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The 10 Components of an Integrated Online Channel Strategy

by Bob Segal

Most B2B companies address the on-going Internet trend piecemeal. Create a partner portal? Okay. Sell products directly, online? Um, no, not now. Build an online configurator? Yes, but don't spend too much.

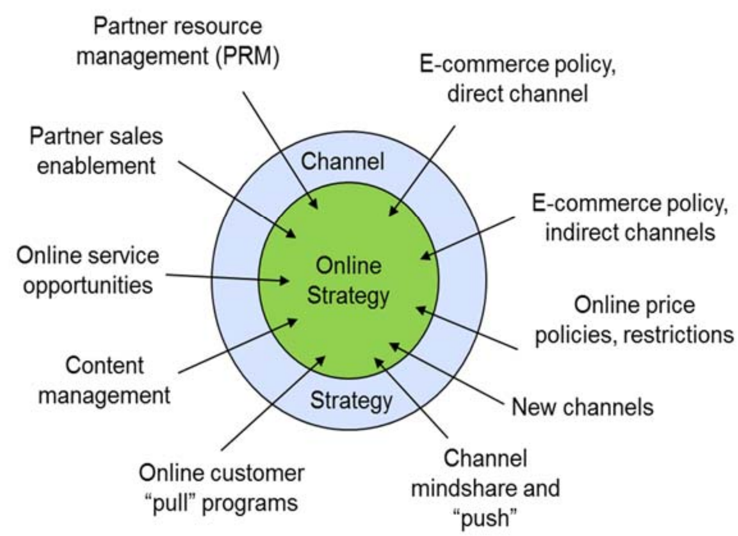
However, the impact of the Internet and related online applications has become so widespread that marketing and sales executives now need to create an *integrated* online channel strategy.

Consider the following:

- Currently, B2B buyers conduct online research for the majority of their purchases including those through conventional channels
- Online sales will be 15-20% of revenue in most B2B industries within three years
- Only 12% of B2B buyers actually want to meet with a manufacturer or distributor sales representative
- The average age of B2B buyers that make no online purchases is 47 years old. The average age of B2B buyers that purchase 20% or more online is 28 years old
- Emerging online channels are creating significant conflict and downward price pressure on traditional channels

Customer and partner use of the Internet is becoming ubiquitous. It is not just relegated to a small sliver of customers making occasional purchases. For this reason manufacturers need to create an online channel strategy that is integrated with the corporation's broader marketing strategies. Secondly, the online channel strategy needs to integrate the various piece parts that comprise today's online world. To help B2B executives address the broader implications of this integrated strategy, Exhibit One shows a comprehensive view of the strategic issues involved.

Exhibit One: The 10 Components of an Integrated Online Channel Strategy



E-commerce policy – direct channel. A key element in any channel strategy is addressing the issue of whether to sell online directly. The answer requires addressing three questions:

- Which customers want to buy which products online directly from the manufacturer, and why?
- Is the manufacturer structurally (and profitably) capable of marketing and fulfilling the type of orders that would result?
- Would a direct online strategy create a destructive level of conflict with traditional, indirect channels?

The answers to these questions have kept most manufacturers on the direct e-commerce sidelines. However, the strategy does not need to be a simplistic "yes or no." Some manufacturers are exploring booking sales directly online and then fulfilling or referring sales through traditional distributors. Also, some manufacturers are evaluating direct online sales of their tertiary products, aftermarket products and ancillary services (supplies, repair parts, warranty extensions, etc.). These product categories often don't get sufficient sales effort from indirect channels (and consequently raise somewhat lower conflict concerns).

E-commerce policy -- indirect channels. Manufacturers select specific partners and apply various policies to influence the way these partners perform. Manufacturers need to consider how to apply these same types of policies to the online activities of their partners. To obtain greater control, manufacturers have several policy tools available:

- Choosing partners based on their existing e-commerce/online strategies
- Contractual requirements defining what products may be sold online by partners
- Contractual limitations on wholesalers limiting to whom they resell products
- Targeted incentives to partners to encourage preferred online activities
- Restrictions on online pricing (see next section)

While the tone of these policies sounds restrictive, the goal is actually to maximize profits and customer satisfaction. Managing the number of partners selling online, their practices and pricing is a viable way to maintain high customer service levels and boost profitability.

Online pricing policies, restrictions. The most visible and emotional aspect of the online world is pricing, or, more accurately, discounting. Manufacturers see online channels selling at huge discounts and receive complaints from traditional channels that operate on a higher-cost model. Manufacturers are concerned that potentially lower end-user service levels from online resellers will blow back to the manufacturer.

Manufacturers are further concerned that traditional channels will demand better prices to compensate for the higher service levels they provide.

While the validity of these concerns varies, there is enough truth for manufacturers to seek solutions. A first step for manufacturers is to impose a Minimum Advertised Pricing (MAP) policies for online sales. MAP policies generally punish violators by withholding co-operative advertising funds. The problem with this approach in the online world is that many pure, online resellers don't rely on these funds. A more dramatic step is for manufacturers to institute re-sale pricing policies that require online resellers to sell at, above or below a specified price (while legal in the U.S., this policy is not permitted in the European Union). Generally, enforcement of such a policy requires enough brand power to make the consequence (pulling the resellers access to the product line) sufficiently painful to the online reseller.

New channels. A significant portion of current e-business is generated by manufacturers' traditional channels building up their own e-commerce capabilities. Beyond that, manufacturers face a strategic decision whether to expand into alternative, online channels. At the head of this list is everyone's favorite bogeyman, Amazon and its Amazon Business (formerly Amazon Supply) division. Other big, pure online companies include Alibaba Wholesale and EBay. Manufacturers may also find that industrial catalog distributors outside their current base, such as Grainger, MSC or Fastenal are potential online partners. Manufacturer may even find sector-specific online players. They are harder to find, but include companies like PlumbingSupply.com or Automationdirect.com.

The decision to expand into any of these players must consider:

- Power relationships – Amazon specifically is known to play hardball with suppliers on pricing and contractual terms
- Channel conflict – as noted above, these new channels may disrupt traditional channel relationships based on pricing or business model
- Scale – even the big players here may not generate significant near-term volume compared to traditional channels. Consequently, will they be worth the investment and conflict risk

Top 5 Questions for an Online Channel Strategy

1. Which customers need what online content/data?
2. Do you want to manage prices seen online and what approach is best to accomplish this?
3. Which products/services, if any, should you sell directly online?
4. Which new channels, if any, should you engage?
5. How do you build a robust data-sharing culture with your partners?

Channel mindshare and "push." Traditional channel partners have field salespeople that historically have called on customers to recommend solutions, brands and products. Manufacturers spend considerable effort trying to build brand mindshare (e.g., loyalty) with these salespeople and their managers. Since dot coms lack field salespeople, manufacturers' online strategies needs to include new means to build partner loyalty and online "push." One way to do this is by sharing more content and "rich media" with online partners.

Online customer "pull" programs. As noted above, online channels don't create the same type or level of "push" into the customer's consciousness as traditional channels. Therefore, manufacturers need to take on a greater role of creating demand and then "pulling" the customer into the online channel. Luckily, the Internet provides a variety of new tools to accomplish this including webinars, apps, online/customized/self-paced training, online chat, online configurators, etc. While seemingly tactical in nature, manufacturers should view these "pull" programs as part of an integrated online strategy.

Content management. Bill Gates once famously opined that "Content is king." In the past content was mostly a one-way flow of printed marketing literature, manuals, product brochures, etc. Today, content must be digital, interactive, rich (think videos, high resolution graphics), social, responsive (e.g., adapted to desktops, tablets and smart phones), tracked, analyzed and managed.

As opposed to text, an increasing portion of content is data. The data derives from customers, channel partners and suppliers. This raises tricky questions around data ownership and sharing. Therefore, a strong online strategy will anticipate key content/data needs and create a culture, processes, policies, and incentives that allows for appropriate content sharing.

Online service opportunities. The Internet of Things is real. Excluding computing devices, about 5 billion "things" will be connected to the Internet by the end of 2015. About 40% of these things are in the B2B market, including pumps, valves, commercial lighting, security cameras, commercial vehicles, etc. According to Gartner, Inc. the number of connected things will rise to 25B in the next five years.

Each of these things will generate content/data (see above). That content will open up entirely new revenue streams for consulting services, monitoring, disaster prevention and recovery, optimization and remote operation. Manufacturer strategies need to consider segmentation, service design and operations and financing. Furthermore, these services open up a large, potential channel conflict issue since many of these services could be offered by the manufacturer and/or its channel partners. Based on our past research, a division of labor may be the best strategy. For example, a channel partner might monitor a customer facility during working hours, but allow one of its global manufacturers to take over monitoring services overnight.

Partner sales enablement. A new set of online tools allow manufacturers to better "enable" their channel partners' selling efforts. These tools work in conjunction with the content (or knowledge) management systems mentioned above. Sales enablement tools help channel salespeople quickly find specific, relevant content from their suppliers. In preparation for a meeting with a new client, the tool might use a series of prompts to provide the channel salesperson with a customized presentation. For example, the tool could pick a template designed for an introductory meeting with a plant manager and include specific information for the product/solution under consideration with a relevant industry case study in the appendix.

Partner resource management (PRM). Many companies already have PRM systems, also sometimes called partner portals. These systems can create deeper engagement with partners by providing ready access to partner-specific information and by freeing up account managers to engage in more strategic planning, coaching and selling activities with their partners. However, partner portals face several challenges:

- Cutting through the clutter. Partners have tens, sometimes hundreds of suppliers. With limited time, partners engage with only a few vendors' PRM systems
- The user experience with PRM systems is often wanting. Many salespeople disengage after a while.
- Portals often reflect the suppliers' needs, not the partners. Many partners view PRM systems as supporting the supplier's interest in certification, deal registration forecasts and POS data collection rather, etc.

As planners develop their online strategy they need to review the role of their PRM systems and make it more useful and relevant to partners.

Integrating online elements into a manufacturer's channel strategy is now a requirement, not an option for executives. The Internet has penetrated all aspects of channel marketing and sales behavior -- not just at the point of transaction, but throughout the entire customer experience. Therefore online considerations need to integrate with existing channel elements, including policies, processes, pricing, and traditional partners. And within the online portion of the strategy, planners need to integrate the 10 components discussed above. Companies that dabble with the online aspects of their channel strategy will quickly find themselves becoming less and less relevant to the partners, and their end-customers.

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