

Sales Channels in the U.S. – An Overview

The method and process of connecting your products to the market are critical success factors for doing business in the U.S. Well designed and effective sales channels distinguish market leaders from followers. The three key influences of a sales channel strategy are:

- product characteristics
- market demographics
- customer buying behavior

These three help determine the selection of sales channels. Your choices are:

- direct sales (employees)
- manufacturer's representatives (agents)
- distributors (resellers)

Three Key Influences

Product: The nature of the product largely determines whether customers will rely upon manufacturers, agents or resellers as primary sources for technical information and supply. New technology, high product complexity or critical supply issues argue for a direct sales approach because customers will want direct access to the manufacturer's technology or production source.

Market: A direct sales force is also appropriate for a narrow or concentrated customer base simply because it is more cost effective. Conversely, products that can be applied to several customer segments and are sold to geographically dispersed markets will gain efficiencies when offered through independent channels.

Buying Behavior: Customers seek to optimize a range of values in their procurement practices, such as: product cost, purchasing convenience, support costs, future supply, product compatibility and reliability and overall life-time value. The relative importance of any of these values at a given point in time will depend on the nature of the product, its intended use, the aggregate value of the purchase, internal politics and a host of other influences. The more knowledge, experience, and operational value that customers have vis-à-vis the product and its use, the more they will want to influence sales channel design.

Three Different Channels

Direct Sales: These are your employees. This channel provides you with the highest degree of control at a relatively high fixed cost. A direct sales force is especially appropriate for introducing new technologies. The key term is "concept sale".

Manufacturer's Representatives: "Reps" are commissioned agents. They specialize in selling a portfolio of related products to a select group of customers in a defined territory. Reps take neither title nor possession of the product. They *represent* manufacturers and their brands and cannot legally bind you to any sales terms or conditions. Since they are paid a sales commission, which is a function of the sales

volume, this is an economically *safe* channel. Reps tend to be well versed in the general technology of the products that they represent. The key term is “application sale”.

Distributors: Distributors are resellers. They buy the product from you and resell it to *their* customers providing varying degrees of added value, including product customization and integration and repair services. It is difficult to legally restrict distributors to a defined customer segment or territory. Most distributors act like a local supply house for the products they sell. The distributor is a most common sales channel for standard, mature and low cost products. The key term is “logistical sale”.

Some Issues

Internet: In B2B sales, the use of the web today is largely seen more as a tool providing important logistical and informational support for all three of the traditional sales channels rather than a stand-alone vehicle. Certainly, the dynamics are changing, particularly for distributors, but the key influences remain the same. Exploiting the use of the internet for connecting products with markets is one of the most exciting opportunities we face.

Channel Management: Some considerable study can be applied in designing a sales channel strategy but ultimately success or failure will hinge on managing the people employed in the channel. Whether they are your own employees or independent resources, human nature, being what it is, channel players will want bigger territories, larger product portfolios, greater compensation and exclusive arrangements beyond reasonable expectations. You may have considerable leverage with your direct sales force but the distributors and reps that you need may exercise significant channel power. Thorough analysis, persistence, creativity and the art of acceptable compromise must guide your decisions. And then, you must monitor, evaluate and adjust continuously.

We can help.



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