutually compatible goals that would be difficult for each to achieve alone.
  - Key Words:  
Collaborative, Mutually Compatible, Difficult to Achieve Alone
  - Implied by the above:  
An **open ended** contract, between **separate** firms, with **shared** governance
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# The *Phylum* of Alliances



## A more refined definition

- **An alliance is close, collaborative relationship between two, or more, firms that join forces to attain a set of mutually agreed upon goals that the parties would have had difficulty achieving alone.**
  - **Although firms join forces, share complementary assets and skills, and often share decision-making; they maintain their autonomy and independence. Given the autonomy, what is good for one partner must be good for the other.**
  - **Thus, success cannot be measured by looking at the benefits that accrue to one; success is determined by the benefits that accrue to all parties in the proportions as established in the alliance agreement.**
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# Implied by the previous

- The term **collaboration** suggests a more open and trusting set of relationships than would typically be found in a transactional set of exchanges. Trust is an important element of the relationship and it can complement the contract or can replace it.
  - When firms collaborate they acknowledge that they are **interdependent** and that their fates and destinies are linked. Relationships built on **compliance and control don't work**.
  - Alliances should be built on strengths and not on weaknesses. Questions of **opportunism** and disintermediation seem to surface when there are duplications. Complementary assets, etc. connote that partners recognize the skills brought by the other and attempt to leverage these skills to the advantage of the alliance.
  - Unlike a merger or an acquisition where one firm absorbs another and the firm *disappears*, in an alliance each firm retains its own **structure and governance**.
  - **Performance metrics** are set for the partners and for the alliance. The alliance cannot succeed if one partner achieves his goals and the other does not. What activity defines the alliance-
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# More Stable Partnerships are Identified by the Following Characteristics:

- Goal compatibility
- Recognized interdependence
- High levels of coordination
- Trust and commitment
- Symmetry is important
- Open and bi-directional flows of information
- Focus on joint decision making
- Long-term focus (episodic) is important
- Cultural compatibility

# Alliance Planning Process - How to Minimize Failure Areas in Which Caution is Urged

## *4 Sequential Steps*

- Strategy development
- Partner assessment
- Contract negotiations
- Control/Implementation

# Partnership Success Factors

## Openness

- Understand competitive issues
- Understand each other's strengths/weaknesses
- Share risk
- Understand each other's strategic goals

## Relationship Orientation

- Have alliance champion
- Deal with conflicts
- Develop trust
- Clarify expectations early
- Senior management buy-in is key
- Share information
- Open communications
- Be flexible

## Adequate Planning

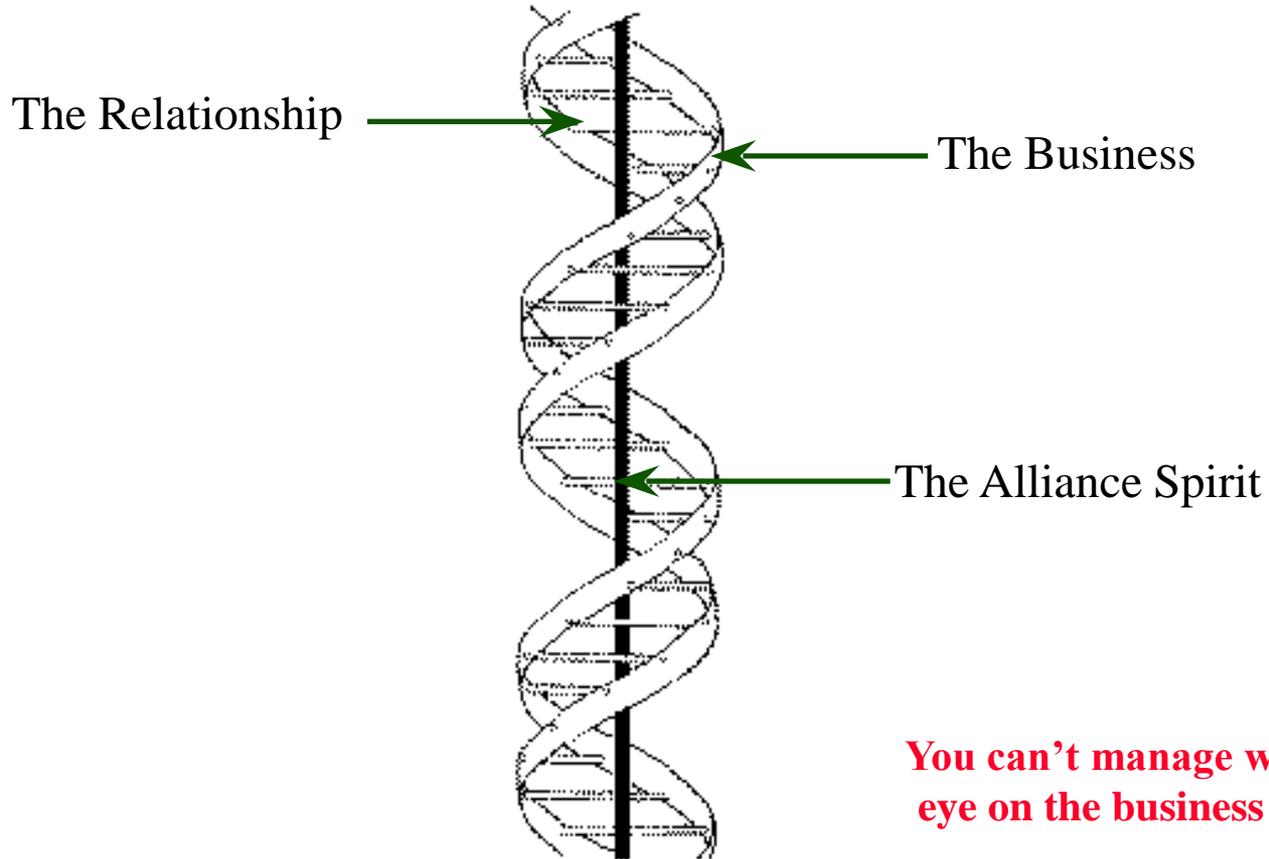
- Set clear objectives
- Accommodate cultural differences
- Implement reward systems
- Have infrastructure
- Define partner's role in planning
- Start small

## Be Humble

- Admit you can't do it alone
  - Set realistic expectations
  - Appreciate partner's contribution
  - Understand partner's mind set
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## The Alliance Interrelationships

*There are three key dimensions to manage*



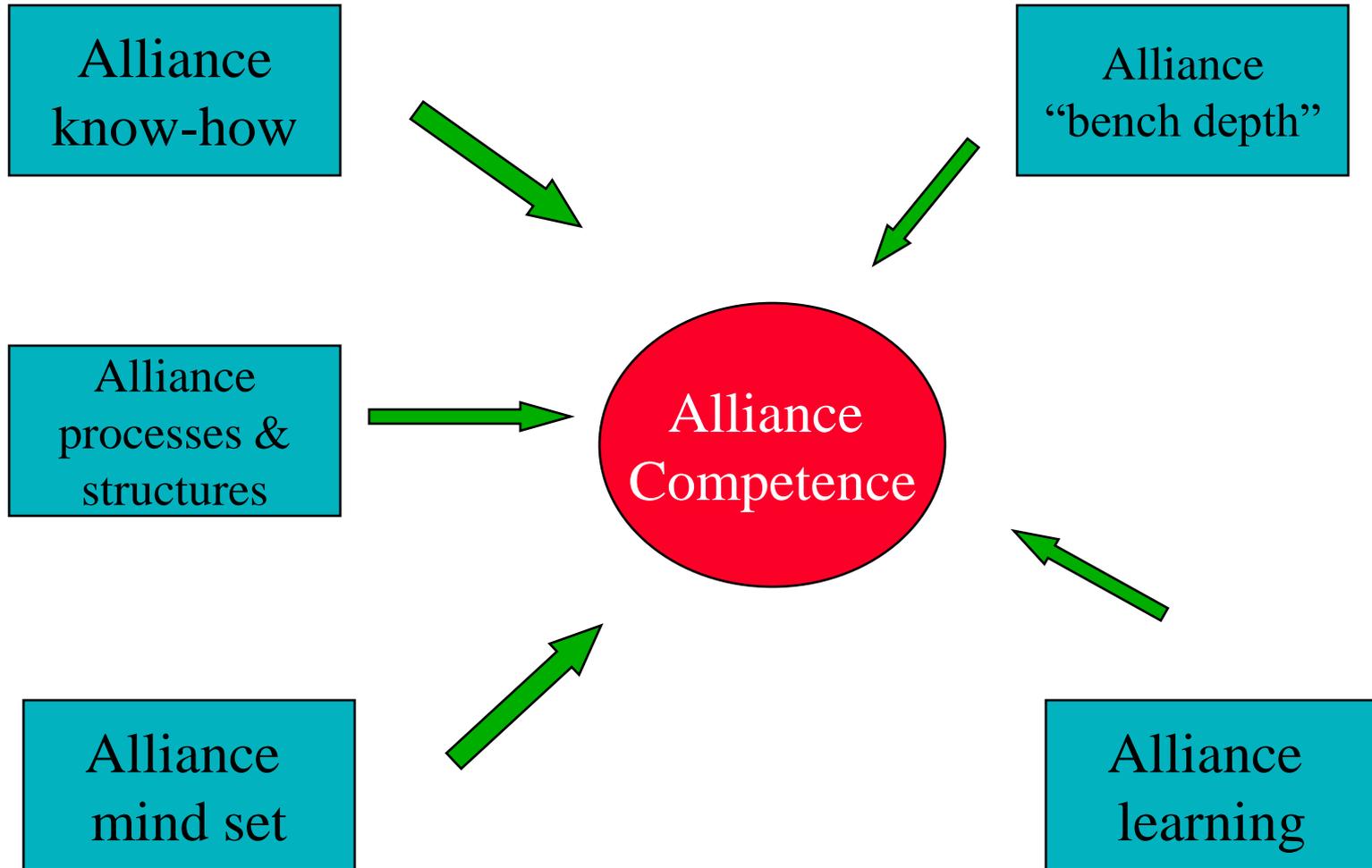
**You can't manage with an eye on the business only!**

# Gains from Being Alliance Competent

## An alliance competent firm ...

- Is and is perceived by others as a good partner
- Is able to better leverage the capabilities of its partners and harness their skills for the mutual gain of the alliance
- Is more likely to select a better partner, is less likely to experience conflict, and is more likely to have a more successful alliance
- Is a better learner and is more effective at disseminating these skills throughout the firm

# Alliance competence is composed of



# Alliance Management Skills Are Important

*Strong alliance managers can improve an alliance's performance. Weak alliance managers can "kill" a good alliance*

## Alliance Manager Skills "Teachable" Competencies

### *Functional*

- Line skills
- Staff skills
- Educational background
- General business knowledge

### *"Earned"*

- Credibility & respect
- Extensive networks:
  - organizational
  - alliance
  - industry

### *Interpersonal*

- Social skills
- Process skills
- Tact/sensitivity
- Cross-cultural awareness

## Alliance Management Characteristics Are Important

*Some skills cannot be developed. They must be identified and nurtured. Good alliance managers “think” and “see the world differently.*

### Alliance Manager Characteristics “Unteachable” Competencies

- Willing to change self to accommodate others
- Willing to consider other person’s point of view
- Simultaneously consider multiple points of view
- Learn from past but are not constrained by it
- Willing to take losses in return for future gains
- Virtual thinking
- Optimistic
- Clever and creative
- Eager to embrace other cultures
- Pragmatic
- Vigilant
- Questioning

# The Skills of Alliance Managers

## High Performers

- ★ know how parts of business fit
- ★ know business, products, services
- ★ have great amount of credibility
- ★ Good listener
- ★ effective communicators

## Distinguishing Skills

- 👍 know the informal organization
- 👍 have an extensive internal network
- 👍 have long term perspective
- 👍 learn from past but not constrained by it

## Threshold Skills

- ☑ have special talent dealing with people
  - ☑ respect people who are different
  - ☑ well respected and liked
  - ☑ regard information as a group asset
  - ☑ consider multiple points of view
-

# Structure and process to enable alliance like behavior

- Think about silos and the obstacles they create
- Lateral communication is essential
- Decentralized decision making processes are key
- Reward systems that encourage teams and individual performance

# Partnering with the Channel

*To what extent do the following statements (reflect your current relationship with your channel ?*

- There is much mutual loyalty
  - The channel will help in a difficult situation
  - We do more joint planning
  - We are more likely to help this distributor
  - We expect a long-term relationship
  - We have more face-to-face communications
  - This channel will favor our key customers
  - We balance supplier production with our inventory needs
  - We share market information with each other
  - We share customer information
  - We have more joint task forces than with other manufacturers
  - This supplier shares risks
  - We coordinate value-added steps
  - We use specific goals to monitor this relationship
  - This channel has a financial commitment to our firm
  - There is a long-term contract present
  - The channel monitors our systems
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# There are several implications...

- Think strategically about channel design
- Select alternative channels with great care
- Plan on providing a great deal of training/support to make the channel succeed
- Effectively manage channel conflicts
- Plan on using flexible information systems
- Don't be slow to change the channels as the market evolves
- Select channel partners carefully

# The end