Choosing the Right Sales Channel For Your Startup

Stephen N. Davis
“Partnering With Clients to Drive Sustainable Profitable Growth”

What We’ll be Covering

- Developing your channel strategy
- Types of sales channels
- What it takes to succeed
- Managing channel relationships

We will not be talking about online sales
1 Get Into The Mind Of Your Buyer

2 Develop Your Buyers Profile
Develop Your Buyers Profile

- Who is your “ideal customer?”
- Who is typically the “key decision maker?”
- How do they make their decisions?
- Where do they collect their information to make a decision?
- What are their critical business issues?
- What is their buying process?
- Where do they buy?
- What is their BUYING Cycle?
- What are the “trigger events”

Be Where YOUR Prospects Are.
Sales Channels – The Reality

“A product with better distribution will always win over a superior product with poor distribution or customer access”

It’s not fair. It’s not right.
But, it’s reality.

Common Sales Strategy Mistakes
Common Sales Strategy Mistakes

Not having an adequate profile of customers

Common Sales Strategy Mistakes

Confuse channel partners with final buyers
Common Sales Strategy Mistakes

Channels are not in sync with your targeted buyers

Common Sales Strategy Mistakes

Thinking your “value proposition” is the same as theirs
Common Sales Strategy Mistakes

Failure to consider licensing or joint-venture agreement

Common Sales Strategy Mistakes

Insufficient channel margins
Common Sales Strategy Mistakes

Insufficient marketing budget

Common Sales Strategy Mistakes

Not aligning marketing to the sales channel
Common Sales Strategy Mistakes

Channel conflict

Common Sales Strategy Mistakes

Going to the channel before you're READY
Types of Sales Channels

- Direct field sales reps
- Corporate resellers
- Master or local distributors
- Integrators
- Value-added resellers
- Manufacturer’s agents
- Brokers
- Franchises
- Telemarketers
- Inbound telesales agents
- Internet sites
- Extranets
- e-Marketplaces
- Direct Mail
- OEM’s
- Retail
- Kiosk’s
- Strategic alliances
- Agents (consultants, affiliates, etc.)

Channel Benefits/Risks

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct</strong></td>
<td><strong>Harder to scale</strong></td>
</tr>
<tr>
<td>Control</td>
<td>Higher fixed costs</td>
</tr>
<tr>
<td>Higher gross margins</td>
<td>Less flexible – seasonal sales</td>
</tr>
<tr>
<td>Direct customer relationship</td>
<td></td>
</tr>
<tr>
<td>Necessary for complex sale</td>
<td></td>
</tr>
<tr>
<td>Can scale quickly</td>
<td>Ongoing investment in recruitment &amp; training</td>
</tr>
<tr>
<td>Use established customer relationships</td>
<td>Big margin sacrifice</td>
</tr>
<tr>
<td>Fill product gaps</td>
<td>Up front MDF investment</td>
</tr>
<tr>
<td>Companion selling opportunities</td>
<td>Fighting for mindshare</td>
</tr>
<tr>
<td>Local support</td>
<td>Quality of channel partner</td>
</tr>
<tr>
<td>Increased demand generation</td>
<td></td>
</tr>
<tr>
<td>Offload financing risk</td>
<td></td>
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</tbody>
</table>
Channel Costs

Comparison of Major Channels

<table>
<thead>
<tr>
<th></th>
<th>Retail</th>
<th>Agent/Rep</th>
<th>Distributor/VAR</th>
<th>Acquisition</th>
<th>Joint Venture</th>
<th>Subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time to Market</strong></td>
<td>Slow</td>
<td>Slow</td>
<td>Medium/Fast</td>
<td>Medium</td>
<td>Medium</td>
<td>Slow</td>
</tr>
<tr>
<td><strong>Management Control</strong></td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td><strong>Brand Control</strong></td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td><strong>Development of In-House Expertise</strong></td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td><strong>Access to New Partners</strong></td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Medium</td>
<td>Low</td>
<td>Low/Medium</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td><strong>Hands-On Sales/Marketing Support</strong></td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>
What Do These Firms Have in Common?

- Dell
- Bowflex
- Amazon.com
- Charles Schwab
- Geico
- Omaha Steaks
- Ditech.com
Do You OFFER a Whole Product?

Choosing a Channel

- Considerations
  - Fill whole in product offering
  - Link to end-user targets
  - Fit with existing channels
  - What role do they play in the sale?
  - Geographic coverage
- How do I generate business for them?
- Can I support them?
- Do the financial requirements make sense for our company?
- Do I have enough profit margin for them?
Do You Have Enough Profit Margin for the Channel?

- **End User**
  - Suggested List Price (SRP) or Street Price
  - **62%** Gross Profit
  - **15%** S. G. & A.
  - **23%** Cost of Goods

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Do You Have Enough Profit Margin for the Channel?

- **End User**
  - Suggested List Price (SRP)
  - **50%** Consumer Retailer
  - **12%** Gross Profit
  - **15%** S. G. & A.
  - **23%** Cost of Goods

- **Street Price**
  - Your Revenue
Do You Have Enough Profit Margin for the Channel?

<table>
<thead>
<tr>
<th>%</th>
<th>Channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>Consumer Retailer</td>
</tr>
<tr>
<td>10%</td>
<td>Distributor</td>
</tr>
<tr>
<td>15%</td>
<td>S. G. &amp; A.</td>
</tr>
<tr>
<td>23%</td>
<td>Cost of Goods</td>
</tr>
</tbody>
</table>

- Suggested List Price (SRP)
- Street Price
- Your Revenue

2% Gross Profit
Is NOT ENOUGH

Is Your Buyer Package up to Snuff?
Is Your Buyer Package up to Snuff?

- Marketing materials
- Price lists
- Outline of your marketing campaign
- Product samples - Packaging
- COOP/MDF funds and campaigns
- In-store merchandising
- Prospect & customer correspondence
- Sales training for their personnel
- Sales support
- End user training
- End user support

Strategic Partner/ OEM / Private Label
Strategic Partner/ OEM / Private Label

- Quick penetration – less risk
- Established market presence
- Provides localization of product
- Handles all marketing, sales, distribution & support
- Provides ongoing market analysis
- Provides ongoing competitive analysis
- Usually won't carry competing product
- Tough sale – long sales cycle

Approaching a Potential Strategic Partner/ OEM / Private Label

- Be Ready to Explain Key Product Advantages
- Do Your Homework
  - Why should they be interested?
  - Fills competitive hole
  - Enhances existing product line
  - Prevents having to compete against you
  - You could develop market in your home country for their products
- How easy it will be to work with you
- Support you will give them
  - Technical
  - Training
Key Issues in Licensing Agreement

- Specs & Deliverables
- Acceptance
- Grant of License
- Terms
- Payments
- Bookkeeping Requirements
- Ownership
- Use of Trademarks
- Training
- Decision Making Authority
- Marketing Obligations
- List Price of Product
- Performance Requirements
- Warranties
- Limitation of Liabilities
- Development Support
- Rights to Updates
- Termination
- Source Code Access
Grant of License

Specifications & Deliverables
Acceptance Testing

- The results of our beta testing are in.
- Our user interface triggered widespread despondency and self-mutilation.
- Obviously we'll need to delay our launch for the public good.
- When did you become a communist?

Payment Terms

PAID
Contract Termination

Distributors/Wholesalers
Distributors

- Sells to other channel players within designated area
- Takes title to goods and is compensated by mark-up upon sale
- Sells suppliers goods to his own customers
- No authority to act on your behalf
- Maintains Inventory
- Sells in original packaging
- May or may not provide after sales services
- Many products are taken on consignment basis

What Distributors Look For

- Products with proven demand
- Product's packaging, ease of use & install
- Marketing budget
- Quality tech & Customer support
- Ability to scale up to demand
- Financial stability
- Training
- Distributor staff time required

Only 1% - 2% of products presented get chosen
Manufacturer’s Representative

- Alternative to own sales force
- Both authorized to solicit orders in designated area
- Receive salary or commission
- Usually bear no credit risk
- Maintains no inventory
- Requires same support & training as internal salesforce
- Carries several lines
- References, References, References

Typical Rep Territories - USA
Source to Identify GOOD Reps

- Customers and potential customers
- Known GOOD Reps
- Companies with complimentary products to yours
- MANA (Manufacturers Agents National Association)
  - Manaonline.org
- ERA (Electronic Representatives Association)
  - Era.org
- AIM/R (Association of Independent Manufacturers'/Representatives)
  - aimr.net
Rep Agreement Caveats

- Most rep agreements have commissions due on order
  - Commissions should be paid ONLY AFTER YOU COLLECT
- Commissions should be on NET Sales
  - Sales MINUS returns and any upfront market development funds paid to the retailer
- Splitting commissions
  - Between rep territories
- Territory definition
- National (House) accounts
- Termination issues
- Automatic renewal
Retail Packaging that Sells

Examples of the latest trends in consumer food and household product packaging.

Slotting Fees
Cost of Market Entry Options

<table>
<thead>
<tr>
<th>Channel Type</th>
<th>Cost Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer</td>
<td>Mark-up, 50% - 200%+ 5-10% MDF, Slotting Fees, Beware Consignment sales</td>
</tr>
<tr>
<td>Agent/ Rep.</td>
<td>Commission, 5%–30%, Wants to be paid on order</td>
</tr>
<tr>
<td>Value Added Reseller (VAR)</td>
<td>Margin, 20-40%, 5-10% MDF</td>
</tr>
<tr>
<td>Distributor (stocks product)</td>
<td>Margin, 10%–50%, 2-5% MDF</td>
</tr>
</tbody>
</table>

Key to Efficient Channel Management

- Treat them like they’re your own salesforce
- Train channel partners well
- Strengthen ability of channel partners to deliver solutions
- Enhance communications
- Enable partners to sell complementary services
- Deliver channel value with the web
Manage Channel Conflict

- Multiple channels calling on same account
- Company selling directly to reseller accounts
  - Compensate direct sales force on sales through resellers
  - Pricing not consistent across channels
- Conflict can not be eliminated
- Changing business objectives

How the Channel Views Vendor Internet Plans
Final Thoughts

Take the Long Term View
Train Your Channel Partners Well

time to invest

Align Sales & Marketing
Open & Frequent Communications

Review Channel Strategy Yearly
Questions

Driving Profitable Growth
Driving Profitable Growth

We help companies optimize business development and marketing; accelerate sales; and seize the most attractive growth opportunities.

The CXO Advisory Group

- CXO Advisory Group is a strategic operations advisory and management firm comprised of proven C-level executives with both breadth and depth of experience.

- CXO Advisory Group Team members have achieved success in positions ranging from: President/CEO to COO, and VPs of Sales, Marketing, Corporate Development and Human Resources.

- Has proven success in business development and in building US sales and distribution channels.
How Can CXO Help You?

Business Strategy Services
- Audit business practices and organization
- Evaluate product and pricing strategies
- Evaluate effectiveness of sales channel
- Assess effectiveness of existing sales and marketing programs

Market Entry Program
- Analyze competitive landscape
- Market launch strategy and plan
- Channel strategy and programs
- Establish sales channels
- Generate sales and manage relationships
- Identify and develop strategic partnerships

Sales Channel Management
- Review and revise sales channel strategies
- Channel partner identification, prospecting and recruitment
- Eliminate channel conflict
- Channel contract development and negotiation

Interim Management Resources
- Interim CEO, COO, CMO, CSO
- Interim VP of Sales and Marketing
- Consultant on staff
- Launch team coaches
How Can CXO Help You?

Venture Advisory Services
- Fine tune operations, business strategy and market entry
- Assist with due diligence
- Strategic business assessment of portfolio companies

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