

## CHAPTER FIVE

# Marketing the Values to the Channel Partners

### GROWTH MIGRATION AND COLLABORATION IMPERATIVE

Dell revolutionized the computer industry by introducing the direct model of distribution. Consumers could order customized computers and have them delivered directly. Dell would maintain a direct relationship with consumers, bypass resellers, and keep all the margin. Due to Dell's famous cut-out-the-middleman principle, the company was considered an enemy by the middleman—the resellers. Competitors were at first unconvinced by this business model but later tried to copy it without any luck. The solo run worked so well without meaningful rivalry that, by 1999, Dell was the largest seller on the Internet ahead of Amazon.com, eBay, and Yahoo! combined.<sup>1</sup>

Everything has changed since 2005. To Dell's surprise, the world changed. Growth started to stall. Dell's stock tumbled. First, the U.S. market was starting to mature. Experts were pushing Dell to embrace the middleman to solve this problem. Sunil Chopra was one of them when he argued that in mature markets, consumers increasingly saw computers as commodities and were less concerned about customization.<sup>2</sup>

Chopra recommended that Dell either try the direct-indirect hybrid model or do the customization model through resellers. In either model, Dell should start collaborating with the middleman.

The second reason for Dell's setback was that Dell relied on extracting value from its direct relationship with consumers. When the market matured, however, its customers found other attractive computers. Dell could have focused on other growth markets such as China and India. Unfortunately, in these markets, most consumers do not buy computers online.<sup>3</sup> They prefer high-touch human interface more than high-tech Internet interface. The direct business model failed to accommodate consumer needs in growth markets. Again, it was imperative for Dell to pursue a completely opposite business model: indirect distribution.

Although the company did not admit it, in 2002, Dell had actually complemented the direct model with indirect distribution through solution providers that served corporate consumers.<sup>4</sup> But 2005 was the tipping point. Dell quietly began building relationships with resellers who initially distrusted the company. The move started to pay off. By mid-2007, Dell's sales through channels had risen to account for 15 percent of its overall revenue, although no official partnership was announced.<sup>5</sup> In December 2007, Dell finally launched the PartnerDirect program and revealed that it had built partnerships with 11,500 partners and was adding 250 to 300 a week.<sup>6</sup>

It was apparent that in the last few years Dell had managed to transform its key capability of building direct relationships with consumers into the capability of building direct relationships with channel partners. Dell approached resellers one by one, listened to their feedback, and invited them to have conversations in the Partner Advisory Council meetings. Michael Dell himself personally showed up to the meetings to convince skeptical channel partners. Once a nemesis of the channel, Dell is now embracing its new partners with the kind of attention that it gives to consumers.

The story of Dell reflects the opposing forces that exist in the business world. Technology enabled Dell to capture the value of direct distribution. But technology also enabled the forces of globalization to work. The most value is no longer in the developed market but in the developing markets where technology adoption has not reached its mainstream potential. The developing market requires different business approaches where traditional distribution might not work. Social, economic, and environmental problems are abundant in these markets and need to be addressed before a company tries to build a new distribution network. Entering unknown territories, companies are forced to collaborate with new partners.

The developed market, too, is transforming into a completely different kind of market. The maturing market is just a small signal of the big changes that are taking place. As society becomes more sophisticated, consumers will try to satisfy higher human needs and basic needs become secondary. Consumers will give more consideration to social, economic, and environmental impacts. James Speth viewed this phenomenon as the era of post-growth society.<sup>7</sup> It may happen that customization will no longer be that important to consumers. These post-growth changes are essential for Dell and other companies to understand, as they have serious implications for their marketing channel practices.

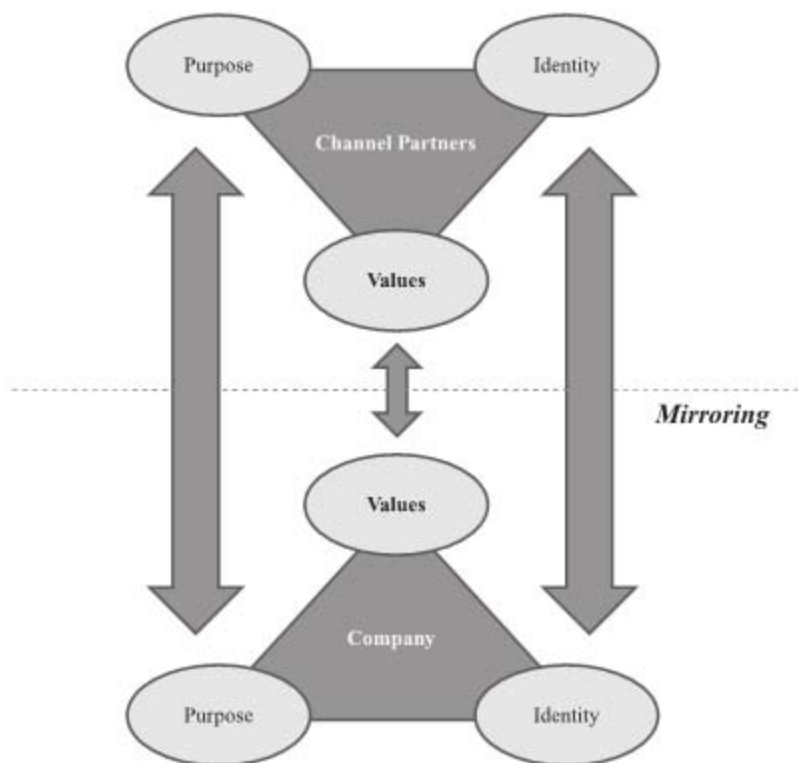
### **CHANNEL PARTNERS IN MARKETING 3.0**

We view channel partners as complex entities. They are hybrids of companies, consumers, and employees. They are also companies with their own missions, visions, values, and business models. They are consumers with needs and wants that need to be served. Moreover, they also sell to end-users and form the consumer interface just like employees do. Their role is essential in Marketing 3.0 as they become collaborators, cultural change agents, and creative partners for companies at the same time.

### Channel as Collaborator: Selecting the Fit

Companies that have a difficult time managing their channel partners perhaps did not choose their partners appropriately. In Marketing 3.0, channel partner selection requires the process of mirroring the Purpose-Identity-Values. Mirroring means that companies should select potential partners that have identical Purpose-Identity-Values (see Figure 5.1).

Purpose relates to the overall key objective of a potential channel partner and is relatively easy to observe and research. Identity relates more to the character of a potential partner and therefore requires a deeper investigation to understand. Values are even more difficult to observe because



**Figure 5.1** Selecting Compatible Channel Partners

they involve the shared beliefs within the channel partner organization.

In its early years, The Body Shop grew mainly because of its store franchises. The company was built on the naïve character of the late Anita Roddick. The founder's honesty and simplicity are reflected in all facets of the company's business as seen in its descriptive product naming, use of natural ingredients, and fair trade with suppliers. When Roddick was selling her products in her own store, there was no problem because she could apply her non-mainstream approach independently. But when the imperative to grow emerged, she had to move to a multi-channel approach and find franchisees as her channel partners.

Her approach to selecting channel partners was very personal. She did the final interviews herself, and during each interview, tried to understand the character of the potential channel partner. What she was looking for were people who were more interested in making a difference than making a profit. She discovered that women were more likely than men to share her same social and environmental values. That was why in the early years, 90 percent of The Body Shop franchisees were women. The franchising approach was unquestionably successful. The Body Shop grew at about 50 percent annually during the first decade of its existence.<sup>8</sup>

Compare this story to the partnerships Ben & Jerry's established in Russia before the company's acquisition by Unilever. Like The Body Shop, Ben & Jerry's was also founded as a socially-responsible company. It also started by selling a simple homemade product: ice cream. Because of its long-term vision of making the world a better place, the early management of Ben & Jerry's had no interest in aggressive growth. The preference was always to have someone from inside the company who really understood the company's values lead moderate business expansion.

Although ice cream was very popular in Russia, it was not because of business considerations that Ben & Jerry's entered the country. Not aiming for profit, Ben & Jerry's just

wanted to strengthen the relationship between the United States and Russia in the aftermath of the Cold War the two countries had waged for many years. When Ben & Jerry's decided to establish a foothold on Russian soil in the 1990s, they assigned someone from the United States who could be trusted: Dave Morse. But Morse could not work alone. He needed channel partners.

In Russia, Dave Morse found it difficult to find suitable partners to grow the brand. Potential partners were plenty but none of them really understood the socially-responsible values of Ben & Jerry's. The potential partners were ambitious, profit-oriented companies that pursued aggressive growth. The partners had a strong belief that the Ben & Jerry's brand would be a valuable asset to them but lacked understanding of its fundamentals. In the end, Ben & Jerry's decided to partner with Intercentre Cooperative to bring the brand to Russia.

Right from the start, it was obvious that the partners were not perfect. Ben & Jerry's and its partners were heading in two different directions. Their business values were not aligned. Aiming for instant success, the partners wanted to build the business in Moscow straight away. But the management of Ben & Jerry's wanted to start humbly in small-town Petrozavodsk to mirror their U.S. start-up in small-town Vermont. Ben & Jerry's and the Russian partners also had conflicting opinions about bribery, which was common in Russia at that time. The quality of the partners' sourcing for environmentally-friendly ingredients was also below the high expectation of Ben & Jerry's management.<sup>9</sup>

Rackham, Friedman, and Ruff emphasized the importance of shared values.<sup>10</sup> They pointed out three key assessments to determine the potential success of partnership. First, both entities in a partnership should ask themselves whether both of them desire a win-win outcome. Good partnership creates a horizontal relationship, not a vertical one. Each entity should derive an equitable benefit from the collaboration. Second, they should investigate whether both business entities uphold a high quality standard. Companies with the same approach

to quality will have a better chance in building partnership. Finally, each business entity should identify its potential partner's unique values and determine the compatibility with its own unique values.

Research by Cui, Raju, and Zhang also confirms the importance of shared values.<sup>11</sup> When the value of fairness exists in the partnership between the company and its channel partners, it is easier to coordinate price stability across the channel structure and therefore improve overall channel economics. When a company sets a fair trade price, the channel partners will respond accordingly by establishing a fair end-user price in the market. This fair partnership mechanism is enabled by increased transparency of cost information between the company and its channel partners.

The first step for a company marketing its values to its channel partners is to understand the partners' own values. In Marketing 3.0, collaboration between two business entities is like a marriage between two human beings. Mirroring the purpose, values, and identities—beyond understanding each other's business model, applying win-win negotiation, and writing sound legal contracts—is essential. That is why the personal approach, exemplified by Anita Roddick, is always the best.

### **Channel Partners as Cultural Change Agent: Distributing the Story**

The growth imperative requires a company to have channel partners manage their consumer interface. Therefore, the company becomes highly dependent on the distributors to market its values, especially when the company does not communicate directly to the consumers through promotional media. Look at the Maria Yee case, for example. Almost half of the furniture sold in the United States in 2007 was channeled through furniture retailers.<sup>12</sup> Maria Yee, Inc., like other furniture manufacturers, markets products to the upper-middle market through three key retailers: Crate & Barrel, Room

& Board, and Magnolia Home Theater. The company itself focuses on selling eco-friendly products. The values of being green are clearly demonstrated in the company's business model, especially in the use of sustainable materials and in the partnership with eco-friendly suppliers.

Unfortunately, Maria Yee does not have a direct interface with consumers and therefore relies on its channel partners to send its "green" messages. To keep the green values alive and lead the eco-friendly movement in the industry, Maria Yee, the founder herself, maintains personal relationships with the retailers. The role of retailers is not only to communicate the brand positioning of Maria Yee to consumers but also to promote the overall benefits of using eco-friendly furniture. Normally, green products are perceived by consumers to be more expensive. Maria Yee relies on its channel partners to convince consumers otherwise. Channel partners themselves have to be convinced that Maria Yee's products remain competitive in pricing.

In contrast, a large consumer packaged goods (CPG) company often creates direct touch points with the consumers although it is also fully dependent on channel partners for distribution. Stonyfield Farm, a company that produces organic yogurt products, sells all its products through distributors to natural food stores and supermarkets. Nevertheless, the wellness-oriented company tries to create direct contact with consumers to market the company's social and environmental mission. It formed myStonyfield community to create favorable word-of-mouth. It uses YouTube to send its message to consumers.

Spreading brand stories through channel partners requires a consistent personal approach. When it does not work, companies should begin convincing the channel partners by means of signaling. By spreading the stories directly to the consumers, companies can generate interest. When a lot of consumers respond and look for the brand in channel outlets, this sends a strong signal to the channel partners that the values have a strong impact on the brand and that carrying the brand is good for them.



In some cases, the consumers themselves are channel partners. This is especially true when distributing to low-income consumers in developing markets. In developing countries, the biggest issue of marketing to the poor is access. Two elements of the marketing mix that are most affected by the lack of access are place (distribution) and promotion (communication). Many products and information are not readily accessible to the poor, especially in rural areas. Channeling products to these consumers will increase market penetration and, at the same time, improve their lives. Vachani and Smith call this socially-responsible distribution.<sup>13</sup>

India is a place where socially responsible distribution is best modeled. The country has been struggling to eradicate poverty. Looking at the statistics, the result is promising. The percentage of people living in poverty decreased from 60 percent in 1981 to 42 percent in 2005.<sup>14</sup> One of the key success factors lies in the effort to increase access to the poor. This can be seen from the fact that rural consumers accounted for around 80 percent of total consumer spending in India.<sup>15</sup> In the process of fighting poverty, companies that operate in India are developing innovative methods of distribution utilizing networks of humans.

Companies such as ITC and Hindustan Lever play a significant role in partnering with the poor to distribute their products in the rural areas. ITC is famous for developing the e-Choupal, which enables farmers to access information on weather and crop prices and sell their produce directly to consumers without middlemen. Leveraging its network of farmer partners, ITC also developed the Choupal Saagars, a network of mini-malls that sell products ranging from consumer goods to health and financial services. Hindustan Lever, on the other hand, empowers a community of rural women to sell consumer goods. Being distribution partners of Hindustan Lever enables the women to earn additional incomes. In different ways, the two companies are selling their socially-responsible values to their channel partners who happen to be their consumers as well.

What ITC and Hindustan Lever are doing is understandable considering that 87 percent of consumers in India purchase a product on the basis of recommendation from family and friends.<sup>16</sup> That is the key reason why peer-to-peer selling is the most commonly applied go-to-market strategy in India, especially when targeting the rural market.

In new growth markets, distribution relies on networks of many channel partners. The innovative distribution model is rooted in the emerging phenomenon of communitization of consumers. The consumers' role is not only limited to promoting brands but is extended to selling them. In extreme cases such as in India, channel partners are individual consumers. In less extreme cases, channel partners are small enterprises that have better local knowledge and personal access with communities of consumers. These channel partners are the best media to send the brand stories to consumers because they have more credibility. Consumers listen to them. Companies, such as Dell, that look for growth markets should embrace this emerging trend.

### **Channel as Creative Ally: Managing the Relationship**

In Marketing 3.0, the power belongs to the consumers. Unfortunately, not all companies have direct access to the consumers. Generally, there are intermediaries between them and their consumers. These channel partners not only distribute the products to the market but also provide a consumer touch point. In some cases, channel partners are perceived to be more important than the manufacturers. In the IT industry, for example, consumers often have better relationships with value-added resellers than with the manufacturers. The value-added resellers are perceived to be capable of delivering solutions, while manufacturers only sell commodity components.

This growing importance of channel partners demands that companies take more factors into consideration when managing their partners. First, companies should understand

their products' margin contribution, inventory turnaround rate, and general strategic importance to the channel partners. Second, companies should demonstrate genuine concern and active management of the "selling out" process at the retail level through co-op marketing, in-store promotion, and ensuring a brand's presence in retail outlets. Finally, a company should also care about and understand its channel partners' general impressions and satisfaction.

This concept of company-channel integration is particularly important in cases where channels are becoming an increasingly important link in the value chain, to the point that many channels and companies today are engaged in competition for consumer loyalty and ownership. Without the presence of such integration in the value chain, companies and channels will likely engage in a zero-sum game of rivalry for margins and consumer influence instead of working together in mutual cooperation to find and employ synergistic opportunities to go up against other competitors.

Company-channel integration usually starts from basic cooperation between a company and its channel partners, especially in retail promotion. As the relationship strengthens, they start to integrate with one another and also with other members of their industry's value chain. The integration process involves regular information sharing and joint strategic planning. When the partnership moves forward to the next stage, their values unite and we can see no differences between the company and the channel partners.

When it comes to creative channel partnership, we observe four stages of excellence. A company is at the first stage when it is dependent on one channel, whether a direct sales force or a channel partner, for its entire sales effort. This is the Single Channel stage. Many companies start out in a limited regional setting where all sales can be covered by their own sales force or a single channel partner.

As the company grows, it adds more distributors and other channels to increase its coverage area to improve sales revenue and product availability without limiting where or to

whom each distributor or other channel may sell. This strategy normally results in sales conflict among the distributors and other channels. This second stage is the Multi-Channel stage, in which the company sells to multiple distributors and direct channels but does not delineate product, segment, or geographical boundaries.

A more advanced distribution systems takes into consideration channel conflict problems and divides the company's market by territories, consumer segments, or product segments. Each distributor or channel is then given a separate piece of the market to develop. This third level is the Territory-Based Channel stage, in which the company sets clear boundaries and rules for distributors and direct channels to operate to avoid channel conflict.

In the most advanced distribution systems, there exists a division of tasks among a company's various channels. With this division of tasks, several different types of channels can coexist within a segment or regional market. Instead of competing with each other, the channels will collaborate. This fourth level is the Integrated Multi-Channel stage, in which a company divides tasks between different channels. Multiple channels may coexist within a regional market or market segment by working together and not competing for business. For example, a computer manufacturer may allocate tasks to multiple channels: a web site to generate demand, its own stores to stage consumer experience, resellers to distribute and provide technical support, and a sales force to sell to corporate consumers and provide referrals to the nearest resellers. Companies should try to achieve this most advanced degree of integration. In the Integrated Multi-Channel stage, the company and its channel partners creatively find new ways to serve the consumers without conflict.

#### **SUMMARY: VALUES-DRIVEN CHANNEL PARTNERSHIP**

In Marketing 3.0, channel management begins with finding the right channel partners with similar purpose, identity, and

ultimately values. Partners with compatible values will be able to deliver the stories convincingly to consumers. To bring the partnership one step further, companies should integrate with the partners to bring integrity to the stories.

## NOTES

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