

Rethink Sales Channel as a Strategic Tool for Business Performance

Abstract: Paper & Paperboard Industry is getting increasingly impacted by issues like sustainability, technology, digitization, e commerce etc. This is leading to segment specific turbulence and uncertainties. Business cycles are becoming shorter and less predictable. Many of these changes are flowing in from market side.

In such a scenario, having a robust marketing function can go a long way to cushion market upheavals and remain ahead of the competition. For Paper Industry, sales channel has always been the key element of its sales & marketing. Despite its importance, sales channel development has remained an ad hoc effort. This paper addresses key elements of a sound channel strategy and it also presents a practical model for audit and assessment of the same.

The three elements of sales channel i.e. spread, depth & grip can be measured and assessed to help build a strong and dynamic channel. A step towards a more competitive business performance.



Anup Kansal
 Business & Marketing Consultant
 Business Transformation and
 Strategy Consulting

Introduction

In today's complex business environment, the success is not a unidirectional endeavour. It requires investments in new technologies, efficient operations, innovative products, smart marketing practices and stricter compliance to remain competitive and sustainable. Efficiency and productivity of mill operations have always been the focus area for competitiveness and profitability of the paper and boards business. In last two decades, paper industry has made large investments and has come a long way both in process improvement and technology upgradation to remain competitive and meet customer needs.

At the same time internet, e commerce and packaging (both flexible and rigid) have brought in major changes in the way customers buy and consume paper. In its quest for competitiveness and profitability the industry can tap opportunities to enhance value from the market side in addition to cost and efficiency from operations. In this backdrop, interventions like product and business development, customer engagement and sales channel management are presenting opportunities that can contribute to business performance. Therefore, now is the time for marketing functions to step up and contribute to business goals beyond moving the volumes.



Today's business environment; increasingly dynamic & increasingly complex

In our industry, sales channels (distribution network) are critical to business competitiveness and are second only to mill operation in order of its importance. In this paper, I will present my insights into design and development of sales channels with paper and paperboard as focus industry. Before we proceed, it will be useful to have a conceptual understanding of the paper market and the role sales channels play in the exhibit given below-

There are three critical parameters on which the strength and competitiveness of sales channels can be assessed-

Spread:

The spread of the sales channel refers to presence of channel partners in a required geography. This

is the default view of the way we have traditionally looked at the sales channels. Even if it looks so obvious a criterion, a careful review of any channel set up may throw a few surprise gaps and opportunities.

Most of the B₂B category markets in India can be comprehensively covered geographically thru 10 + 20 + 30 approach i.e. 10 A class or metro cities, 20 B class cities which are mostly state capitals and lastly 30 C class large cities across the country. These top 60 cities would typically comprise 80 to 90% of total market for most B₂B product categories. The choice of cities in this list will depend on the industry or the product category or the targeted geography decided by the company management. Once this list is created, the channel presence can be mapped on to this list for assessing the channel spread and identify gaps if any.

Paper & Boards Market Place



Depth:

How well the sales channel addresses all relevant segments and customers is “depth” of sales channel. Paper is consumed by a wide range of customers by consumed volume. On one end we have customers for home desk-top printing applications, comprising a few A4 sheets and on the other, there are large printers / convertors / publishers who need truck loads. For smaller consumers we need “Distributors” who would distribute the product to smaller re-sellers / stockists / retailers etc., who are equipped to cater to small volume requirements at large number of consumption points. On the other hand, for large customers, a dealer would better fit the needs thru extending support services apart from the product supply and skillfully managing the relationship.

Between a distributor and dealer, the set of required competencies and infrastructure are very different. A distributor would typically invest in warehouse and delivery system and deal mainly in regular market SKU and need higher gross margin for the same. On the other hand, a dealer may not need any physical infrastructure but needs to invest time and effort in ensuring that customer needs are serviced as required. Therefore, it is so essential that the right kind of channel partner services a given market segment, depending on its needs and characteristics. Similarly, the competencies required for Government institutions and private sector would differ considerably. Most of the channel partners have their core strength either as a distributor or as dealer. So even if the geography is well covered, tapping of market potential may remain sub optimal if retail and customer-oriented channels are not adequately put in place.

Important markets should have focused distributors as well as dealers for adequate tapping of retail market and large customer. Smaller markets may require distributors only for the coverage, barring a few exceptions. A careful scanning of trade channel presence on this count is likely to throw up multiple opportunities for improvement.



A good channel will not only cover all targeted customers and segments but also ensure required focus on each

Grip:

The strength of the relationship between the principal and its channel partners is termed the “Grip”. It is defined and can be measured by mutual dependence between the two. This perhaps is the least appreciated aspect of the channel strategy not just in paper industry but even in other B₂B product categories.

Just to emphasise this point, a company may have great spread and depth in its channel but if it has e.g. only 10 or 20% of wallet share of its partners’ business, it may be a cause for concern. In adverse market conditions, its partners are less likely to provide the needed support and show commitment than for a company that has a wallet share of 60 – 70%. In such a situation, even the unrelated products handled by a channel partner become relevant for a company seeking strategic mutual dependence and commitment from its channel partners.



If the principal & its channel are a team; commitment, trust & mutual dependence are necessary ingredients for a lasting & successful relationship

The Grip or strength of relationship can be measured thru two variables; 1.Percentage of company’s wallet share with a specific channel partner (this should include competing, noncompeting or even unrelated businesses) and 2.Rank of company’s business in terms of value amongst all businesses of the channel partner. The combination of these two variables will give us insight into the importance of company’s business for that particular channel partner which has a direct bearing on strength and quality of relationship. The grip scores should be seen on a collective basis and not for an individual channel partner.

Above three points on the channel partner strategy are essential to strategic depth to guard against vagaries of the market place. In the absence of adequate strength of its sales channel, companies are compelled to resort to price as the first and only instrument to be used for machine coverage and moving the volumes. Besides, stronger sales channels also deliver on other business and operational objectives like product mix, reel to sheet order ratio, flexibility in deckle utilization, consistent order flow, better customer engagement and satisfaction etc.

Such an audit of the sales channel can lead to useful insights and opportunity for improvement. This audit provides an objective and comprehensive assessment of the sales channel. Such an exercise is particularly useful in following situations –

1. Changes in market side dynamics caused due to business acquisition and merger

2. Significant increase in output due to capacity addition
3. Excessive dependence on contracted sales to large customers at discounted price
4. Lower price realisations via a vis competing products
5. Constant efforts required to cover the machines and move volumes

The starting point for this exercise is defining the targeted market geographies and its categorisation. This will be based on business strategy, available resources and priorities as decided by the management. This market categorisation can be used as the basis for all three criteria for consistency in approach and analysis. The information or data required for the above framework would be mostly available inhouse or can be organized with limited effort. Therefore, it is feasible to adopt this exercise not just for a one-time assessment but for periodic review of progress in evolution of the sales channel. The framework, in its design, also provides enough flexibility to the management to decide how detailed or deep they want to go into this exercise based on their strategic priorities and availability of time and resources.

It is important to note that findings from such an exercise must be dovetailed into the larger vision and goals set by the management. List of target markets and categorisation, relative importance of retail vs customer business and desired score on channel grip will have to be carefully spelled out. Maximalist approach to the scores on this count will not necessarily serve the purpose. The action trigger points will follow for implementation. Also, the implementation program requires its own set of skills and must be supervised and supported by team of experienced and senior professionals.

Conclusion

Sales Channel is a critical piece of GO-TO-MARKET strategy for any business. A robust channel enables the management to have a calibrated market presence and derive better business performance thru new product and business development, new customer acquisition and retention. This model will help any business to cover the markets and reach its target customers in a comprehensive and precise way while ensuring dependability of its channel.

References & Acknowledgement

This paper is a compilation of my learnings and experiences during my professional career in paper and other industries. This work is completely based on the actual initiatives and interventions in real life business situations.

I take this opportunity to thank all my employers and my superiors for their guidance and support in this journey.