

TRU White Paper® – Distribution Strategy Criteria & Rules **Expand your Sales: In-house Sales Force, Distributors, Outsource or Export?**

Aerospace & Manufacturing Summit Panel Notes

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Attendees at the conference asked TRU to release the notes. Development of a sound competitive distribution strategy is an issue for many mid-market manufacturers judging by the number of companies needing TRU assistance in this arena. In addition, TRU is concerned about some manufacturers adopting certain distribution methods, based on following “current industry practice” that in our view undermines their strategic competitiveness. The notes apply to the distribution of industrial products such as parts, components, assemblies, equipment and machinery where the typical target customer is another industrial company [rather than retailer of consumer products for individual].

- ❖ My focus for this discussion is distribution strategy for expanding sales and in particular the criteria at play in deciding whether to go for Direct Sales or Distributed Sales. I will talk about how to decide whether to use inhouse direct sales, distributor partnerships, or a combination of direct sales and outside distributors, wholesalers or agents. What are the main factors or criteria you should consider and the conditions that should exist to sway you in one direction or the other? We will see that it is not necessarily an easy decision.

Here is a Ranked List of Some of the More Important Overlaying / Interrelated FACTORS -

- Factor 1.* The number of target customers would you have in the region being considered. List and count them.
- Factor 2.* The technological intensity of the product offering that you want to sell. How much technical explanation is required
- Factor 3.* Stage in the product life cycle of your product offering. Launch versus mature.
- Factor 4.* The capital intensity of your average sale. Cheap versus expensive.

- Factor 5.* The competitive environment now and afterwards. How would your entry or expansion impact this environment
- Factor 6.* Industry practice and in particular what is the current distribution or supply chain structure in the region being considered
- Factor 7.* For exporting, how really foreign is the environment culturally and accessible in time/distance. Is Canada really that foreign?
- Factor 8.* Costs versus Benefits of each option keeping in mind that if you use distributors you will likely need quite a different promotional mix from direct sales. For example, more advertising to pull your product through the supply chain.

Here are the RULES and attendant conditions that apply –

- Rule A. Use Direct Sales whenever possible. Use this as the underlying philosophy. Why is this? Your customers are your most valuable asset and it is not advisable to have any outsider come between you and your target customer –
- ✓ With direct sales you can efficiently deal with all aspects of your target customers needs, use effective sales techniques such as team selling, good technical advice and follow up after the sale
 - ✓ With the use of CRM [customer relationship management], contact management, and the internet direct sales has become much easier than even five years ago.
 - ✓ Most mid-sized and even large manufacturers have less than one hundred existing key customers and less than 5,000 target customers. These are not large numbers and are easily serviced with state of the art contact management systems
- Rule B. Realize that if you use distributors or agents you still need to market your products. Distributors will seldom have the same customer and marketing orientation that you do –
- Your distributors target customers may not match yours – but reaching your target customers for you is a mission critical matter for your company
 - Your distributors may have near competitive products or alternative solutions and not fully align with your interests
 - May employ pricing and promotion policies which are incompatible with your marketing strategies.

- So your company needs to make adjustments to the other components of your marketing mix – your advertising, pricing, and perhaps even your product strategy when using distributors.

- Rule C. If your product is technology intensive lean towards direct sales. Technology intensive means that technical explanations, significant customization or even modification is required. The customer may be employing outside engineering consultants making communication even more complex. You should know your product better than anyone; rely on a distributor and you risk losing the customer for a technology intensive producer. [Reverse Rule – If your product is simple then sure you may use outside distributors.]
- Rule D. If your product is new or recently launched – that is early in its life cycle - lean towards direct sales. The reasons for this are similar to those already discussed for technology intensive products with the complication that your target customer may not have even heard of your product. Obviously, your target customers have to be AWARE of your product before they can take an INTEREST in it, TRY & EVALUATE it before they will ACCEPT & BUY it. [Reverse Rule – If your product is reaching maturity – that is later in its life cycle - you may use or switch to outside distributors]
- Rule E. If your product is capital intensive lean towards direct sales. If you are selling plant, large pieces of equipment or high cost devices or components lean towards direct sales. [Reverse Rule – If your product is low cost, a material or maintenance/replacement item you may use distributors]
- Rule F. Think of how your entry to or expansion into your target market will impact that market. Research and gather intelligence on the market place – especially competition - before making distribution strategy decisions. Who is going to be the winners and losers and what will their reaction be. There are very few if any Blue Oceans with no competition. [Reverse Rule – Go into a market with blinders on at your peril].
- Rule G. Do not necessarily follow industry practice when it comes to distribution strategy. Don't get caught up in the so called latest techniques – the “what companies are doing now” syndrome. Whole industries can be misdirected and wrong. Business school professors are many times too ivory tower in their pronouncements yet they are frequently followed like sheep to slaughter by industry. You may remember that “partnering” with customers was a really big thing in the nineties until suppliers started losing customers when they placed too much burden on the buyer. {Blue Ocean Strategy new in 2005 - don't even ask!!}. Buyers went elsewhere for proper customer service. Now there seems to be a dangerous trend towards “outsourcing” marketing & sales – to me a total contradiction in terms! [Reverse Rule – Develop a distribution method that fits best with YOUR OWN marketing objectives and strategies.]

- Rule H. If you are exporting into a foreign culturally much different market you may use a distributor in that market. The more different and difficult it is to communicate at a personal level with your customers the stronger the argument for indirect distribution channels. [Reverse Rule – Use direct sales in the proximity of your backyard and whenever your customers are reasonably accessible].
- Rule I. It is a good idea to compare the costs versus benefits of the distribution strategy options. There are quite different cost structures for direct versus distributed sales – some more controllable than others. Even order of magnitude Cost/Benefit analysis can be quite enlightening.

That in summary is my view of the decision criteria and how to apply them.

About TRU Activating Strategic Management

TRU supports all things strategic -
your catalyst for generating the activation-energy needed to fuel your company. Activating your people with a highly qualified resource of top professionals, integrating next level market research and industrial analysis, with strategy solutions that will profitably build your business. Activating strategy for customer, product, venture and technical development. TRU provides comprehensive *Integrated Solutions* for customized strategic planning, analysis and modeling. Customization for your situation is vital since there is no such thing as a general fits all textbook template, approach or model [such as Blue Ocean or Balanced Scoreboard] for strategic planning. And strategic planning involves much more than management discussion!

Strategy Activation is an idea developed over twenty years of intensive experience in all aspects of strategic planning and strategic analysis.

Contact TRU at . . .

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