

Sales and Marketing Library

SALES AND CRM

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Choosing Your Sales Channels

Channels can make or break your business

Channel marketing proves to be a “fit” if the process better responds to the desires of the target market than the organization could do alone. An organization must answer the question, “Will our customers or clients be better served by channel members rather than having us perform these functions?”

Lot size

How many “units” does the end user want per transaction? A household may purchase one personal computer per transaction. The customer service department of Eddie Bauer may purchase 20 personal computers at a time. Channel members may have systems designed to address the needs of both.

Waiting time

The speed of providing faster service may be magnified through the systems that channel members offer.

Location

Getting the product in the right place and time is important. Arranging for “authorized dealerships” throughout a wide geographic area allows products to be conveniently and affordably accessible to customers.

Product variety

The ability to purchase other products from a retail store may enhance the sales and/or margins of all products offered by attracting customers who appreciate the variety of products.

Sales Channels (continued)

The overall goal is to build long-term, supportive, successful relationships among channel members.

Service support

Channel members may be better equipped to offer add-on services. This may include advertising, credit, delivery, installation, and repair to enhance the overall value provided to the customer.

The first step is to select intermediaries that complement the product or service. These channel members should have the goal of offering attractive attributes to the end user. Channel members also need to be motivated to continue to provide value. Motivation typically exists in the form of profitability through stimulating sales. The overall goal is to build long-term and supportive relationships among channel members that are successful for all involved.

Channel Conflict

Marketing channels inherently have the potential for conflict. However, with proper planning it can be minimized or avoided.

Of all the factors, the most common source of channel conflict relates to pricing. It is important that the producer creates the foundation for a pricing structure where each member is able to make a profit from the value they bring to the marketing channel process. Each member's price must reflect his or her role within the channel.

For example, if a retailer is able to purchase directly from the producer at a cost equal to or less than what they buy from their distributor, channel conflict will occur.

Sales Channels (continued)

Other sources of channel conflict may result from goal incompatibility, poorly defined roles and rights, perceptual differences, and interdependent relationships. All of these factors must be taken into consideration, addressed when necessary, and “managed” whenever possible.

The member that has the greatest control—and that may not be the producer—is in the best position to influence the channel.

Roles and Functions

Channel marketing has its own set of terminology regarding each of the players. It often varies by industry. Here is a list of some of the most common terms:

TITLE	ROLE	CARRY INVENTORY	OFFER FINANCING
Broker	Brings buyers and sellers together	No	No
Distributor	Allocates goods to wholesalers or to retailers, depending on the industry	Yes	Potentially
Facilitator	Assists in the distribution process	No	No
Manufacturer’s Representative	Represents and sells for several manufacturers to perform the same functions of an internal salesforce	No	No
Merchant	Purchases inventory to resell	Yes	Potentially
OEM (Original Equipment Manufacturer)	Initial producer of a product who agrees to allow another entity to include, remanufacture, or label products or services under their own name and sell through their distribution channels	No	Potentially
Retailer	Sells directly to the end user	Yes	Potentially
Sales Agent	Searches for customers and negotiates on the producer’s behalf	No	No
Wholesaler	Sells to merchants who then resell to end users	Yes	Potentially

Catalog Sales as a Retail Channel

The pros and cons of catalog sales

There are plenty of benefits to having your products sold in catalogs. But, be wary! There are pitfalls as well in this sales/distribution channel.

Giving away the farm

Many catalogs will ask for a multitude of discounts and concessions before they even place one order. You give them a set price for your product. But they insist on a lower price. They expect you to pay freight. They want an “advertising allowance.” They ask for a volume discount, a catalog allowance, and a photography fee. The requests for concessions go on and on. But beware of this game. If a catalog truly likes your product, they will usually pick it up without requiring a ton of concessions.

Being stung by mistakes

Review a catalog’s rules and shipping requirements closely. Mislabeling your master cartons, shipping late, or failure to follow any of their vendor requirements could cost you. Penalties are typically enforced through deductions off invoices. A few deductions here, a few there, and you can kiss your profit goodbye.

Catalog Sales (continued)

Falling behind with orders

The only thing worse than having a product no one wants to buy, is having one that so many people want you can't keep up with the deluge of orders. If you've never had insomnia, this scenario is guaranteed to cause it. When thinking about your production needs, think as optimistically as possible. Make sure you're capable of handling production if the catalogs are successful with your item. And always have backup suppliers lined up — just in case.

Products that boomerang

Returns from catalogs are an inevitable part of the equation when figuring out your profit. If you have a good, well-built product that delivers on its promises, you have little to worry about. However, high returns are often the first warning sign that there are problems with your product. It breaks easily when shipped, customers think it's overpriced, or assembly instructions are confusing. Any number of issues can be red-flagged by high returns.

Placing your eggs in one basket

Many catalogs ask for an "exclusive." This agreement guarantees that the catalog will be the only one carrying your product for the length of the exclusive. Generally this is not a good deal for your company. Naturally an exclusive with one company locks you out of the rest of the market. If you do grant an exclusive, keep it as short as possible. Six months is plenty of time for an exclusive.

Doing business with deadbeats

Let's face it, the main reason you do business with a catalog is so they will pay you for your product. How frustrating it is then when they don't live up to their end of the deal. And it happens. Like all businesses that are strapped for cash, when a catalog is experiencing lean times, they will delay payment to their vendors.

So keep a close eye on when an invoice is due, and don't let them slide too far past. Any invoice more than a month past due could indicate trouble. Your best recourse is to hold up shipments to that catalog until you get paid. You can even ask for payment up front on new orders.

You Probably Mistreat Your Best Clients

PR people, social media experts, marketing experts, not to mention lawyers, accountants, and consultants: do your long-term loyal clients get the worst treatment? Do they pay the highest rates? Do you take them for granted?

It's not an idle question. I'm not trying to make trouble. It's just that I think this happens a lot. I think it's a natural result of efforts to generate more business and new business.

I confess that I did it at least once that I know of. Very early in the on-my-own portion of my professional service career, I had a retainer arrangement with a large textbook publisher. They paid me \$1,000 a month to have me on call, while the rest of my business planning clients paid me a negotiated amount for each engagement. I built the thousand dollars into my sales forecast, but I hated it when they called. I wanted to deposit the money without any work. I took it for granted.

Telephone companies do it, don't they? Give the new customers better rates than existing customers? The longer you've been with your provider, the more you pay? And don't the cable companies give new customers better deals?

How about this: review your client lists. Make sure your longer-term clients get the best rates and the best treatment. In professional services, repeat business is golden; but there's a temptation to focus on recruiting new clients instead of keeping existing clients.

5 Points on Selling

Without Selling Your Soul

You know who you are. You hate selling, but here you are, making your way as entrepreneur, having to sell or sink.

Me? I'm a terrible salesperson. I'm also bad at networking, cocktail parties, and small talk with people I don't know. Do I seem stuck up, aloof? Not really, just awkward.

I'm probably still scarred from my miserable failure at selling encyclopedias when I was in high school. I spent all summer, never made a sale, never managed to convince even a single person that I was really conducting an educational survey, and not selling encyclopedias. That miserable summer might have been what led me to hippiedom, way back when ... but that's a separate story.

And yet, hating to sell or not, I sold myself to business clients well enough to support a big family on my business plan consulting for 15 or so years, while simultaneously starting to build Palo Alto Software as a product business.

And I've had the privilege of working with and watching some greats in this category. I watched, and I learned. It comes down to 5 points:

5 Points on Selling (continued)

1. Really listen

Really. Shut up for a bit and listen to the other person. No, don't half listen while your mind races ahead to the next point. Really listen, and absorb what they're saying. I like this quote in a Time magazine interview with Larry King:

I never learned anything while talking.

2. Empathize

There's no way to avoid it: you have to actually feel what this other person is feeling. Jump into their skin, or into their head, and look out from inside their head at the rest of the world. My mother used to call it putting yourself into the other person's shoes. My sister-in-law used to say "borrow my eyes and see through them for a while." See if you can imagine how he or she feels and he or she sees it. What experiences have they had which led to that point of view?

There's no substitute for empathy. It's the most important quality in business.

3. Always tell the truth

Lies come out, in the short term or long. Even plausible lies are time bombs.

When asked questions you shouldn't answer — it happens; in the software business, for example, some questions about platforms and programming code and such — just tell the truth, and say you don't feel comfortable answering that question. Explain why not.

When asked questions about weak points or flaws, answer them. You'll gain some credibility and avoid the long-term loss you risk if you lie and your customer finds out later.

Your credibility, which is inseparable from your integrity, is the key to long-term relationships.

4. Solve the other person's problem

One of my favorite things when I used to take sales calls, from back when my company was just starting up to just a few years ago (even as president, I used to grab the sales phone on random calls a few times a month), was to recommend a competitor's product instead of our own. It went something like this:

"If you want a business plan just because you need a stack of papers on a banker's desk in two days, and nobody's really going to read it, then you don't want our product. Ours likes you to think. You want _____." Ours doesn't write any text for you, it's not fill in the blanks ...

5 Points on Selling (continued)

Some of those people whose problems we can't solve now will come back to us later.

And I would end up giving them the toll-free number of a competitor. There was great satisfaction in that. And, in the long term, it's good for the business. People see that you realize what your product is good at, and that other products might be better at different things.

I've seen our best salespeople do it over and over: they listen, empathize, and solve the other person's problem either with our own product or by suggesting something else, that isn't ours, that will solve the problem. We're dealing with humans here; not everybody is a potential sale. Some of those people whose problems we can't solve now will come back to us later, when they have a problem we can solve.

5. Grow thick skin

The first person who ever worked for Palo Alto Software as a full-time salesperson was amazingly persistent. He would leave voice messages for key gatekeeper people once a day for months, without ever getting a returned phone call. And, at least in several key accounts, those months of unanswered phone calls eventually got him — and our product — in the door.

Yes, I know, it's somewhat contradictory to include empathy and thick skin in the same post. If you really empathized with the people who ignore messages, you might not persist in calling back. But business and life is full of paradox. I can't resolve this one.

Retail Is Not Dead

Circuit City shut its doors, office supply stores are reporting slow quarters, and consumers are staying home. The slow economy has reduced sales in just about every retail store. If your company is selling in the retail channel (or thinking about it), the news can be frightening.

One year ago I could read the writing on the wall. The retail channel was either dead or mortally wounded. Consumers' buying habits had changed and product sales in brick and mortar stores were in a steep decline. I had the dubious pleasure of steering a once profitable sales channel into the ground.

During a period when retail sales reports were appalling and getting worse each week, Palo Alto Software chose to review every aspect of its retail channel plan. We didn't expect to be able to fully rebound; we were hoping that we could find a way to slow the decline. We looked at every partnership, channel position, and retail decision. We challenged ourselves to make wholesale changes where necessary. We threw out all of our preconceived notions and started from scratch.

Was our software selling on-shelf in the right stores? Did our pricing model maximize revenue? Did we know where our customers were shopping? What was our competition's strategy? Were retail sales in the process of dying off? Every aspect of our retail strategy was researched, challenged and weighed. Our start-from-scratch approach immediately brought glaring problems to the surface.

Retail (continued)

By asking the right questions, our management team was able to get a better understanding of the retail market. We were able to correct our mistakes and identify some very significant opportunities. A year later, Palo Alto Software has a thriving retail channel that continues to realize significant growth, month over month. Retail is not dead, it's not wounded, it's just changing!

In retail, the learning curve can be very steep and unforgiving.

This article discusses the lessons we learned in retail. Hopefully this series will challenge your business to take a fresh look at retail. It is a complicated, time-consuming sales channel, but the returns can be well worth the effort.

Success in retail depends on your company's current understanding of the overall retail landscape.

You may have understood where retail was two years ago, you may have had your finger on the pulse in 2007, but the market isn't what it was two years ago. Are you seeing the changes that have taken place, and more importantly, are you seeing and reacting to the changes that are on the way?

One year ago Palo Alto Software (PAS) was watching retail sales decline because of a fall in overall retail software sales. The retail channel had changed significantly over the previous years and now the bad economy was beating up retail even more. We needed a new aggressive strategy to win in the new retail landscape.

There was a sudden realization that our approach to retail was destined to fail because it wasn't evolving with the market. When a sales plan becomes stagnant, it is a sign of decline. To counter the decline, our management team threw out all of the things we thought we knew about retail and we started to rebuild our sales plan from scratch.

If your company is thinking about entering the retail channel or creating a new plan for your existing products, there are key questions your management team must be able to answer.

Retail (continued)

Who is your competition and how are they positioned?

I know this seems like Sales 101, but these key questions too often get overlooked: Who is your competition? What is their price strategy? Where do they sell their products? Who are they using for distribution? Where is your competition not selling? Where is your product vulnerable and where are your opportunities? These questions must be on your management team's mind at all times. Once you have the questions answered, you need to ask them again and again, because the answers are always evolving.

A good management team will assess the changes in a market, and look at the competition, and adjust and finesse their strategy. Once we started to really dig into what needed to change, we identified additional distributors we needed to sell through, we revamped sales strategy and we identified a new market we were well positioned to reach.

PAS ultimately created a brand new product, Start Run & Grow Your Business after assessing the retail landscape, and implementing a new more aggressive retail strategy. Start Run and Grow Your Business appeals to a different type of entrepreneur and small business owner, and its lower price point has opened up new channels and retail outlets.

These key moves have boosted our retail sales enormously and this would not have been possible if we hadn't been asking the right questions.

Do you know a guy who knows a guy?

Very mafia, right? Well, I don't think the comparison is very far off. Retail sales require that you know the right people, and that everyone gets their share of the revenue.

The people who sit on the top of the retail food chain are the buyers for each store chain. Buyers tend to be loyal and calculating, and they like to deal with the same group of people year after year.

If your company doesn't have a large catalog of products in retail, then you probably need to hire a guy who knows a guy. Buyers don't have enough time to speak with every sales manager from every company who wants to get their product onto shelves.

Each department buyer is responsible for hundreds of products. For every product that makes it onto the shelf, there are a handful of competitors trying to take that shelf space. The buyers don't have enough hours in the day to speak with everyone who wants a minute of their time. If you can't get a buyer's attention, you will never be able to succeed in retail.

Palo Alto Software uses an outside retail sales company to represent their software products, Business Plan Pro and Marketing Plan Pro, in the retail channel. An average outside sales company represents 10 to 20 companies into retail. For a small cut, the reps give you valuable market insight, and even more importantly, they deliver a valuable service that takes years to build.

Retail (continued)

They deliver relationships with the buyers. You are hiring a guy who knows a guy.

As the new sales manager, I started pestering our outside sales company. I wanted to know why sales were lagging and what moves we should be making. I wanted to know why we weren't selling into the club stores, the mass merchant stores, and why we were not getting any solid marketing opportunities. I was told by our now-fired sales firm that new opportunities were not realistic. I should be happy that our products were still in the office stores. The clubs and mass merchants were not realistic. Retail was just declining and there wasn't much we could do to slow the slide.

After a month of excuses and lack of movement, our former outside sales firm received their pink slip. I couldn't take the excuses any longer. I needed an outside sales firm that had vision and a willingness to step outside of the box. After a long interview process, we hired a smaller firm who wanted our business. The reps have become an extension of our sales team. I check in with them as if they work directly for my sales team.

A funny thing happened when we started fresh with a hungry group of retail reps. We got into the clubs. We got into Target. We started receiving marketing opportunities. The new marketing opportunities, new products and new stores started spiking our retail sales. Instead of managing a declining channel, I was reporting on year-over-year increases.

Quite a difference from the status quo I was supposed to be happy with, and all of that because I'd found the right "guy."

Where do your customers shop and what do they want?

The thing I love about sales is that success is easy to spot and very difficult to fake. Every sales team I have ever worked with has consisted of successful sales reps who delivered results and unsuccessful reps who delivered excuses. Somehow the successful sales people produce month in, month out, completely unaffected by the excuses that plague the non-producers. Channel and division sales operate much like a typical sales team. There are always excuses for failure if you look hard enough. Successful channel sales teams ignore the excuses and find ways to deliver.

One year ago, the retail channel was full of excuses. Store traffic was down. The economy was in a freefall. Customers were not spending money. It would have been easy for Palo Alto Software to accept the excuses as fact. We could have been happy that our sales were not dipping as much as the other guy's. We could have resigned ourselves that the dip was due to forces outside our control, we couldn't do anything to get the market moving again, and all we could do was wait it out.

Retail (continued)

But we didn't choose to accept the excuses. A careful examination of the industry revealed an important trend. Sales were down, but not everywhere. Our customers had changed where they were shopping, but they were still shopping. This realization helped us identify key stores where we needed to gain shelf space.

Sales of big ticket items, specialty items and luxury goods were down. But customers still needed to purchase food, clothes and household goods. Armed with this knowledge, we adjusted our pricing strategy, created a new "impulse" product and began moving our software into retail chains where necessities were sold. Stores like Sam's Club, Target, Costco, etc... still had plenty of foot traffic, and we understood now that it was important for us to be in those stores.

Don't accept the excuses that a sales department can generate. Your customers are still shopping

You may need to step outside of the box to reach them. You need to discover and follow their trends. Don't ever be satisfied with an "if we build it, they will come" plan. Find your customers, study their habits and take your products and services to them.

The retail channel can be the most difficult, most time-consuming sales channel your company has. If you have a product that appeals to the consumer and you can sell where your customers shop, then retail sales can be very rewarding. Thousands of companies navigate this turbulent channel because it can also be the most profitable. No other channel even comes close.

If you are considering selling in retail or looking to improve your retail plan, take a fresh look at the channel. Start from scratch. Make sure you understand your competition, distribution and your price strategy. Make sure you have the ear of the buyers or that you have hired someone who can get their attention.

Most importantly, don't let your sales plan become stagnant. Your success in retail depends on your ability to react quickly to industry trends and your ability to react quicker than your competition. If you proactively manage your retail sales, like Palo Alto Software did, you may find that retail isn't dead, it's just evolving.