

Meeting Your Customers' Customers

Even though business conditions are expected to slow down in the coming months, you can still grow your business by venturing up-channel.



When times are tough, some companies hunker down and hope to wait out the storm by managing costs. Others view slow times as an opportunity to invest in and grow their business.

By Allen Ray and David Gordon

The last few years were banner years for distributors. For many companies, the past six months were an early warning sign to start doing a better job of managing expenses. Unfortunately many distributors, and especially smaller distributors, realized this too late. The smartest distributors are now trying to control their destinies by repositioning themselves within their marketplaces and reaching out to

end-customers.

At the end of 2007, Allen Ray and Associates, Kennedale, Texas, and Channel Marketing Group, Raleigh, N.C., conducted our ElectroIndustry Survey to get a sense of the business expectations in the market and the biggest concerns on the minds of electrical professionals. More than 400 manufacturers, distributors and reps responded, and they were still relatively optimistic (see chart below). While the study wasn't intended to be statistically verifiable, it does offer a sense of what the market is thinking. We've posted many of the survey results at www.electricaltrends.com. The key growth drivers and areas of focus that we discovered include a change in branding strategy; an effort to move up-channel to product and project decision makers; identifying growth markets; new product introductions; investing in training; and utilizing price as a strategic tool. Let's take a look at some of the strategies.

Branding to customers. Historically, manufacturers invested in their brands and created demand while distributors were product aggregators, product transferors and credit issuers. Distributor salespeople were relationship managers. Today this market dynamic is changing. Leading distributors understand that many different product acquisition alternatives exist for their customers. You must also factor in the unfortunate reality that because some manufacturers do not invest as heavily in their brands as in the past, brand preference and loyalty have diminished. While relationships are important, distributors must now reinforce the reasons why customers should purchase from them, not what

the customer should purchase. This has led distributors to better understand their identity and then create a brand for themselves.

These distributors increasingly are focused on promoting themselves, frequently at the exclusion of their manufacturers. We surveyed distributors on this point in our study. When asked, "How important is it to build your brand at your contractors?" approximately 35 percent of the distributor respondents said their own "company brand" is more important to their customers than their manufacturers' brands, and approximately 26 percent said promoting their company brand was equally as important as promoting manufacturers' brands. That means 61 percent of distributor respondents felt their brand is as important as, if not more so, than the manufacturers they represent. That means they believe getting contractors to buy from them is more important than whom they are selling.

A related question asked, "How important is it to build your brand to your customers' customers — end-users such as builders, commercial developers and industrial facility managers?" We found the answers to this question to perhaps be even more important. Almost 60 percent of distributors now market to their contractors' customers. Of these respondents, 47.5 percent said they were building their brands with engineers and architects. It's a clear indication distributors are moving toward the decision makers and influencers, trying to influence product selection and where purchases are made.

In speaking with contractors about this trend, some companies recognized the additional value that

a distributor brings to the party as long as the distributor partners with the contractor and does not solicit business directly. Distributors bring unbiased product information and frequently have more services and resources than the contractor or manufacturer salesperson.

Concurrently, manufacturers are also marketing to end-users and specifiers and, in some instances, are reducing their distributor marketing efforts. When asked, "How important is it to build your brand to your distributors?," only 10 percent felt it was more important than promoting themselves to contractors and end-users. Approximately 61 percent felt it was as important as promoting to contractors and end-users, and 37 percent of the respondents said all of their marketing efforts were targeted at contractors. As you can imagine, almost all of the manufacturers that responded to the survey recognized specifiers are playing an important role in the brand decision and wanted to reach this influential audience.

By being able to move up the channel to influencers and decision-makers, distributors and manufacturers are moving marketing resources to where a greater return on investment can be achieved. Influencing product selection and where a product is purchased enables companies to generate product demand and, hopefully, ensures greater profitability.

What distributors want. Albert Einstein defined insanity as, "Doing the same thing over and over again and expecting different results." While this too often seems like the premise for many distributor and manufacturer business strategies, replicating plans

2008 ELECTROINDUSTRY SALES SURVEY						
	Residential contractors	Commercial contractors	Industrial	Commercial MRO	Utility	Institutional (Government/ Education/Health)
Independent manufacturers' reps	-8.10%	12.30%	8.30%	5.30%	4.90%	5.90%
Manufacturers	-2.70%	7.50%	7.80%	4.90%	2.30%	4.60%
Distributors	-5.50%	6.40%	5.70%	4.90%	2.70%	5.20%



from the last few years will not generate comparable growth in 2008. On the distributor side, companies are looking for manufacturer to help them in a number of key areas.

Marketing support. Distributors want help with market research and market data; strategic planning; customer and market segment promotions; new product introduction strategies; marketing funds; and selectivity in a given marketplace about the companies they market with.

New products. They want products that meet customer needs and were developed with customer input; adequate advance notification about new products so they can do a proper introduction campaign; product samples and literature to generate demand; lenient trial ordering and return policies; and product training that answers questions about why the product is better, who should be buying it, the right applications, and how it competes against what is in the marketplace.

Pricing. Distributors are looking for consistent pricing from reps/factories; competitive marketplace pricing ver-

sus the standard “dance” to get to the right price; increased usage of special pricing authorizations (SPAs); consideration of strategic pricing endeavors within contiguous marketplaces; and increased automation of pricing processes to reduce errors and improve timeliness. Some distributors want net pricing, too.

Sales support. Respondents recognized the need to build end-user preference through branding and specification calls; some expressed a willingness to conduct joint sales calls with trusted partners.

Selectivity. With many manufacturers deploying saturation distribution policies, distributors desire some selectivity in pricing, sales and marketing support; specification protection; and early access to new products.

Training. Distributors want their manufacturer-provided training in multiple formats (in person, online, CD/DVD, Web conferences, print, etc.). They also want training for their customers and want improved rep training by manufacturers to support “train the trainer” initiatives.

While much of this assistance has previously been provided by manufacturers, the marketplace is evolving. Many distributors are more proficient and have the staff and processes in place to more effectively execute these strategies than ever before.

REPS SPEAK OUT

While distributors and manufacturers recognize the opportunity to move “up” channel, with their unique perspective of the market, independent manufacturers’ reps recognize other challenges and opportunities. Several reps commented on the dearth of distributor “salesmanship.” Said one, “Distributors do not sell anymore. Most have become order takers and do not follow up on quotes.” Said another, “Because manufacturers are taking on too much distribution, distributors have stopped selling product features and benefits.”

Reps see opportunities for distributors. They were very bullish on the green market. Other areas that came up were a need for distributors to make better use of manufacturers’ services

such as training and built-to-order options and better usage of distributors ERP systems and customer relationship management software to extract and analyze customer purchasing behavior. Reps said understanding what customers buy, how they could buy better, and which products should be purchased represent an opportunity for distributors to solidify business and take market share.

Reps also said too many distributors overlook the product offerings of small manufacturers. Said one, “Distributors do not look at new opportunities with smaller manufacturers that have great products, but don’t have large marketing programs to launch them or large rebates. Most distributors are afraid to take on new and better products from other manufacturers that conflict with established lines.”

Not surprisingly, reps also believed distributors need to do a better job of basic up-selling. “If we can get distributors to up-sell to contractors, everyone can make more money,” said one respondent. To make this happen, distributors’ salespeople must have a clear understanding of which products to up-sell and why. This isn’t as easy as it sounds, because distributors’ salespeople may be uncomfortable with the features and benefits of the product, let alone how to install it. To effectively up-sell, distributors must provide installation training as well as feature and benefit training to contractors, continue to market “up channel,” and develop business development personnel to support contractor sales efforts. This staff can proactively call on up-channel customers to create demand. They should also consider partnering with selected contractors who are comfortable selling to these up-channel customers. Up-selling to end-users is different than managing contractor relationships. To engender a sales culture, sales management needs to drive the process.

Investing to grow. Integrating a different way to do business into your current strategy can help you to

20 QUESTIONS YOU NEED TO ASK ANY CUSTOMER

Once customer needs are understood, a salesperson can better communicate the value of their company or product. Electrical distributors developed the following list of questions for their salespeople to ask accounts. The answers can help mitigate the pressure on price, support sales efforts, facilitate corporate positioning, assist marketing, develop customer-driven services and add value to customer relationships.

1. What do you see as our strengths?
2. How do you think we handle your problems and concerns?
3. What challenges do you have in dealing with us?
4. How do you evaluate the distributors you purchase from?
5. How could we improve our services to you?
6. What is your largest complaint with our company?
7. What are we not doing that you would like us to do?
8. What is it that you feel that distributors do not understand about your business?
9. How could we help you be more successful/profitable?
10. How could we earn more of your business?
11. How important are manufacturers’ brand to you?
12. If everyone’s price was the same, who would you buy from and why?
13. What type of training are you interested in?
14. What would you like to see from a distributor salesperson?
15. What services and/or products are your customers asking for? What are your customers’ challenges?
16. What is the most effective way to present or demonstrate labor-saving products to you?
17. How are you trying to improve your productivity and what are the biggest drags on it?
18. How are buying decisions in your company made/influenced?
19. Do incentive programs and outings influence your buying habits?
20. How could my company better differentiate itself?

achieve growth in the coming years. It will require an investment with the potential for significant return. Consider looking at your business in 18-month cycles. What is needed to survive today? What is needed to thrive tomorrow? If you have the “fire in the belly” to drive your business to new heights, prudent investments today can differentiate you and drive success. ■

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