



Developing Multi-Channel Strategy

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Contents

A strategic approach to channels 1

Process overview..... 2

Step 1 Identify problems and opportunities..... 4

Cost reduction4

Improved customer experience4

Improved access5

Steps 2 and 3 Current and future state analysis 6

Define the marketing context6

Sales complexity matrix7

Product coverage map – current and future state8

Building alternate channel chains10

Step 4 Assess alternatives and choose 13

Channel curves – how customers value alternatives13

Cost analysis14

Prioritisation matrix15

Step 5 Implementation 18

Metrics.....18

Testing new channel chains.....19

Customer research cannot predict outcomes19

Experimental design helps.....19

Roll out.....20

People must support new ways of working20

Management, not technology, guides channel innovation21

Summary comments 23

Step 1: Identify the nature of the problem or opportunity23

Step 2: Conduct a current state analysis23

Step 3: Create a future state Product Coverage Map23

Step 4: Evaluate potential new channel chains23

Step 5: Pilot priority new channel chains and roll out successful pilots.23

Appendix 1 Directional policy matrix 24



Figures

Figure 1: Process Overview	2
Figure 2: Analysis and Generating Alternatives	6
Figure 3: Sales Complexity Factors and Weightings.....	7
Figure 4: Sales Complexity Score	8
Figure 5: Current Coverage Map - IT Services Provider	9
Figure 6: Redrawn Coverage Map (Future).....	10
Figure 7: Current Field Sales Led Combinations.....	11
Figure 8: Alternate Channel Chain	12
Figure 9: Channel Curve	13
Figure 10: Cost Comparison - Field Only versus Multi-Channel.....	14
Figure 11: Prioritisation Matrix.....	16
Figure 12: Example of Prioritisation Matrix.....	17
Figure 13: Directional Policy Matrix.....	24

A strategic approach to channels

Distribution and channel-to-market strategy used to be an afterthought for most marketers. Once the difficult judgements about product range, price and promotion were made, channel strategy was determined by objective economic and logistic factors, such as minimum order size and shipping costs. The internet, coupled with a proliferation of complex global supply chains, has elevated channel choice to the pantheon of critical marketing issues.

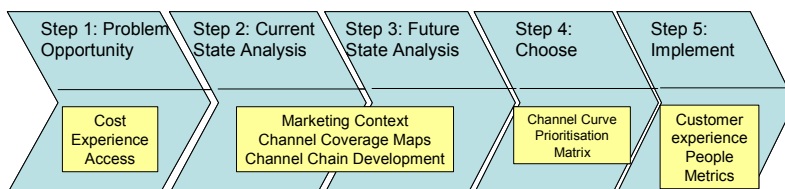
Customers make channel choices alongside their product-service choices and expect suppliers to offer sales, marketing and service across multiple channels – online, telephone and physical presence. Offering all channel choices to all customers across all products and services is too costly for most companies. For many companies, channel strategy is now every bit as critical to their success, as are brand and product range policies. Companies must now determine how to serve different customers through a combination of channels that meets customer needs at a competitive cost.

The strategic marketer wants to move the discussion of channel strategy beyond distribution costs and efficient order sizes by determining how channel strategy creates product-service innovations, reduces cost and improves customer loyalty. A successful channel strategy delivers differentiated solutions to different customer segments whilst meeting the marketing, sales and service requirements particular to each product-service. Balancing the needs of customers and the characteristics of individual products and services, identifying trade-offs, identifiable costs to be borne by each channel and creating customer value through channel innovation are the marketing challenges companies face.

Process overview

Channel strategy typically develops in an ad-hoc manner. Analysing a company's channel policies is sometimes akin to an archaeological expedition: one digs through time discovering layers of historical decisions, sales partnerships and customer deals. We believe that there is great benefit for most companies in treating channel strategy development as a process. Just as strategic marketing planning revolutionised the way marketing plans were developed, a systematic approach to channels will improve companies' chances of accomplishing their strategic channel objectives. We have developed a simple process framework to help marketers meet these channel challenges (Figure 1).

Figure 1: Process Overview



Step 1 – Identify problems and opportunities: The process begins with the organisation identifying problems and or opportunities. We categorise these into three types: cost reduction, improvement of customer experience and improving customer access. Often companies are faced with a need to do a combination of these three.

Steps 2 & 3 – Current and future state analysis: These stages make extensive use of tools developed by the Cranfield Customer Management Forum. Step 2 begins with traditional market place analysis; identification of customer segments and priority product (service) offers. These offers and customer segments are grouped in a *channel coverage map* – current and future. The map identifies logical bundles or groups of solutions and customers which form the basis for development of separate *channel chains*, combinations of channels that serve the customer at each point in the purchase and service process.

Step 4 - Choose: Evaluates each channel chain for its cost and ability to generate customer value. The latter is estimated through *channel curves*, a research based technique that evaluates customer preference for each channel at each point in the purchase and service process. Finally, a *prioritisation matrix* is developed that identifies the most important channel investments to be made.



Step 5 - Implement: Implementation is a critical element of channel marketing. Channel innovation is challenging for organisations because of the people issues involved – customers and sales people. This section of the report illustrates the importance of test marketing channel innovation, aligning compensation plans to desired behaviour and ensuring the new channel system is able to “learn” from customer experience, and adapt as it is rolled out.

Step 1

Identify problems and opportunities

There are a limited number of famous examples of reinventing industries through channel innovation: E-Bay and Amazon spring to mind immediately. Those companies started from the “white sheet of paper” or the third process stage of the above model. The firms participating in our collaborative research project are all established players in their markets with existing channel structures. They may be responding to low cost, internet pure play competitors. For established companies embarking on channel strategy development, it is worthwhile to engage senior management in a discussion about the objectives of channel policies. Our experience suggests that it is useful to frame the discussion around a limited number of strategic objectives: cost reduction, improved customer experience and better customer access to the company (e.g. coverage).

Cost reduction

Cost reduction is self explanatory. Many established firms face the twin challenges of customers expecting their traditional personal (expensive) sales and service whilst willing to pay only at prices charged by new competitors operating, for example, only via the internet. BT's Major Business unit, dedicated to serving its largest customers, faced just such a challenge. Traditional telephony revenues were flat or declining as costs fell throughout the industry. Growth was generated through increased sales of IT related solutions such as routers and servers. Margins are lower in IT versus telephony and the channel “norm” was different - indirect channels and self service over the internet. BT could not profitably compete in the new areas whilst retaining its channel structure and cost. By allocating sales tasks sensibly between field sales, desk based sales and the internet, BT reduced costs as a percentage of revenue through channel strategy – whilst increasing market coverage.

Improved customer experience

Improved customer experience is linked with customer retention and increased recommendation. Companies normally measure key indicators of their customer processes (e.g. telephone answering, complete orders on time, resolution of customer problem with first phone call) to illustrate the efficiency of their customer management but they measure their effectiveness with customer satisfaction scores. There are very few executives today that fail to espouse their need for improved customer satisfaction – this is rapidly becoming the motherhood and apple pie of boardroom conversation. But improving customer experience normally entails costs – better people, better systems, more capacity. Of course, every company wants improved customer experience at lower cost per customer, but this is rarely possible. Often the strategy is to “encourage”

self ordering and service online and convincing oneself that customers really prefer this experience. This is not always true, nor is measuring customer satisfaction always instructive. Increased customer satisfaction does not necessarily change customers' buying behaviour and customers defect to competitors for different reasons than they remain loyal. The message is clear. Customer experience is an essential part of marketing and customer retention, particularly in the services sectors. But companies cannot invest on the basis of "more is better". Companies need to understand how customers value each element of the package of benefits they receive and how they make trade offs between them; how much experience would a customer sacrifice for lower prices online? How will improved customer experience lead to business outcomes?

Land's End, a successful mail order clothing retailer, embraced the internet early on. It understood selling clothes to people not able to try them on in a shop, so the addition of the online channel to its traditional telephone-catalogue one, was not too difficult. It uses the internet to extend and enhance its customer experience by providing complementary services. For example, one can design and dress up a virtual personal model to sample clothing virtually. Nonetheless, Land's End displays prominently its toll free number so that online customers can immediately access helpful call centre staff. It also offers real time chat and personal assistance. Land's End's investment in the online channel was not justified by reduced call centre costs – it is there to provide a better customer experience.

Improved access

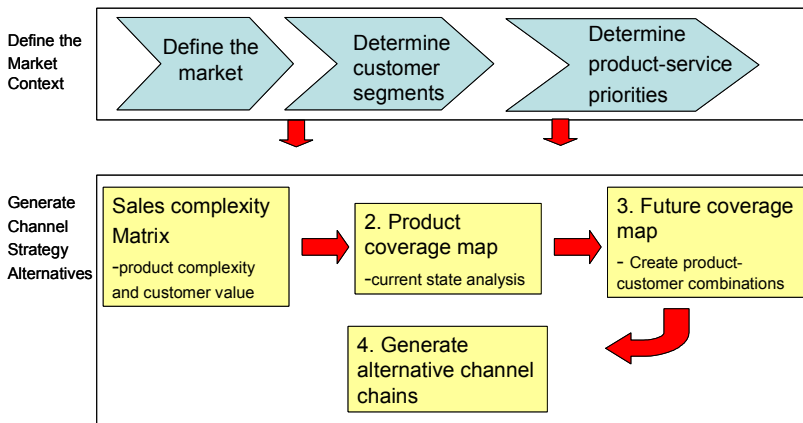
Finally, improving customers' access to your products and services is a basic tenet of good business and a traditional channel strategy objective. With new technology, companies can offer unprecedented access to sales, service and customer data ubiquitously. Companies can now access customer segments hitherto unreachable or unprofitable to serve. BT's Major Business Unit's channel innovations not only reduced its costs, but allowed BT to increase account penetration. For example, a BT Account Director might negotiate the right to sell leased lines (typically low value items) to each branch of a national financial services company. Whilst the deal is negotiated with the customer's head office, it is sold branch by branch with a desk-based telephone channel. Previously, the Account Director would have had to organise field sales people to call on each branch – uneconomical. Improved access increased sales. Many estate agents offer online services to improve customer access to their databases of properties and, more importantly, improve access to updates in property details. Whereas, previously, potential buyers would need to call agents regularly and receive posted updates of properties, changes in prices or competing bids, now they can be notified online or via SMS messages.

Steps 2 and 3

Current and future state analysis

Strategic alternatives can be developed through analysis of current channel combinations and generating imaginative new ones. See Figure 2. The tools used for analysing the current state and determining the future state are identical so these steps are discussed together.

Figure 2: Analysis and Generating Alternatives



Define the marketing context

Whilst the focus of this paper is channel strategy, the framework illustrates that channel strategy should be considered in the context of the company's product (service) strategy. The salient aspects are:

- Agreeing the market definition as consumers or end customers would define it. Mapping the flow of goods and services through to the end customer to determine who buys what from whom.
- Segmenting the market into distinct, needs based customer segments.
- Setting appropriate investment strategies for each product-service market on the basis of your competitiveness in the market and the market's inherent attractiveness. Normally, this is done with the Directional Policy Matrix, a strategic marketing planning tool described in Appendix 1.

The market context illustrates the major market segments and the strength of existing distribution networks from suppliers through intermediaries (hereafter the channel chain). It also determines the priority products-services for channel investment. It provides the necessary background

data for analysing current channel policy and generating alternatives for the future.

Sales complexity matrix

The first step in the analysis of the current state is to determine the sales complexity for each of the priority offers (combinations of product and or service) determined above.

The more complex a product (service) is to sale and service, the more complex, personal and interactive the effort required by the company. Conversely, buying low cost, low risk, easy to configure products can often be done directly by customers online. Most often a sale, even for complex solutions, is made through a combination of channels, but one channel is designated as the lead or prime channel. Sales complexity is one of two prime determinants of the dominant channel: the other is how important the customer.

Sales complexity can be estimated as a weighted average of scores for each of the key components of sales complexity. Let us take the case of an IT service provider. It provides three types of services: computer installation, configuration of sales and marketing software applications and marketing consulting. Under each of these three service headings there are three to five more specific service offers. For example, the software configuration services comprise the installation of complex front office solutions, databases, data mining tools, sales force automation systems and simple contact management systems. The company determines factors that comprise sales complexity and then determines a weighting for each factor to arrive at the following list and weightings (Figure 3):

Figure 3: Sales Complexity Factors and Weightings

Complexity Factor	Weighting
Order size – the bigger the order, the more complex	.15
Limited customer knowledge of the product or service – less customer knowledge creates more complexity	.25
Length of the sales cycle – long sales cycles increase complexity	.10
Difficulty configuring – installing – the more difficult to configure, the more complex the sale	.20
Training – the greater the requirement to train customers in the use of the application/equipment, the more complex	.20
After sales service – the more service required, the more complex the sale	.10

Against each of the services offered, the company scores each of the complexity factors from one to ten in order to create a weighted average score for each line of service (Figure 4).

Figure 4: Sales Complexity Score

	Order size	Limited Customer knowledge	Sales cycle	Config-uration	Training	Service	Sales Complexity Score
Weighting	0.15	0.25	0.1	0.2	0.2	0.1	
Application Configuration							
Front Office	10	7	7	7	7	4	7.15
Database	7	6	6	9	8	3	6.85
Data Mining Tools	3	9	3	5	9	5	6.3
Sales Force Automation	5	5	5	7	6	4	5.5
Contact Management	2	2	2	2	2	2	2
Hardware Deployment							
Desktop	8	2	2	3	3	3	3.4
Mobile phone	6	5	5	6	4	4	5.05
PDA	4	7	7	7	5	4	5.85
Laptop	7	3	2	3	3	4	3.8
Consulting Service							
DB management	5	5	7	8	6	7	6.2
Sales Network	5	7	7	8	6	7	6.7
Customer strategy	3	10	7	6	NA	NA	7.3

Product coverage map – current and future state

The product coverage map identifies how we wish to reach our customers as a function of the complexity of the product-services that we sell to them and the attractiveness of the customer. It determines the lead channel for combinations of customer segments and product-services from the perspective of the company's strategy. The customer perspective is developed in the next phase (channel chains) and overlaid onto the coverage map to provide a balance between company and customer agendas.

The coverage map is constructed sequentially from the following:

- Sales complexity scores on agreed dimensions to generate a continuum from simple to highly complex. The products and services considered in this phase are normally those identified as important from the Directional Policy Matrix.
- Major customer segments ideally defined in the first stage (Marketing Context).
- Developing contiguous blocks of customer-complexity service space.

The company in this example identifies its priority customer segments from the market context and they are listed below in reverse order:

- Owner managed businesses
- Mid sized retail financial services providers
- Large professional services companies

Figure 5 illustrates two axes of the coverage map: (1) customer segments (prioritised) and (2) product-services ranked in order of complexity.



The middle of the matrix describes how the company sells each product-service to each customer. These are, in order of INCREASING cost: customer self-service on the net (I), desk-based sales conducted by telephone (T), distribution partners (D)¹, and field-based account managers (FS).

Figure 5: Current Coverage Map - IT Services Provider

	High Complexity product-service						Low Complexity product-service				
	Consumer Strategy	Front Office Application	Database Application	Sales Network Mgt	Data Mining Tools	Database Mgt	PDA Deployment	Sales Force Automation Appl.	Laptop Deployment	Desktop Deployment	Contact Mgt Application
Owner Managed Businesses	FS	FS	T	I	I	FS	D	FS	D	D	T
Medium Retail Financial Services	FS	D	FS	I	T	I	D	FS	T	T	I
Large Professional Services	FS	FS	D	D	T	T	FS	FS	FS	FS	FS

I = self service over the internet, T = Deskbased account managers D = Third party distribution partners FS = Field sales - account management

There are obvious anomalies in the coverage map illustrated in Figure 5. Expensive field account managers sell some very simple products-services: perhaps there is a culture that an account manager handles 100% of the customer's requirements. Distributors sell the company's complex database applications and sales networks to very large companies for historical reasons; does the company lack sales expertise in these areas? However, the distributors may dis-intermediate the company and take control of key accounts, so is this a wise policy? To owner managed businesses, some of these complex services are sold via the internet which has a low success probability. Even smaller, owner managed businesses need some help to understand these services.

Figure 6 illustrates how the company assigned a "lead" channel for each product-service and customer segment combination to reflect the selling demands of the product-service and the size of the sales opportunity. These new contiguous blocks of customer-solution become the unit of analysis for the next stage of the process: building combinations of channels to serve each block (channel chains).

¹ Such distribution partners are often known in the IT industry as VARs or Value Added Resellers. They are often small to medium sized IT services firms that provide specialist industry or application expertise.



Figure 6: Redrawn Coverage Map (Future)

	High Complexity product-service ← → Low Complexity product-service										
	Consumer Strategy	Front Office Application	Database Application	Sales Network Mgt	Data Mining Tools	Database Mgt	PDA Deployment	Sales Force Automation Appl.	Laptop Deployment	Desktop Deployment	Contact Mgt Application
Owner Managed Businesses	D	D	D	D	T	T	T	T	I	I	I
Medium Retail Financial Services	FS	FS	FS	D	D	D	T	T	T	T	I
Large Professional Services	FS	FS	FS	FS	FS	FS	T	T	T	T	I

I = self service over the internet, T = Deskbased account managers D = Third party distribution partners FS = Field sales - account management

The redrawn coverage map focuses vital field sales resources on selling large, complex solutions to the biggest, priority customer segment. Distributors sell large, complex solutions to smaller, lower priority segments. Desk-based sales teams handle the middle ground: modest complexity across customer segments. Self service over the internet is reserved for the simple products-services and lower priority customers who are considered to buy largely on price and for whom a lower cost sales model is needed in order to be competitive. This exercise puts some structure on the channel strategy but it is not realistic in the modern world for one channel to manage an opportunity through the sales and service cycle. Whilst the company now has a lead channel for each opportunity, it needs to build secondary channels to reflect customer segment preferences and manage scarce resources optimally.

Building alternate channel chains

The channel chain maps out how we can reach the contiguous groups identified in the redrawn product coverage map. If the product coverage map allows the company to find a rationale for how it wishes to serve customers, the channel chain analysis encourages the company to think about creating customer value through channel innovation.

Different customers have different needs for information, counselling and support at different stages of the sales, service and customer development cycle. For reasons of simplicity and accountability, many companies insist that one person (or team) take complete responsibility for all communications with a customer at all stages of the cycle. This may be a luxury few firms can afford today. Additionally, many customers wish to supplement their traditional customer managers with immediate answers online whilst their account manager is otherwise occupied. Failure to provide a mix of channels can frustrate clients and drain valuable business development from account managers. Channel chains allow companies to think creatively about how to engage with a customer in the manner most

valued by the customer whilst allocating customer management resources optimally.

Figure 6 identifies four contiguous blocks of channel lead and product-service solution: field sales, distributor, desk-based and internet. Each of these blocks should be analysed further to create business rules for the management of opportunities through the sales, service and customer development cycle.

Figure 7 illustrates the current channel chain for the contiguous block of selling complex applications to large customers. There are a number of shortcomings with the current channel chain from the perspective of the company. The limited field sales resource is stretched by taking full responsibility at all stages of the customer engagement cycle. Whilst customers appreciate this simple and personal service, sales people do not have sufficient time to focus on developing big opportunities. During the early stages of a customer engagement, the channels operate in separate silos largely and respond to enquiries that come to them instead of operating to a set of business rules that determine where the opportunity is best handled.

Figure 7: Current Field Sales Led Combinations

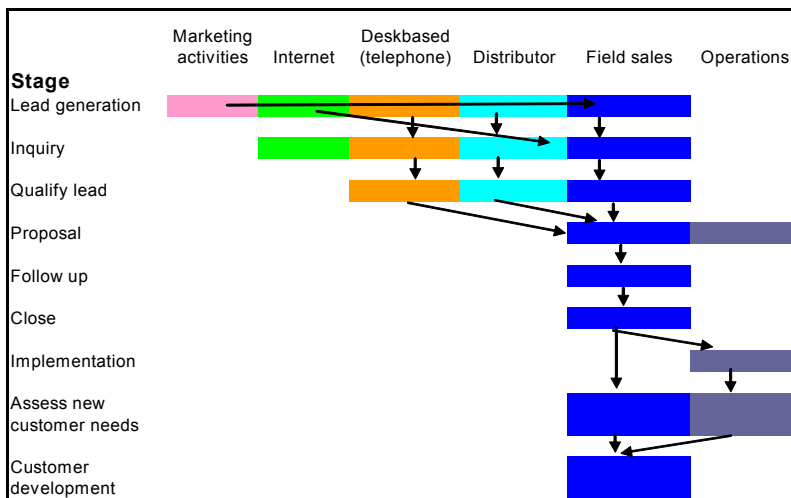
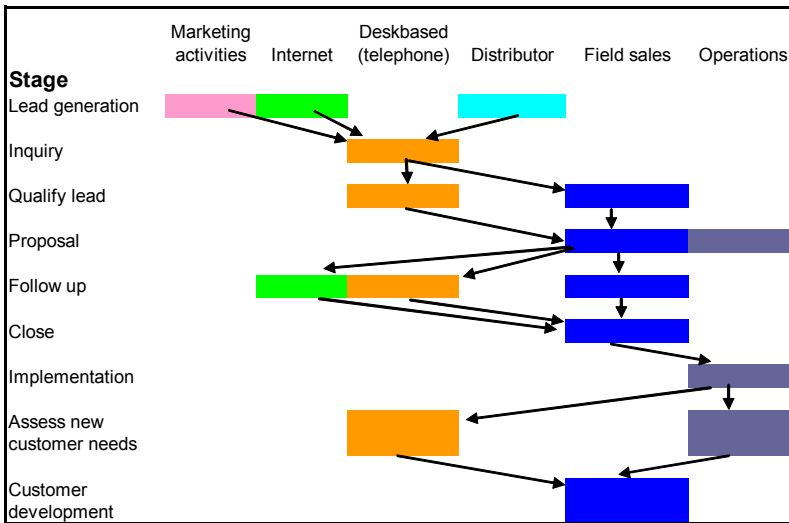


Figure 8 illustrates the result of the creative process that generated a framework for team based selling: integrating a number of channels that aligns the appropriate channel to the different tasks. Valuable field resources are focused upon the tasks for which they are uniquely and best suited: generating compelling sales proposals and closing the sale. Integrating the internet and desk-based channels into the process under the leadership of the field sales force, qualifies out poor leads quickly and therefore allows the company to pursue more sales leads. The team-based selling approach provides better response to customer queries

throughout the selling engagement and reduces the cost of sale to the company. So the alternate channel chain increases the number of sales opportunities, reduces the cost of sale and increases the sales success rate.

Figure 8: Alternate Channel Chain



Similar channel chain reengineering is done for all four coverage map blocks identified in Figure 6 to generate strategies for improving sales effectiveness and increasing sales coverage. It remains to assess the impact of alternate channel chains on the target customer and develop a full costing for each to ensure that channel strategy maximises customer value as well as company efficiency.

Step 4 Assess alternatives and choose

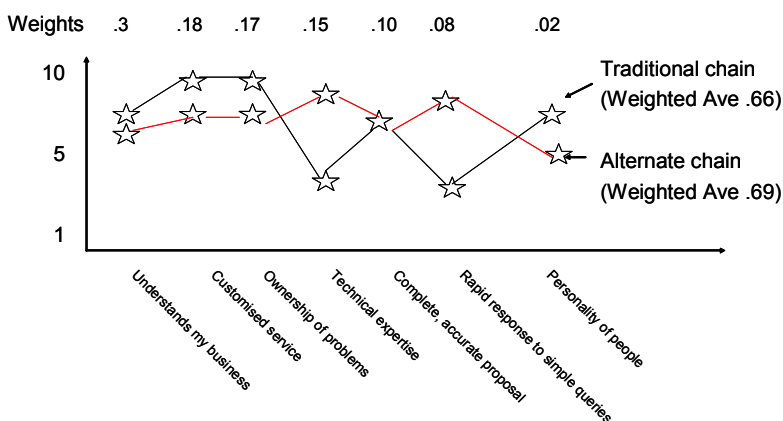
The assessment of alternate channel chains is based upon two criteria: cost and customer value.

Channel curves – how customers value alternatives

Customers have their own criteria for assessing how well a company manages the supplier-customer relationship. Channel curves assess how well different channel chains deliver against customers' key criteria. Customer research generates a list of key criteria and the weighting of each criterion in the customers' total assessment of a supplier. Judgement and research suggest how each chain delivers against each criterion on a one to ten scale. The result is a weighted average utility score for alternate chains.

Figure 9 illustrates this for our case example: how large professional services firms assess IT suppliers' channel chains. The new, mixed channel chain generates a slightly higher weighted average customer utility score but the difference is likely within the margin of error of the method. The extensive personal contact of the traditional channel chain generates small advantages for the most important customer criteria but this is offset by a mixed chain's ability to respond very quickly to simple requests and greater access to technical resources 24/7 because field sales people do not have the deep technical know-how that is available via the desk and online channels.

Figure 9: Channel Curve



The channel curve analysis reassures the company that the mixed channel chain is no less preferred than its traditional approach and

generates a list of key issues that the mixed chain must address – intimate knowledge of the customer business for example. These can be translated into key metrics against which to assess the new chain.

Cost analysis

Cost reduction is always of interest to companies designing their channel policy and in this illustration, necessary for the company to remain competitive. Other companies might find that overall customer utility falls with some new channel chains and they would expect a significant cost reduction in order to compensate for potential lost business. Conversely, some firms may design more expensive channel chains that are highly valued by customers and they need to know how much incremental cost will be generated.

Costing channel chains is a matter of detailed estimation of the degree to which different customer groups will use different channels and each channel's effectiveness at converting inquiries into sales. The exercise generates metrics for efficiency (cost) and effectiveness (conversion or attainment of other objectives) that will enable managers to assess channel policy continually.

In this case, the IT services provider compared the cost of traditional field sales force against a team-based multi-channel approach as illustrated by Figure 7 and Figure 8. In this illustration, revenue increases 50% whilst costs decrease so that the cost per order falls by almost 3%. This results in sales costs, as a percentage of total revenue falling from 23% to 15.6%.

Figure 10: Cost Comparison - Field Only versus Multi-Channel

Sales process	Field Only			Multi-Channel		
	Customers	Cost £000	Cost per process £	Customers	Cost £000	Cost per process £
Inquiries	100	-		120		
Qualify	100	2000	20000	120	1200	10000
Proposal	70	3500	50000	85	3000	30500
Follow up	40	4000	100000	50	4000	80000
Close	10	2000	200000	15	3000	200000
Assess new opportunities	10	200	20000	15	240	10600
Customer development	10	200	20000	15	240	10600
Revenue	50M			75M		
Total cost		11900			11680	
Cost per order			1190			1160

The sales processes above are taken directly from Figure 7 and Figure 8. Lead generation and implementation costs are not affected by the channel chain in this case example so they are excluded from the cost analysis. For purposes of presentation, we assume that the current channel chain generates sales of £50M through 100 orders. The new channel chain will allow more inquiries to be processed but there is no difference in the percentage of inquiries that pass through to proposal and are followed up. The closing success rate is slightly higher in the new channel chain because field sales people are focused on critical junctures of the sales process. The big difference is in the costs of qualifying each lead, generating a proposal and following it up.

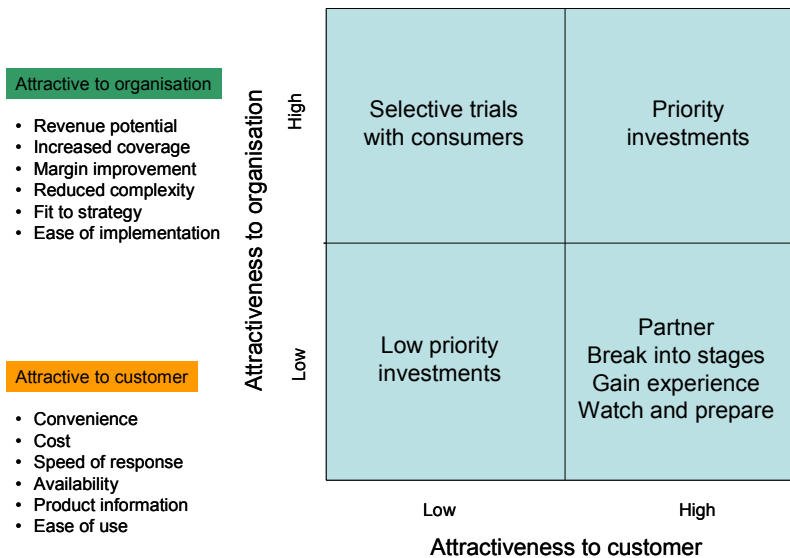
Prioritisation matrix

The generation of alternate channel chains is both a rational and creative exercise. In the examples we present, some channel chain innovations are obvious – this is for presentation purposes. Some of the most exciting marketing developments over the past decade have resulted from very radical approaches to channels. The use of a comprehensive set of tools and frameworks should not diminish the creativity of managers in thinking about novel ways to meet customer needs. For example, online betting exchanges, such as Betfair (www.betfair.com), reduce customers' cost, improve their access to betting occasions and for the first time, allow them to back and lay bets. The incumbent fixed odds, high street betting shops are responding but the online new entrants generated this innovation.

Thinking creatively about channel chains for each contiguous block of customer-solutions will create a number of channel chain combinations that customers will value and may be cost effective. Few organisations, if any, can implement many channel chains simultaneously due to the complexity involved: implementation is discussed in the next section of this paper.

A simple means of setting priorities amongst channel combinations is suggested – the prioritisation matrix illustrated in Figure 11. This matrix is defined by two axes: attractiveness of the channel chain to the organisation and attractiveness to the customer. It results in four solutions and attendant generic strategies for each.

Figure 11: Prioritisation Matrix



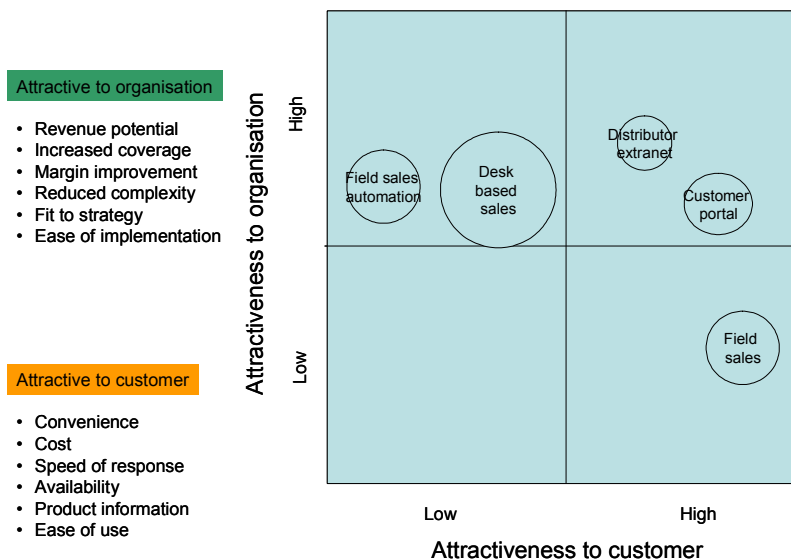
Much of the analysis required to complete the prioritisation matrix has already been done. Understanding the attractiveness to the customer and key dimensions of attractiveness are generated by the channel curve analysis. The attractiveness to the organisation is largely done; the prioritisation matrix adds some new dimensions, such as ease with which the company can implement the solution, fit to overall strategy and ability to reduce sales complexity in the organisation.

The four generic strategies corresponding to the boxes of the matrix are:

- **Invest:** The channel chain is attractive to both customers and the organisation so it is a win:win.
- **Selective trials:** The channel chain is attractive to the organisation but not to the customer. Here judgement is needed. Is the potential gain, for example in cost, worth the loss of customer satisfaction? Will customers learn to accept the new channel chain? Will they defect if unhappy? Will competitors follow our lead so that this channel chain becomes the industry norm? Can some negatives with the new chain be overcome?
- **Find “clever” solutions:** These options are highly valued by customers but not by the organisation. Perhaps they are too costly, too difficult to implement or operate or do not fit with the overall strategy. Can you partner with another firm to reduce the cost and complexity? Can the new chain break the solution into smaller, more manageable pieces or be implemented in stages? Perhaps you can trial the new chain and learn how to implement it at lower cost. At least, one needs to keep a watching brief on these channel combinations lest competitors implement them first and take valuable customers.
- **Low priorities:** These are valued neither by the organisation, nor its customers, so are generally not done.

The organisation must agree a scale on which to grade high-low on the two axes and normally this is done on a scale between one and ten. The matrix itself is populated with channel chain investment options illustrated by circles and the size of each circle can be scaled to reflect the cost or potential revenue benefit. This is illustrated for our IT services company in Figure 12 below. Each channel chain investment is described by its chief characteristic; for example one says “field sales automation” and that is the channel chain that essentially enhances the productivity of the current field sales chain. The diameter of the circles represents the investment being made by the company in channel innovations.

Figure 12: Example of Prioritisation Matrix



In this example, we can see that the largest channel investments are in chains and solutions that are least attractive to customers. The channel investment most valued by customers (more field sales people) is unattractive to the company and not receiving a lot of investment. Perhaps this is the most attractive to customers because they are not used to team based, multi channel selling from the company. Perhaps they are not convinced that the company can implement it effectively and are worried that service levels will fall. The two projects that are in the top right quadrant receive the smallest investment. The prioritisation matrix suggests that the company should increase investment in the portal and extranet. Field sales automation is not what customers value so that might be implemented selectively. Desk based sales might be critical to making team selling work but it seems to dominate the investment portfolio. Perhaps it could be introduced more slowly to allow funding to be redirected to projects of higher customer priority. Field sales investment is valued by customers but is not attractive to the company; can investment be more selective until other channels demonstrate their value to customers?

Step 5

Implementation

Developing new channel chains is a change programme and most managers have first hand experience of change. This white paper does not wish to summarise the vast literature and experience of change management in its final section. We will highlight some unique aspects of channel chain change programmes that merit attention.

This section discusses:

- Design of metrics
- Piloting channel chains with customers
- Rolling out new channel chains and ongoing development thereof

Metrics

The prime metrics for assessing and managing the development of channel chains are illustrated by Figure 10, the cost and conversion analysis. Ultimately, the organisation wishes to sell more at lower cost per sale. Alternate chains are developed and their efficiency and effectiveness are measured. Achieving the targeted ROI for such investments is usually contingent upon a few key conversion and cost estimates.

However the role of channels in marketing strategy goes beyond sales and most companies adopt a balanced scorecard type approach comprising:

- **Financial** measures such as costs per sale, sales costs as a percentage of revenue, number of sales, average order size, conversion from inquiry to sale and repeat purchase rates.
- **Reputation** measures the impact of alternate channel strategies on customers' perception of the organisation – modernity, professionalism, value for money, value for time, knows-my-business, easy to do business with and other relevant measures.
- **Relationship** measures include the number of senior level contacts with a client per annum, the breadth of those contacts (in the case of the IT company it might measure marketing director contacts), frequency of customer interaction, customer satisfaction, customer willingness to recommend our company.
- **Knowledge** tries to measure how much we know about each customer's behaviour, attitude and purchase process.
- **People** looks at the extent to which our own customer facing people are satisfied, engaged, productive, supportive of the business' overall goals, feeling confident about their customer management competencies.

For a comprehensive review of metrics see the Customer Management Forum white paper 'Measuring multi-channel effectiveness using the balanced scorecard'.

Testing new channel chains

Channel chain innovation represents two challenges:

1. Channel innovations are complex change programmes that require sales people to embrace new ways of working and are often accompanied by complex new technology. Unlike back-office automation, channel chain mistakes impact customers and there are few "second chances" if customer service levels erode as new ways of working bed down in the organisation.
2. The business case is normally "theoretical" and assumptive. We have described the stages of developing new channel chains and highlighted the need to seek customer research at key intervals. Where the brief is cost reduction, savings can be forecasted. However, where the brief is to enhance customer experience and extend the offer, it is difficult to be sure to what extent improved customer experience leads to changes in customer behaviour. It is intuitively appealing to assume that a better experience improves customer satisfaction and that higher levels of satisfaction generate more purchases. Intuitive yes, but often wrong. Regrettably, proving empirically the relationship between customer satisfaction and behaviour is fraught and companies must test this in their own specific context.

Customer research cannot predict outcomes

Whilst the process outlines some of the customer research activities that can be undertaken during the development of new channel chains, research experts have long realised that customers cannot predict how they will react to situations that they have yet to experience. So extensive surveys, observation of customer behaviour in research laboratories and even examples from other industries do not predict behaviour. This is not to say that research is a wasted effort, only to suggest that research does not substitute for testing channel innovation on a small scale before proceeding to reorganise one's entire channel strategy.

Experimental design helps

Given the difficulties identified above, companies need to prove channel innovation in the marketplace with real customers. However this process must be managed carefully in order not to damage vital customer relationships. We recommend that companies create an experiment where a small, but sufficient number of customers are exposed to the new channel chain. Key metrics, discussed above, are determined in advance of the experiment and they can be assessed in-market.

On the basis of observed changes in customer behaviour, Sales ability to work in the new channel chains and the ability of the company's processes to support the channel innovation, a company can invest with much greater confidence.

Roll out

Some of the case studies produced by the Cranfield Customer Management Forum illustrate how a successful pilot improves the chances for a successful roll out. With hard evidence of the benefit, people are more willing to support the changes required to scale the pilot into a full channel programme.

People must support new ways of working

The channel innovations we have seen at the Cranfield Customer Management Forum typically involve a company moving from a very dominant single channel (e.g. field sales) to a broad, team-based multi-channel strategy. Case histories explored by the Forum illustrate a number of issues:

- Field sales forces feel threatened over their ability to control the customer experience (who is saying what to MY customers?) and a potential reduction in status. There is often the unstated worry that senior management is evaluating critically individuals' operational performance and ready to micro manage customers from head office. Finally, and perhaps most importantly, there are worries over compensation. Introducing team based selling with a view to reducing sales costs is often interpreted as a threat to sales peoples' current compensation structure. How will sales incentives be shared between the channels?
- Managers of new channels, such as desk-based sales and the internet, do not know how to integrate with field sales operations. They are not sure how to measure success; what is their contribution to an overall sales target perhaps under the control of a field sales director? Their teams tend to be remote from the customer and field sales so personal relationships and trust are hard to develop.
- Companies do not know how to compensate each channel. During the introduction phase, management wishes to reassure the field that its compensation will not be reduced so that incentives for new channels represent added cost. This is not sustainable.
- Team based selling often requires new technology and that entails risks of the technology not working, or people not operating the new technology properly. Customer facing technology is particularly risky as valuable customers experience your teething problems.

The Cranfield Customer Management Forum has documented successful channel innovation in such circumstances. The elements common in such cases are:

- The implementation of the channel innovation is not rushed. There is adequate time to consult with sales people, train people in ways of working, build teams between the old and new people and just get used to the idea of change. It is not uncommon for channel change programmes to last for three to four years. Of course, throughout that period, innovations are being introduced but at a pace that the organisation can manage.
- The customer relationship manager remains in control of the overall engagement with his or her customer. The relationship manager is fully aware of the activities of other channels with his or her account and can override the policies and recommendations of the “system”, retaining full control over the customer experience.
- Software is tried and tested thoroughly by live sales teams before large scale rollout. Support for changes in working practices are severely undermined when promised technology that makes “it all work” disappoints its users. People feel let down by the company and distrust the motives behind the changes.
- There is a frank and open discussion about compensation. Companies cannot be expected to fund double or triple compensation for the sake of harmony. However, the compensation system must encourage team selling. In the BT example of selling leased lines to bank branch offices, desk based sales people receive bonuses for each sale made. At the same time, the national account (field sales) manager for that bank is credited with the sales made by desk based sales against his or her overall target with the bank for the year. The relationship manager is therefore rewarded for the successful desk based sales campaign. In this way, there is alignment between the channels’ compensation plans.

Management, not technology, guides channel innovation

In all the cases of successful channel innovation reviewed by the Cranfield Customer Management Forum, we found that CRM technology played an essential role in enabling new ways of working to be managed at a large scale consistently. However, successful companies did not begin by picking an application and then building processes that embed the application in their organisation. They started with a clear view of what they were trying to accomplish and used approaches akin to channel mapping and channel chain development to achieve it.



Once they understood the channel chains that they were trying to implement, they built a comprehensive set of business rules around each chain. This allowed the company to have rules for such events as major customers making enquiries online, telephone based sales campaigns to major customers and avoiding conflicts with distributors' sales campaigns. These rules took time to develop and often were built with the help of outside consultants. The rules are managed by very senior sales managers as they represent the underlying logic of the channel strategy. For successful companies, the allocation of sales complexity scores to products and services is a top management issue as is the process by which various channels will work together.

In order for the rules to be dynamically updated, there are important governance structures established for team based selling. Each company finds its own way to integrate the policies, investment, people development and compensation of its channels. However these policies are not developed in isolation of the overall customer relationship strategies. Resource owners are not free to do as they please; senior managers must live the team-based values that they espouse.

Summary comments

Traditionally, “channel” was a poor relation to other elements of the marketing mix. New technology and business models have changed this 180 degrees: scholarship and managerial practice are catching up to this new reality. We develop a systematic five step plan for companies to develop their channel strategy.

Step 1: Identify the nature of the problem or opportunity

Is the motivation for channel innovation cost, improving customer experience, increasing customer access or a mix of the above?

Step 2: Conduct a current state analysis

First look at the market context: define the market, determine and establish priorities between customer segments and finally determine and set priorities between product-service offers. Then determine the complexity of each priority product service offer and rank the offers in order of complexity. Using the Product Coverage Map, identify the lead channel for each priority customer segment along that ranked order of complexity. Identify anomalies.

Step 3: Create a future state Product Coverage Map

To address these anomalies, identify major groupings of offer-customer with lead channels. Draw channel chains for each grouping. Enter into a creative exercise to develop better channel chains for each grouping.

Step 4: Evaluate potential new channel chains

Evaluate in consideration of customer preference (Channel Curve analysis) and cost. Set priorities between alternatives.

Step 5: Pilot priority new channel chains and roll out successful pilots.

Consider that channel innovation is a major change process.

Research and adoption of “best practice” alone will not provide the leadership necessary for successful channel innovation. Customers cannot evaluate that which they have not experienced. Best practice fails to account for the context-specific nature of each company’s customers, ways of working, established Sales practices and information technology expertise. In implementation it is important to ensure that customer-facing people support new ways of working, implementation is not rushed to meet artificial schedules, customer managers retain control of the process and act as guardians of the customer experience and there is effective feedback between those leading the change and those affected by it.

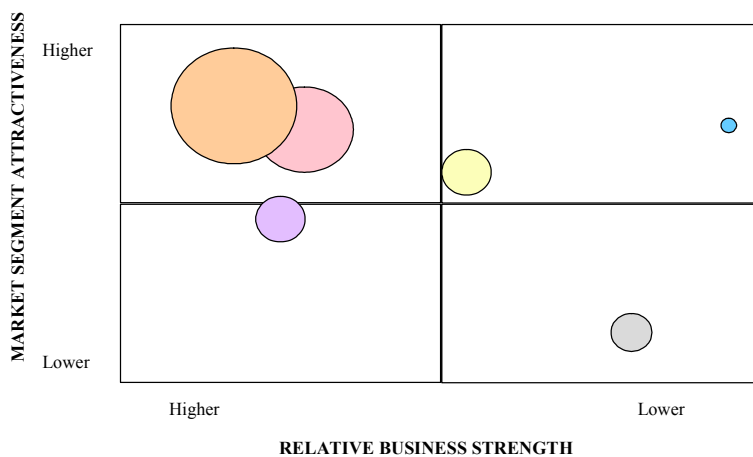
Despite the difficulties in channel innovation, for many companies it is a must-do activity. Since best practice is very emergent, there are opportunities for companies to generate real competitive advantage through channel strategies.

Appendix 1

Directional policy matrix

The Directional Policy Matrix (DPM) is a strategic marketing planning tool that allows managers to make investment decisions across a portfolio of opportunities.

Figure 13: Directional Policy Matrix



It illustrates each product-service offer in a matrix defined by two axes: the attractiveness of each market segment in which we operate and the strength of our offer relative to competitors. The size of each circle in the matrix can be set to reflect either the turnover or profit of each product-service offer.

Calibrating each axis represents a considerable investment in time and effort and alone rewards companies by making them assess their business in a hard and dispassionate manner. Market attractiveness can be a function of a number of variables; typically companies consider its absolute size and growth. Other factors can be its profitability, itself a function of the intensity of competition, access to low cost supplies, access to customers and barriers to entry. Strength relative to competitors should always be established from the perspective of customers. Research should identify the key dimensions upon which they make decisions and the weighting of each dimension upon the final decision. Against each decision, you evaluate how customers perceive your company versus its major competitors. The results are put into an algorithm which generates a simple scale.

The four quadrants of the DPM suggest generic marketing strategies:

- Top left – high company strengths in attractive market – invest for growth
- Top right – low strength in attractive market – fix problems or get out
- Bottom left – high strength in unattractive market – maintain
- Bottom right – low strength in unattractive market – manage for cash.



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