In a slowing economy, many companies find themselves caught up in a destructive growth cycle characterized by slumping sales, too many dealers, and too little support to the channel. The cycle can be broken. It requires rethinking key supply chain partnerships and then investing to build profitable relationships. The case examples here prove the clear benefits of pruning weak partners and strengthening those that remain.

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"You are extremely important to us. We haven’t said that lately. We love the dealers. We want you back." —Jonathan Rich, President, Goodyear Tire North American Division

This impassioned plea was uttered at Goodyear Tire’s 2003 dealer conference as Goodyear’s stock was reaching all-time lows, cash was running short, and creditors were breathing down the company’s neck. After years of treating its independent dealers poorly and being notoriously difficult to work with, Goodyear realized that the independent dealers, which accounted for two-thirds of Goodyear’s replacement tire sales, were its only hope for survival. “You control the sales to our customers,” Rich added.

But would the dealers accept this wooing? They had been burned many times in recent years, starting with Goodyear’s decisions in 1992 and 1993 to sell through mass-merchandisers Sears, Wal-Mart, and Discount Tire. Some dealers filed lawsuits against Goodyear. Many expanded their offerings to include more tires from competitive manufacturers. Others complained that the company was hard to deal with, did not listen, had poor delivery service, and engaged in unfair pricing practices. The bickering had gone on for years, but now Goodyear was really in trouble and promising to change.

“I’ve heard it so many times before,” said John Warder of Richlonn’s Tire & Service Centers in Racine, WI. “Maybe this time they mean it.”

The relationship between manufacturer and dealer has always been a challenging one. Without question, they need each other. Manufacturers need resellers to sell and service their products and dealers need manufacturers to provide products that will bring customers in the door. In times of mutually profitable growth, both sides prosper and the relationship seems unassailable. New dealers are added to fuel growth and slowly the distribution channel becomes bloated, with too many dealers competing for the same customers. When sales slow, channel tension can bubble over into significant conflict. Weak dealers in an overexposed channel see their sales and profits drop and everyone finds growth challenging. During such downturns, possibly the most dangerous trap for both sides is the continuation of a destructive cycle of cost cutting and expansion.

The cycle often begins when growth stalls in an overexposed channel due to category maturation or a weak economy. To protect profits and stimulate sales, the manufacturer looks to cut costs by reducing dealer support or to boost dealer sales through short-term incentives...
In a downturn, rather than simply cut costs some manufacturers have found that investing in the channel can position the firm for growth and create significant competitive advantage. Interestingly, slowdowns provide a unique opportunity to prune poor performing dealers while simultaneously investing in the remaining prized partners. The key to this strategy is bringing the best dealers into the process and investing in joint success. Companies as diverse as Steinway & Sons, John Deere, and Stihl—all strong brands—have used this approach to grow their business while simultaneously improving profitability and customer satisfaction. This exacerbates the slowing sales growth. Furthermore, profit erosion and channel expansion accelerates the decline and, if unbroken, the cycle can be catastrophic (Exhibit 1 depicts this destruction). Goodyear, like many others before it, had fallen into this trap.

**Make Them Feel Needed**

Steinway & Sons, maker of legendary hand-crafted pianos, found itself in the middle a slowdown crisis when CEO Bruce Stevens joined the firm in 1985. With sales slowing and its 150 authorized dealers complaining about low profit margins, slow moving inventory, and the costs associated with supplying concert grands for Steinway Artist performers, there was little time to right the ship before the legendary firm would be history.

The sales channel was so backed up that Steinway had more than 900 unsold pianos (over four months worth) in its finished goods inventory—a high watermark for a firm. To understand the dealer concerns, Stevens spent six months crisscrossing the country, visiting the discontent dealers and listening. The result of his whirlwind tour was a new dealer relationship plan called the “Steinway Working Partnership.” The core of the program was an offer of expanded, exclusive territories and profit opportunities in exchange for stepped-up commitment from the dealers to display and promote Steinway products. With sales running 20 percent below historic averages, dealers were reluctant to make the required investment in upgrading showrooms, increasing inventory, and adding salespeople. But as Steinway gradually trimmed its dealer network and dealers saw Steinway making good on its promises of expanded territories, they signed on to the program. “It took us about five or six years to gain the trust we needed to fully implement the program,” Stevens explained, “If we had liquidated the pianos, it would have completely compromised the name, and it would have done serious damage to the Steinway brand.”

Frank Mazurco, director of sales and marketing recalled, “Looking back, I understand why the dealers were hesitant to get onboard at first.”

By 2009, only 63 dealers remained in Steinway’s U.S. dealer network, less than half of the mid-1980s level. However, those remaining dealers were far more profitable. “It takes trained people, good displays, a lot of inventory, and strong programs to present Steinway pianos to consumers. That is consistent with our image and heritage, and that requires profitable retailers,” said Stevens, who retired at the end of 2007 after over 20 years as president and CEO. “Take away the profit and we don’t get the representation in the field we need.”

While eliminating a lot of dealers may seem like an odd way to make dealers feel needed, Steinway realized that downsizing the distribution channel was the best way to increase dealer profitability. Rather than wait and end up reactively managing a consolidating channel, Steinway proactively pruned to make the channel stronger. Steinway’s dealer reduction program made surviving dealers feel important because they recognized that they had been selected to remain while others were cut. The exclusivity of the new, larger territories demonstrated Steinway’s faith in and dependence on the dealers. Unlike other manufacturers, Steinway asked the dealers to become more focused on representing Steinway well. Showrooms were renovated and salespeople were given increased training on how to present Steinway products. The results of all these changes were increased sales and margins for both Steinway and the dealers.

As for the remaining Steinway pianos on hand in 1985, Stevens refused to liquidate them at fire sale prices despite heavy pressure from bankers wanting the company to pay down its debt. (Steinway had a 55:1 debt to equity ratio at the time.) Stevens felt that selling Steinways at a discount would severely damage the value of the brand. Instead, he ordered all 900 pianos unpackaged, relabeled, and regulated (regulating is the process of adjusting all the mechanical linkages that connect each key to a hammer). Steinway worked with the dealers and patiently sold off the inventory one by one. Stevens explained, “If we had liquidated the pianos, it would have given our cash position a short-term boost, but it would have done serious damage to the Steinway name, and it would have completely compromised the credibility of the management. Holding firm was one of the best decisions I’ve ever made.”

Norwegian furniture manufacturer Ekornes, makers of Stressless brand recliners and sofas, went through an almost identical situation with its French dealers in the mid 1990s. In 1993, Ekornes had more than 450 dealers in France. This over-distribution led to low profits for dealers and low commitment making the brand succeed. Later that year, the company cut more than 300 dealers down to just 150 dealers, and like Steinway, Ekornes instituted large, exclusive territories for the dealers. Segmenting the dealer base is an important step in any channel reduction strategy and it can be based on many factors—not simply the dealers’ current size. In fact, small dealers may in some cases offer the best opportunity for future growth.

Ekornes used sophisticated, demographics-based sales forecasting software to help select which stores to keep and how to optimize the sales territories. The company wanted to make sure that dealers could be successful and profitable. The results were stunning. With French sales tripling between 1993 and 1995, and climbing at 50 percent annually immediately after, Ekornes began a similar “selective distribution strategy” undertaking with its Norwegian dealers in 2006. Initial results looked good. With the reduction in dealers, sales in Norway dropped 63.5 percent in 2006 but bounced right back 8.8 percent in 2007.

Likewise, in the early 2000s, the agriculture division of John Deere began a dealer consolidation effort. This was precipitated by a consolidation of the customer base as small farms sold out to large corporate farms. Deere’s products were becoming increasingly technically sophisticated and that required dealers with larger, skilled sales and service departments. By 2007, Deere was down to fewer than 750 dealer owner groups, a reduction of more than 50 percent from the late 1990s. Over this same period (1999-2007), Deere agricultural equipment sales grew by an astonishing 136 percent (90 percent when looking at the agriculture division only).

In a downturn, rather than simply cut costs, investing in the channel can position the firm for growth and create significant competitive advantage.
adjusted for inflation). Firms should not wait for downturns to realign their channel. Rather, partner selection should be a continuous “editing” effort.6 However, slowdowns often provide the catalyst and determination to make the needed changes. The slowdown of 2008–9 has led many firms to consider similar actions. Finding itself overexposed, Starbucks decided to shutter 600 of its company-owned stores. Driven by company-owned storefronts can be done rather softly, but strengthening an independent network of dealers through consolidation is more challenging.

Each of the Detroit Three—Ford and GM collectively had reduced their American dealer networks by 621 stores; about 4 percent. The manufacturers recognized that falling demand could not support the bloated dealer network. Even before the buyout of Chrysler by Cerberus Capital in 2007, then Chrysler CEO Tom LaSorda had set a goal of reducing Chrysler’s 3,750 dealerships by 10 to 15 percent. The new management continued this tone, encouraging dealers to consolidate, long before the disastrous fall of 2008.

Of course, consolidation is not the only way to show dealers feel needed, downsizing the distribution channel might be the best way to increase dealer profitability.

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Providing for Their Profitability

Perhaps the dream of every manufacturer is to have retailers sell only their company’s products. For that to happen, a manufacturer must offer a product line broad enough to enable dealers to be profitable. In the late 1980s, Steinway developed a vision of creating mid and low-mid priced pianos that would be as profitable as the Steinway line.7 The goal was to offer such a full and compelling line of pianos that competitors would be squeezed off the showroom floor. To that end, Steinway first unveiled the Boston line of mid-level pianos in 1992, and then the Essex line of low-mid pianos in 2003.

The Boston line did extremely well, reaching sales of nearly 40,000 pianos in its first ten years. The new pianos caught on with enthusiasts, teachers, and institutions that were looking for a moderately priced piano and appreciated the connection to the Steinway name and design. However, Essex had a rocky start. With high costs and poor design decisions, the piano came to market at the wrong price point—overlapping the Boston line and confusing customers. Rather than quitting, Steinway held firm to its strategy and quietly retooled. Over the next few years it redesigned the Essex pianos and lowered their costs through new manufacturing partnerships. With strong dealer support, it relaunched Essex in 2006—this time with great success. By 2007, Boston and Essex accounted for roughly 70 percent of pianos sold by Steinway.

With the release of Boston and Essex, Steinway had a piano for every level of musical ability and budget. This positioned Steinway to become the primary supplier for many of its dealers. Many dealers found that they no longer needed to carry as many, if any, competitor brands. Dealers also liked the new products because they created a natural upgrade path and drove repeat business.

About 75 percent of Steinway brand buyers owned another piano previously. A customer could buy a less expensive, Steinway-designed Boston or Essex to start with and upgrade to a Steinway later. In fact, Steinway created a trade-in program to encourage this behavior. All this worked together to make Steinway dealers more profitable and more focused on selling Steinway pianos. Perhaps the dream of every manufacturer is to have such a broad array of products including bicycles, clothing, tools, and accessories.

Similarly, similar strategies have been implemented by some key players in the bicycle industry. While Trek has 4,600 specialty bike shops in the United States sell five or six bike brands, manufacturers Trek and Specialized, who together have more than 50 percent market share in the industry, are working with their dealers to expand their presence and push competitors off the showroom floor. Both companies have been focusing on building “concept stores.” Trek defines a concept store as a store that sells only that company’s product (including its Bontrager accessories brand). When a dealer commits to being a concept store, Trek sends in a team of retail experts to set up the displays, select the merchandise, and perform training. They refer to it as a “business in a box.” Additionally, the dealer receives better pricing and access to a broader selection of Trek products. Specialized requires a 60 percent merchandising commitment for a store to be designated a concept store. It allows the rest of the merchandise to come from a select list of “complimentary” brands. However, direct competitors like Trek and Giant are forbidden.

Dealers are finding that by focusing on one supplier, they can carry less inventory and present a streamlined, less confusing product array to customers. The concept store idea is possible because Trek and Specialized offer such a broad array of products including bicycles, clothing, tools, and accessories.

Show Them That You Love Them

The old adage that “actions speak louder than words” certainly applies in supply chain relationships. Manufacturers can talk all day long about how important their dealers are, but without actions to back up the talk, the dealers won’t feel the love. Manufacturers show their dedication to their dealers through training, in the merchandise, promotions activities, and good old fashioned relationship building. Steinway takes these actions to an impressive level.

Steinway starts each year with a dealer conference at an upscale resort in southern California. Close to 400 people gather each year to hear the Steinway story, report on past results and discuss plans for the upcoming year. The company recognizes the accomplishments of its top dealers and celebrates successes with lavish recognition and awards. Steinway trucks in, sets up, and tunes almost 50 pianos for the dealers to view and play. And what’s a Steinway conference without several performances by top musical artists such as Roger Williams and Allen Toussaint? The company’s recently adopted motto of “We Are Family” is seen on logos, affirmed from the podium, and blasted from the
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Steinway has been hand-making and maintaining pianos for over a century. Steinway even has a library of "how-to" to help dealers with all kinds of promotions and events. One unique event is the in-home-concert in which a Steinway dealer contacts a recent purchaser and offers to provide a Steinway artist to perform concerts at a customer's home on their new piano for free. In return, the customer agrees to invite a few friends and allow the dealer to put its business cards on display.

Because Steinway dealers have exclusive territories, they view each other as colleagues rather than competitors. To take advantage of this, Steinway created business development discussion groups. Each group of ten or so dealers met to discuss various coursework and logging years of experience. Technicians attend the Technical Academy to learn how passionate about its pianos and about supporting its dealers. The dealers in return feel appreciated and respected. They leave fired up to attack another year of selling pianos. When asked if any of their other suppliers provide similar support, dealers unanimously declared that no other company comes close. They feel they are a part of the Steinway story and are proud of the success.

Investing in the dealers' showroom is another way to show the love. Steinl does this by providing extensive in-store training and merchandising displays. For example, after Steinl sent in a team to spruce up displays in one store, sales of competing Echo brand products dropped by 75 percent. With many Steinl products selling at a $50 to $100 premium, the dealer was just fine with the shift. For a small dealer on the east coast, Steinl helped locate land and build a new store in a fast-growing region. Without the financial support from Steinl, the dealer wouldn't have been able to expand. In return, the dealer carried Steinl equipment exclusively. Steinl also places emphasis on training and educating the salespeople at the dealerships because customers paying a premium price expect top-notch service and support. Steinl believes that consumers are showing a preference for a complete brand experience—and profitable, enthusiastic dealers are the only way to provide that kind of experience.

Similarly, Trek and Specialized provide a lot of merchandising support and training for their dealers, particularly for the ten dealers in each region. Trek sent a crew to work in display areas, receive display racks, signage, pictures, and artwork. In 2005, Trek stepped up its support with the introduction of a national marketing promotions package. Included in that was the national SuperSale on the last weekend in March to kick off the season. Trek placed a large national media buy, provided the stores with special hangtags, banners and signs, paid for a targeted direct-mail piece, and offered the dealers deep discounts on over 500 products. Most dealers, even the skeptics, were pleased with the results and saw sales jump 50 to 100 percent.

Allies, Not Servants

In the pain of a deep downturn lies the opportunity for real change. Breaking the cycle of destructive growth requires more than broad costcutting. It requires rethinking key supply chain partnerships and then investing time and money to build predictable relationships. Every firm can benefit from a combination of pruning weak partners and strengthening those that remain.

But what about Goodyear? At the dealer conference in 2003, the company unveiled a four-part plan to return the company to health that was more focused on cost reduction and operating efficiently than on pruning relationships. Goodyear and the dealers certainly benefited from improved pricing and processes, leading to an increase in net sales of 20 percent over the five subsequent years for the North American Tire Division. However, operating income bounced in and out of the red. Part of the volatility was due to a three-month labor strike in late 2006. But even through the strike, dealer relations were improving—many dealers interviewed at the 2007 dealer conference said that they stocked up on Goodyear inventory before the strike and stayed loyal throughout. "After you've had a relationship for many, many years, there's a great deal of connectiveness," said Pete Muirhead, owner of Juno Beach Tire & Auto Center in Juno Beach, Florida. "So, it's not a case of giving another chance, it's a case of staying the course and getting back into business again."

But as the recession deepened in the fall of 2008, Goodyear stepped up its commitment to strengthen its independent dealers. First it shuttered 92 of its weakest company-owned stores, not only cutting costs but reducing dealer competition. Then in February 2009, when many other manufacturers were cancelling their annual dealer conferences, Goodyear brought out its dealers together to introduce 12 new products for 2009 (the most they had introduced in a single year). As the auto industry was collapsing around it, Goodyear's message was clear—we need you. In periods of slow or negative growth, Steinway and others have found lasting success by treating their supply chain partners as treasured allies, not servants. By making them feel needed, providing for their profitabil- ity, and showing them the love, these relationships have flourished and been profitable for both manufacturer and partner.

End Notes:


12 Johnson, M. Eric, Joe Hall, David Pyke (2005), “Technology and Quality at Steinway & Sons,” Tuck School of Business Teaching Case, Dartmouth College.

