Creating Channel-to-Market Strategy

(the lesson learned from Albert Einstein)

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Summary

Some businessmen believe that the magic to rapidly hitting the jackpot with a new product, is engaging a powerful channel-to-market. In their minds, powerful means having great reach and a large number of geographically dispersed outlets or sales people. The presumption is that these outlets and sales people will generate maximum customer exposure allowing them to quickly "get our name out there and product on the shelves".

We hear this logic repeatedly from both our consumer and B2B clients. The sad truth is that this magic formula repeatedly fails. If it were effective, every book listed on Amazon.com would be a blockbuster, every tool in the Grainger catalogue would be in every factory and every product offered on the internet would be wildly successful.

The reality is that the best channel strategy is simply the one that selects a channel-to-market that most closely matches the needs of, and delivers high value to, your customers. In the majority of strategic scenarios, delivering an emotionally and economically delightful customer-experience is vastly more important than "getting your name out there". In this wired world if a firm does this well, customers themselves will spread the word better than an army of distributors.
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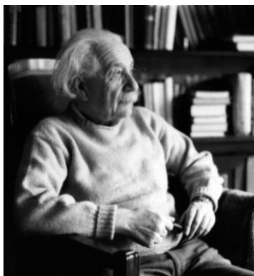
Learning from Einstein?

Albert Einstein said that when he began the intellectual journey that eventually led to the discovery of the Theory of Relativity, and the now famous $E=mc^2$ equation, he had to imagine himself sitting on a beam of light, travelling through space. What a clever approach. His was a remarkable mind—a mind that created a world-changing outcome.



There is a marketing lesson to be learned from ol' Al. It's this. When marketers think about introducing a new product to the market, they could benefit from using a similar approach for selecting a channel-to-market. Just substitute your product for the beam of light.

Imagine yourself sitting on your product at every moment of your customer's experience with it. The objective of this thought experiment is insight into the customer experience, through imagining the customer value received from your product every step along the way.

Did you see your customer smile?

Every moment of customer-product-channel interaction presents an opportunity to deliver a customer-valued experience. And that's important because every moment is also a moment of customer-value judgment about your product—from talking to the sales-person about it, to carrying the box out of the store, opening it, using it for the first time, putting it away, using it a second time, right until it wears out.

Some folks call this task "identifying with the user experience". Some companies make a fortune thinking about this for other companies - firms like IDEO. Why? Because the degree to which your channel-to-market enhances the emotional and economic value received by the customer, is proportional to your product's market success. It is the only meaningful measure of a channel's true effectiveness.

Based on this argument, we venture to state the <u>first rule of channel strategy</u>:

> *The two primary considerations in selecting a channel to market are 1) the quality of the customer-perceived emotional experience and 2) the magnitude of economic value it delivers to the customer relative to the price the customer pays.*

A corollary states:

> *All economic value accruing to your company begins with a customer believing that they will receive, in balance, greater economic, emotional and physical value from your product than what they economically, emotionally and physically have to pay for it.*

Getting your brand name out there, or simply having it on the shelves, provides no inherent value to customers. Customers receive value only through actual product and service experiences.

It's important to remember that customers, alone, are the ultimate judge of the economic or emotional value received. So, the primary factor to consider in selecting the right channel to market is the degree to which that channel delivers enhanced value to your target customers. If it does that, cash, to you, will follow.

Once more: Getting your name out there, while perhaps <u>your</u> primary objective, is meaningless to the customer.

Matching Channel Strategy to the Stage of a Product's Maturity:

For purposes of understanding the implications of product maturity on channel strategy we will posit four product stages; a) Innovation, b) Adoption, c) Competition and d) Service. These stages roughly overlap Everett Rogers' buyer-type product adoption model (Innovators, Early Adopters, Early Majority, Late Majority and Laggards). The operating principle here is that buyers at each stage need different things from your channel.

Let's walk through the model.

Stage 1: Innovation (Innovators)

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These buyers look to specialty outlets, journals and internet locations that cater to the latest and greatest new product concept. There are fewer of these outlets than Sears stores, but Sears is not where they would go to be titillated by conversation, ogling and touching the latest gadget. Start-off channels for innovations must provide this valued customer experience to innovator-minded customers.

Stage 2: Adoption (Early Adopters and Early Majority buyers)
These buyers are not the geeks. They are those who have quickly recognized the practical, emotional or economic benefit of having and using your new product. In business these are companies that are always looking for the competitive and leadership edge. In consumer, these are the "stylistas".

Your channel must provide what they need to get up and running quickly. In B2B markets these are typically services like training, installation, integration with current systems, education, delivery, set-up and assistance with the stream of upgrades that are sure to be coming soon.

These buyers are depending on your innovation to give them some significant competitive advantage. That's why they took the chance - investing time, money and energy in it. They cannot afford to have your product not produce a return on their investment.

Stage 3: Competition (Late Majority)
Late Majority buyers are, as their name aptly describes, coming somewhat late to the party after finally recognizing the need to also adopt an innovation (which by the time they have decided is no longer really an innovation). By this time, many of the systemic bugs of a new product have been worked out. Installation and integration have been standardized, large segments of the population are familiar with the product's use and the product has achieved general market availability.

In this stage, customers need a channel that can assist in the selection of just the right alternative based on their specific use scenario. A channel with experts in the competitive strengths and unique features of a product is most helpful to these types of customers. Your channel, in this stage, must excel at eliciting specific customer need circumstances and linking them to your specific product advantages.

Stage 4: Service (Laggards)
Laggards don't want any trouble. They may not even want to buy, but they finally recognize they have to. So they typically buy from outlets that handle delivery, installation (which by this time has been standardized), disposal of the old product it replaced, have great service and stock spare parts.

What these four stages mean …
… to the marketer is that channel strategy cannot be static. It must evolve consistent with each stage of your product maturity cycle. The same customer-valued services that your channel provided to innovators and early adopters will likely not be needed or valued by late majority buyers or laggards.

This kind of channel misalignment is not uncommon. It can be the cause of market share erosion and loss of profitability as margins are depressed by paying for channel capabilities no longer needed.

Not all products have the same maturity timeline, so channel strategy re-alignments may be required as soon as every couple of years.

Early in my career, I was working in a high tech firm that experienced a layoff. Curious as to the suddenness of the event, (but not personally affected), I searched for answers from management as to the cause. The answer I received was simply "lost market share from low-price competition".

Further investigation revealed that the channel strategy, put in place in the Innovation stage of the product, required too much overhead to sustain the technical, applications and training support it provided. The product had quickly matured to the late majority stage and these services were no longer valued by customers. They would certainly not pay for something they did not need. Strategic inertia, cemented in place by established channel/distributor relationships, made it difficult to change channels. The result: lack of competitiveness and layoffs.

But What About the "Other" Stuff Needed from the Channel?
To this point, we have put heavy emphasis on the primacy of customer-received value as the sole criteria for channel selection. Having done that, we must acknowledge that once a good customer value delivery system is in place, your channel must also provide you support in several other key areas:

· Sales effort (time, share of mind)
· Market intelligence feedback (competitive, customer, economic)
· Product performance feedback (packaging, installation, service),
· Sales forecasts

No argument, these items typically garner a large share of a company's day-to-day attention. They are essential. But good channel strategy will not allow them to distract from the primacy of customer-received value.

Einstein would have figured out how to achieve both.

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