Getting Channel Marketing Right

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More systematic approach to allocating marketing resources across sales channels drives top and bottom line value.

As companies increasingly turn to indirect sales channels to drive growth, marketing executives are being challenged to optimize the allocation of marketing resources across these channels. And, faced with expanding channel alternatives; product portfolios and target segments and regions--not to mention intense budgetary pressures and stiff competition, many find their marketing resource planning processes inadequate to manage the complex resource allocation tradeoffs.

It's Hard Marketing for Hardware

The IT hardware industry provides a rich case example of the complexity involved in managing channel marketing resources. Indirect channels have established themselves as the leading route-to-market for the industry, representing over 60 percent of sales in North America and over 75 percent internationally.

IT Hardware OEMs face a multitude of indirect channel options including distributors, direct marketing resellers (DMRs), value-added resellers (VARs), system integrators (SIs), "e-tailers," and retailers. The value chain is often complex and in many cases multi-layered. Interactions also exist between downstream channels: Some partners focus on solution design and integration, while others serve in a hardware fulfillment role . Adding to the challenge are varying marketing requirements across the mass of products, channels and regions.

It's across this complex value chain that marketing executives must define the best resource allocation to support short-term--and long-term--objectives while delicately managing a myriad of relationships.

Managing Marketing Spend

Many companies face similar challenges in managing channel marketing spend. Resource allocation is a double-edge sword--spend too much (or in the wrong place) and you threaten profitability; spend too little and you threaten market share, revenue and profitability.
To address this challenge, here are some best practices to establish a more systematic, objective and fact-based channel marketing spend—and ensure your marketing funds are in the right place at the right time.

1. Map the value chain. A value chain analysis is the first step to understanding where units, revenue and profitability flow across sales channels, products, and regions. It's essential to look beyond unit volumes and revenue to truly understand contribution margin across these business dimensions. Figure out the costs incurred to serve a particular account--such as returns, sales and service costs, and customer and channel discounts--and subtract these from the gross margin. Once a clear picture is formed of where value is currently captured, the value chain analysis should expand to include market potential. By integrating third-party market research with internal data capture systems and analytics, a company can construct a “value map” that defines where value exists in the marketplace, as well as how successful they have been in capturing this value.

2. Know your competition. Understanding competitive marketing strategies provides valuable insight into established channel marketing expectations. Sales channels have gained market power--which is often leveraged to extract increasing levels of marketing subsidies--but a company risks over investment without an understanding of competitive marketing programs and behaviors.

The competitive assessment should be both qualitative and quantitative in nature. Conduct qualitative channel partner interviews and supplement the findings with quantitative marketing analysis. For example, studying the terms of competitive co-op programs--or analyzing advertising activity--by tracking ad numbers can provide powerful insights into competitive strategy and channel partner marketing expectations.

3. Define marketing costs by product and channel (i.e. sales-to-marketing correlations). This requires marketers to understand both sales-in (product placement/assortment) and sales-out (demand generation) marketing costs. For example, retail manufacturers must not only gain shelf-share (sales-in marketing requirements) but also support demand generation activities--such as co-op advertising (sales-out market requirements). Understanding and categorizing these costs are critical: Maintaining the right balance between sales-in and sales-out marketing is often a key determinant of overall marketing efficiency and effectiveness.

Marketing requirements can also vary significantly across products and channels. To quantify these marketing requirements, a bottoms-up analysis is often required. Conduct this exercise to define the required marketing activities to drive a defined level of business through an individual sales channel. Once the requirements have been established, scenario planning can be used to assess how marketing requirements vary with business volume.

Bringing It Together

With a clear understanding of the value chain, competitive marketing strategies and channel requirements across products and regions, you will be in a position to more systematically plan and allocate marketing resources. With clear revenue and profitability objectives, it’s possible to establish marketing resource requirements and execute against agreed upon metrics (return on marketing investment). Companies should expect this to be an iterative process with new insights and valuable analytics brought to bear as experience is gained.

Implementing a new channel marketing spend management process can be challenging, but the value created by a more systematic, objective, and fact-based process should not be underestimated.

Bridge Strategy Group is an elite, general management consulting firm committed to delivering rapid improvements to our clients' business performance. Bridge has deep expertise and a proven track record of helping clients address sales, marketing, and channel issues in a manner which creates sustainable performance improvement. For more information, please contact us at 312 357 6740 or visit www.bridgestrategy.com.

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