TUCK SCHOOL OF BUSINESS AT DARTMOUTH
Glassmeyer/McNamee Center for Digital Strategies

Channel Management Strategies:

Digital Partnering

An Overview

Thought Leadership Summit
on Digital Strategies
August 6, 2002

Cisco Systems

Channel Management Strategies:
Digital Partnering

— An Overview —

by Scott Borg

on behalf of the

Thought Leadership Summit on Digital Strategies

Competition today is increasingly competition between entire value chains. The very survival of a company will often depend on things that come under the heading of "channel management strategies." This means that CIOs and the other people concerned with coordinating value chains are now often at the center of the most crucial strategic issues that companies face. To deepen our understanding of these issues, Cisco Systems and Tuck's Center for Digital Strategies recently convened the second in a series of thought leadership summits. This summit enabled business leaders and academics with special expertise in channel management to share accounts of best practices and to help each other better understand their common problems. The overall picture of value chains, and especially of channel management, that emerged from this summit is of vital importance to nearly every business operating today.

Part I. Focusing on the Key Value Chain Issues

The New Competition between Value Chains

To succeed in business today, you have to be part of a successful value chain. Sure, it's important to produce high quality products at low costs. Yes, it helps if your potential customers are aware of the special merits of your products. No doubt about it, you need to be nimble, quick, and highly adaptive. Yes, it's good to have a brand everyone knows they can trust. But none of these things will save you if you are part of a value chain that isn't delivering enough value to end users.

Businesses that have understood the need to compete as part of an entire value chain have consistently blown past businesses that have tried to go it alone. Indeed, the contemporary business landscape is littered with the wreckage of companies that had great products, low enough costs, adaptable operations, and famous brands, but weren't part of the best total solutions being delivered to end users.

Learning to compete as part of a total value chain is not only vital to success, and even survival, in today's business world; it's also a discipline that has to be constantly renewed. In the sense we're using the term here, a "value chain" includes the entire upstream supply chain and the entire downstream distribution chain. We'll focus here on the downstream problems of collaborative value chains, but it is important to recognize that these can all be interpreted as supply chain problems seen from the other side. Despite the term "value chain," the relationships we're discussing will often have so many parallel channels, forks, or branchings, that they might more appropriately be called a "value network." If a business starts to take its mastery of any part of this value chain for granted—or if it takes the continuing success of the entire value chain for granted—then it is putting its future greatly at risk.

Discussions like the recent roundtable on Channel Management Strategies are valuable not just for the new insights they produce, but also because they keep us aware of dimensions of competition we might otherwise neglect. All the participating organizations—Cisco, Dartmouth's Tuck School of Business, Eaton, General Motors, Harvard Business School, Lowe's, Sun Microsystems, USC's Marshall School of Business, and Whirlpool—have been deeply involved in cutting-edge value chain issues. Each participant has pioneered channel management techniques that other organizations might find useful as models. Perhaps most significant, all of the participants have been deeply engaged with the internet and with the phase of information technology that takes its existence for granted.

The Impact of the Internet on This Competition

The internet has contributed to the new competition between entire value chains in two major ways. First, the internet has allowed such enormous improvements in value chain coordination that this has become a major area of competition. Second, the internet has made comparison and switching so easy for established, standardized products that it has greatly reduced the margins for what used to be routine business.

This second point has recently become increasingly important. It means that larger margins can only be achieved by: a) selling products so new as to still be unique, or b) selling products that are customized solutions. Paul Mountford of Cisco goes so far as to argue that the internet has made the traditional product life cycle obsolete. It used to be that a company made little profit off a product when it was first introduced, lots of profit once the product was established in a market, and then little profit again as the product is replaced by other products. Nowadays, Mountford says, the cycle is completely different. A company makes high profits from a product's specialized early adopters, low profits when the product gets commoditized by the internet, and then high profits again as the product becomes part of customized solutions. In place of a single bell curve, representing the profits from a product, Mountford draws a curve with two peaks. One peak is for when a product is first introduced; the other for when the product's producer and its customers have moved beyond standardized solutions.

Each of these new dimensions of competition requires close and energetic channel management. Pursuing the new production and distribution efficiencies made possible by the internet is essentially a channel management task. Handling the introduction of new products effectively is increasingly a matter of channel management. Making products part of larger, customized solutions is also largely a channel management problem. One of the main effects of the new competition between value chains is that information technology, instead of merely facilitating routine operations, has become a crucial strategic tool.

The Strategic Dilemmas of Value Chain Coordination

Competing as part of an entire value chain requires new kinds of strategic thinking. To manage the new strategic choices wisely, you need to be utterly clear about what you are trying to accomplish. There are two main goals that managers making decisions about value chain coordination need to keep in mind at all times. These two goals can be reconciled, but they also present managers with some genuine strategic dilemmas.

On the one hand, you want your business to be part of the value chain that is delivering the most value to the end user at the lowest overall opportunity cost. It won't do you much good to have a lock on your position in the value chain or even to dominate the value chain if the entire value chain is being beaten out by another value chain. Hence, to make sure your entire value chain is as effective as possible, you want all your partners in the value chain to be efficient, innovative, and prosperous. If possible, you want your partners to be the very best in their industry. This means that you want to choose the best partners available and to help them become even better.

On the other hand, you want to capture the largest share you can of the value created by the value chain in which you are participating. It won't do you much good to be part of the most successful value chain if you can be replaced so easily that you have little or no bargaining power within that value chain. Hence, you don't want your partners to be more indispensable to you than you are to them. If possible, you want to be a dominant player in your value chain—or at least a player no one would want to do without. This means that you want your partners to remain dependent on you.

Fortunately, your two strategic goals—building a winning value chain and securing your position in it—can often be served by the same efforts. Closer collaboration with other companies in your value chain can increase the total efficiency, and hence, the total value created by your value chain. Meanwhile, the same closer collaboration can make your company harder to replace.

Part II. Making Your Value Chain More Competitive

The Need to Refine Your Channel Solution by Segmenting Your Partners

The big question, when you start considering the various ways of increasing value chain coordination, is *which* collaborative efforts will produce the greatest returns for the necessary investment. Don Bullock of Eaton Corporation points out that it's easy to invest a lot of resources in channel management solutions that won't actually achieve benefits in a short enough period of time to create attractive returns. This means that you need to select *which* cooperative relationships you want to develop, rather than trying to fund in all the possible channel improvements simultaneously. Once you've targeted certain channels for investment, Bullock says, you then need to tailor your investments to the particular type of channel partner that you're dealing with. Different kinds of channel partners warrant not just different levels of investment, but also different types of investment.

A number of leading companies are currently finding that the information technology supporting channel collaboration can be productively used in two very different ways. One way is to enhance revenue by enriching the relationships with high volume channel providers. The other way is to reduce costs by automating the relationships with low volume channel providers. These two strategies require somewhat different infrastructures. Hence, it is important to be clear about which of these strategies is being pursued.

Your high volume channels deserve the most attention. More often than not, the 80/20 rule of thumb seems to characterize distribution channels: 80% of your product will be handled by fewer than 20% of your distribution channels—and often by a much smaller percentage than that. In the past, the big gains from improving coordination with high volume channel providers came almost entirely from reduced inventories and reduced transaction costs. But today the gains are increasingly coming from coordination efforts that deliver more value to the end user. Either way, improving the coordination of these high volume channels will generally be a high return investment.

Despite this special importance of high volume channels, there are at least three reasons why you can't afford to neglect your low volume channels:

1) Your low volume channels add scope and completeness to your market coverage, making it harder for competitors to gain momentum by serving parts of the market you are neglecting.

2) Your low volume channels can have a powerful effect on the reputation of your brand, so that, unless you are willing to eliminate them altogether, you need to give them considerable attention.

3) Your low volume channels often encompass the best future opportunities for your company, because they tend to contain your best growth opportunities, and because at least some of them have the potential to make you less dependent on your current high volume channels.

What this means, in practice, is that you need to divide your partners into groups or categories. But you don't want to do it merely on the basis of volume. You need to decide on criteria for segmenting your partners that will genuinely result in the right scale and type of channel investment.

A State-of-the-Art Way to Segment Your Channel Partners

There are three criteria, other than volume, that currently seem to represent the state-of-the-art way to segment channel partners. Each of these criteria depends on the partner's success in demonstrating particular kinds of capabilities:

1) Technical specialization capabilities. These can be measured by tests of expertise administered to individual employees nominated by the partner companies.

2) Customer satisfaction capabilities. These can be measured by questionnaires administered to the customers of the partner companies.

3) Partner relationship capabilities. These can be measured less formally by assessments of how easy the partner company is to work with, the compatibility of its information systems, and its willingness to invest in the relationship.

Cisco Systems, Sun Microsystems, and Whirlpool Corporation all report considerable success in applying some version of these criteria to their channel partners. Each provides strong incentives for its partners to move up the segmentation scale. Cisco, for example, pays its partners a higher fee for any sales they negotiate if their rating is higher. It also makes new and more advanced products available to partners, depending on their rating. Whirlpool refers end users to its retail partners and service partners, according to how highly they are rated.

Cisco's system for segmenting its channel partners is the most elaborate one, dividing them into Advanced Technology Providers, Gold Partners, Silver Partners, Premier Partners, and ordinary partners. There are currently about ten Advanced Technology Providers, around four thousand Gold, Silver, or Premier Partners, and about forty thousand partners altogether. Cisco divides these categories of partners primarily by their technical specialization capabilities, but it's increasingly considering customer satisfaction as well. Partner relationship capabilities are usually given less attention than the other two criteria, but often become the deciding factor when it comes to picking Advanced Technology Providers.

Sun Microsystems and Whirlpool don't apply the three criteria in as codified a way, but they make it clear to their channel partners that these are the criteria that result in differential treatment. Technical specialization is a *sine qua non* for many of their partner relationships, such as those with service providers. Customer satisfaction is a scale their partners are explicitly told will be used to choose among them. Partner relationship capabilities are a requirement for all their collaborative efforts.

One of the most important lessons from these companies' experiences is that publicly posting your criteria for segmenting your partners can be a powerful tool in motivating them to pay attention to things that are important to you. By regularly adjusting what tests of expertise it offers and how much they are worth in the rating system, Cisco is able to increase the specific capabilities in its value chain that it knows it will need in the future, while cutting back on the capabilities it knows will be oversupplied.

An especially important lesson from Cisco's experience is the extent to which e-learning can be a strategic tool for managing partner segmentation. Brad Boston and Surinder Brar explain that it's Cisco's e-learning programs which provide the training, the testing, and the overall guiding structure that allows Cisco to manage its partners' technical capabilities on a worldwide basis. Because Cisco's e-learning programs give the company a way to influence even the smallest details of its partner's technical procedures, it also gives Cisco an unrivaled tool for maintaining quality throughout its channels and for protecting its brand.

Practical choices about information technology need to allow for this sort of segmentation strategy and these methods of implementing it. Donald Bullock of Eaton notes that you will need to choose an information infrastructure that can be used by all your channels, yet you will need to be able to adapt it to the specific micro-strategies necessary to optimize each channel.

Building a More Competitive Value Chain by Improving Quantitative Planning

The most basic way to create value through channel coordination is by sharing information on projected demand and projected supply. If this is done effectively, no one in the value chain will be caught too much or too often with supplies that aren't needed or with demand that can't be met. The gains that have been achieved over the last dozen or so years by sharing demand and supply information with value chain partners were one of the main sources of America's productivity boom during that period. Yet impressive though these gains have been, they are still an example of "steering with the rear view mirror."

The component of the channel coordination effort that's generally in most need of further development is collaborative forecasting. In principle, pooling information and market perceptions from different companies in the value chain should allow much more accurate projections. The technology for accomplishing this is extremely simple and often already in place. But, in practice, the potential of collaborative forecasting is seldom realized.

One of the main reasons collaborative forecasting isn't utilized more is that companies don't know how much to trust information that comes from other companies. Eric Johnson of

Tuck says that vital information on increased customer demand is usually ignored when it comes from suppliers, because it sounds like part of the supplier's sales pitch. In one of Johnson's examples, Bristol-Myers Squibb didn't even tell Wal-Mart about the increased demand for mosquito lotion that they anticipated as a result of unusual summer weather patterns. They assumed, probably correctly, that Wal-Mart would have treated it merely as a pitch to get more product onto Wal-Mart's shelves. Even if Wal-Mart had trusted Bristol-Meyers' intentions, they wouldn't have known how much to trust Bristol-Myers' forecasting method. When companies look toward the future, it's hard for them to trust anything other than their own experience.

Another important reason collaborative forecasting isn't utilized more is that it usually isn't built into the company cultures. Most companies are in the habit of dealing with problems after they have already arisen, rather than trying to anticipate them before they arise. Even when companies have a valid forecast in hand, they are usually inclined to ignore it, because the forecast won't seem "real enough" until after the events it describes have actually happened.

To remedy these problems, collaborative forecasting needs to be a central part of the routine interaction between channel partners. Each company needs to be given a sufficient incentive to make the forecasting work. Specific people in each company need to be made responsible for generating the collaborative forecasts and for making the corresponding adjustments in inputs or output. They need to be given adequate authority and adequate incentives. Finally, longer-term adjustments need to be made in the company cultures to make company actions more future-directed, so that the "owners" of the forecasting process and its implementation get the support they need.

Using Better Channel Coordination to Achieve Product Improvements and Process Improvements

Despite the huge gains to be had from getting inventory levels right, this is only a portion of the benefits to be had from improved channel coordination. Narakesari Narayandas of the Harvard Business School says he has observed, over the last year or so, a large change in value chain focus. Previously, he says, most companies had concentrated on achieving quantitative improvements in supply chain efficiency. Now, he says, they have shifted their attention to ways distribution channels can add new value.

Better sharing of information on the *kinds* of products that customers need can be just as valuable as better sharing of information about the quantities they need. Any time customers have to settle for products that are less close to their ideal product, there is significant opportunity to create value that is being lost. This is just as wasteful as a sale that is lost because the inventory isn't there on the shelf.

In addition to providing information on the kinds and quantities of products needed, channel partners can perform an important service for each other by sharing information on the best practice benchmarks achieved by competing companies. Both David Butler of Whirlpool and Eric Sowder of Lowe's identify this as an important way in which their companies have regularly contributed to the success of their value chains. If a company's shipping speed and delivery accuracy, for example, are falling behind those of its competitors, it can make a huge difference if its value chain partners let that company know at once.

"Purchase experience" and "user experience" have proved to be especially useful concepts for looking at what the total supply chain is actually delivering. David Butler reports that Whirlpool has found research into these areas to be an increasingly important tool for improving its collaborations with retailers and service personnel. Mark Hillman of GM confirms that, despite decades of attention, these areas remain, in many ways, frontiers where the auto industry recognizes it can still make large gains. John Marshall of Digitas notes that customer behavior can only be understood in terms of the total experience that's associated with choosing the product.

Although the subject can make people uneasy who are used to dealing with hard facts, there is nothing mushy or nebulous about purchase experience and user experience. This is especially evident when the ultimate users are employees of other businesses. Making their experiences faster, easier, and more pleasant will reduce their costs in measurable ways. Better "consumer experiences" result in similar benefits, even though these show up as "favorable impressions," rather than as more quantifiable gains.

Companies that have been actively addressing customer experience issues have found that pre-purchase research by customers on the internet and online interactions with manufacturer websites are now a crucial part of the overall experiences associated with their products. Susane Berger of Sun Microsystems notes that internet research has become almost standard procedure in the purchase of larger household items, especially when the purchasers are women. Heidi McRae of Cisco cites the fact that 62% of all automobile purchases are now preceded by internet research. Even purchases from retail stores, as Thomas Whiddon of Lowe's points out, are often preceded or followed by internet research. Furthermore, it is usually the most desirable customers who are using the internet the most. Customers that are registered users of Lowe's website, Whiddon reports, spend 78% more than Lowe's average customer.

Because online interactions have recently become such an important part of the purchase experience and user experience, companies that are leaders in the management of these experiences are increasingly collaborating with their channel partners in the creation of websites. Mark Hillman describes a system developed by GM that provides templated services and software for their dealers' websites. This allows the dealers to put their own brand and customized features on their website, but to be using a website structure that's actually GM's underneath. This allows the dealer in collaboration with GM to produce a customer web experience that's much better and more reliable in quality than would be possible otherwise. An added benefit for GM is click data that could potentially provide early indications of changes in customer interests and demand.

In addition to direct collaborations, such as websites, there is usually a huge opportunity to improve the user experience associated with a brand by improving the coordination with the many people outside the company who are associated with the brand in the mind of customers. Often the outsiders who handle a brand will be many times more numerous than the people who work for the company that owns the brand. Paul Mountford says, for example, that there are 866,000 people who *aren't* Cisco employees who regularly represent Cisco products. Since this is more than *eighty-six times* as many people as Cisco has in its sales force, the leverage to be had from managing these outside representatives even slightly better is enormous.

Synergies That Can Be Achieved by Managing a Number of Channels and Products Together

There are many synergies that can be achieved by managing a number of channels and products together. Perhaps the simplest of these synergies is the reduction in costs that can be achieved by using the same product documentation for each of the channels that is used to distribute that product. This can sound almost too obvious to be worth attention, but, in practice, managing product documentation well requires considerable ingenuity, and the savings to be had from getting it right are considerable. Brad Boston of Cisco says that every department and every channel that dealt with one of Cisco's many products used to publish their own descriptions of that product and their own instructions for the use of it. In effect, the same content was being generated over and over again for different audiences. Worse, there were costly confusions about which were the most relevant and most recent documents. By better management of their websites, Cisco is in the process of drastically reducing these redundant efforts and their unwanted consequences.

Dominant producers can often help the entire value chain to be more productive by providing information and incentives that will encourage their partners to distribute their efforts better. Often several channel partners will be spending resources competing for the same customers. This is generally counter-productive for the larger value network. It wastes resources on overlapping promotions, reduces margins for the competing partners, and causes opportunities for expanding the market to be neglected. In cases like these, a partner that spans all the various channels can help everyone involved by redirecting their efforts, so that there is less overall redundancy and more attention to unexploited opportunities.

While working to distribute their efforts better, value chains also need to make sure their efforts are not self-contradictory. The need for this can sometimes be obvious when it comes to customer segmentation strategies. If GM, for example, is advertising a particular model to older customers, while dealers are pitching it to couples starting families, their efforts will almost certainly be undermining each other. Eliminating this kind of cross-purpose effort—

and even spotting it in subtler cases—can be a serious challenge. It is only by constantly discussing their strategies with partners up and down the chain that channel partners can make sure their promotional efforts will be reinforcing each other.

When it comes to fine-tuning the channel at the customer level, point-of-sale information can often be used very effectively to plan cross-promotion of products. Thomas Whiddon, for example, describes a new system at Lowe's that will allow them to go after entire sets of correlated purchases. If you buy a book on how to build a deck, he says, you'll receive mailings on the appropriate building materials, and later, flyers on patio furniture, planting boxes, and gas grills, and perhaps, after several years, information on resealing deck surfaces. If these promotions are targeted accurately enough, customers will be delighted to receive them. Furthermore, as Eric Sowder explains, this system will give you, as a customer, a relationship with Lowe's that will help differentiate it from its competitors.

Using Internet Configurators to Help Customers Incorporate Your Products into Larger Solutions

If there is one single development that most represents the future of value chain management, it is probably internet configurators. These are software applications that design customized solutions for customers in an automated way. The most successful configurators up to now are the ones used to design Dell's made-to-order personal computers. But these only hint at the value that could be created by configurators in other contexts.

Internet configurators can already be a valuable tool if your customer needs a multiple-product solution that is part of a much larger project. Building contractors, for example, need to put many different utility systems into the buildings they are constructing—appliance systems, electrical systems, heating and cooling systems, plumbing systems, and several others. Since the component products represent only a small part of their total budget, they will tend to care less about the initial product prices than about completing the entire project effectively and efficiently. If an internet configurator can sharply cut the time and trouble it takes to choose the appropriate components, a contractor will often be inclined to use it to buy all the components necessary for that system.

Alan Shaw of Whirlpool describes how his company applies this configurator strategy to the sets of appliances that contractors put into new houses. Rather than having the contractor go through the time-consuming process of making each appliance decision with the home buyer, Whirlpool provides a configurator that takes care of all these decisions at once. The contractors narrow the options by putting in their specifications. Then they send the home buyer off to choose the specific appliances with the aid of Whirlpool's configurator. Shaw notes that this process has an added advantage for Whirlpool, because it allows Whirlpool to build a relationship with the customer that is independent of the customer's occasionally rocky relationship with their contractor.

Don Bullock describes how Eaton's configurators allow its channel partners to quickly determine the combination of controls and other electrical components they will need for their customers' projects. Satisfied partners will use Eaton's configurator again and again, allowing Eaton to place whole systems composed of their products into projects. This builds brand loyalty and improves returns throughout the channel.

More powerful software is allowing configurators to tackle increasingly complex problems. This makes configurators a key tool in the customizing of products. Many jobs that used to be considered matters of system design or engineering can now by handled by configurators. Susane Berger describes configurators offered by Sun Microsystems that are so advanced even Sun's most sophisticated channel partners rely on them for expertise they couldn't otherwise provide. As configurators like these are developed further, they will be increasingly integrated into the design process and the production process. Eventually, they will probably become so central to the way businesses create value that many companies will essentially be operations for supporting configurators.

However sophisticated they become, configurators will still need extensive logistical support to make their virtual solutions into real ones. It is usually crucial, for example, to make sure the configurator sale is backed up by a closely coordinated delivery. David Butler points out that a building contractor using Whirlpool's appliance configurator will typically need to install all the appliances for a given house on the same day. This means that the contractor's decision to use a particular configurator will be contingent on the supplier's ability to manage the logistics necessary for delivering all the components exactly when and where they are needed.

Often the various components of a larger solution can be put together without these components ever being touched by the company responsible for the configuration. In fact, shipping companies, such as FedEx and UPS, can sometimes serve as the physical compiler for the solution. Susane Berger of Sun Microsystems says that this has been an important advance for her company in cases where Sun is providing a solution comprised of components from several suppliers. Four years ago, each component would have been shipped to Sun, stored in a staging facility, repackaged, and then reshipped to the customer. Now, Berger says, FedEx receives the components at various times from each collaborating supplier and delivers them all at once to their final destination.

Part III. Securing Your Position as Your Value Chain Evolves

Managing Your Relationships with Channel Partners in Ways That Protect Your Bargaining Power

The more you develop your relationships with your main channel partners, the more careful you need to be about the ways this affects your long-term bargaining position. Although you want to be doing business with "the best," it's the way you deal with the "second best" that often has the greatest effect on your position in the value chain. In fact, even in the short term, it is actually *these* businesses that determine the bargaining power of the businesses at the top. The logic here is simple, but surprisingly powerful. When you're negotiating with your top channel partners, the concessions that you're willing to make will depend entirely on what alternative opportunities your "second choice" partners could offer you. This means that it's often a good investment to encourage and aid whichever second tier partners have the potential to rival your first tier partners. Companies like Sun Microsystems, as Susane Berger acknowledges, actually make this line of reasoning central to their choices of trading partners. Meanwhile, you need to assume that even your closest channel partners will be looking for alternatives to *you*.

Your policies regarding the sharing of information also need to be shaped by strategic considerations. There are several reasons to be very selective about the information you share with your channel partners. You usually don't want to share any information that your company is actively and directly using to create value, because this will reduce the advantage that information gives you. You don't want to give away information that will help your channel partners reduce their costs unless you are collecting some of what those channel partners gain by applying that information, at least through increased sales. You need to make sure you don't lose the trust of your customers by sharing information they wouldn't want released.

Concern for customer privacy and these other issues can easily become an excuse to postpone tackling the problem of how best to use customer information. Yet for each of these issues, there are solutions. When you've got information that someone else could use to create value, you need to explore the ways in which you could apply that information without actually releasing it. If your channel partners are unwilling to pay you in more direct ways for the information you are giving them, they might still be willing to pay you in information. If you share customer information wisely, it will increase the value that is created for those customers to such an extent that they will probably welcome this use.

Bolstering Your Position in the Value Chain by Establishing Relationships with More Remote Participants

There are several ways in which your company can bolster its bargaining position by establishing relationships with participants that are more remote from you in the value chain. One way is to share information with companies further removed on the value chain. This provides a benefit to the value chain that might be lost if your company were replaced by a competitor. Hence, it can sometimes provide you with powerful allies when it comes to bargaining with your immediate trading partners.

Another way to improve your bargaining position is to make your brand known to the end users, even though you are *not* providing goods or services that are directly consumed by end users. Gary Frazier of the University of Southern California's Marshall School of Business reminds us that the Intel branding campaign, in which he played a part, remains the classic example of this. By making "Intel Inside" a feature that end users actively desired, the company greatly improved its bargaining position in relation to computer manufacturers.

Collecting information directly from end users, even if you are two or three steps removed from them in the value chain, can help you to make sure your specific product has distinctive features that end users would miss if the intervening partners tried to replace your product with another one.

Direct contact with end users, even if you're not doing business with them, will often give you the capability of directing their business to the channel partners that you choose. This can give you a powerful tool to use in negotiating with those channel partners and in influencing their behavior. According to Surinder Brar, for example, Cisco's sales people have direct contact with about 70% of Cisco's customers. Yet only about 8% of Cisco's business is direct. One consequence of this is that Cisco has a huge influence over which channel partners its end users actually choose. Whirlpool, as Alan Shaw explains, uses this power even more conspicuously, constantly referring huge numbers of potential customers to local retailers and service agents.

Looking After Your Interests as Common Standards Are Introduced for Configurators and Other Channels

There are certain ways in which you can benefit greatly from common standards. You want it to be easy for everyone to do business with you. You also want the special merits of the deals you are offering to be unambiguously apparent to your potential trading partners. These things can usually be best achieved by establishing common standards for comparing products.

Yet there are other ways in which common standards can greatly hurt you. You don't want to turn your products into commodities or to describe them in ways that cause them to be traded like commodities. You don't want your most original and valuable product innovations to go unrecognized and unrewarded, simply because the common standards that are being used for comparison have no way to take account of these innovations.

This means that common standards should never be allowed to become too stable or too unstable. New standards need to be constantly established, and old ones retired. Brad Boston of Cisco points out that this means there will always be several generations of standards in operation at any time. He also notes that one of the implications of this is a perpetual need for "translators" that can facilitate business interactions. These translators generally need to be independent businesses, so that their translations are not too biased toward any one standard.

Common standards that are important or long-lasting, such as the ones that fostered the cell phone boom in Europe, seem to work best when they are put in the hands of a relatively disinterested agency. This agency can be created by a government, by an industry association, or by an international convention supported by a variety of institutions. To foster free enterprise among interconnecting technologies without letting a monopoly dominate, there usually needs to be some independent arbiter to set the rules.

Moving Forward from Here

Perhaps the biggest lesson from this survey of channel management and its future is the extent to which huge gains can still be expected from this area. Despite the enormous increases in productivity over the last dozen or so years that were due to better value chain coordination, it seems clear that what has been done so far barely scratches the surface of what is possible. The greatest opportunities for the future, however, will probably *not* come from cutting costs further by more efficient handling of inventories. The greatest opportunities will probably come from creating new value by providing more customized solutions at each stage of the value chain.

Participants in Thought Leadership Summit on Digital Strategies
August 6, 2002

Susane Berger	Vice President, Customer & Partner Sales Operations, Global Sales Organization, Sun Microsystems, Inc.
Scott Borg	Independent Consultant and Writer
Brad Boston	Senior Vice President and CIO, Cisco Systems, Inc.
Surinder Brar	Senior Director of Worldwide Channels, Cisco Systems, Inc.
Hans Brechbühl	Executive Director, Center for Digital Strategies, Tuck School of Business, Dartmouth College
Donald H. Bullock	Vice President, Information Technologies and CIO, Eaton Corporation
R. David Butler	Corporate Vice President & CIO, Whirlpool Corporation
Gary L. Frazier	Richard & Jarda Hurd Professor of Distribution Management, Marshall School of Business, Univ. of Southern California
Mark Hillman	Director of Process & Integration Supply Chain, General Motors Corporation
M. Eric Johnson	Director, Center for Digital Strategies, and Associate Professor, Tuck School of Business, Dartmouth College
John Marshall (Moderator)	Executive Vice President & Global Leader, Strategy & Analysis, Digitas LLC
Heidi McRae	Manager, Thought Leadership Network, Cisco Systems, Inc.
Paul Mountford	Vice President, Worldwide Channels, Cisco Systems, Inc.
Narakesari Narayandas	Chair of the Business Marketing Strategy Program, and Associate Professor, Harvard Business School
Alan Shaw	Vice President, Customer Relationship Management, North American Region, Whirlpool Corporation
Eric Sowder	Senior Vice President, Logistics, Lowe's Companies, Inc.
Thomas E. Whiddon	Executive Vice President, Logistics and Technology, Lowe's Companies, Inc.