How To Manage The Dealer Channel To Cause Growth

A manufacturer, who uses dealers, does so for one reason – to make more money. The dealer produces this result for the manufacturer by generating more sales from the territory and/or at a lower cost of sales than the manufacturer could do alone. If the manufacturer could make more money without the dealer they would do it. But the manufacturer must continue to generate profitable growth from the dealer channel over time in order to thrive. Thus, the ***manufacturer must accept primary responsibility for causing growth*** through this vital channel. The manufacturer, who expects the dealer to take the lead, is making a strategic mistake and will eventually be disappointed with their results.

However, for the ideas in this paper to be implemented some level of trust is going to be required. This trust has been sorely tested by manufacturers' efforts to find multiple channels to market that have made it difficult for many individual dealers. Some dealers are much more important than others. If the manufacturer is committed to causing growth through the dealer channel, then these important dealers are going to have to be treated differently and better in order for the recommendations in this paper to work.

Causing Growth – The Manufacturer's Responsibilities

There are five. The manufacturer must provide products that will sell. They must provide the necessary technical support. They must provide reasonable delivery of the products. They must provide a strategy to sell the products. They must actively manage the dealer. The bottom line is that a manufacturer must have a Dealer Manager or Regional Sales Manager to produce the maximum growth from the dealer. The Dealer Manager (DM) fulfills two of the manufacturer's responsibilities – jointly developing the growth strategy and actively managing the implementation of the strategy.

Causing Growth – The Dealer's Responsibilities

There are two. First, the dealer must provide the technical, delivery, and administrative services and support that their market wants and they must do it well. Second, they must sell the manufacturer's products at a rate and profit level that satisfies both the manufacturer and the dealer.

Strategy – The Key To Successful Growth

Manufacturers tend to put the burden of developing the growth strategy on the dealer. This seems logical and easy but it is a mistake. The growth strategy of the manufacturer must drive the growth strategy of the dealer, not vice versa. That's why the DM must drive the process. He or she will be the key to managing the growth strategy throughout the year. They are the limiting resource from the manufacturer and their time and skills will be a major determinate of how much growth is produced. The manufacturer generally tells the dealer the level of sales expected and then leaves it to the dealer to figure out how to generate the growth. The contents of the dealer's plan will be dependent on what satisfies the manufacturer. It can certainly be argued that this is a growth strategy, but if the DM does not use this plan to actively manage the implementation it will fail to generate the maximum growth.

What Does A Superior Growth Strategy Look Like?

The growth strategy is the Dealer Manager's business plan for the dealer's territory. A growth strategy cannot be limited to one year. Strategically important accounts must be viewed as long term accounts. Thus, the information must also be considered for a longer planning horizon – 3 years tends to be the right timeframe. A really good one includes the five sections listed below.

Section 1: A list of the accounts to target within the dealer's territory.

Section 2: The products and services that can be sold to each of the targeted accounts.

Section 3: The business potential from each of the targeted accounts.

Section 4: The projected sales to the targeted accounts for each of the next 3 years.

Section 5: The plan or strategy to gain account share in ***every*** targeted account.

The intelligence about business potential (Section 3) and projected sales (Section 4) is a never ending effort. It will require resources from both the manufacturer and the dealer. The quality of the business plan (Section 5) will be completely dependent on the quality of the intelligence that goes into the plan.

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The outcome of a growth strategy is the answer to Section 1 – a list of accounts that meet two criteria. Collectively, the accounts spend enough money buying the products the manufacturer could supply that both the manufacturer and the dealer can be confident of meeting revenue goals for ***each*** of the next three years. The second criterion is that ***each account*** on the list can be contacted by the combined resources of the manufacturer and dealer far more frequently than any of your competitors. This second criterion limits the number of accounts that can be on the list. Thus, the accounts need to be well chosen or the plan will fail to produce the desired revenue gains.

Why Must Certain Accounts Be Targeted?

In any territory there are likely to be hundreds of accounts who buy products that the manufacturer sells. Just because they buy does not mean the manufacturer should try to sell to them! I know that sounds wrong, but it is true. Strategy requires focus because the resources of both the manufacturer and the dealer are limited. Of all the resources these businesses have at their disposal, the one that limits growth is the number of outside salespeople that can be deployed. This will hold true until the manufacturer no longer has the capacity to meet the current orders that have been won.

A dealer may be able to maintain their existing business through inside sales and good operational performance, but growth requires contacts by outside salespeople. If it did not then the dealer would not have outside salespeople. Since we are talking about a growth strategy, then we are talking about focusing the activities of the DM and the dealer's outside salespeople. The essence of a growth strategy is being clear on which accounts to say "NO" to with the time of the Dealer Manager and the time of the dealer's outside salespeople for the manufacturer's products. However, saying "no" is negative. The growth strategy focuses instead on which accounts to say "yes" to with the proactive business development time of the DM and the targeted outside salespeople for the dealer.

The implementation of the growth strategy anticipates that 80% to 85% of the ***proactive*** business development time of the DM will be spent on the targeted list of accounts. This leaves 15% to 20% of their time to ***react*** to other opportunities that come their way from accounts not on the targeted list. We're not turning down orders from accounts not on the list; we're simply concentrating our proactive sales activities on the accounts where we believe we have ***the best*** opportunity to grow now and in the future.

The implementation of the growth strategy must alter the touch pattern of the DM and the dealer salespeople. The strategy will expect many more contacts on many more people in many fewer accounts. The DM is not necessarily trying to squeeze more time out of the dealer sales person. He or she should be trying to concentrate the time the sales person is willing to spend on the people within the accounts who can influence a buying decision in our favor. Thus, the DM's time in the field should be on the targeted accounts, the time spent with dealer salespeople (both inside and outside) should be on those calling on and managing the targeted accounts, the product training should be on the applications that are in the targeted accounts, new products should be launched in the targeted accounts, "lunch & learns" or other marketing activities should be on the targeted accounts and so on.

The power of focus is that it clarifies where the business plans to grow and insists that the available resources be continuously focused on the targeted accounts. If the accounts are chosen properly and the implementation is well managed, then account share for the manufacturer's products will begin to grow in ***each*** of the targeted accounts over the next three years. This will happen because the increased attention on the right people in the right accounts will eventually cause them to believe that you deserve the business more than your less focused competitors.

How To Choose The Right Accounts – Focus on Strengths

The ability to gain account share is a function of your strength relative to the strength of the competitors also competing for business within the account. In order for a account to get on the list, the manufacturer's product combined with the dealer's services must have an edge in strength over competing manufacturer's products and their dealer's services. If they are not stronger, then they cannot expect to gain share.

In business to business markets, there are only three measures of strength that need to be used to evaluate any account for inclusion on the targeted list of accounts. They are the installed base share of the manufacturer's products, the impact the manufacturer's products and dealer's services have on the account's business results, and the number of times the account is being "touched" by the manufacturer and dealer.

> **Note:** For a consumable product such as fasteners, installed base share would be measured by how many they purchased from your company divided by how many they purchased in total.

Installed Base Strength Measure

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The purpose of putting an account on the list is to win the #1 position in installed base share for the manufacturer's products. In general, both the manufacturer and dealer make more money on products sold to accounts where our product is #1. The manufacturer who has the current #1 installed base position is the strongest in that account for that measure of strength. Thus, one piece of vital intelligence is to know the current installed base position of all competing products and an estimate of how much money the account is spending annually buying these products.

Offering Strength Measure

While the goal is to win the #1 installed base share position, the most important component of strength in getting there is the "Offering". An "Offering" is the product the account buys and uses plus everything else they consider when making a buying decision. Businesses buy products to produce better business results. The important results are the results that will reduce the cost to the account of doing their work or increase the sales the account makes to its own customers.

Dealers usually attempt to compete by lowering the cost of buying and implementing the product. One stop shopping, ease of doing business with, convenience, inventory, quick response and other capabilities of an effective dealer are all focused on reducing the cost to buy. These results are important to Purchasing but they are not the important results. The results this department wants to produce are to ***reduce*** the purchase price, ***reduce*** the lead times, ***reduce*** suppliers, ***reduce*** administration labor, and ***reduce*** inventories. All of their business results begin with "reduce" because Purchasing's business measures and focus are on reducing the cost to buy.

If you look at a buying decision as a Return On Investment decision, you will see what I mean by this. While the business certainly wants to control the Investment, the real reason they are making the buying decision is because they expect to make a Return on their Investment – they expect to make more money by using the product.

Reducing the cost to buy does not make them more money, it just reduces the Investment. The Return is the increased sales or reduced operating costs that they get by using the product ***after*** it has been purchased and implemented. These are called "operating" results because they are produced by the only two departments in a business that make the business money – Operations and Sales.

The Offering is the most powerful strength measure. Unfortunately, very few engineered products have a clear edge over competing solutions in their ability to produce better operating results. This is because good products are usually copied pretty quickly by good competitors. Nonetheless, when a manufacturer has an edge in Offering strength great gains can be made in installed base share, ***if*** the sales resources are properly deployed. The manufacturer whose Offering (which includes the dealer's services) produces the best business results is the strongest in that account for that measure of strength.

Thus, another piece of vital intelligence is to know the actual results being produced by the account that is currently using the manufacturer's products. These results could be number of rejects or mean time between failure of the engineered product or warranty claims or time to bring a new product to market or any of a number of other results that are measures of operating performance that the account uses to manage their business. As long as the manufacturer's product can have an effect on a business result, the manufacturer should have some idea of what those results are and whether the account continues to be satisfied with those results.

Touch Strength Measure

A "Touch" is defined as a face to face or voice to voice contact by anyone representing your side on any buying influence in the targeted account. If the competing Offerings are judged by the account to be relatively equal (and most are) and no one competitor has a huge edge in account share (greater than 75%), then Touches alone are enough to start gaining account share. The manufacturer/dealer team that have the most Touches is the strongest in that account for that measure of strength.

We don't need to count Touches, we just need to develop a targeted list of accounts where our sales resources commit to calling on each account much more frequently in the future than they have in the past. This doesn't mean calling on the same people more often, it means calling on people in other departments whose results we impact – departments such as Operations, Sales, and Marketing.

These three measures of strength can be used to evaluate any account in a territory to determine if it is one that is worthy of being on the list or should be passed over for others where a concentration of Touches will

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lead to more rapid growth.

Choosing The Target Accounts

The difficult part of strategy is making the decision to narrow the focus on the targeted accounts. We all understand that concentration of resources is a fundamental principle of any growth strategy. But when it comes to actually making the decisions it is difficult due to the tendency to view opportunities outside of the focus as lost opportunities. The reality is that these "opportunities" are being lost every day because salespeople cannot be at every account in the territory.

A simple way to begin is to list the sales of the manufacturer's products by account from top to bottom. The first column is the name of the account, the second column is sales, and the third column is the cumulative total. So for example if sales to the first account were $50,000 and sales to the second account were $40,000 then the number in the third column would be $90,000. Draw a line at the point where the cumulative total is 80% of the total sales of the manufacturer's products. Odds are this is a manageable number of accounts, probably 30 or less.

The next step is to determine or develop a reasonable estimate of total annual spend for each of the 30 accounts. The definition of spend is all of the money the account is currently spending buying products that it could economically justify buying from your company. If your actual sales to these 30 accounts added up to $800,000 last year and these 30 accounts spent $3,200,000 on these kinds of products, then your share of spend is 25%. This implies that there is lots of room for growth in these 30 accounts. So prospecting for new accounts is unlikely to be as valuable to the manufacturer as spending more time in some of these top accounts. On the other hand, there are many situations where it is very difficult to convert an account, but once converted they stay very loyal to the product and use it in all of their applications. In these cases you would have close to 100% account share.

Remember that the outcome of the strategy is a targeted list of accounts that meet two criteria. First, the accounts must collectively spend enough money that both the DM and the dealer can be confident of meeting their revenue goals. The general rule of thumb, when looking for the right amount of revenue, is to target accounts who spend about three times the third year revenue goal of the manufacturer's products for that territory. For example, if the third year revenue goal for the territory is $2,000,000, then the plan is looking for accounts that collectively are projected to spend about $6,000,000 in the third year. The assumption being that if you concentrated Touches on the targeted accounts for three years and are selling good products and the dealer is delivering good service and support, then you should be able to earn at least a 33% share of annual spend by the end of year 3 of your plan.

If your customers tend to buy most of their products from your company once they are converted you can look at the market in a different way. Let's say the revenue goal in year 3 is the same as above, $2,000,000. If your current sales in the previous year were $1.3MM and you wanted 15% growth it would work out to $2MM in sales in year 3. But rather than look for a $6MM market you would look for the number of accounts you would have to convert to eventually get to $2MM. Since the accounts buy everything they need from your company once they become completely converted, you only have to establish an average sales value per account that you will be targeting in your strategy and then find the number to be converted.

For this example we'll assume the average converted account can spend $35,000 per year buying your products. To get $700,000 in growth in three years you need to completely convert 20 accounts ($700,000/$35,000). This assumes that your existing account customers continue to buy at their current rates meaning the market is flat and you do not lose any of your existing account customers. If you lose customers or the market will experience a significant increase or decrease in spend you simply need to make the adjustments to determine the right number of accounts to convert. Once you have determined the number of new accounts to convert you look for a market of about 3 times that number of accounts or about 60.

The second criterion is that all "growable" accounts on the list can be Touched far more frequently than all competitors in all accounts. The rule of thumb on the amount of spend is only a rule of thumb and is adjusted if the installed base share of the targeted accounts is much higher or much lower than 25%, but it is a start at driving the targeted number of accounts down to a number where all competitors can be out Touched by the DM and the dealer.

This method is recommended because it usually shows that there is lots of additional potential in these accounts and it is easier to make sales to existing satisfied customers than it is to make sales to new ones. Manufacturers tend to press the dealer to bring in new accounts when the reality is there is more than enough spend in existing accounts to meet the revenue goals of both businesses if they could just win more of it.

What Is A "Growable" Account?

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This list of accounts is going to include some accounts where the manufacturer's product is already #1 by a large margin. These are the manufacturer's best accounts and both the DM and dealer are likely to already be spending a lot of time at these accounts. However, if your current installed base position is 75% or more this is not a "growable" account unless the account itself is growing. In general, accounts want choices for competing products which is why they tend not to award 100% of their business to one supplier. Those accounts that are comfortable sole sourcing have already done so. Therefore, efforts or Touches designed to increase your installed base position beyond 75% tend to be wasted Touches.

A growable account is one where the manufacturer currently has a 10% to 25% installed base position and the account is satisfied with the performance of the manufacturer's products and the dealer's services. As a DM, I expect the dealer to already have lots of resources Touching the accounts where I have a 75%+ installed base position. There is an outside salesperson, an inside salesperson, counter people, and delivery people already Touching the account due to the high installed base position. With all of this attention the DM does not need to be spending nearly as much time maintaining the account as was required to grow it to this position. Obviously time will still be required, but since the account is not growable, Touches should be reduced here and reallocated to accounts where real growth is more likely.

The DM and the dealer salesperson should be spending the majority of their Touches on the growable accounts. However, the dealer salesperson has responsibilities to many manufacturers and many accounts so the real responsibility lies with the DM. This means when the DM is in the territory he or she should be at the growable accounts – ***not*** the ones where they already have a dominant position unless they need to be there to solve a problem. When joint sales calls are being made they are with the salespeople who have the growable accounts. When new products are being launched the target applications should be at the growable accounts. When progress is being reviewed it should focus on the growable accounts. When dealer training is required it should be done at the growable accounts. In other words, if the DM concentrates Touches on the growable accounts, then the dealer will naturally have more Touches on the growable accounts over time. This concentration of Touches will eventually cause gains in account share over your less focused manufacturers and dealers.

How To Begin

The key outcome of the strategy is a targeted list of accounts. Until this list is developed and agreed to by both sides, there is not a real strategy to implement. This paper suggests some pretty detailed intelligence about a dealer's territory in order to have confidence in the growth plan. This is intelligence that neither dealers or manufacturers have today. This should not stop the development of the plan. Since the quality of the intelligence ***determines*** the quality of the plan, a DM and a dealer must begin with a plan to gather specific intelligence from specific accounts. If the dealer distrusts the manufacturer so much that they won't share the sales numbers being asked for in this paper, then the manufacturer needs to drop the dealer or the dealer needs to drop the manufacturer. No growth strategy is possible until the trust issues are resolved.

Once the list is developed begin with the accounts who are happy with the performance of your products and the dealer's service and support. These chosen accounts spend a lot of money and your products already enjoy a high installed base position. Three things need to be learned from each of these accounts to have the right intelligence to develop a strategy that will cause growth.

1. Learn the total amount of money each account spends annually buying products that they could economically justify buying from your company.

2. Learn the business results that are important to their operations and/or sales departments that are affected or impacted by the performance of your products.

3. Learn whether they have any evidence in their numbers that their operating results are better or worse when using competing products.

The purpose of a growth strategy is to win the desired amount of revenue as quickly and as easily as possible. This means targeting accounts where you have the best chance of gaining share. Products that can be proven to produce better operating results can gain share in any account, even one where a competitor has all of the business today. However, it is much easier to gain share in accounts where no one competitor already has a 75%+ installed base position.

Also, since it is unusual for a manufacturer's product to be capable of producing better operating results for a long period of time, the reality is that Touches alone are generally enough to gain share. The purpose for learning the intelligence listed above is that it will provide good guidance for choosing your targeted list of accounts. If you cannot learn this information from the accounts that are already happy with your performance then your strategy will be weak and unlikely to produce the desired growth.

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The ability of a manufacturer to gain share in any account is a function of installed base share, business results being produced, and Touches. If you cannot estimate the total annual spend of all accounts being considered for inclusion on the list and you do not know the important business results that are impacted by your products then you will be missing the crucial intelligence that determines if you can win the #1 position in installed base share. Lacking this intelligence will insure that you end up with too many accounts on your targeted list and many of them will be the wrong accounts!

Remember: The quality of the intelligence determines the quality of the plan.

Summary

The essence of a growth strategy is knowing which accounts to say "no" to with the Touches of the DM. Concentration of resources is a fundamental principle of any growth strategy and the resources that must be concentrated are the Touches of the DM and the key dealer salespeople.

Touches can be concentrated once a targeted list of accounts has been developed where the combined resources of the DM and the dealer can be confident of out Touching ***every*** competitor in ***every*** growable account on the list. Touches are a measure of attention and when the products are perceived to be relatively equal and no one competitor already has a huge edge in share, Touches alone will be the key to causing growth.

Once the list is developed and agreed to by both the DM and the dealer, the DM can then get down to the business of managing the implementation to insure the Touches are deployed in sufficient quantity and on the right people to insure the desired growth is produced.

Finally, this paper has presented these ideas for one DM managing one dealer. Unfortunately DM's have responsibility for many dealers most of which will not be worth the kind of effort required to be successful in causing growth. Don't reject the ideas just because they cannot be implemented everywhere. Just recognize that the DM also has limited Touches and they will need their own list of targeted dealers just as a dealer needs a list of targeted accounts.

A Final Thought For Manufacturers

Most manufacturers have gone overboard in the number of dealers they have covering a geographic territory. You've heard all of the arguments from your dealers so I won't bore you with them here. However, there is an important question to answer: Does adding more dealers, in territories where you already have distribution, lead to more sales for the manufacturer? In other words, at what point is it clear that adding one more dealer is counter-productive for the manufacturer? Manufacturers tend to wait too long to address this question to their detriment. In most cases, a manufacturer can dramatically reduce the number of dealers covering a territory and still cause sales growth. Just imagine what could be negotiated between the manufacturer and the chosen dealers if the manufacturer took the lead in discussing a reduction of dealers.

In business to business selling environments, the best sales people are never the ones making the most calls. For these people more calls does not lead to more sales unless they aren't making enough today. The same will hold true for dealers. Adding dealers also does not lead to more sales unless you do not have enough distribution today.

How many is too many for one geographic territory in your business?

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