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IMU Research Insights
006

The Performance Implications and Success Factors of Channel Design and Channel Management on B2B Markets

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Executive Summary

Relevance of Study

- Channel design and channel management have a strong impact on a supplier´s cost structure as well as on its potential for differentiation
- Research on the performance outcomes and the success factors of channel design and channel management is scarce

Investigated Industries

- Mechanical Engineering, Telecommunication/IT, Automotive , Electrical Engineering, Metal Processing , Medical and Precision Engineering, Food and Stimulants, Building Materials, Industrial Services, Chemicals, etc.

Key Contributions

- Providing an overview of prevalent sales systems on B2B markets
- Providing evidence that the performance of a sales system, measured with channel conflict and sales cost efficiency, has a strong impact on suppliers´ sales growth and profit margin
- Identifying the key success factors in channel design (such as the number of sales channels) and channel management practices (such as incentivation and control) of a sales system´s performance

Sample & Method

- 698 supplier surveys from all major business-to-business industries
- Executive employees in sales (e.g. head of sales)
- Average work experience of the supplier representatives is 19.6 years
- Descriptive statistical analysis using STATA. Dependency analyses including regression analysis and cluster analysis using STATA and MPlus

Findings

- The suppliers´ direct sales force is still the predominant sales channel on business-to –business markets
- However, the majority of B2B companies (60%) employs indirect sales channels and even almost 90% of the companies are using multi-channel sales systems
- Channel conflict and sales cost efficiency are the major criteria in the evaluation of a sales system. They have a major impact on a supplier´s sales growth and profit margin
- A focus on large sales partners and high-volume sales channels that are clearly differentiated from each other reduces channel conflict and improves sales cost efficiency
- A higher share of variable compensation for the proper fulfillment of sales functions reduces both channel conflict and improves sales cost efficiency. In contrast, the share of variable compensation for the achievement of sales targets should be reduced.

Agenda

The management and design of the sales system has a high financial and strategic relevance for the suppliers

Strategic Relevance

- The way sales is conducted itself creates value to the customer and therefore contributes to the differentiation of a supplier´s offerings (LaForge et al. 2009)
- The sales system is often the only representative of a company in the eyes of the customer and therefore strongly affects image creation and customer satisfaction (Zeithaml, Bitner and Gremler 2009; Homburg, Wieseke and Hoyer 2009)
- A supplier´s sales channels are the major source of market information (Totzek and Alavi 2010)
- The sales system is largely responsible for the implementation of strategic initiatives such as the launch of innovative products or the enforcement of a new pricing strategy (Cadwallader et al. 2010)

Financial Relevance

- A supplier´s sales system bears the primary responsibility for turnover generation (Plouffe and Barclay 2007; Palmatier, Scheer and Steenkamp 2007).
- Sales costs account for a major share of the companies total costs varying from around 8 % in mechanical engineering, 10% in the automotive industry, 15% in telecommunications to around 25% in the healthcare industry
- Current studies show that for senior managers, the sales function has the highest potential for cost optimization (Homburg, Schäfer and Schneider 2010)

The two major decision areas with regard to a supplier`s sales system are:

Channel Design

"Examines the organization of the sales channel system and the rationale for having intermediaries such as sales force, agents, distributors, wholesalers, and retailers." (Rangan et al. 1992)

Channel Management

Examines the set of agreements, programs, and interactions used by a firm in attempt to shape strategies and actions of associated members in the sales system. (Frazier 1999)

This study adresses five research questions

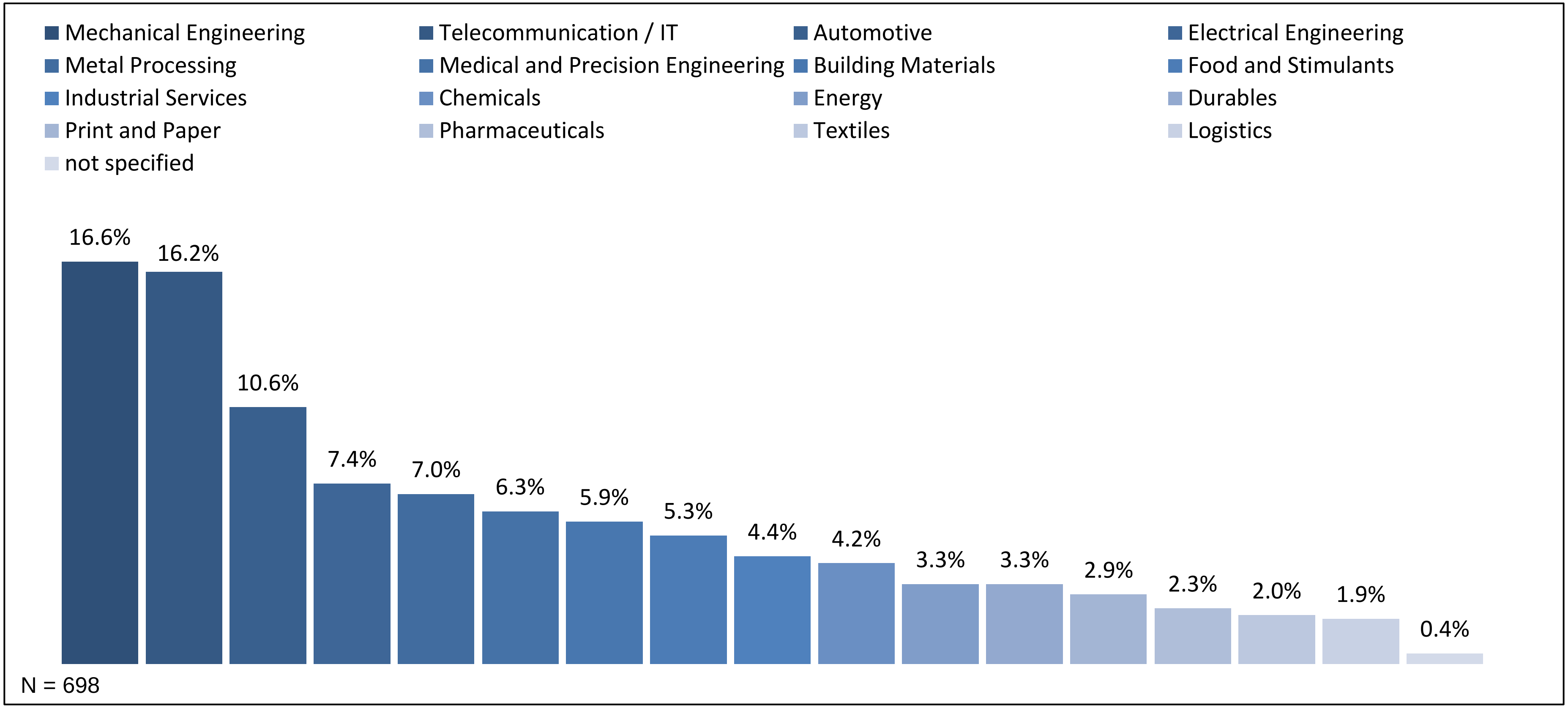
1. **Which channel structures are prevalent on B2B markets?**
2. **What effects does professional sales management have on company performance?**
3. **What are the key success factors in channel design?**
4. **What are the key success factors in channel management?**
5. **What are the managerial implications of the study results?**

Study Characteristics (I)

Our recommendations are based on a broad sample of 698 firms and SBUs from all major business-to-business industries. They are generalizable across industries.

Study Design	
Method	▪ Standardized questionnaire (paper and pencil & online) ▪ More than 270 items / questions ▪ Duration: approx. 40 minutes
Sample	**Target group:** ▪ Firms/SBUs in business-to-business markets ▪ Senior managers / board members responsible for Sales (e.g. Sales Director, Marketing Director, CEO) **Observed industries:** ▪ Cross-industry study: Mechanical Engineering, Automotive, Telecommunication, Electrical Engineering, Chemicals, etc. ▪ Sample: In total 698 (thereof 355 firms and 344 SBUs) ▪ Work experience of key informants: 19.6 years
Unit of Analysis	Firm/SBU
Data collection	February – September 2011

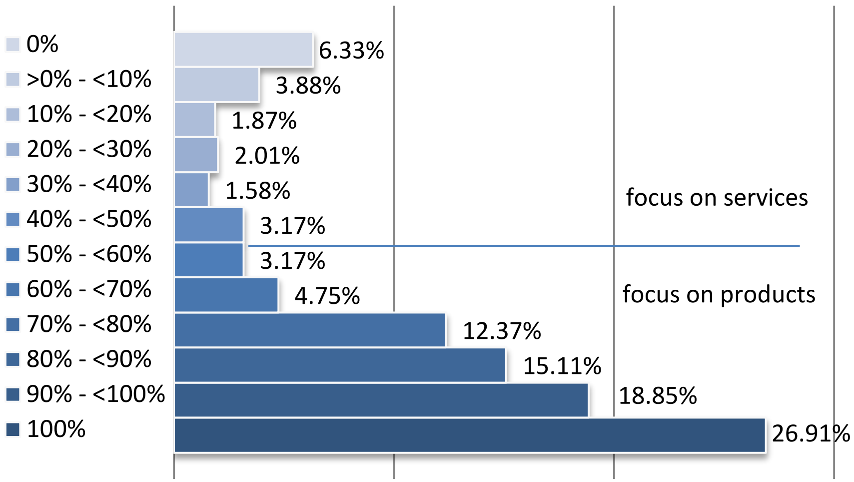
The sample consists of all major B2B industries



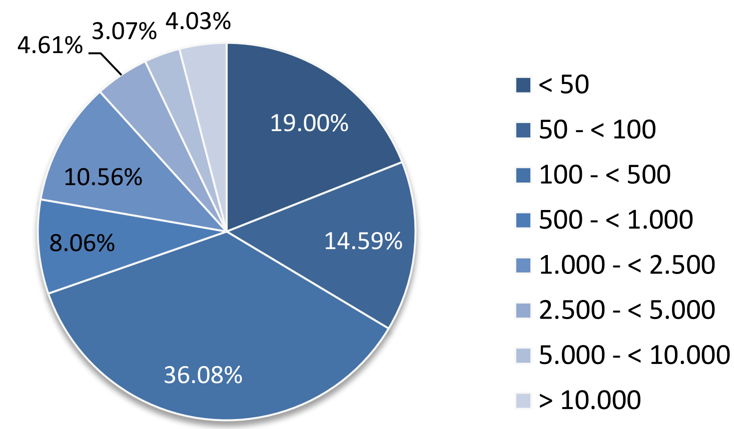
Study Characteristics (III)

The sample consist of B2B companies and business units of all types and sizes

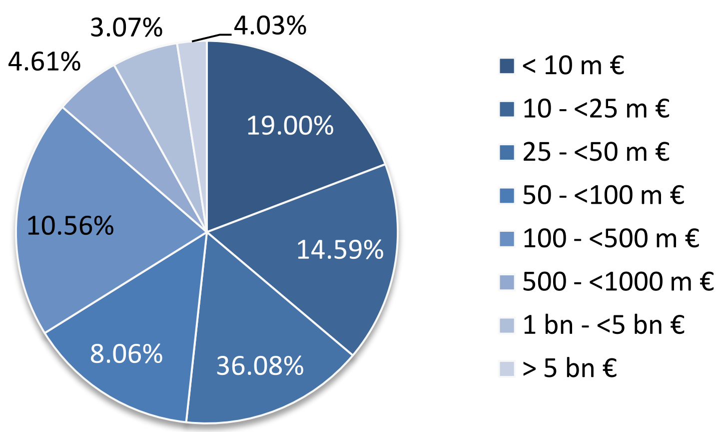
Contribution of products (vs. services) to total turnover



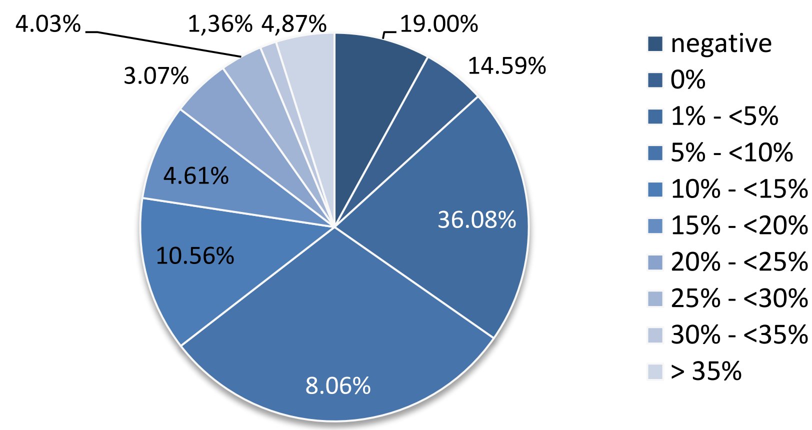
Number of employees



Sales

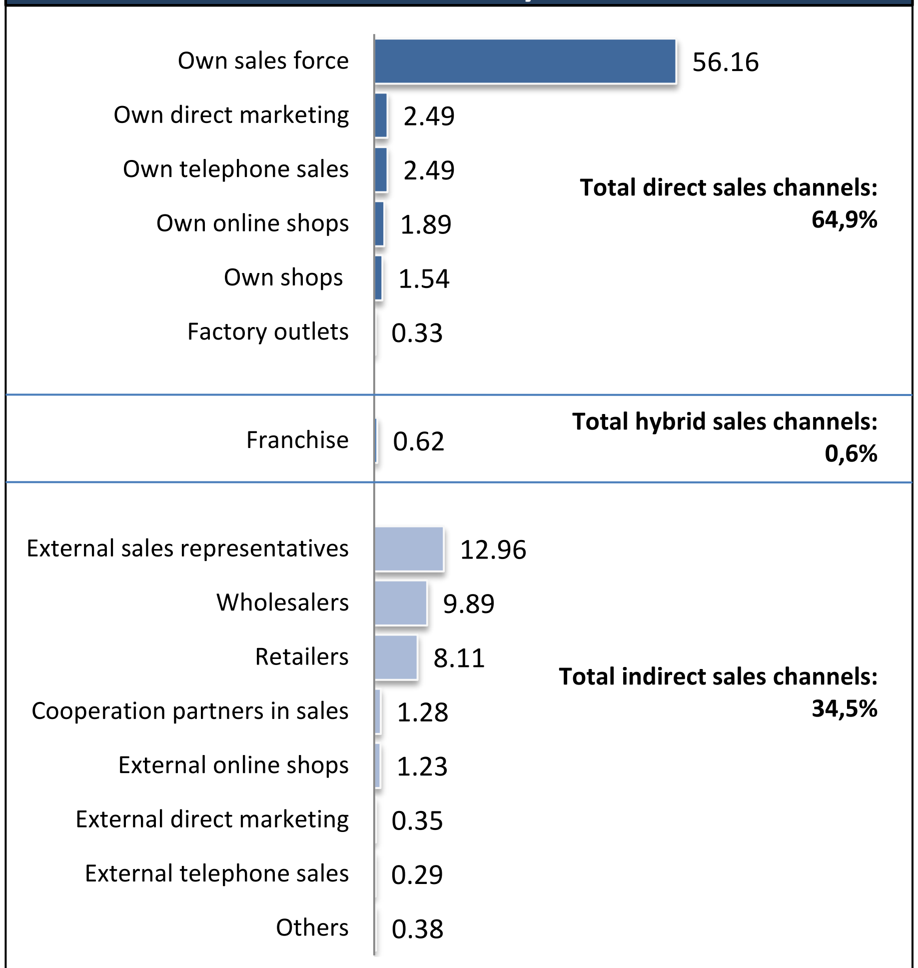


Sales growth (3 years average)

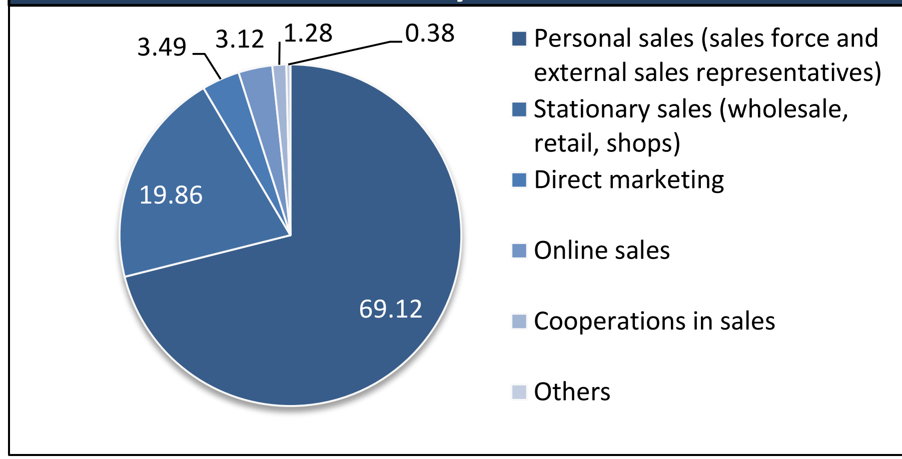


The companies´ direct sales force is still the predominant sales channel

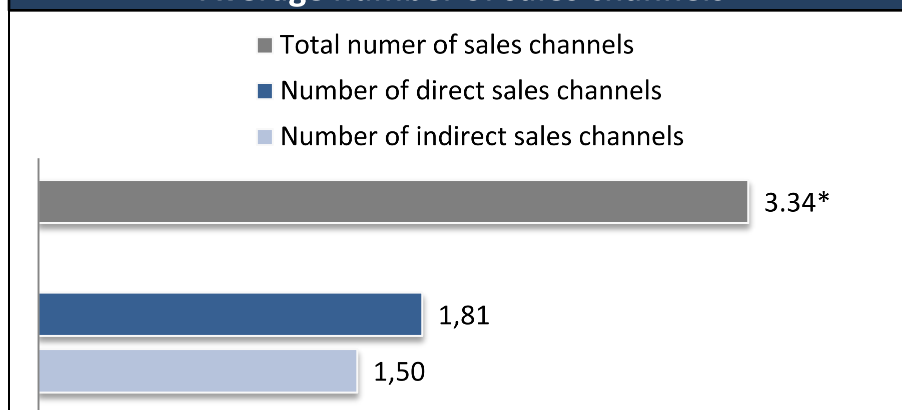
Turnover distribution by sales channel



Turnover distribution by customer contact form



Average number of sales channels



* The missing 0.03 sales channels are attributed to hybrid channels (franchise)

Which channel structures are prevalent on B2B markets?

The majority of B2B companies (60%) employs indirect sales channels and even almost 90% of the companies are using multi-channel sales systems

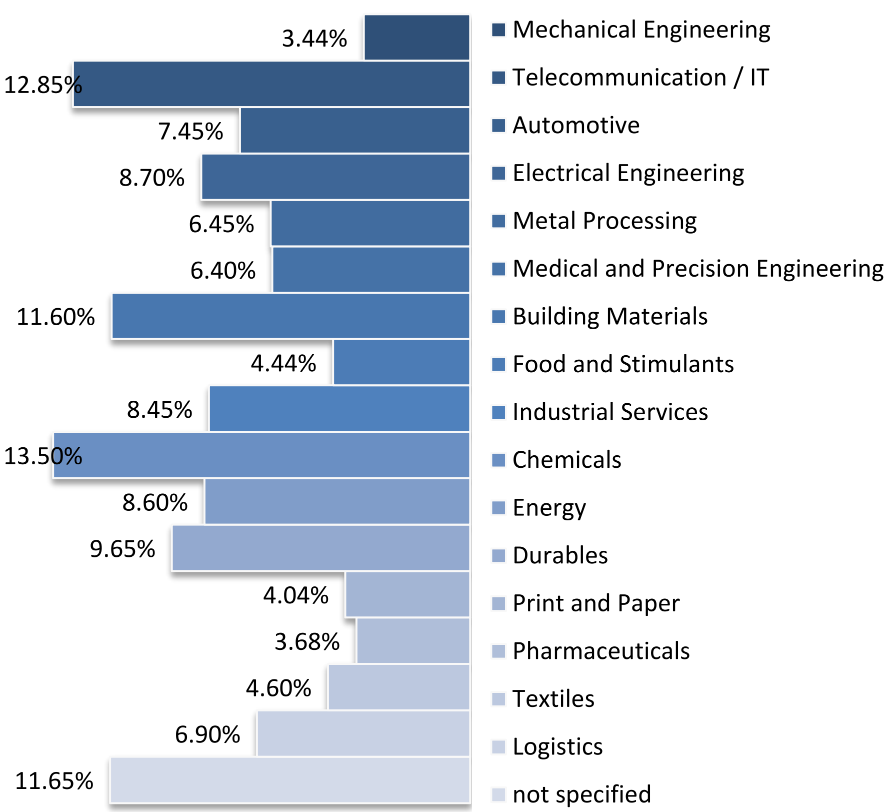
Dimension 1: Number of direct sales channels		0	1	>1	
		Σ 41,47%	**Σ 33,62%**	**Σ 24,91%**	**Σ 100%**
	>1	„Multiple Direct Sales" **31,23%**	„Manufacturer-Focused Multi-Channel" **22,53%**	„Differentiated Multi-Channel" **17,24%**	**Σ 70,99%**
	1	Pure Direct Sales **10,24%**	„Dual-Channel" **10,58%**	„Dealer-Focused Multi-Channel" **7,34%**	**Σ 28,16%**
	0		Pure Indirect Sales **0,52%**	„Multiple Indirect Sales" **0,34%**	**Σ 0,86%**
		Dimension 2: Number of indirect sales channels			

Study Results – Key Question 1

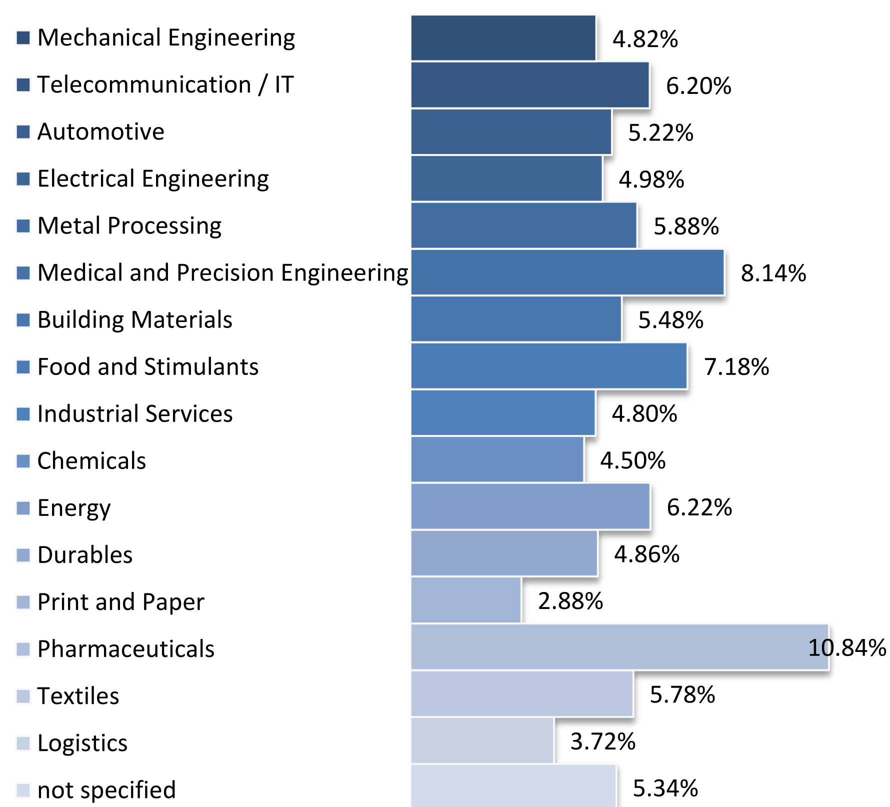
Which channel structures are prevalent on B2B markets?

The average sales growth and profit margin differs strongly between the examined industries

Average sales growth per industry (3 years average)

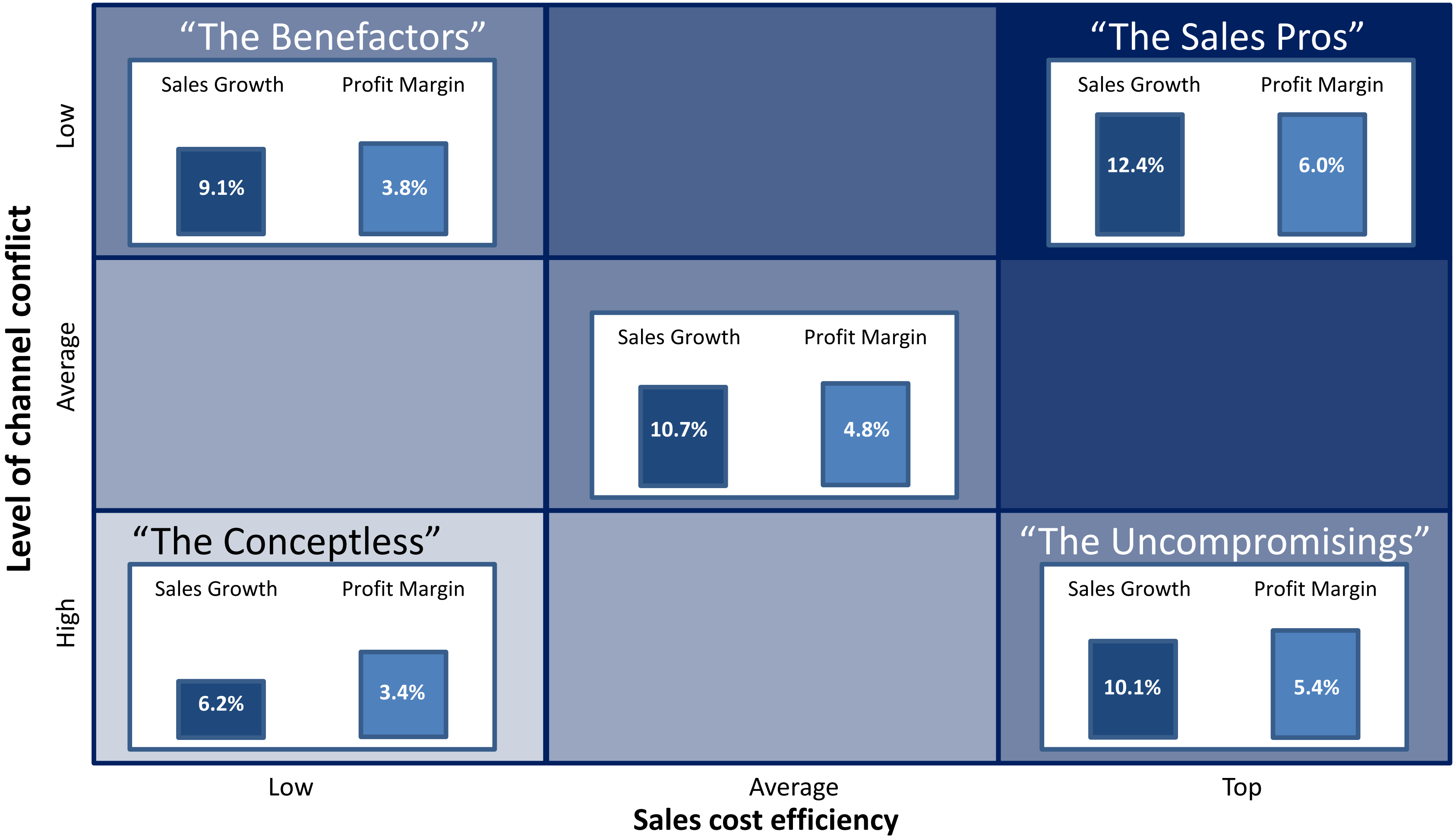


Average profit margin per industry (3 years average)



What effects does professional sales management have on company performance?

Companies that succeed in increasing sales cost efficiency and reduce channel conflict within their sales systems can significantly increase sales growth and profit margin



What are the key success factors in channel design?

Our study reveals several success factors in **channel design** for the reduction of channel conflicts and the improvement of the sales cost efficiency

Channel design measures to reduce conflict

Relational Levers

- Reducing the number of sales channels
- Defining clearly differentiated sales regions and assigning exclusive sales territories to sales agents and partners
- Arranging exclusive distribution agreements with sales partners
- Reducing the share of sales with retailers and wholesalers*
- Increasing the share of sales with channels with a personal customer contact

Universal Remedies

- Focusing on large sales partners and high-volume sales channels
- Clearly differentiating sales channels according to their channel services, -tasks and customer segments. This avoids margin erosion and free riding with regard to the fulfillment of channel functions

Financial Levers

- Opening up the sales channels to all customers segments This allows customers to self-select the most convenient channel
- Decreasing the share of sales with channels with a personal customer contact*
- Instead increasing the share of sales with and the number of direct low cost channels such as online- and telesales.
- Increasing the share of sales via retailers and wholesalers*

Channel design measures to improve the sales cost efficiency

*Measures in red have opposite effects on channel conflict and the sales cost efficiency and therefore have to be evaluated depending on the company´s situation

Study Results – Key Question 4
What are the key success factors in channel management?

Our study reveals several success factors in **channel management** for the reduction of channel conflicts and the improvement of the sales cost efficiency

Channel management measures to reduce conflict

Relational Levers

- Setting up formalized and standardized sales channel policies and procedures
- Reducing sales promotion activities
- Focusing promotion spending on sales partners (trade promotions) and cooperative promotions instead of end customer promotions
- Reducing the use of coercive influence strategies

Universal Remedies

- Increasing the participation of the sales entities in the definition of target agreements, sales planning, and the design of incentive structures
- Intensifying information sharing with the sales entities with regard to customer, competitor, and operative information
- Better coordinating sales promotion activities, pricing to end customers and the logistics with the sales entities
- Increasing the share of incentives for the fulfillment of sales functions and simultaneously reducing the share of incentives for meeting sales targets

Financial Levers

- Increasing the share of variable remuneration components
- Intensifying both behavioral and outcome control of the sales entities
- Offering preferential treatment and conditions to successful sales partners and agents
- Increasing the price differentiation between different sales channels and partners according to their service levels

Channel management measures to improve the sales cost efficiency

Managerial Implications (I)

1 Suppliers in business-to-business markets should be aware of the fact that channel design and channel management practices have a substantial impact on sales growth and profit.

2 In optimizing channel design and channel management, suppliers must ensure not only to improve sales cost efficiency KPIs such as sales costs, sales margin or the costs per lead, but also to reduce channel conflict within their sales system. The stronger the conflicts within a sales system, the more problems such as free riding and opportunism will reduce the sales entities´ support for their products.

3 Start with a detailed analysis of your sales system. Benchmark your sales system with regard to financial KPIs (costs per lead, sales costs, sales margin) but also track and evaluate the level of conflicts within your sales systems (e.g. conflicts concerning the fulfillment of sales services, allocation of customers, prices and margins, information sharing or the loyalty of the sales entities).

4 With regard to **channel design**:

- Suppliers should focus on large sales partners and high-volume sales channels. Each sales channel and sales entity requires investments, ties up further resources and potentially causes conflicts with more important sales channels and entities.
- Suppliers should differentiated their sales channels clearly according to their channel services and –tasks and targeted customer segments. This avoids margin erosion and free riding with regard to the fulfillment of channel functions.
- Suppliers should allocate exclusive sales territories to sales agents and negotiate exclusive distribution arrangements with sales partners to reduce conflicts within the sales system.
- Suppliers have to decide between
  - **lowering sales costs** by implementing additional own low cost channels such as online or telesales and increasing the share of sales with retailer and wholesaler versus
  - **decreasing channel conflict** by reducing the overall number of sales channels and the share of sales with external sales partners.

Managerial Implications (II)

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With regard to **channel management, s**uppliers should…

- involve sales entities more intensively in the definition of target agreements, sales planning, and the design of incentive structures.
- intensify information sharing and the coordination of all sales related activities with their sales entities.
- reduce incentives for meeting sales targets and on the contrary increase incentives for the fulfillment of sales services.

- To improve the financial performance of the sales system, suppliers should…
  - increase the share of variable remuneration components
  - intensify their efforts to control the sales entities' behavior and outcome
  - increase the price differentiation between different sales channels and partners according to their respective service level
  - offer preferential treatment and conditions to successful sales partners and agents

- To reduce conflicts within the sales system, suppliers should…
  - set up formalized sales standards and procedures
  - reduce short term sales promotions activities
  - focus promotional activities on promoting the own products at sales partners instead of offering promotions to the end customer
  - reduce the use of coercive influence strategies

Contact and Further Information: Institute for Market-Oriented Management at the University of Mannheim

The **Institute for Market-Oriented Management** (**IMU**) at the University of Mannheim (Germany) considers itself to be a forum for dialogue between scientific theory and practice. The high scientific and academic standard is guaranteed by the close networking of the IMU with the three Chairs of Marketing at the University of Mannheim, which are highly renowned on a national and international level. The Academic Directors of the IMU are Prof. Dr. Hans H. Bauer, Prof. Dr. Dr. h.c. mult. Christian Homburg and Prof. Dr. Sabine Kuester.

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