FROST & SULLIVAN

GROWTH TEAM MEMBERSHIP™

GROWTH PROCESS TOOLKIT

Distribution Channel Optimization

Accelerating Growth through Unbiased and Ongoing Partner Evaluation, Selection, and Management

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SPECIAL THANKS

Frost & Sullivan's Growth Team Membership would like to thank the following individuals who generously contributed their time and insights to the development of this toolkit:

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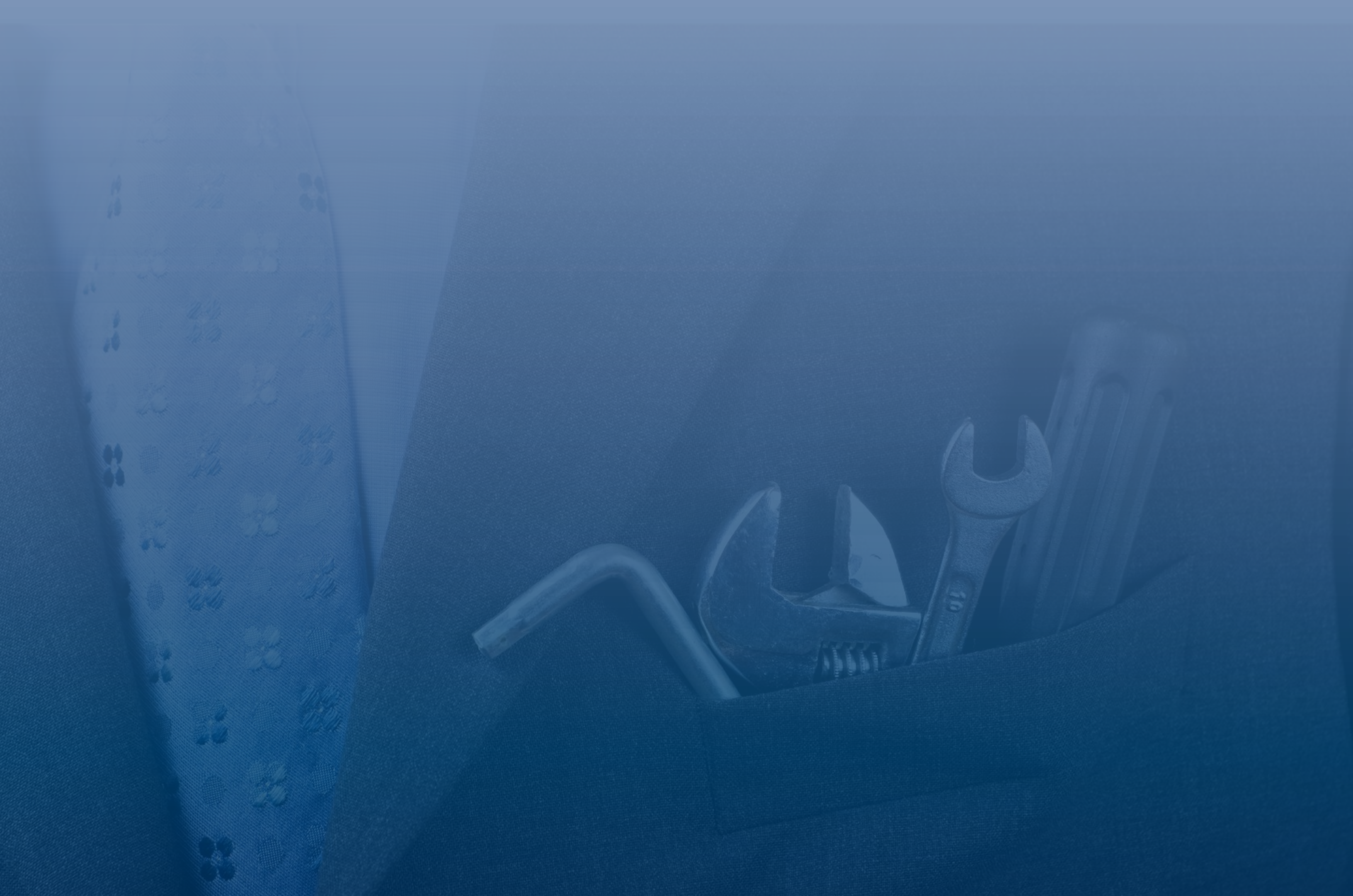
INTRODUCTION

Growth Process Toolkit

Distribution Channel Optimization



INTRODUCTION

Growth through Distribution Channel Optimization
A recent study determined that high-performance businesses (i.e., the 10 percent that outpace competitors regardless of economic conditions) "excel in the development of meaningful customer insights and practical ways to put those insights into action."[1] They understand what their customers want, and they know how to deliver solutions that customers will buy. An unwritten, but nonetheless significant, extension of this idea is that they not only know what customers will buy, but where and how they want to buy. In short, no company is successful for its insights alone. Success ultimately depends upon the effectiveness and reach of its go-to-market strategy. Distribution channel optimization is therefore a critical ingredient to sustaining growth through a rigorous customer focus.[*]

At their most basic level, distribution partners enable suppliers to deliver goods or services to end users, and distributors' reach significantly influences the extent to which suppliers can engage with customers. On a more meaningful level, distribution partners provide customer service in areas where suppliers cannot or do not (e.g., financing, insurance, training, maintenance, repairs). Taken together, the two deliver an enhanced customer experience. If managed properly, distributors provide access to customers that can determine a supplier's reach, revenue, and long-term growth potential.

Companies with productive channel relationships stand to increase sales, reduce operating costs, and improve customer reach.[2] Importantly, effective distribution channel management delivers benefits to all players in the value chain, often by increasing the size of the market or capturing a greater share of customer wallet through the channel. Proper distribution planning can ensure that the best available channels and distribution methods are in place to efficiently move products and services to customers.[3]

The Risks of Distribution Channel Optimization
If mismanaged, distributor relationships can be a drain on a supplier's resources, rather than an asset for long-term growth. Poor-fit partners, misaligned objectives or incentives, and other conflicts can derail relationships before they have an opportunity to succeed. Failure to reach end users or to communicate with those end users through distributors effectively leaves the door open for competitors to supplant your business. In short, mistakes in the distribution chain can directly affect the top and bottom line in the short term and the industry's competitive dynamic in the long term.

Given an unstable global economy, always-aggressive competition, and increasingly powerful distributors, many companies are already finding it difficult to achieve profitable growth.[4] To make matters worse, increased customer sophistication, decreased need for information and support, and growing price sensitivity have directly affected relationships between suppliers and distributors and in many instances have shifted the balance of power into the hands of distributors.[5]

Distribution optimization is therefore the key to competing in new markets or regions, reaching customers where they prefer to buy, and achieving both goals profitably. However, most distribution management efforts are either misunderstood or mismanaged due to one or more of the above-mentioned factors—hindering success, rather than fueling growth.

Where Distribution Channel Optimization Goes Wrong
Given the complexity of managing distribution partners, it is perhaps unsurprising that suppliers may commit a number of mistakes in their efforts to achieve profitable growth through those channels. Some of these pitfalls are discussed in further detail below and on the pages that follow.

Pitfall #1: Overextending the Distribution Network[6]
As noted previously, the number and location of distribution points directly affects which customers have an opportunity to purchase from your organization. It can therefore be tempting to expand the number of distribution points to increase sales. Suppliers must remember that this expansion comes with a trade-off: the more points the supplier must manage, the more the supplier must stretch its resources to support its many distributors. If support suffers, the distributor may be less inclined to promote the supplier's product (time and again, distributors point to service as the single-most important factor in determining their willingness to sell a given brand or product). Reach is critical, but not at the expense of distributor engagement. Furthermore, suppliers must avoid the risk of distributing through more channels than are really necessary within a given region, since too many channels for too few customers can negatively affect sales.

Since over-expansion is often a byproduct of unreasonably aggressive sales targets, suppliers also run the risk of transferring those high expectations onto their partners. Such inflated expectations can strain relationships with distributors—or worse, set partners up to fail. To avoid undermining your relationships in this way, it is essential that you avoid setting unreasonable expectations on what a distribution partner can provide, regardless of what your company *wishes* the distributor could deliver.

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[*] This Growth Process Toolkit is tailored to the interests and challenges of companies that sell primarily through distributors, rather than through direct sales. However, many of the tools featured (particularly in Phase 3) will still be relevant to organizations managing distribution in-house.

INTRODUCTION (CONTINUED)

Where Distribution Channel Optimization Goes Wrong (Continued)

Pitfall #2: Overvaluing Distributor Efficiency (and Undervaluing Customer Reach)
Many executives take a narrow view of their partners, viewing them primarily as the physical distribution component of getting product from the factory to the end user. As a result, they tend to focus on efficiency above all else; a focus on efficiency naturally leads to a parallel focus on cost-cutting, potentially at the expense of what is best for customers.[7]

Large companies are particularly susceptible to this cost-above-customer focus. One byproduct of this mindset is an aversion to innovation. Managers become so focused on meeting targets and reducing costs that they become averse to experimentation that could lead to new products, services, or processes. This standardization can make it even more difficult for a company to communicate its value to distributors and to end users.[8]

While managing cost is clearly an integral component of effective distribution channel management, companies should balance such concerns with a focus on reaching high-value customers and achieving long-term differentiation.

Pitfall #3: Suffering from a Lack of Innovation
In some instances, distribution channels are streamlined and profitable for all stakeholders. More often, however, distribution channels tend to exhibit a strong inertia: that is, they lack the agility to successfully serve customers or increase revenue and market share.[9] This inertia invariably leads to missed opportunities. Supplier-distributor relationships may struggle to overcome inertia for the following reasons:

- *Suppliers and distributors inherently distrust one another*[10]—Distrust may result from a lack of shared priorities or differing perceptions of the same challenge. A supplier's objective may be to sell its full product line through its partner, while the partner's objective may be to assemble a solution from a range of suppliers' products. Suppliers may focus primarily on managing cost, while their distributors may care most about maintaining high margins. As a result of these and other differing perspectives, each may struggle to see the other's point of view, leading little incentive to collaborate with the other.

- *Suppliers and distributors are a poor fit*—If a supplier and distributor lack strategic alignment, it will be difficult to achieve efficient, innovation-driven collaboration. The foundation of any good channel strategy is therefore its design.[11]

  For this reason, it is critically important to determine the qualities needed in a partner before undertaking the screening and selection process. Adherence to those criteria while examining potential candidates is critical, in spite of temptations from off-plan candidates. By establishing partnerships with distributors that meet your company's long-term needs, you can address problems of inefficiency or misalignment before they become an issue. The more alignment two organizations can achieve, the greater their ability to respond quickly to market needs.[12]

Pitfall #4: Encouraging Distributor Autonomy (You're Not Being Tolerant, You're Being Lazy)
It is tempting to fall into the belief that, because distributors know their markets, they should control the supplier's value proposition within those markets. This belief assumes that a distributor will convey the value proposition accurately and in a manner demonstrating a deep customer understanding. Especially for more complex products, this assumption may be flawed: if the distributor struggles to train its salespeople on the value proposition preferred by the supplier, those salespeople will revert to incorrectly positioning the product and selling on price, rather than value, thereby missing opportunities to profitably connect with customers.[13]

While it may be logical to rely on distributors rather than build an in-house field sales organization, or to grant distributor autonomy at the start of a partnership, subsequent under-investment or managerial inattention can impede performance.[14] Ultimately, reluctance to commit resources to the supplier-distributor relationship only serves to create a catch-22: suppliers are hesitant to invest in marketing or training on behalf of a distributor who may fail, and the distributor is more likely to fail without this upfront support. Once a company has made the commitment to expanding operations through a new channel, it is essential to commit the resources required to maintain control over the relationship from the outset.[15] Anything else sets the supplier—and the distributor—up for failure.

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INTRODUCTION (CONTINUED)

Where Distribution Channel Optimization Goes Wrong (Continued)

Pitfall #5: Over-Committing to Your Distribution Partners
While suppliers should guard against *under*-committing to their distributors, so should they guard against *over*-committing to their partners, potentially at the expense of their long-term growth potential. Considering distributor relationships untouchable or unchangeable carries a risk, as demonstrated by the following example:[16,17]

Case-in-Point: Caterpillar's Partner Dependence
Distributor Loyalty Can Cloud End-Customer Commitment

Situation: Battling a recession and loss of market share to Japanese competitor Komatsu in the early 1980s, Caterpillar looks for ways to stabilize the organization and reignite its stalled growth.

Action: Believing that its close distributor relationships set it apart from competitors and provide a unique opportunity to serve a wide range of customers, Caterpillar invests heavily in its distribution and product support. The backbone of the system is its 186 independent dealers worldwide, which sell and service its machines and engines. Caterpillar credits these distributors with helping the company build and maintain close relationships with customers and gain insights into how to better meet customer needs. In so doing, Caterpillar follows the methods employed by the 10% of companies mentioned previously: those organizations that outpace competitors, in spite of economic conditions, by collecting customer insights and acting on those insights.

Result: After suffering losses for much of 1982-1992, Caterpillar rebounds with record profits and the highest share of the world construction and mining industry in its history. Caterpillar credits its close distributor relationships with this turnaround and publicly proclaims its gratitude. Then-Chair and CEO Donald V. Fites promises in *Harvard Business Review,* "We won't bypass our dealers in good times for short-term gain or turn on them in bad times to avoid short-term pain." He further emphasizes this point by declaring, "We'd sooner cut off our right arm than sell directly to customers and bypass our dealers." The message is clear: Caterpillar is willing to reject potential sources of revenue or growth in the interest of nurturing its distributor relationships.

While this gratitude may be well-deserved in the short term, this deep and highly vocal commitment to its distributors may put the organization at risk in the long run. Should customer buying behavior, the competitive environment, the supply chain, or the nature of the company's products change significantly, Caterpillar's distributor-reliant business model could become a liability rather than an asset. Ultimately, inflexible partner dependence limits Caterpillar's ability to keep pace with channels where customers may wish to buy – as opposed to those where Caterpillar *prefer* they buy.

Key Takeaway: Never assume that certain methods of taking your product to market are off-limits to your organization. Effective distribution channel optimization accounts for changing customer preferences and continually reassesses how partners contribute to the value chain. Over time, you may need to alter a partner's role, or eliminate a partner altogether, if it sets your business up for long-term success.

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The Solution
Profitable distribution channel optimization is dependent upon effective partner evaluation, selection, and management. Successful companies know how to sell where their customers want to buy and focus distribution partner selection around this core tenet. They engage and motivate their high-value partners, recognize and address declining relationships, and continually reevaluate all partners' abilities to reach their highest-value customer segments. Importantly, these companies also understand that distribution channels are only as effective as their ability to contribute to top-line growth. They manage their decision making with this understanding at the center of all they do.

Siebel's (now part of Oracle) successful partnership with Accenture demonstrates how a well-run, closely aligned relationship can accelerate each company's growth trajectory.[18]

Case-in-Point: Siebel and Accenture's Happy Marriage
Reaping the Benefits of a Symbiotic Distribution Partnership

Situation: Siebel Systems, a provider of Customer Resource Management (CRM) systems, seeks to establish a global presence in a service-intensive industry, but is hamstrung by its limited resources as a start-up company. It quickly recognizes that it cannot achieve its growth objectives without outside support.

Action: Siebel partners with Andersen Consulting (renamed Accenture in 2001). Under the terms of the distribution agreement, Accenture adopts Siebel's CRM program as the platform for its worldwide presence. Accenture also agrees to support further development of Siebel's CRM, which in turn gives Accenture a highly competitive arsenal for its worldwide CRM implementation consulting, complemented with an equally attractive share of the proceeds.

In short, each partner—supplier and distributor—reaps specific benefits from the arrangement, and lines of responsibility are clearly drawn at the outset. Siebel focuses on production of the CRM platform, and Accenture focuses on implementation (i.e., licensing, installing, upgrading, and customizing the program for specific customer needs). Taken together, Siebel and Accenture deliver a complete solution to customers that neither could have delivered on its own.

Result: Siebel experiences a meteoric growth rate as a result of its partnership with Accenture. Seven years following its start-up in 1993, Siebel tops $1.8 billion in revenue in 2000. Ultimately, Siebel expands on this model to establish similar relationships with other software and platform partners (none of which compete directly with Accenture).

As it expands its distribution model, Siebel maintains a consistent approach to its treatment of partners: each relationship is designed so that both participants reap specific benefits (i.e., the relationships are symbiotic). Furthermore, it solicits partners' feedback in return for solutions to their particular problems. This in turn sets the tone for each of the partners to extend similar attention and service to their respective clients.

Key Takeaway: Successful distribution partnerships are mutually beneficial and exclusive. They clearly articulate responsibilities for each participant and treat the relationship as if the success or failure of their business were tied to the future of the other. Such closeness enables the vision alignment and mutual trust that is the foundation of long-term, profitable partnerships.

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INTRODUCTION (CONTINUED)

How Should You Approach Distribution Channel Optimization?

Frost & Sullivan structures distribution channel optimization around the phases listed below.

THE THREE PHASES OF DISTRIBUTION CHANNEL OPTIMIZATION

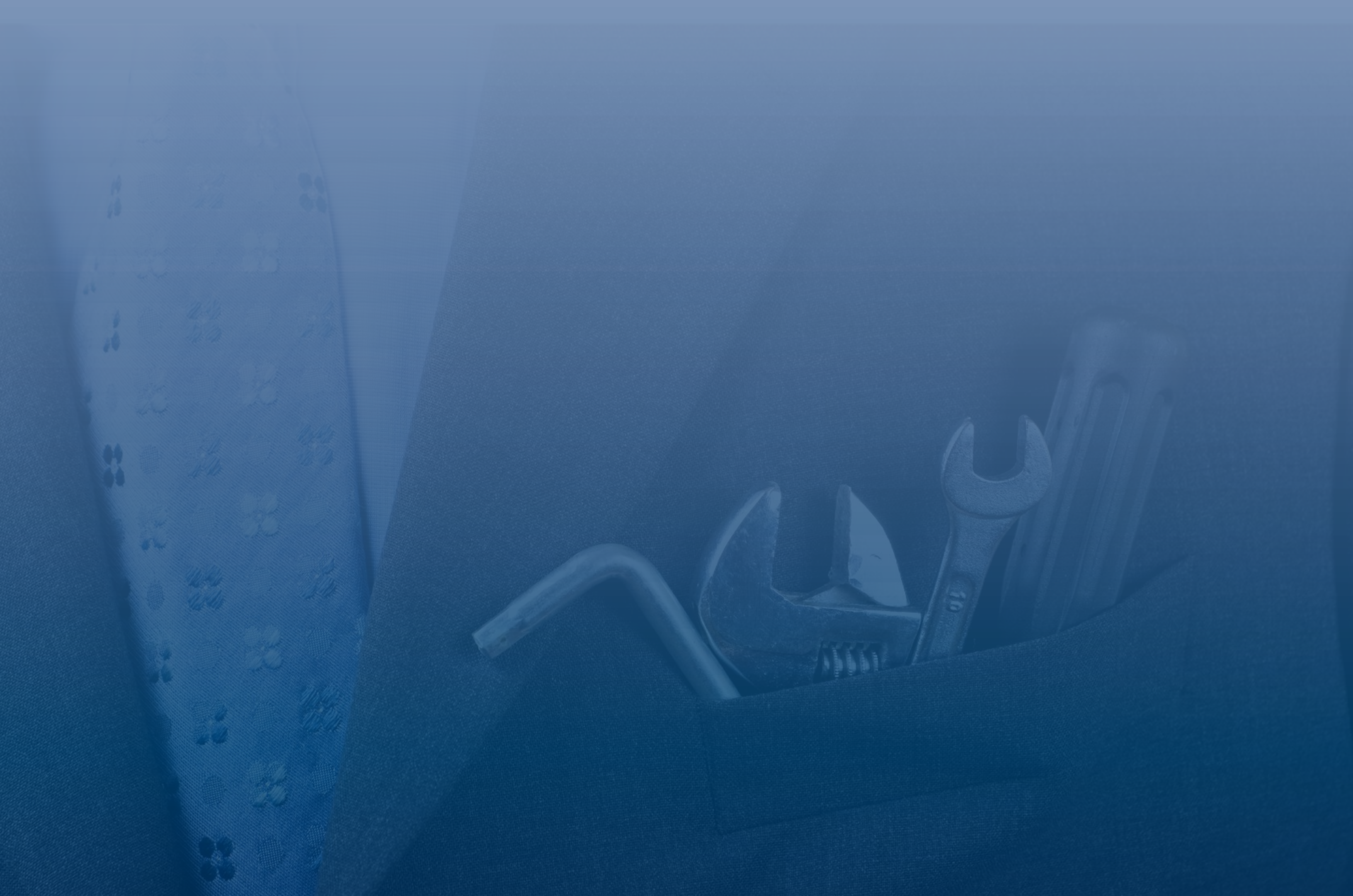
PHASE	DESCRIPTION
CURRENT CHANNEL AND PARTNER EVALUATION	Unbiased evaluation of your company's current distribution channels and partners, their effectiveness in reaching customers, and ability to differentiate your organization from the competition
NEW PARTNER EVALUATION AND SELECTION	Systematic identification of high-growth opportunities within a market or geographic region; selection of appropriate partners to take advantage of those growth opportunities
PARTNER MANAGEMENT AND MONITORING	Assessment of partners' performance; development of sales support and communication materials; planning for partner conflict resolution

Many factors determine the success of a company's distribution network (such as successful product development and marketing, the development of a targeted global expansion strategy, or the critical role of M&A in opening access to new distribution networks), which are not covered comprehensively in this toolkit. For this reason, we provide a wealth of resources focused on these activities in companion Growth Process Toolkits, which you can access by clicking on the links below.

- *Mergers & Acquisitions: Accelerating M&A Growth through Early-Stage Planning and Evaluation*
- *Geographic Expansion: Accelerating Growth through Principled and Repeatable Entry Strategy*
- *New Product Development: Accelerating Growth through Unbiased and Rigorous Early-Stage Product Evaluation*
- *New Product Launch: Accelerating Growth through Rigorous Planning, Principled Execution, and Continuous Monitoring*
- *Competitive Strategy: Accelerating Growth through Principled and Informed Competitive Decision Making*

HOW TO USE THIS TOOLKIT

Growth Process Toolkit
Distribution Channel Optimization



How to Use this Toolkit

The Growth Process Toolkit for Distribution Channel Optimization

What it is: This toolkit will help you structure your distribution channel strategy around assessing the strengths of your current network, identifying partners to fill gaps, and managing relationships for maximum performance and minimum conflict. It will show you how to support your company's top-line growth objectives by helping you develop profitable and mutually beneficial distributor relationships.

On a more technical level, this Growth Process Toolkit presents Frost & Sullivan's best work on distribution channel optimization in a step-by-step implementation format. This resource gives Growth Team Membership (GTM) members proven processes, tools, and templates to help them successfully manage the risks and pitfalls encountered in this key growth process.

How it will help you: This toolkit will help you and your team cost-effectively develop a successful and enduring distribution strategy. As noted previously, we recognize that your distribution strategy will be determined by a variety of factors, such as M&A or your company's global expansion plans. These and other topics are explored in companion growth process toolkits. This toolkit focuses more specifically on issues core to distribution channel optimization, such as partner evaluation and performance monitoring.

How to use it: This book is divided into three sections: Current Channel and Partner Evaluation, New Partner Evaluation and Selection, and Performance Management and Monitoring. Within each section, we have outlined a variety of steps that you should complete. For each of those steps, you are provided with the tools (such as templates, scorecards, or checklists) that you need to complete that activity to a Frost & Sullivan standard. You can read this toolkit cover-to-cover, or you can reference the clickable table of contents to access specific sections.

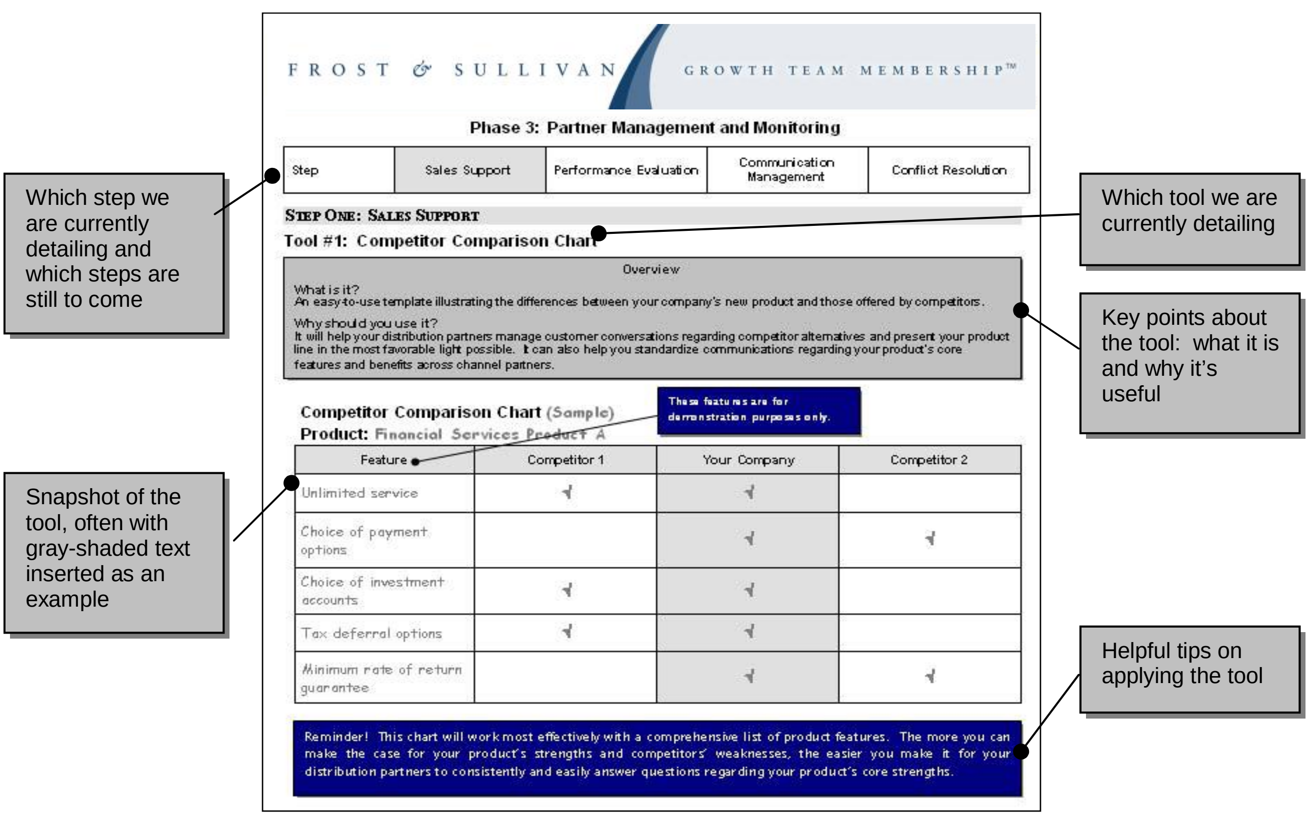
Be on the look-out for helpful reminders throughout this toolkit. We will alert you at key stages when you should involve certain stakeholders, or when it might be a good idea to use additional GTM (or other) resources to aid your implementation.

We encourage you to bookmark this toolkit, save particularly helpful tools to your desktop, and share it with your colleagues. We also encourage you to contact your Account Executive if at any point in your research you require assistance.

The Growth Process Toolkit's Organization and Layout

For ease of navigation, the majority of activities and tools featured in this toolkit adhere to the following template:

Sample Page Layout



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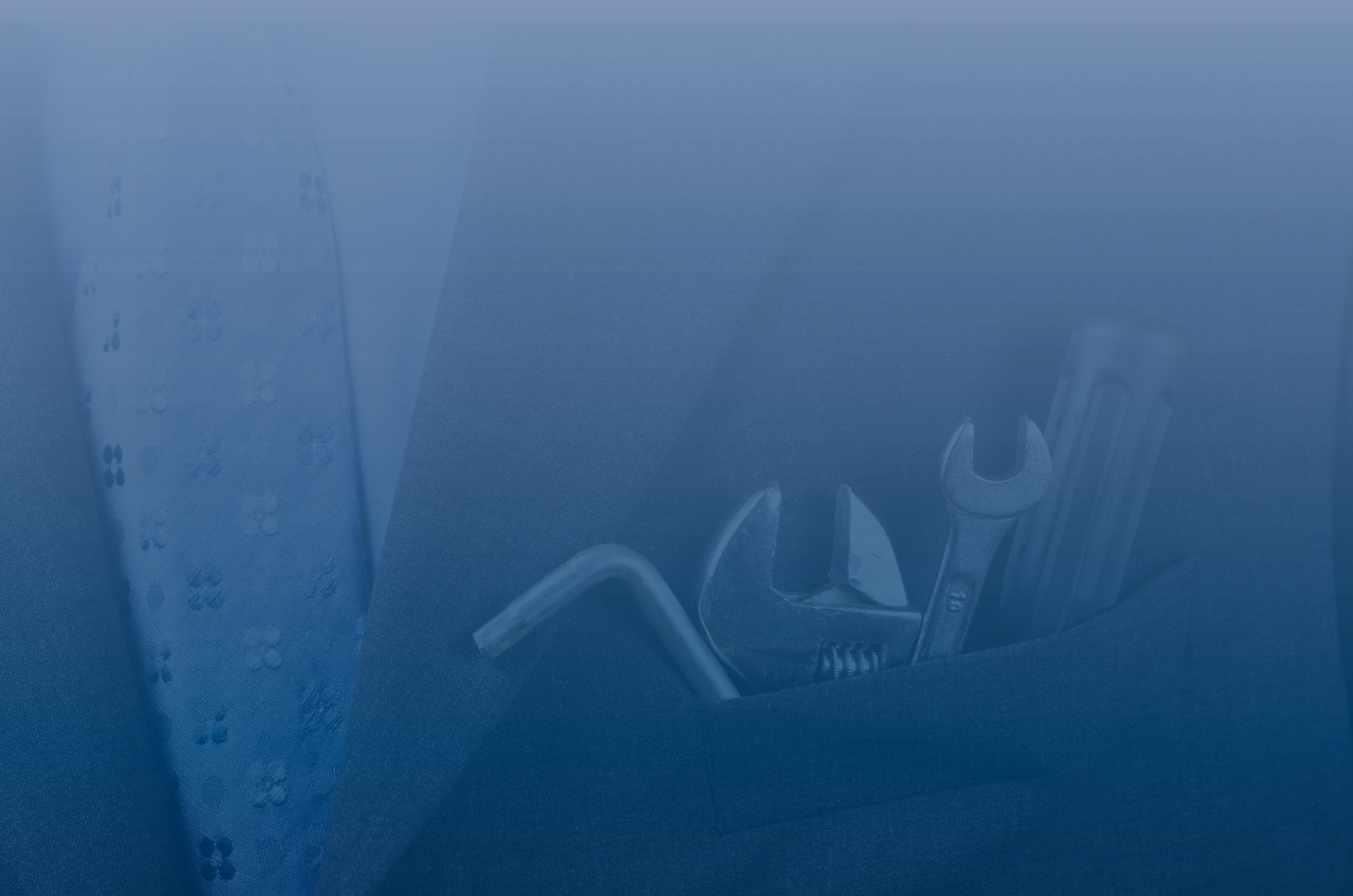

PREFACE: SECURING ORGANIZATIONAL ALIGNMENT

Tool #1: Goal Statement Template

Overview

What is it?
A discussion guide to help the executive team articulate its company's goals for pursuing growth through distribution channel optimization.

Why should you use it?
This tool will help you ensure the following:

- *Agreement among the executive team* – While you may believe your executive team to be on the same page about strategy and vision, this perception may in reality be off-base. Consensus on goals and expectations at the outset of any activity is a good idea – but even more so when navigating waters as risky and costly as distribution channel optimization.
- *Focus on activities that align with the stated purpose* – Shared commitment to the Goal Statement will help the executive team be clear about goals and the boundaries for achieving those objectives. Agreement on how to handle all strategic factors will ensure the team approaches distribution-driven decision making with a shared clarity of purpose.

Use this as a living document – something that you can revisit whenever you need to refocus team members on shared objectives.

GOAL STATEMENT: TEMPLATE **COMPANY NAME**

Vision: What are we trying to do?

(a) What is the goal we are trying to achieve, which our distribution channel strategy must support?

(b) Which groups in the organization are responsible for delivering on this objective?

(c) What are the decisions we as an executive team must make in support of this objective?

(d) Given these specific decisions, what must this effort produce as output?

Approach: How do we want to do it?

(a) To what degree should we exert control over distributors' sales and marketing efforts?

(b) Where should we place our company on this spectrum: close relationship with distributors, based on trust and long-term commitment vs. non-binding relationship with distributors, based on flexibility?

(c) What limits must we set on distributors' willingness to discount or raise our prices?

(d) What profit margins are we committed to protecting, in spite of competitor pricing decisions or distributor goals?

(e) What consequences should we set for distributors that do not comply with our pricing and margin requirements? Sales and marketing approaches?

Industry Overview: What are the critical distribution dynamics in our industry?

(a) What current or emerging products or services complement our own (and which distributors presently or will sell those products)?

(b) Do we currently perceive any threats to the status quo (positively or negatively) from new entrants to the industry, which might fundamentally alter our distribution strategy?

(c) What factors control profitability in our industry that we can we control through smarter distribution planning or partnerships?

(d) Do our competitors use channels preferred by customers, which we are currently ignoring?

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Tool #1: Goal Statement Template (Continued)

GOAL STATEMENT: TEMPLATE **COMPANY NAME**

Distribution Channel Overview: How is our network currently structured?

(a) How many levels of distributors operate in our value chain? Is this comparable with other companies in our industry?

(b) Do we partner with an optimal blend of Tier 1, 2, and 3 distributors?

(c) Can we realistically achieve our growth objectives if we make no changes to the status quo?

(d) How do our top competitors go to market (i.e., do we share distributors with them, or do they operate through different channels)?

(e) What is our global distribution capability? Do our competitors operate on a similar scale?

(f) How do our most-valued customers prefer to buy? (And from which distributors do they prefer to do business?)

(g) Does our go-to-market strategy align with how our customers want to buy from us?

(h) Do we understand how our distributors' goals might differ from our own, and how those differences might lead to conflict down the line?

Investment: What financial return do we expect from our distribution approach?

(a) What are our minimum and maximum investment thresholds for any activities required as part of our distribution channel optimization effort (e.g., investments in IT, sales training, sales support, channel managers)?

(b) Where would we place our investment on the risk/reward spectrum?

(c) How long do we expect it will take to achieve a positive return, in terms of boosted revenues, increased market share, and/or better margins?

Measurement: How will we determine success?

(a) Short-Term: How will we demonstrate the success of our distribution channel strategy to shareholders (i.e., what should be our key targets)? What metrics can we realistically influence during this time?

(b) Long-Term: What signs of success would we expect from this strategy in the long term? How should we quantify these expectations?

(c) What is our minimum standard for performance across our distribution partners?

Buy-In: Who has contributed to and/or approved this statement? Who still needs to sign off?

(a) What plans exist for ensuring executive team consensus or acceptance?

(b) How will we modify our goal statement if we receive push-back from key stakeholders? On which points are we willing to budge, and on which must we hold firm?

(c) How should we communicate our goal statement for the greatest degree of buy-in (e.g., who should deliver the message, what communications channels should we use)?

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PHASE 1: CURRENT CHANNEL AND PARTNER EVALUATION

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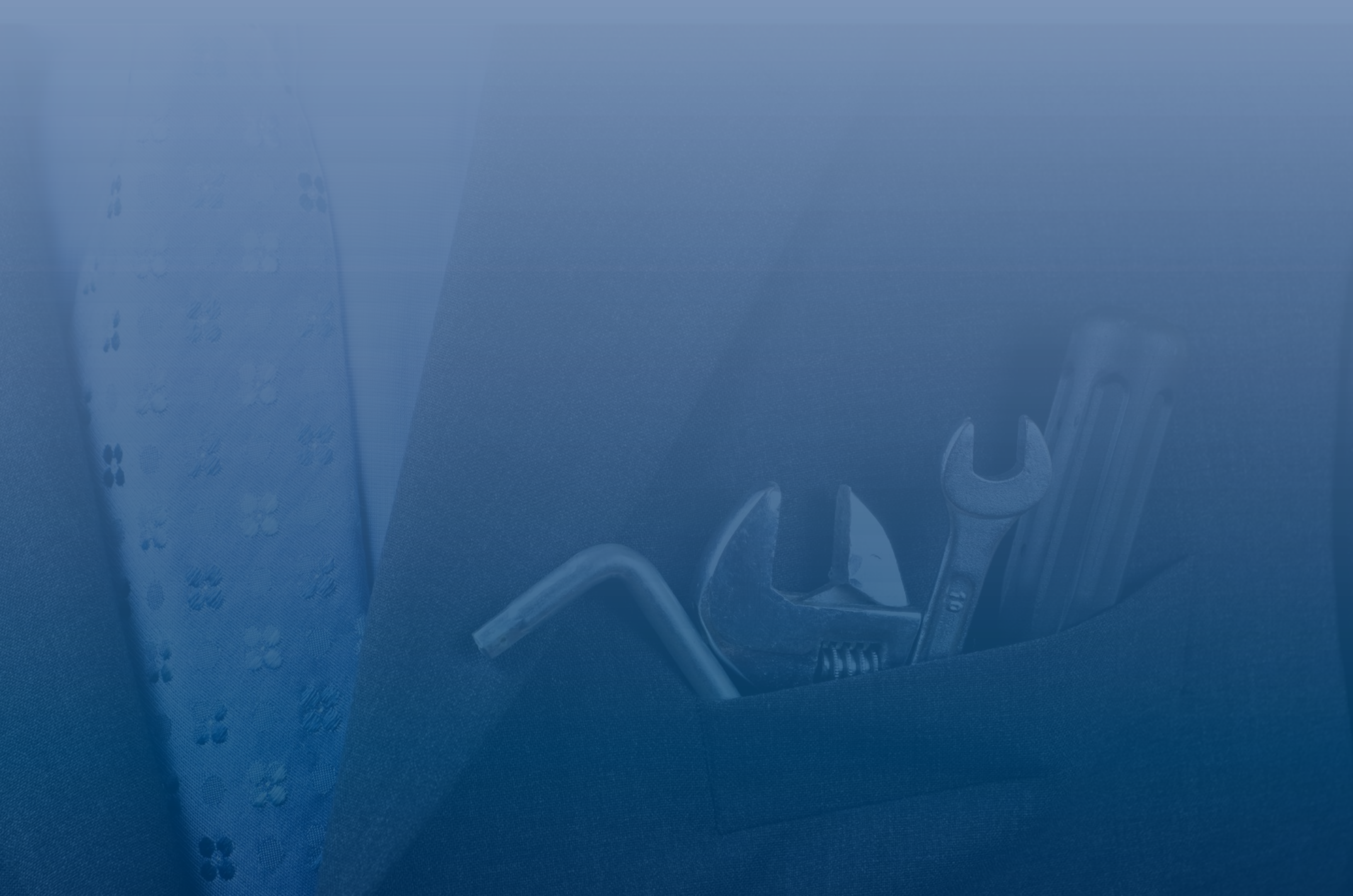


PHASE 1: CURRENT CHANNEL AND PARTNER EVALUATION

The table below lists the key steps and objectives featured in Phase 1. The pages that follow explore each step and its associated tools in greater depth. This page is also clickable, enabling you to jump to any section directly.

CURRENT CHANNEL AND PARTNER EVALUATION: KEY STEPS AND TOOLS

STEP	PURPOSE	SAMPLE TOOLS
Current Structure Analysis	Build a comprehensive picture of your company's current go-to-market strategy	Channel Snapshot Questionnaire Existing Channels Audit
Customer Analysis	Compare how your customers prefer to buy with how you currently go to market	Customer Lifetime Value Calculation Guidelines Distributor or Customer Segment Profiling Template
Competitor Analysis	Benchmark your competitors' distribution channel strategy against your own	Threat Assessment Scorecard

Phase 1: Current Channel and Partner Evaluation

Step	Current Structure Analysis	Customer Analysis	Competitor Analysis

STEP ONE: CURRENT STRUCTURE ANALYSIS

Tool #1: Channel Snapshot Questionnaire[19]

Overview

What is it?
A list of questions to help you understand the forces affecting distribution channels in your industry. It can help you understand why your channel operates the way it does, and it can also suggest ways in which you can shape the environment for greater profitability.

Why should you use it?
The first step in evaluating your distribution channel strategy is to gain a big-picture understanding of the forces at work in your industry. You can then contextualize your company's channel needs and weaknesses within this larger framework – thereby avoiding mistakes while taking advantage of opportunities for change.

Channel Snapshot Questionnaire

Part 1: Customer Requirements

1) What do customers buy, how do they buy, and why do they buy what they buy through the channels available?

2) How do we segment the customer base? How do our competitors segment the customer base?

3) How have customer needs changed over the past 3 to 5 years? How might they change in the coming years?
   (a) Why have needs changed?

4) Are customers satisfied with the current purchase framework? Where do we see points of dissatisfaction?

Part 2: Distribution Requirements and Costs

1) What are the activities that we must complete if we are to meet customer needs?

2) Do these activities prevent us from achieving our desired level of profitability?

3) Can we complete these activities more cost effectively if we change our distribution model?

4) How have these required activities changed over time?

5) How have associated costs and profitability changed over time?

Part 3: Balance of Power

1) Which group holds the most power in negotiations: the supplier, distributor, or (if applicable) the retailer? Why?

2) Which of these groups is gaining power?

3) Which of these groups is losing power?

Part 4: Competitor Behavior

1) What is the current state of industry competition?

2) How has competition evolved over the past 3 to 5 years? How might it change again in the coming years?

3) For each of the following competitor types, answer the below questions: most dominant, most profitable, most innovative.
   (a) How do they go to market?
   (b) What can we learn from them?

Reminder! You should revisit this questionnaire as you complete more detailed industry, distributor, customer, and competitor analyses in subsequent sections of the toolkit.

Phase 1: Current Channel and Partner Evaluation

Step	Current Structure Analysis	Customer Analysis	Competitor Analysis

STEP ONE: CURRENT STRUCTURE ANALYSIS

Tool #2: Existing Channels Audit[20]

Overview

What is it?
A framework for quantitatively and qualitatively evaluating your company's current distribution network. It will help you identify gaps that new channels or partners could fill.

Why should you use it?
You need to assess how well your organization is performing in its current channels prior to entering any new channels or partnerships. You may find that you can resolve conflicts or problems in your current network without expanding or altering it – at great savings to your company.

Existing Channels Audit (Sample)

Industry: Automotive

Sector: Commercial Trucking

End User Market: 30,000

Our share: 20%

You may need to alter these inputs to align with your distribution model.

	Channel 1	Channel 2	Channel 3	Channel 4
Quantitative Input				
Industry revenue through each channel	150,000	80,000	175,000	120,000
Industry share	30%	5%	45%	20%
Growth in revenue	8%	-3%	10%	-5%
Number of outlets (growth)	20 (3%)	15 (-4%)	30 (8%)	22 (0%)
Our company	15% (10%)	10% ()	20% ()	12% ()
Competitor A	40% (15%)	12% ()	30% ()	20% ()
Competitor B	25% (18%)	25% ()	10% ()	18% ()
Consumer price index	80	75	100	105
Reseller gross margin(s)	14	9	25	39
Selling price to outlet	66	75	66	66
Cost to serve the channel	4	3	7	39
Our profit margin	8%	5%	4%	-5%
Qualitative Input				
Consumer value proposition	Plus: Full product line Negative: Competitor brand variety	Plus: Financing; Negative: Service record	Plus: Sales staff; Plus: Post-sales support	Plus: Full product line Plus: Financing
Key characteristics	International presence	Declining; disorganized	Engaged; increasing	Low motivation; declining
Our service/support	Four account managers	One account manager	Dedicated sales force	Dedicated sales force
Conclusions	Channel 1 is emerging as a dominant player; Channel 4 is on the decline			
Recommendations	We need to dedicate more staff to Channel 1; we are losing money in Channel 4			

Phase 1: Current Channel and Partner Evaluation

Step	Current Structure Analysis	Customer Analysis	Competitor Analysis

STEP ONE: CURRENT STRUCTURE ANALYSIS

Tool #3: Distributor Report Card[21]

Overview

What is it?
A framework for evaluating the performance of individual distributors within each category of channel partner as outlined in the Existing Channels Audit.

Why should you use it?
You need to have a sense for which of your partners are well-aligned with your business, which are high-performers, and which are drains on your organization. This report card will allow an apples-to-apples comparison across all your partners.

Distributor Report Card (Sample)

Distributor: Tier 1 Company A
Grade: B

These considerations could also help you evaluate the potential of new or emerging channels.

Performance Consideration	Current State	Grade*
How attractive is the value proposition that [Distributor] offers to our target segments?	Focuses on post-sales service and knowledgeable staff; exceeds expectations in these areas	A
Is the proportion of our target segment reached by [Distributor] large enough to demand our attention?	Strong alignment between customer buying preferences and distributor reach	A
Do we have a differentiation advantage in serving customers through this distributor?	Not strong; [Distributor] sells competitors' product lines in addition to our own	C
Is our cost structure and value network set up to serve customers profitably through [Distributor]?	We fill and ship orders to [Distributor] with accuracy and speed (cost-effective relationship)	A-
How much business do our top competitors do with [Distributor]?	Top competitors sell the full range of their product lines; [Distributor] has no exclusivity with our line	D
Do we sacrifice efficiency or profitability to do business with [Distributor]?	Efficiency and profitability are within our target range (i.e., no variance of note)	B+
Can we reach our target segments successfully without [Distributor]?	No; our target segments prefer to buy from [Distributor]; we have to go where they are	A
How engaged is [Distributor] with our company?	No unique incentive to sell our product line exclusively (rather than mixing with competitor offerings); distributor reps appreciate our sales support efforts	B
How well aligned are our company's objectives with [Distributor]'s goals?	Goals are not as linked as we would like (we focus on single-brand solution; [Distributor] promotes its product and brand variety)	C

***A Note on Grading**
You and your executive team must define what constitutes A, B, C, D, and failing-grade performance. You can then assign the following scores to each grade, depending on how fully each distributor meets a given definition:

A+	100	**B+**	88	**C+**	78	**D+**	68	**F**	0
A	95	**B**	85	**C**	75	**D**	65		
A-	90	**B-**	80	**C-**	70	**D-**	60		

You can then assign a final grade based on the average of the numerical scores assigned to each consideration.

Phase 1: Current Channel and Partner Evaluation

Step	Current Structure Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS

Tool #1: Customer Lifetime Value Calculation Guidelines[22]

Overview

What is it?
A model to help you predict the revenue and profit a customer will generate over their "lifetime" as a client. You can use this model to calculate the value of a specific distributor, or to calculate the value of various end-user segments served by that distributor.

Why should you use it?
You need to identify which customers (or distributors) drive the highest margins. This understanding can help you make more informed decisions about your sales, marketing, and service investments. This enhanced interaction can help you improve conversion and retention rates among your highest-value customers.

Guideline #1: Build a Customer lifetime value (CLTV) model based off the following inputs:

- 4-5 years historical customer data (it will help you gain a big-picture view of a customer's purchase patterns)
- Transaction-based data (e.g., RFPs, orders, invoices, discounts, margins)
- Customer information (for distributors, this might include credit history, product line comprehensiveness, or relationships with competitors; for end users, this might include demographic information such as age, marital status, or gender)

Guideline #2: Leverage the CLTV model to calculate:

- *Total relationship revenue*—The total revenue a customer has generated for your company.
- *Predicted customer tenure*—The entire time period a customer will have a relationship with your company. You can use survival analysis to predict how long a customer will maintain a relationship with you.
- *Predicted future purchase revenue*—The expected future purchases a customer will make based on the current state of the relationship, historical data, and demographic or behavioral information.

Guideline #3: Assess the profitability of each of your distributors or customer segments by calculating;

Input	Segment/Distributor 1	Segment/Distributor 2	Segment/Distributor 3
Total lifetime revenue	$6,000	$3,000	$1,050
- Cost of goods sold (over lifetime)	$3,500	$1,500	$1,000
- Acquisition or marketing costs	$125	$125	$125
Lifetime margin/profit	$3,875	$375	($75)
% of existing customer base	15%	50%	35%

Guideline #3: Leverage segment analysis to:

- Identify behaviors and preferences of high-value segments; see Voice of the Customer Collection Guidelines
- Build detailed profiles of segments with high customer lifetime value; see Distributor or Customer Segment Profiling Template
- Inform a business case for further investment in high-value segments (e.g., further investment in existing partners, new partner search); see Business Case Template

Reminder! Click here to access Growth Team Membership's Best Practice Guidebook for Customer Lifetime Value.

Phase 1: Current Channel and Partner Evaluation

Step	Current Structure Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS

Tool #2: Voice of the Customer Collection Guidelines

Overview

What is it?
A framework to help you gain a deep understanding of your most profitable customer segments (as calculated with the CLTV model). This template will help you survey distributors as well as end users.

Why should you use it?
It will help you gather insights into what your customers want, how they want to buy, and what they expect in terms of service. You can then compare this information with your company's current value proposition and performance and take steps to eliminate any gaps.

Voice of the Customer Collection Guidelines

Guideline #1: Interview your leading distributors or customers to identify their top value-drivers.
Periodic, face-to-face interviews will help keep your company focused only those activities that would provide the highest value to important distributors or end customers.

Customer Interview Guide Template

Company:
Distributor End Customer Segment:

1. How do you view [Company's] [product line OR service]? (Note: Open-ended questions will form a small but valuable part of your conversations with distributors or end customers: unprompted responses can give you insights you might not glean any other way).
2. What is most important to you about our [product/service]?
3. What other factors are of importance to you?
4. Can you rank all factors on a scale of 1 to 10 (10 most important)?
5. How important is it for [Company] to meet those expectations you've just presented? Can you state the importance in quantifiable terms (e.g., a dollar figure)?
6. To summarize, [restate top value-drivers] are most important to you when dealing with [Company]. Please tell us which of these are:
   a. Absolutely necessary
   b. Not critical but important
   c. A value-added bonus
7. Some customers have asked for [insert product or service idea here]. For you personally, this is:
   a. Must have
   b. Nice to have
   c. Something I might use
   d. Something I'd never use

Identify all factors of importance to the customer.

Ask customers to make trade-offs.

Ask questions with specific, quantifiable responses.

Page 1 of 2

(Continued on the following page)

Phase 1: Current Channel and Partner Evaluation

Step	Current Structure Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS

Tool #2: Voice of the Customer Collection Guidelines (Continued)

Voice of the Customer Collection Guidelines

Guideline #2: Categorize stated value-drivers according to responses in the trade-off exercise.
This exercise will help you evaluate key drivers likely to affect distributor or end customer loyalty or commitment over the long term.

Customer Needs Prioritization Categories

Company:
Distributor or Customer Segment:

Category	Description	Examples
Must Have	Baseline expectations for performance; failure to get these right will result in customer attrition	Billing accuracy; rapid order fulfillment; immediate delivery
One-Dimensional	Any change in performance directly affects customer satisfaction (either positively or negatively)	Sales support quality; product training comprehensiveness
Delighter	Important but not critical: absence does not harm satisfaction levels, but its presence may increase satisfaction levels	Incentives and SPIFFS; promotional programs

Responses to your trade-off questions will fall into one of these three categories.

Guideline #3: Cross-reference your company's performance against customers' top value-drivers.
By gaining a clear understanding of customer priorities, you can identify not only the most leveraged areas to which to dedicate resources, but also the appropriate performance targets necessary to delight customers.

Must-Have Value-Drivers Analysis Template (Sample)

Prioritized Must-Have Value-Drivers	Billing accuracy	Rapid order fulfillment	Immediate delivery
Customer Requirements	"We are charged at agreed-upon price points for all items ordered."	"Your system automatically reflects purchase orders."	"I never have to wait for standard inventory."
Customer Expectations	Less than $10,000 in billing errors annually	Orders processed within 48 hours of placement	Receive orders within a week of processing
[Company's] Ability to Meet Requirements	$15,000 in contested billing recorded last fiscal year	Averaged 36-hour order response in last FY	Average delivery time is 7-10 days
[Company's] Ability to Meet Expectations	Poor: Average falls outside of margin of error	Good: We are within the margin of error	Medium: Some locations are easier to reach than others

Prioritize and analyze customers' "must-have" value drivers.

High-priority unmet need warrants further investment.

Phase 1: Current Channel and Partner Evaluation

Step	Current Structure Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS

Tool #3: Distributor or Customer Segment Profiling Template

Overview

What is it?
A series of questions to guide profiling of each high-value distributor or end customer segment.

Why should you use it?
It will help you personalize the behavior of each distributor or segment. By profiling your most important customer groups, you make your targeting strategy more accessible to those responsible for communicating with them.

Distributor or Customer Segment Profiling Template
Buyer Profiles: Sample

Distributor 1	Distributor 2
Vision: To be the premier supplier of mobile devices to the northeastern United States **Desired Outcomes:** High-margin, low-inventory operations **Challenges:** Profitably selling to End User Group 1 **Wishes:** To form an exclusive-carrier partnership with [Supplier] **Needs:** Hands-on sales support and ongoing product training **CLTV:** $500,000	**Vision:** To establish a reputation for low prices and high-quality inventory **Desired Outcomes:** To fill customer needs with "best of" solutions pulled from a wide range of brands and product lines (supplier-agnostic) **Challenges:** Maintaining high profit margins **Wishes:** Large discounts for in-bulk ordering **Needs:** Rapid order fulfillment and billing cycles **CLTV:** $250,000
End User Group 1 (small business owner)	**End User Group 2 (Chief Information Officer for large enterprise)**
Vision: Become a supplier of choice **Desired Outcomes:** Improve customer satisfaction **Challenges:** Make budget go further **Wishes:** Upgrade all communications equipment **Needs:** Provide staff with continuous mobile access to information **CLTV:** $8,000	**Vision:** To provide all employees with high-quality but low-cost wireless access **Desired Outcomes:** A virtual employee network that minimizes the need for travel **Challenges:** Meeting needs within budget limits **Wishes:** Manage all wireless communications needs through a single solutions provider **Needs:** Provide 1,000+ employees with hand-held devices with global functionality **CLTV:** $50,000

Phase 1: Current Channel and Partner Evaluation

Step	Current Structure Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS

Tool #4: Business Case Template

Overview

What is it?
An outline that you can apply to each business case you write to advocate for your plans to enhance the reach or performance of your distribution partners.

Why should you use it?
It will help you write a business case that is succinct and targeted to your audience's primary points of interest. It will also help you demonstrate the potential of your channel enhancement strategy (e.g., refocusing efforts on existing partners, exploring new partner opportunities).

Business Case For: [Supplier's] Investment in [Distributor or Segment]

Core Message/Key Takeaway:

Highlight projected ROI, potential timeline and costs, and role within your company's larger growth strategy.

Strategic Overview:

What is the value of [Distributor] to our business? What must we do in the near-term to reap long-term benefits?

1. How does [Distributor] open new avenues for [Company's] growth?
2. How does [Distributor] differentiate [Company's] position?
3. How does [Distributor] support [Company's] long-term growth strategy?

> Ensure executive commitment/buy-in by contextualizing the product within the larger corporate strategy.

4. What specific sales growth opportunities will/does [Distributor] unlock?
5. What is our potential for sustained premium pricing due to differentiation?
6. How does [Distributor] help us better target key segments?
7. What is our projected profitability if we dedicate additional resources to supporting [Distributor]?
8. What, if any, processes must we change if we are to set this partnership up for success?

> Prepare the executive team in advance for any changes in processes required for successful product launch.

9. What is the incremental cost of partnering with [Distributor]?
10. How does the investment cost for [Distributor] compare with costs associated with our other partners?
    a. If the cost is comparatively high, how can we justify the greater expenditure?

Reminder! Successful business cases are (1) simple and clear, and (2) speak to the interests of the executive team. You are more likely to gain traction with senior leadership if you cast the rationale for increased investment in distribution partners in terms of tangible, near-term gains that align with your peers' incentives and goals.

Phase 1: Current Channel and Partner Evaluation

Step	Current Structure Analysis	Customer Analysis	Competitor Analysis

STEP THREE: COMPETITOR ANALYSIS

Tool #1: Threat Assessment Scorecard

Overview

What is it?
A framework for evaluating the severity of a competitive threat.

Why should you use it?
It will help you avoid knee-jerk responses to competitors' actions by forcing you to collect information on specific threats' implications for your business. It will also enable you to quantify the severity of a threat and, by applying this scorecard to each threat, enable apples-to-apples comparisons across all your competitive response decision making.

Note: Weights and scores are for demonstration purposes only.

Threat Assessment Scorecard for [Company] and [Type of Threat] (Sample)

Potential Consequences	Weight	Yes	No	Unknown	Score
Reduces our company's market share	8			X	0
Threatens our company's profit margins	10	X			10
Increases customer attrition among high-value segments	9	X			9
Reduces sales/revenue	10			X	0
Pulls valued employees away from our company	5		X		0
Reduces attention received from channel partners	5			X	0
Diminishes our company's differentiation in the market	7	X			7
Undercuts our company's value proposition	6		X		0
Encroaches on our company's brand positioning	5		X		0
Changes dynamics within a particularly profitable region	5	X			5
Gives customers greater negotiating power	9	X			9
Strengthens our position (i.e., "threat" actually plays into our hands)	9		X		0
Creates opportunity for a partnership or merger	2			X	0
Increases overall "size of the pie" (i.e., market gets bigger; more for all players)	10			X	0
Total	100	# YES RESPONSES: 5 #NO RESPONSES: 4 # UNKNOWN RESPONSES: 5 COMPETITOR COMPATIBILITY SCORE: 39% (out of 100 possible points)			

(Directions listed on the following page)

STEP THREE: COMPETITOR ANALYSIS

Tool #1: Threat Assessment Scorecard (Continued)

Directions

1. List out all potential consequences of a competitor's move (note that you can include positive, as well as negative, results).

2. Weight these criteria on a scale of 1 to 10, assigning points values that total 100. The higher the score, the greater the weighting.

3. Check "yes", "no", or "unknown" for each consequence (i.e., whether you and your team believe that a particular consequence is likely, given the competitor's move and its potential effect on your business).

4. In the scoring column, assign the number of weighted points for a "yes" response and 0 points for a "no" or "unknown" response (e.g., if a consequence has been assigned 5 points and you believe that consequence is likely, you would check the "yes" box and then place a 5 in the "score" column).

5. Final score equals the total value of "yes" responses.

6. Anything you score as "unknown" should be revisited (perhaps conducting further competitive intelligence) – by the time you are finished filling out this scorecard for each threat, you should have no "unknowns" left.

7. You will need to determine a minimum "threat level" percentage (e.g., anything scoring less than 75% - 75 out of 100 total possible points – may not qualify as a severe threat warranting an immediate or strong response). For any score that comes in under this amount, you can either label a threat "no action required" or conduct additional due diligence to fill in unknown areas (since an "unknown" can become a "yes", thereby increasing a total score).

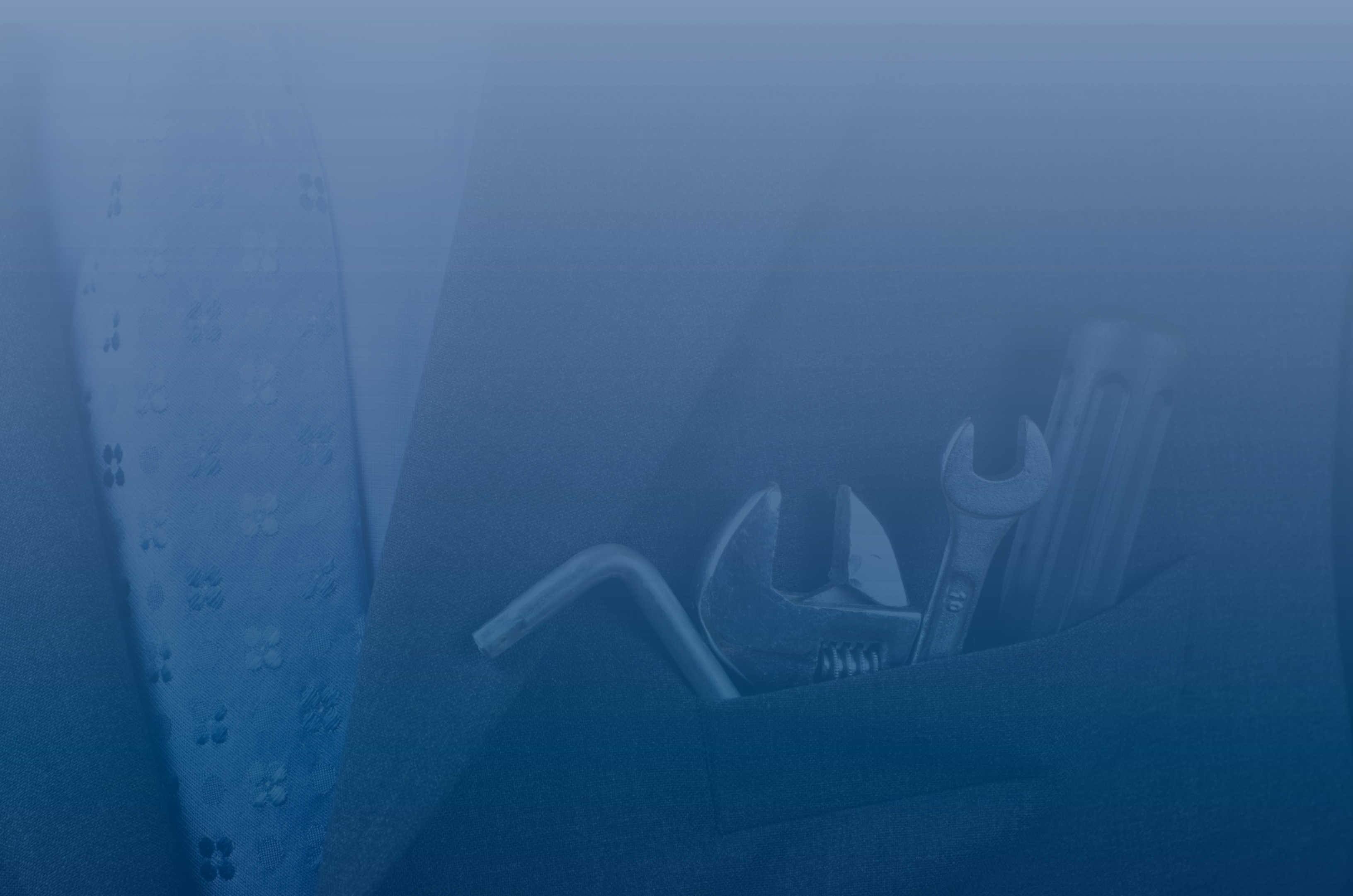
Reminder! This scorecard serves dual purposes. First, listing consequences of competitive threats (without considering any single threat specifically) helps you determine at the outset what situation would pose the severest threat to your organization. Second, filling in the scorecard for any threat your company faces will help you evaluate all circumstances fairly, collect the most relevant information about each, and make informed decisions regarding each competitor.

Finally, by articulating specific consequences to your business of competitors' moves – and weighting them according to importance or severity – you force alignment between all members of the senior management team and a shared commitment to the objectives outlined in the Goal Statement.

PHASE 2: NEW PARTNER EVALUATION AND SELECTION

Growth Process Toolkit

Distribution Channel Optimization



PHASE 2: NEW PARTNER EVALUATION AND SELECTION

Where Are We Now?

Completion of the exercises featured in Phase 1 has enabled you to:

- Establish a shared vision among the executive team for your distribution channel optimization efforts
- Evaluate the effectiveness and reach of your current distribution channel strategy and partners
- Determine how your customers (both distributors and end users) prefer to buy from you and whether you are currently meeting those needs
- Collect intelligence on your competitors' distributor networks and predict how those relationships might undermine or alter your company's distribution channel strategy

At this point, you should have a well-articulated vision for your distribution channel strategy and for how new partner relationships could help you address identified gaps in reach or service.

What Do I Do Next?

Your next step is to consider how new partner relationships could help you take advantage of industry growth or international expansion opportunities (if relevant). Phase 2 will help you take a principled approach to new partner evaluation and selection.

Outlined below are the activities and steps you need to complete in Phase 2. The pages that follow will feature the resources you need to complete each of these steps.

NEW PARTNER EVALUATION AND SELECTION: KEY STEPS AND TOOLS

STEP	PURPOSE	SAMPLE TOOLS
Industry Analysis	Identify growth opportunities within your industry that could be better exploited with new distributor partnerships	Drivers & Restraints Worksheet Emerging Channel Evaluation Checklist
Geographic Analysis	Generate a comprehensive picture of a specific region you plan to enter with new distributor partnerships	Regulatory Analysis Worksheet and Presentation Template Local Market Customization Checklist
Partner Selection	Build criteria for new partners based off insights gathered through industry and geographic analysis	Channel Partner Evaluation Scorecard
Partner Contract Creation	Set guidelines for new partner roles, responsibilities, and sales targets	Pricing Strategy Guidelines Partner Contract Checklist

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP ONE: INDUSTRY ANALYSIS

Tool #1: Drivers and Restraints Worksheet

Overview

What is it?
A list of questions to help you consider all factors affecting growth in your industry (both positively and negatively). Your answers will help inform an assessment of growth opportunities.

Why should you use it?
In formulating a distributor strategy, you need to be aware of any factors that might alter a market's stability (for better or worse) in the mid to long term. This perspective can inform your evaluation of a potential partner's ability to help you pursue emerging growth opportunities in your industry.

Step One: Fill out the worksheet below for the [________________ Industry].

Analysis of Sector-Specific Drivers and Restraints

1. Drivers

Question	Hint	Potential Sources
What are the specific drivers affecting the market and causing it to grow?	Regulatory changes; population growth; labor costs; availability of commodities	Frost & Sullivan research; industry-specific periodicals; trade associations
What do you predict will drive sales in two years?	New markets opening; new technologies	
What changes are you witnessing in customers' demands?	Changes to purchasing cycle; price sensitivity	
How has distribution changed over the past two or three years?	Emergence of new distribution networks	

2. Restraints

Question	Hint	Potential Sources
What is holding back sales or preventing the sector from growing?	Economic uncertainty; saturated market	Frost & Sullivan research; industry-specific periodicals; trade associations
What circumstances have prevented customers from purchasing key products or services?	Price sensitivity; changing consumer behavior; availability of capital	
What industry-wide factors are limiting growth potential?	Poor distribution network; high manufacturing costs	
Are there any company-specific inhibitors that cannot be explained by sector-wide circumstances?	Organizational barriers; talent turnover	

(Continued on the following page)

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #1: Drivers and Restraints Worksheet (Continued)

Step Two: List each driver and restraint you have identified through your completion of the worksheet on the previous page. Next, estimate the potential impact that each driver and restraint might have on your industry's potential for growth over a period of time that you can forecast with reasonable accuracy (for the purposes of the sample below, we have extended the forecast over a seven-year period, but this number will vary depending on forecasting accuracy and standard projections within your own industry).

Analysis of Sector-Specific Drivers and Restraints

Sample: Airline Sector (Ranked in Order of Impact)

Rank	Driver	1-2 years	3-4 years	5-7 years
1	Emerging low-cost carriers in the Asia-Pacific region	High	High	High
2	Easing of regulations such as open-sky policies	High	Medium	Medium
3	Improvements in the Russian aviation industry	High	Medium	Medium/Low
Rank	**Restraint**	**1-2 years**	**3-4 years**	**5-7 years**
1	Rising fuel prices	High	High	High
2	Shortage of maintenance personnel	Low	Medium	High
3	Shortage of pilots	Low	Medium	Medium

A Note on High/Medium/Low Scoring

Frost & Sullivan rates drivers and restraints on a 10-point scale, with 10 representing a perfect correlation between a driver/restraint and revenue growth/loss in a given sector. The score then translates into a "high", "medium", or "low" classification, as outlined below. Group discussion will help you assign the appropriate scores to each driver or restraint.

- 8 to 10: High
- 4 to 7: Medium
- 1 to 3: Low

Reminder! You should make this exercise highly interactive and invite your peers in Sales, Marketing, Market Research, R&D, Competitive Intelligence, and Corporate Development to contribute unique insights and perspectives.

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #2: Emerging Channel Evaluation Checklist[23]

Overview

What is it?
A list of questions to help you consider the opportunity presented by a new or emerging distribution channel within your industry. Your answers will help determine whether your company would benefit from expanding distribution operations to include the new channel.

Why should you use it?
You need to consider how all emerging channels might alter your go-to-market strategy. After identifying high-potential, well-aligned channels, you can screen for specific partners with expertise in those areas.

Emerging Channel Evaluation Checklist
Channel:

Customers

1. What service outputs will the new channel provide?
2. Which segments will the new channel target?
3. Which markets will the new channel operate in?
4. How much additional industry volume will the new channel generate?

Channels

1. How will the relative power and importance of existing channels change?
2. How will existing channels react strategically to the new channel?
3. What level of conflict will the new channel generate?
4. What level of synergy will the new channel generate?

Competitors

1. Which competitors are likely to exploit the new channel?
2. What changes in channel incentives to existing members will competitors try?
3. How will relative market share positions change?
4. What are the competitive implications of being the leader, fast follower, or laggard in the new channel?

Company

1. Which products and services will flow through the new channel?
2. What will be the cost to serve through the new channel?
3. What new competencies do we need to enter the new channel?
4. How will we manage channel conflict?

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP TWO: GEOGRAPHIC ANALYSIS

Tool #1: Regulatory Analysis Worksheet and Presentation Template

Overview

What is it?
A tool to help you organize regulatory requirements (e.g., security clearances, tax stipulations) for the country you are entering.

Why should you use it?
You need to consider the ability of any new distribution partner to comply with or help your company navigate the regulatory standards within a given country. By placing all country and industry information in a standardized template, you can also ease information-collection and sharing with others on the executive team and help avoid costly mistakes.

Regulatory Conditions: Worksheet and Presentation Template

Sector/ Region	Regulation	Compliance Requirement	Compliance Costs	Compliance Difficulty	Frequency of Changes
Your Company (OR: Potential Distributor)	Which regulations are you currently managing?	Insert details regarding the regulations with which your organization or potential distributor currently complies.			
[Country]	Which regulations govern business operations in [Country] (e.g., employment, insurance, environmental)?	What would we have to do to comply with these regulations that we're not currently doing?	Short-Term: Long-Term:	1) How long would it take to comply? 2) How complex would the process be (H/M/L)?	To what degree is this sector susceptible to frequent changes in regulatory standards?
[Industry]	Which regulations govern [industry] in [Country]?	What would we have to do to comply with these regulations that we're not currently doing?	Short-Term: Long-Term:	1) How long would it take to comply? 2) How complex would the process be (H/M/L)?	To what degree is this sector susceptible to frequent changes in regulatory standards?

Reminder! You can find this information by contacting local trade associations, reviewing regulation-focused periodicals or by visiting the regulatory site for any country you are planning to enter.

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP TWO: GEOGRAPHIC ANALYSIS (CONTINUED)

Tool #2: Local Market Customization Checklist[24]

Overview

What is it?
A list of considerations to guide your customization of product offerings for local markets.

Why should you use it?
It will help you consider all factors that might affect your product's performance in new markets. These insights can help inform your selection of distribution partners best-equipped to support your customized market entry strategy.

Step One: Consider which elements of your value proposition require customization.

B2C-SPECIFIC

- ☐ **Branding**
  - o Store
  - o Product labels
- ☐ **Vendor Policies**
  - o Information-sharing
  - o Expense sharing
  - o Product collaboration
- ☐ **Vendor services**
  - o Delivery
  - o Replenishment and stocking
  - o Customer education
- ☐ **Operating Policies**
  - o Inventory levels
  - o Sourcing strategies
  - o Information-sharing
- ☐ **Promotions**
  - o Types
  - o Price reduction policies
  - o Incentives
- ☐ **Store Format**
  - o Size and layout
  - o Store design type
- ☐ **Pricing**
  - o Ranges
  - o Margins
  - o Matching policies
- ☐ **Marketing Programs**
  - o Spending levels
  - o Media mix
  - o Major messages
  - o Sales support
- ☐ **Service Levels**
  - o Labor quality and schedules
  - o Delivery policies
  - o Special services (e.g., delivery, repair)
- ☐ **Merchandise Assortment**
  - o Division
  - o Category
  - o Department
  - o Classification
  - o Attributes
  - o Good/better/best range
  - o Package design

(Continued on the following page)

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP TWO: GEOGRAPHIC ANALYSIS (CONTINUED)

Tool #2: Local Market Customization Checklist (Continued)

Step #2: Consider how you should tailor your offer in response to local customer preferences and competitor behavior.

B2C-SPECIFIC

- [ ] **Customer Characteristics**
  - Demand patterns
  - Store purchase
  - Area purchase
  - Geo-demographics and attitudes
    - Population density
    - Age
    - Income
    - Marital status
    - Ethnicity
    - Religion
    - Lifestyle segment
    - Psychographics
- [ ] **Special Demand Drivers**
  - School seasons
  - Seasons
  - Activities and sights
    - Resorts
    - Sports
    - Tourism
  - Military presence/activity
  - Special events
    - Secular or religious holidays
  - Climate zone
    - Temperature
    - Precipitation
  - Potential weather events
- [ ] **Competitor Characteristics**
  - Market saturation
  - Market share
  - Distributor locations
  - Store formats (if relevant)
  - Pricing levels
  - Promotion policies
  - Marketing programs

B2C-SPECIFIC

- [ ] **Our Own Store Characteristics**
  - Market share
  - Store location
    - Characteristics
    - Site quality ratings
  - Stores of our sister divisions
    - Locations
    - Merchandise mix
  - Our store formats
    - Sizes
    - Design types (models)
    - Condition
    - Square footage allocation
    - Special fixtures and displays
    - Merchandise placement zones

Step #3: Set an appropriate schedule for revisiting localization decisions.

- Weekly
- Monthly
- Seasonally
- Annually

Reminder! Some of the items included in this checklist may not be relevant for your business (for example, store-specific considerations may not factor into your international expansion plans), and others of greater relevance may n not be listed here. Consider this template a starting-point for your more customized version.

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP THREE: PARTNER SELECTION

Tool #1: Channel Partner Evaluation Scorecard

Overview

What is it?
A weighted scorecard that will help you: (1) articulate and prioritize compatibility requirements for any channel partner you are considering and (2) evaluate each channel partner according to those criteria.

Why should you use it?
It will help you determine (1) which channel partner criteria are most critical to your product launch efforts and (2) which channel partners meet the standards you have set. Highest-scoring partners can then receive top priority, and you will be able to avoid over-relying on low-scoring partners.

Note: These scores and weightings are for demonstration purposes only.

Channel Partner Evaluation Scorecard (Sample)
Channel Partner:

Key Criteria	Weight	Yes	No	Unknown	Score
Has offices in each of our major markets	10	X			10
Covers at least 65% of the top 3 regions within [Country]	10	X			10
Has a reputation for customer service excellence	10			X	0
Currently services at least 30% of addressable market	5	X			5
Does not expect partnership exclusivity	10			X	0
Pricing structure will generate required profit margin	8		X		0
Employs inside and outside sales reps dedicated to our product line	6	X			6
Willing to submit to training and certification on our product line	6	X			6
Willing to promote our product line at tradeshows and other industry events	4			X	0
Committed to generating and sharing leads	6			X	0
We are a "flagship" partner for [Channel Partner]	3		X		0
Sells a range of complimentary products that dovetail with our product line	7	X			7
Will honor corporate warranty claims for our product line	5			X	0
Will offer repair, service, or aftermarket technical support for our product line	10		X		0
Total	100	# YES RESPONSES: 6 #NO RESPONSES: 3 # UNKNOWN RESPONSES: 5 CHANNEL PARTNER COMPATIBILITY SCORE: 44 (44 out of 100 possible points)			

(Directions listed on the following page)

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP THREE: PARTNER SELECTION (CONTINUED)

Tool #1: Channel Partner Evaluation Scorecard (Continued)

Directions

1. List all criteria that would characterize a best-fit channel partner. This should be an interactive exercise and help enforce consensus on intentions articulated in the Goal Statement.
2. Weight these criteria on a scale of 1 to 10, assigning point values that total 100. The higher the score, the greater the weighting.
3. Check "yes", "no", or "unknown" for each attribute.
4. In the scoring column, assign the number of weighted points for a "yes" response and 0 points for a "no" or "unknown" response (e.g., if a criterion is worth 5 points and the partner meets the criterion, you would check the "yes" box and then place a 5 in the "score" column).
5. Final score equals the total value of "yes" responses.
6. Anything you score as "unknown" should be revisited – by the time you are finished filling out this scorecard for each channel partner under consideration, you should have no "unknowns" left.
7. You will need to determine a minimum percentage of accountability for a channel partner to still meet your criteria (e.g., anything scoring less than 75% - 75 out of 100 total possible points – does not qualify for further exploration). For any score that comes in under this amount, you should either remove that channel partner from consideration or conduct additional due diligence to complete an unknown area (since an "unknown" can become a "yes", thereby improving a total score).
8. Compare facets and scores of channel partners under consideration.

Reminder! The criteria listed on the previous page are for demonstration purposes only. While they may align with your business model, you may also want to consider the following distributor attributes:

- Market knowledge
- Inventory maintenance
- Marketing plans
- Presence of competing products
- Payment history
- Sales records
- Advertising support
- Product-specific attribute
- Administrative support
- Forecasts of purchases
- Manufacturer relationships

Finally, this scorecard serves dual purposes. In addition to assessing channel partners' potential, it can also serve as a due diligence checklist, highlighting any unknown variables for further research. As a result, you may want to revisit this tool as you build and refine your distribution channel strategy.

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP FOUR: PARTNER CONTRACT CREATION

Tool #1: Pricing Strategy Guidelines

Overview

What is it?
A series of questions to help you think through an appropriate pricing strategy for the new partner you have selected.

Why should you use it?
You need to take a comprehensive look at the product or service you're offering and the environment in which your competitors have similar offerings to understand the full scope of your pricing decisions through a distributor.

Pricing Strategy Guidelines

A. Partnership Goals

1. What are your company's goals for initiating a relationship with [Partner]?
(Consider market share, brand awareness, realization of a specific ROI or profit margin, etc.)

2. How does price play into your company's short-term distribution channel strategy?

3. How does price determine your company's long-term growth strategy?

4. What are your revenue targets in the first partnership year and up to five years from now?

B. Cost Structure

1. What costs will you sustain in supporting [Partner]?
(Consider costs associated with marketing, sales support, training, shipping, etc.)

2. What hidden operating costs do you need to pass on to your distributors and/or end users through your pricing?
(Consider government regulations, tariffs, taxes, etc.)

3. How might foreign exchange rates affect your cost structure within [Country], if your partnership is part of an international expansion strategy?

E. Distributor Perspective

1. How much share of wallet is [Partner] willing to dedicate to your product or service?

2. What [Partner] priorities might affect your pricing approach (e.g., negotiation, discounting)?

3. How frequently, and in what quantity, do you expect [Partner] will purchase from you?

C. Profitability

1. Are you able to migrate to a more profitable price point over time?

2. Which products in your portfolio could compensate for a loss on another product you're introducing to [Partner]?

3. What role will promotions, discounting, or loyalty programs play in your company's pricing strategy?

D. Competition

1. On average, what are your competitors charging [Partner] for similar products or services?

2. Do you intend to "price" your competitors out of [Partner]'s product line?

Phase 2: New Partner Evaluation and Selection

Step	Industry Analysis	Geographic Analysis	Partner Selection	Partner Contract Creation

STEP FOUR: PARTNER CONTRACT CREATION (CONTINUED)

Tool #2: Partner Contract Checklist

Overview

What is it?
A list of items you should make sure you cover as part of your contract with any new distribution partner you engage.

Why should you use it?
By setting expectations for performance and delineating responsibilities at the outset of the partnership, you may prevent future conflicts. You can also get a sense for how committed a potential partner is to your business by how willing it is to agree to specific terms for activities such as co-marketing, lead generation, or systems sharing. Resistance may indicate a poorer-fit partner than you had at first imagined.

Partner Contract Checklist

Responsibilities of Partner and Supplier

- Expectations for sales: volume and total revenue
- Requirements for minimum inventory levels and service coverage
- Agreement for warrantees and guarantees for the channel partner and the customer
- Articulation of specific purpose/roles of partner versus supplier's direct sales staff
- Purchasing terms (expectations for order turnaround: processing and shipping)
- Pricing policy
- Discounting policy (based on volume over time, customer satisfaction, certification levels, installed base, or other measurable attributes)
- Profit-sharing agreement
- Payment expectations
- Sales support expectations
- Co-marketing agreement
- Lead generation and lead-sharing agreement
- Expectations for communication: openness, shared platforms, or other relevant needs
- Systems integration agreement
- Product or service training agreement
- Events and rewards programs
- Expectations for promotion material including point of sales, brochures, etc.
- Account ownership: rules for service delivery, upgrades, and expansions
- Exclusivity: based on geography, named account, industry, vertical market, or other relevant factor
- Standards for new product training and certifications

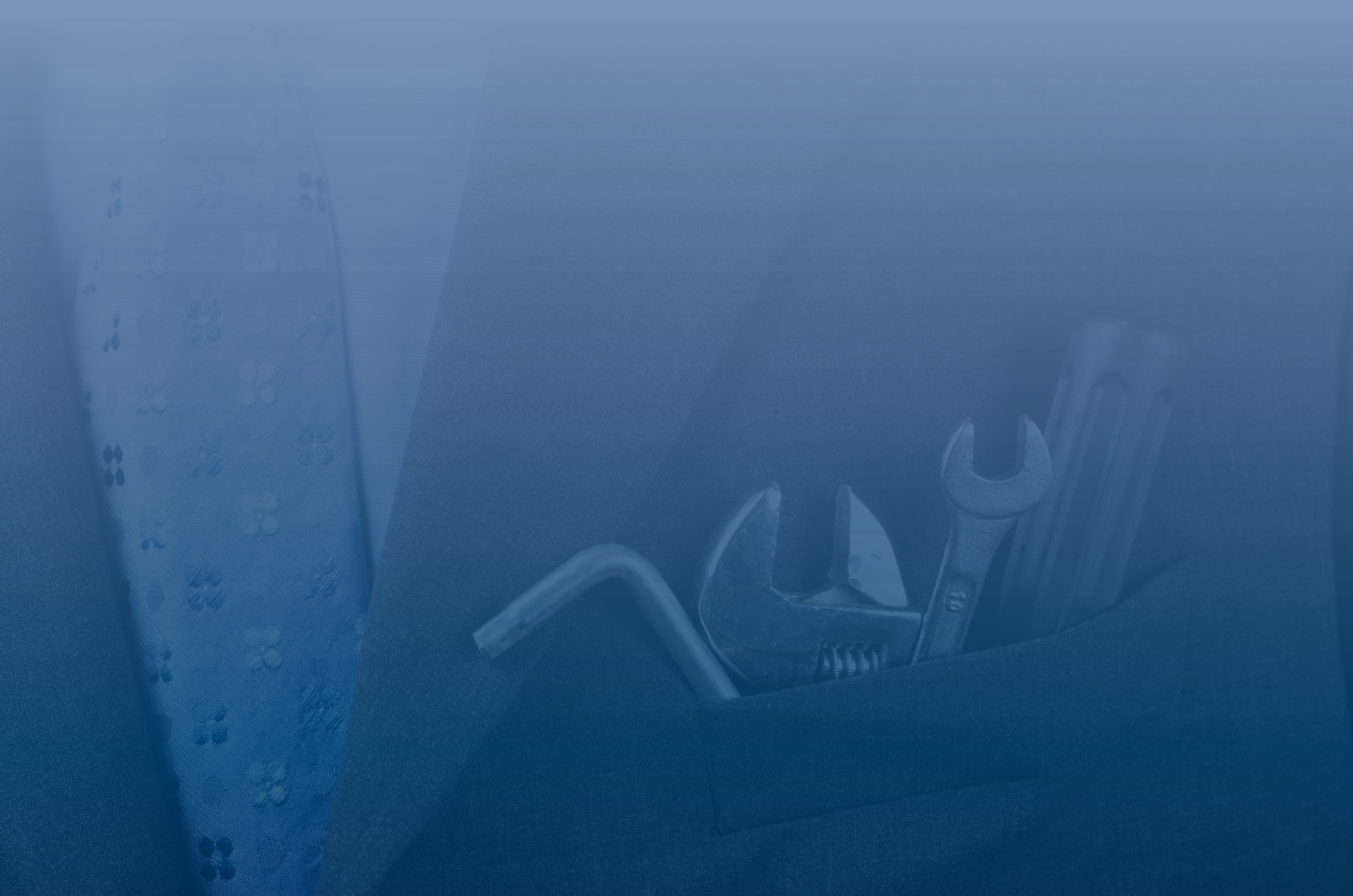
Partnership Termination

- Consequences for violation of any part of agreement on behalf of partner or supplier
- Prohibited activity
- Terms for withdrawal from partnership

PHASE 3: PARTNER MANAGEMENT AND MONITORING

Growth Process Toolkit

Distribution Channel Optimization



PHASE 3: PARTNER MANAGEMENT AND MONITORING

Where Are We Now?

Completion of the exercises featured in Phase 2 has enabled you to:

- Identify industry growth opportunities and emerging distribution channels
- Consider how new partnerships could aid geographic expansion efforts
- Apply principled criteria to new partner evaluation and selection
- Craft comprehensive and mutually beneficial partner contracts

At this point, you should have a strong sense for how new partnerships will aid your company's long-term growth strategy, for what those partners should offer, and for how those relationships should be structured.

What Do I Do Next?

Your next step is to optimize the performance and efficiency of your preexisting and new partnerships. Phase 3 will help you deliver high-quality sales support, structure ongoing and straightforward communications, and manage channel conflict.

Outlined below are the activities and steps you need to complete in Phase 3. The pages that follow will feature the resources you need to complete each of these steps.

PARTNER MANAGEMENT AND MONITORING: KEY STEPS AND TOOLS

STEP	PURPOSE	SAMPLE TOOLS
Sales Support	Establish collaborative relationships with new and existing channel partners	Sales Support Readiness Checklist Product Cheat Sheet Template
Performance Evaluation	Monitor channel partner engagement and revenue generation	Sales, Customer, and Marketing Performance Dashboard Partnership Stability Report Card
Communication Management	Design a communications platform that eases information sharing; facilitate feedback collection from partners	Supplier-Distributor Communication Strategy Design Worksheet Sales Feedback Collection Template
Conflict Resolution	Identify and classify points of conflict and take proactive steps to manage them	Conflict Response Taxonomy

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP ONE: SALES SUPPORT

Tool #1: Competitor Comparison Chart

Overview

What is it?
An easy-to-use template illustrating the differences between your company's product(s) and those offered by competitors.

Why should you use it?
It will help your distribution partners manage customer conversations regarding competitor alternatives and present your product line in the most favorable light possible. It can also help you standardize communications regarding your product's core features and benefits across channel partners.

These features are for demonstration purposes only.

Competitor Comparison Chart (Sample)
Product: Financial Services Product A

Feature	Competitor 1	Your Company	Competitor 2
Unlimited service	√	√	
Choice of payment options		√	√
Choice of investment accounts	√	√	
Tax deferral options	√	√	
Minimum rate of return guarantee		√	√

Reminder! This chart will work most effectively with a comprehensive list of product features. The more you can make the case for your product's strengths and competitors' weaknesses, the easier you make it for your distribution partners to consistently and easily answer questions regarding your product's core strengths.

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP ONE: SALES SUPPORT (CONTINUED)

Tool #2: Promotions Evaluation Template[25,26]

Overview

What is it?
A framework for evaluating the effectiveness of sales promotions tools that could support desired activity among your channel partners.

Why should you use it?
You need to encourage your distribution partners to feature your product line over that of competitors. This exercise can help you focus on those promotions efforts best-aligned with your product, growth goals, and partner needs.

Promotions Evaluation Template (Sample)
Product: Heavy Equipment A
Target Customer Segment: Tier-1 Channel Partners

The objective is to determine how well each promotion supports the goal.

	Promotions Effectiveness*					
Promotions Goal	**SPIFFS****	**Trade Allowances****	**Dealer Loader****	**Trade Discounts****	**Loyalty Reward Program**	**Trade Contest**
Drive consumer traffic to channel partner location	Low	Low	Low	Low	Medium	Low
Improve channel partner profit margins	Low	High	High	High	Low	Low
Set channel partner sales rep incentives	High	Low	Low	Low	Low	Medium

***Channel Effectiveness Evaluation Key**
High: Fully supports sales goal
Medium: Somewhat supports sales goal
Low: Insufficiently supports sales goal

****Notes on Terminology**

SPIFF: The sum paid by a vendor to a distributor's salesperson to motivate him or her to sell the vendor's products

Trade Allowance: The allowance or refund given by a manufacturer to a retailer or distributor who participates in a sponsored advertising or promotion campaign

Dealer loader: Gift (e.g., premium, discount on inventory) offered to a partner as a bonus for purchasing the manufacturer's merchandise

Trade Discount: A discount from the list price of a commodity allowed by a manufacturer or wholesaler to a merchant

Reminder! Promotions goals and options listed above are for demonstration purposes and may require some tailoring to your organization's specific needs. For instance, a B2C company may want to evaluate point-of-purchase displays, in-store signage, sampling, promotional pricing, coupons, rebates, or demonstrations.

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP ONE: SALES SUPPORT (CONTINUED)

Tool #3: Sales Support Readiness Checklist[27]

Overview

What is it?
A list of tools or resources that you should prepare prior to introducing your product line to a new channel partner (or expanding your product offering with an existing channel partner).

Why should you use it?
The more you can prepare your channel partners to win over customers to your product line, the more successful your relationships will be. It is therefore critical that your distributors' sales teams feel confident that they can achieve their sales targets with your product offering. This checklist will help ensure that you provide comprehensive support resources that will minimize distributor reps' concerns and ease their transition into selling your product(s).

This checklist is for demonstration purposes; you may need to tailor it to the needs of your sales team.

Sales Support Readiness Checklist (Sample)
For Product:

Support Tool or Resource	Status	Start Date	Due Date	Owner
Pricing Tools	Done	June 5	June 30	James
Training Certification	In Progress	June 1	July 31	Dan
Product Cheat Sheet Template	Done	May 5	May 31	Dan
FAQ's	In Progress	May 15	August 15	Katherine
Objection-Handling Script	Behind Schedule	June 5	June 5	Jake
Solutions Brief	Behind Schedule	June 15	June 2	Katherine
Data Sheet	Done	May 1	May 15	James
New Product Brochure	Done	June 5	June 30	Jake
Demo Script	In Progress	May 20	June 15	Katherine
Lead-Sharing Mechanism	Done	May 11	May 23	Dan
Competitor Comparison Chart	In Progress	June 2	June 5	James
Product Placement Worksheet	In Progress	June 3	July 14	Jake
Customer Testimonials	In Progress	May 1	September 1	Dan
Product Video	Done	May 14	June 1	James
Win/Loss Feedback-Sharing Mechanism	In Progress	June 1	September 1	Katherine

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP ONE: SALES SUPPORT (CONTINUED)

Tool #4: Product Cheat Sheet Template[28]

Overview

What is it?
A one-page template that can serve as an easy reference guide for your partners. Its essential information includes pricing, target customers, top competitors, and core features and benefits.

Why should you use it?
It will help ensure that your sales force is prepared to discuss your product line accurately. By providing channel partners (and your internal sales force) with an easy-to-reference list of key products' primary talking points, you can shorten the learning curve and improve comfort level discussing the product with customers.

Product Cheat Sheet Template
Product/Product Line:

Step One: Provide detail on each of the categories listed below.

Product Description:

Tag Line:

Market Maturity:
- Growth rate
- Existing solutions
- Trends
- Technological changes
- Consolidation
- New entrants
- Total available market

Target Customer:
- Demographics
- Pain points
- Needs
- Decision making patterns
- Sales cycle

Top Competitors:
- Product
- Market position
- Ability to compete
- Pricing

Pricing:
- How the price was set (i.e., value-based, minimum margin necessary, competitive environment)
- MSRP & street prices for each country worldwide
- Channel discounts available

Features & Benefits:

Unique Value Proposition:

Step Two: Use the following template to build an "elevator pitch" for your product line:

For [target customers] who need to [primary need], [product name] is a [brief product description] that provides [benefit 1], [benefit 2] and [benefit 3].

Unlike [main competitor], [product line] delivers [main advantage 1] and [main advantage 2].

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP TWO: PERFORMANCE EVALUATION

Tool #1: Sales, Customer, and Marketing Performance Dashboard

Overview

What is it?
A performance dashboard template to help monitor your distribution partners' sales and marketing performance.

Why should you use it?
It will help you track your channel partners' traction in the marketplace and communicate results to the executive team.

A. Sales Performance: Key Metrics (Sample)

Metric	Target	Performance	Trend	Action Items
Revenue growth/total sales year-over-year	18% growth in first year	20% growth in first year	Increasing	Isolate drivers of high performance
[Applicable product] sales as percentage of total sales	5% of total sales	3% of total sales	Tracking to hit goal	Continue with plan
Average margin	7%	8%	Above expectations	Continue incentive program
Market share	15%	12%	Trending upwards	Continue with plan
Shortage/excess of product inventory	Zero variance	$150K USD inventory excess	Over-forecasting: need to adjust	Invest in new forecasting software
# sales reps dedicated to selling [new product]	8	8	On target	Continue with plan
# sales reps certified to sell [new product]	8	6	Tracking to target	Continue with plan
Average length of sales cycle	3 months	4 months	Sales taking too long	Isolate/analyze deal barriers
Average deal size	$40K USD	$45K USD	Above expectations	Continue incentive program
Win rate	20%	12%	Below expectations	Conduct win-loss analysis

B. Customer and Marketing Performance: Key Metrics (Sample)

Metric	Target	Performance	Trend	Action Items
Number of customer complaints	0	7	Above acceptable rate	Isolate causes of dissatisfaction
Customer attrition	0	10%	Above acceptable rate	Design retention incentive program
Number of repeat buyers (i.e., retention rate)	100%	20%	Below target	Track number over next quarter
Number of product inquiries fielded	1000	1500	Above target	Continue with awareness campaign
Number of qualified leads	80	70	Tracking to target	Continue with plan
Aided/unaided product line or brand awareness	100% customers surveyed recall product	50% of customers surveyed recall product	Below expectations	Reprioritize Market Research pipeline
Budget allocated versus Budget spent	$1M USD to launch	$1.2M USD to launch	Above target	Tighten budget for next quarter

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP TWO: PERFORMANCE EVALUATION

Tool #2: Channel Partner Performance Metrics

Overview

What is it?
A list of metrics you may want to include in the Sales, Customer, and Marketing Performance Dashboard to further evaluate channel partner performance.

Why should you use it?
It will help you evaluate your direct sales force and channel partners with equal rigor. It will also help you identify areas of underperformance among your channel partners and inform your refinement of your incentive and support strategies.

Channel Partner Performance Metrics
Partner:

Evaluate channel partner performance according to the following metrics:

- ☐ Total sales YTD
- ☐ Supplier product line as percentage of total channel partner revenue
- ☐ Number of accounts sold on supplier product line
- ☐ Average size of account
- ☐ Average margin on each sale (and average discount to clients)
- ☐ Number of channel partners certified to sell product line
- ☐ Level of channel partner participation in promotional programs
- ☐ Number of leads generated by channel partner for product line
- ☐ Conversion rate on qualified leads

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP TWO: PERFORMANCE EVALUATION (CONTINUED)

Tool #3: Partnership Stability Report Card

Overview

What is it?
A collection of high-level standards to help you assess distributor performance. It can serve as a qualitative complement to your quantitatively-based performance dashboard. You may want to use it in conjunction with the Distributor Report Card.

Why should you use it?
It will help you roll up performance information and share it with the executive team. It can also help you spot indicators of potential problems (e.g., emerging conflict, declining sales numbers), which you can then proactively address.

Partnership Stability Report Card

Partner: (Sample)

Grade: B

Performance Category	Ideal State	Actual State	Action Required	Grade
Goal alignment	We work toward shared, coordinated goals (partner's growth is closely tied to our success)	Stable: Goals have not evolved since partnership launch	Continue to invest in sales support and account management activities	A
Co-marketing	We deliver consistent messaging to end users; partner does not handle marketing activity autonomously	Questionable: Partner struggles to manage local offices that pursue their own marketing agenda	Set messaging compliance standards for all regions; gain partner commitment to enforcement	C
Information-sharing	Our partner provides timely, accurate insights into local markets (e.g., changes to demand patterns, competitor activity)	Stable: Partner's consistent and high-quality information directly influences our demand forecasting for local markets	Invest in user-friendly software that further facilitates information-sharing (current system is antiquated)	B
Lead-sharing	We funnel qualified local leads to our partner and consistently receive valuable information in return	Unstable: Partner is skeptical of our intent (i.e., that we would use lead information to bypass our distributor with direct sales)	Revisit partnership contract to include further stipulations on lead-sharing and direct-selling conditions	C
Systems integration	We coordinate purchasing, inventory management, and payment systems with our partner	Stable: Partner has implemented software compatible to our own, at great cost savings to both organizations	Continue to monitor order turnaround time, delivery speed, billing accuracy, and payment efficiency to identify further cost-saving opportunities	A

(Continued on the following page)

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP TWO: PERFORMANCE EVALUATION (CONTINUED)

Tool #3: Partnership Stability Report Card (Continued)

Partnership Stability Report Card
Partner: (Sample)
Grade: B+

Performance Category	Ideal State	Actual State	Action Required	Grade
Conflict	We ensure conflicts do not inappropriately escalate and are proactively identified and resolved	Questionable: Given partner's unwillingness to share leads, conflict over direct selling may escalate	Revisit contract if necessary; establish open line of communication with partner	C
Sales	We set aggressive but realistic sales targets, which our partners consistently achieve	Stable: Little variance between projected and actual sales	Continue training, certification, and support programs	A
Incentives	Our incentive structure (e.g., commissions, SPIFFS, stretch goal rewards) brings about desired partner behavior	Stable: Partner sales reps are committed to earning incentives and promote our product line with greater enthusiasm when we run an incentive promotion	Brainstorm ways to complement promotional incentive programs with other incentives, such as high-quality sales support and training	B+
Profitability	We sell to our partner at a price point that offers favorable margins for each	Stable: We are aligned on price point fairness; we do not sell at a loss; our partner achieves desired margin	Maintain current pricing approach (assuming our cost structure remains stable)	A

***A Note on Grading**

First, you and your executive team must define what constitutes A, B, C, D, and failing-grade performance. You can then assign the following scores to each grade, depending on how fully each distributor meets a given definition:

A+	100	**B+**	88	**C+**	78	**D+**	68	**F**	0
A	95	**B**	85	**C**	75	**D**	65		
A-	90	**B-**	80	**C-**	70	**D-**	60		

You can then assign a final grade based on the average of the numerical scores assigned to each consideration.

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP THREE: COMMUNICATION MANAGEMENT

Tool #1: Supplier-Distributor Communication Strategy Design Worksheet[29]

Overview

What is it?
A list of questions to help you consider the cost effectiveness and quality of your communication with distributors. You can use this worksheet to assess the performance of your current strategy, or to evaluate a new approach you are considering for adoption.

Why should you use it?
You need to develop and implement a communication strategy that enhances the frequency and quality of interaction between your organization and each of your partners. This worksheet will help you take a holistic approach to your communication strategy, focusing you on both operational and behavioral elements of partner efficiency, engagement, and openness.

Supplier-Distributor Communication Strategy Design Worksheet

A. Operational Considerations

The following questions will help you evaluate the efficiency of your current strategy and identify areas for improvement:

1. To what extent does our current communication strategy or platform enable us to:
   a. Communicate cost-effectively with our partners
   b. Maintain ongoing dialogue with our partners
   c. Ease transfer of purchase orders
   d. Ease transfer of invoices
   e. Allow for efficient payment processing
   f. Share order delivery status
   g. Update inventory information
   h. Update pricing information
   i. Calculate profit margins on specific sales (i.e., gives partners visibility into the implications of their discounting decisions)

2. For each of the above, what is the variance between our current performance and desired performance?

3. What are the cost implications of that variance (i.e., is the variance within an acceptable margin)?

4. What are the root causes of that variance?
   a. The partner has not integrated its system with our own
   b. The partner does not regularly access our shared system
   c. Our system is not standardized across regions
   d. Our system has not displaced other programs/does not serve as the primary communication channel between us and our partner

5. What steps can we cost-effectively take to reduce areas of inefficiency (e.g., invest in new platform, complete incremental upgrades to our existing system, standardize communication across regions and partners)?

Page 1 of 2

(Continued on the following page)

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP THREE: COMMUNICATION MANAGEMENT (CONTINUED)

Tool #1: Supplier-Distributor Communication Strategy Design Worksheet (Continued)

Supplier-Distributor Communication Strategy Design Worksheet

B. Behavioral Considerations

The following questions will help you consider how your current strategy helps you bring about desired partner behavior:

7. To what extent does our current communication strategy enable open dialogue with our partners regarding:
   a. Local and corporate advertising decisions
   b. Quality or quantity of sales training (live and virtual)
   c. Effectiveness of promotions in persuading, informing, or educating sales teams
   d. Role of sales support staff in influencing engagement levels and commitment to our product line
8. To what extent does our current communication strategy enable our partners to self-serve?
   a. Is it possible to access product information (e.g., spec sheets, pricing, availability, lead times, order or delivery status) with no more than three clicks from the main page?
   b. Do activity levels indicate our partners rely more on self or live service? What are the cost implications of their preferences?
   c. What do our partners typically do if they cannot easily access our product information (e.g., sell a competitor's brand instead)?
9. For each of the above, what is the variance between our current performance and desired performance?
10. What are the cost implications of that variance (i.e., is the variance within an acceptable margin)?
11. What are the root causes of that variance?
12. What steps can we cost-effectively take to reduce areas of high variance?

Page 2 of 2

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP THREE: COMMUNICATION MANAGEMENT (CONTINUED)

Tool #2: Sales Feedback Collection Template

Overview

What is it?
A form you can use to survey your partners on your product line and its performance in the marketplace. Distributor sales reps should complete this form for each sales interaction with every customer.

Why should you use it?
It will help you identify areas of concern that need to be addressed. Importantly, this survey will also help you maintain open communication with your partner's sales force and gauge their commitment or resistance to selling and promoting your product

Sales Feedback Collection Template Partner: __________ Customer: __________

1) Please rate the customer's response to the following aspects of our product line:

	Very Positive	Positive	Neutral	Negative	Very Negative
Overall Reaction					
Reaction to Price					

2) What is the probability of closing this sale?

0%	25%	50%	75%	100%

3) Please rate the customer's response to the following attributes of our product line.

Rating Scale: **5** = Very Positive; **4** = Positive; **3** = Neutral; **2** = Negative; **1** = Very Negative

1. [Attribute] _______	5. [Attribute] _______
2. [Attribute] _______	6. [Attribute] _______
3. [Attribute] _______	7. [Attribute] _______
4. [Attribute] _______	8. [Attribute] _______

4) How did this customer learn about our product line?

a) Advertisement
b) Communication from you
c) Recommendation from colleague
d) Other:
e) Don't know

5) What objections or questions did you encounter that you were unprepared for?

6) Which sales support materials did you find most helpful?

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP FOUR: CONFLICT RESOLUTION

Tool #1: Conflict Response Taxonomy[30]

Overview

What is it?
A list of typical partner conflicts that could undermine your company's distribution optimization effort. For each conflict, we have listed potential responses your company could take, as well as potential consequences (both good and bad) for each of those options.

Why should you use it?
It will help you consider potential responses to common conflict scenarios. By using this taxonomy as a workshop or meeting outline, you can also help ensure team discussions around distribution strategy and partner management remain structured and comprehensive.

Conflict Response Taxonomy

Conflict	Potential Responses	What Could Go Right?	What Could Go Wrong?
Competitor enters agreement with one of our key partners	Lower your prices	You undercut your competitor's attempt to steal market share from you; partner sales reps have a new incentive to promote your product line	You (perhaps permanently) reduce this segment's profit potential; your partner now expects more for less; you open the door for competitors to assume "high-value provider" position; may start price war
	Alter your value proposition (e.g., promotions or incentive program)	You improve the value of your service offering; partner sales reps have a new incentive to stay with you	You increase your cost-to-serve without increasing your prices; profitability suffers; competitors can duplicate your program, removing your point of differentiation
	Enter exclusivity agreement with a different key partner	You protect your interests with a valuable partner; you limit your competitor's market reach; overall competitive dynamic remains the same	Exclusivity terms may affect your relationships with other partners, leading to higher pricing or less collaboration than you would want
	Make no adjustments to your current partner management approach	You benefit from high switching costs or skepticism about competitor's offering; partner sales reps prefer the status quo; your profit levels remain the same	Your competitor successfully, and with no push-back, changes distributor dynamic in its favor; you struggle to catch up
Competitor lowers prices to a shared partner	Match or go below the new price	You undercut your competitor's goal; your customers don't switch to a lower-cost alternative	Competitor responds to your cut with another cut; ultimately destroys profitability for every player
	Keep your prices the same	Only your most price-sensitive customers (and therefore less profitable) customers defect to your competitor; overall profitability may even rise slightly by removing less profitable customers from the pool	High-value customers respond similarly to low-value ones, viewing your and your competitor's offering equally and seeing no incentive to pay more to purchase from your company

(Continued on the following page)

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP FOUR: CONFLICT RESOLUTION (CONTINUED)

Tool #1: Conflict Response Taxonomy (Continued)

Conflict Response Taxonomy

Conflict	Potential Responses	What Could Go Right?	What Could Go Wrong?
Competitor raises prices to shared partner	Match or raise your prices	You reset the market at a higher profit level; everybody "wins"	A new market entrant provides a low-cost alternative; customers flock to that provider
	Keep your prices the same	Your prices compare more favorably to the competition; you acquire new customers as a result	It is possible that your prices are currently too low, and that you have missed an opportunity to adjust your prices (with long-term implications for profitability)
	Lower your prices	You steal market share from your competitor; your revenues increase	While market share or revenue may increase, profitability may go down (perhaps lower than you can afford); you may have trouble resetting customer discussions around value
Key partners argue over exclusive access to your product line	Deny exclusive access to both (i.e., allow partners to compete with one another)	Partner competition drives prices down, making your product more attractive to end users; increased promotion leads to increased sales from each channel	One partner may elect to boycott your product line to force your compliance with their wishes, leading to reduced sales and a strained partner relationship
	Grant exclusive access to one	You demonstrate your commitment to a strategic partner; the partner responds by promoting your product line over competitors and selling the full range of your offering to end users	You limit your market reach, thereby putting a cap on your sales; exclusivity agreement may encourage partner to price product line higher than you would want
Partner refuses to carry your full product line	Allow partner to cherry-pick from your product offering	You allow partner to concentrate on products best-aligned with its value proposition, strengthening its market position and appreciation for your company's flexibility	You miss an opportunity to sell end users a full solution; you open the door for competitors to complete the gaps in your product offering
	Strong-arm partner into carrying full offering	Your partner is equipped to sell end users a full solution, so you can cater to a full range of market needs	Power play may disengage partner from selling any part of your line, encouraging them to promote alternate provider
	Seek alternate routes to market	You initiate an agreement with a distributor willing to promote your entire product line; you bypass resistors altogether	You alienate existing partners by introducing a new competitor into the mix; you risk over-saturating a market with too many channels

(Continued on the following page)

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP FOUR: CONFLICT RESOLUTION (CONTINUED)

Tool #1: Conflict Response Taxonomy (Continued)

Conflict Response Taxonomy

Conflict	Potential Responses	What Could Go Right?	What Could Go Wrong?
Partner will only concentrate on your product line if granted exclusive territory	Grant territory exclusivity	You have a dedicated partner within a critical region committed to promoting your product line above all others; partner may return favor by integrating its systems with yours or by sharing customer data	Agreement limits your market reach or customer access; partner's commitment to your product line may not justify lost revenue through other distributors
	Deny territory exclusivity	You protect your market and customer reach within a key region; you send a message to partners that the balance of power lies with you, not them	Partner responds by promoting competitors' products or setting your line's price points higher that you might want; engagement, trust, and collaboration suffer as a result
Partner resists co-promotion or co-market development efforts	Complete all marketing initiatives without partner involvement	Your centralized approach helps you avoid brand or message inconsistencies across regions; all messaging aligns with corporate goals	You miss opportunities to tailor communications for local markets; partner's lack of involvement leads to either complacency or resentment
	Cede all marketing responsibility to partner (i.e., force partner to action)	Your partner communicates in local markets with greater resonance than your corporate office could manage; decentralized marketing leads to greater demand and lead generation within specific regions	You struggle to control quality and accuracy of communications; it becomes nearly impossible to maintain a recognizable corporate brand; partner's activities fail to achieve performance targets
	Invest no incremental funds in co-marketing	You manage distribution-related costs; you send a message to partners that they must honor their end of agreements, which could positively alter future behavior	Partner perceives action as a power play that unnecessarily harms their business; insufficient spending fails to generate demand for partner, leading to missed targets (and further collaboration problems)
Partner resists sharing its customer information with you	Collect your own customer data (i.e., sell direct)	You gain a firsthand understanding of how your value proposition works; you can make targeted adjustments to your product and service strategy; profitability increases without the middle-man	You jeopardize relationships with partners who will resent your competition; market reach may deteriorate without partner involvement or engagement
	Allow partner's customer data to remain proprietary	Partner's appreciates show of trust; responds by demonstrating increased commitment to collaboration	You miss an opportunity to learn about your end users; partner fails to appreciate sign of goodwill and continues to conceal data; balance of power shifts decidedly away from you to your partner

(Continued on the following page)

Phase 3: Partner Management and Monitoring

Step	Sales Support	Performance Evaluation	Communication Management	Conflict Resolution

STEP FOUR: CONFLICT RESOLUTION (CONTINUED)

Tool #1: Conflict Response Taxonomy (Continued)

Conflict Response Taxonomy

Conflict	Potential Responses	What Could Go Right?	What Could Go Wrong?
Partner's product markup is too high	Bypass partner (i.e., sell direct)	You take control of a market while improving price to end user and your own profitability; action sends a message to partners unwilling to meet your expectations (for pricing, margins, etc.)	Your direct-selling efforts cannot match or surpass partner's reach; your increased product control ultimately gives you less control in a market (and a less collaborative partner in the future)
	Lower prices to partner in hopes cost savings will be passed on to customers	You successfully migrate end-user price points back to where you want them without compromising your partner's profitability	You compromise your own profitability to safeguard that of your partner; increased sales do not compensate for the hit on margins
	Implement a margin compliance policy with partner	You control end-user pricing without compromising your own profitability; you send a strong message to partners about ground rules for partnership	Across-the-board margin policy proves nearly impossible to enforce, while indicating to partners your lack of interest in their profitability; partnership collaboration will likely suffer
Partner refuses to integrate its order fulfillment system with yours	Make systems integration the basis for continued relationship	You lower costs while delivering faster, more comprehensive service to your partner; partner engagement increases as a result of this tighter collaboration	Partner rejects terms, either forcing you to make an exception to your rule or terminate the partnership; or partner accepts terms, but your strong-arm technique has damaged an otherwise-productive relationship
	Adopt partner's system	You achieve desired outcome of systems integration; short-term cost increase is justified by long-term ROI	This costly maneuver links you tightly to a single partner while creating cost problems with other distributors (i.e., action solves one problem while generating others); ROI for adoption is low or negative
	Maintain status quo (i.e., find cost savings elsewhere)	You grant partner desired autonomy; partnership continues to be productive and collaborative; you successfully find cost-savings without integrating systems	You continue to struggle to profitably serve your partner; lack of integration in the interest of appeasing a valued partner is not a long-term solution
Supplier lacks power to alter or influence partner behavior	Terminate partner relationship	Your focus on partnerships in which you hold the balance of power leads to more productive negotiating with remaining partners	You cede significant market reach; other partners fail to make up the difference; you are worse off than you were before
	Continue relationship on partner's terms	What you lack in authority you make up for in reach: partner continues to promote your product line (on its terms), and in exchange, you have access to a large and valuable market	Partner continues to abuse balance of power until the relationship becomes unprofitable for your organization; contractual obligations limit your ability to go to market through alternate channels or partners

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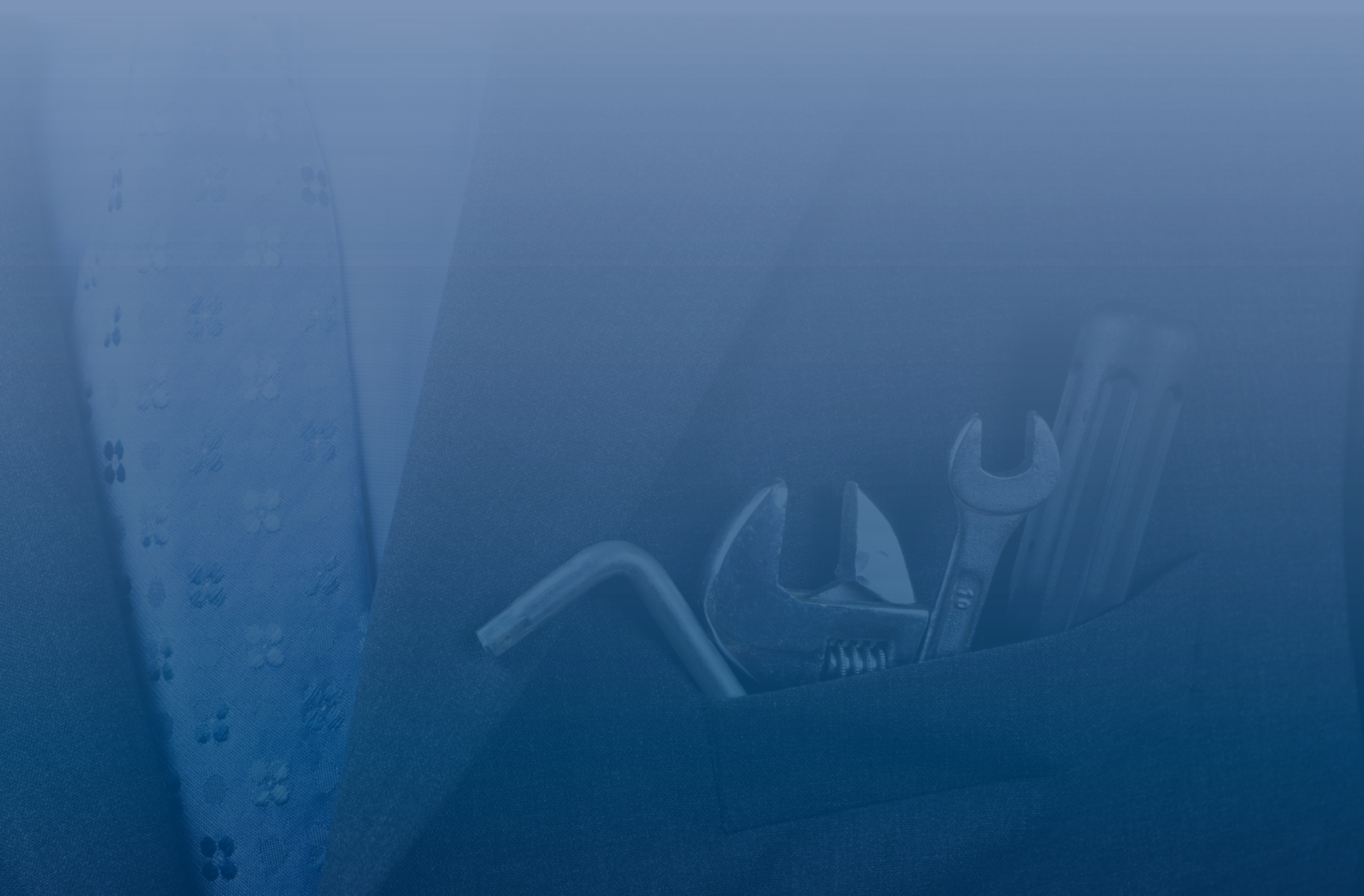
END NOTES

Growth Process Toolkit

Distribution Channel Optimization



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