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Why **Channel Management** Varies around the World

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Over the past decade or so, organizations that rely on channel infrastructure to reach their end buyers have been making significant investments in unified **channel management** activities. However, they seldom consider the fact that these **channel management** activities can vary quite a bit across countries—not only from a deployment perspective, but also in terms of their effectiveness. Why is that? How can the organization recognize these differences and adapt accordingly?

Before we answer those questions, let's quickly review the areas in which **channel management** activities tend to the same, regardless of country or region. There are several basic principles that apply across all geographies around the world:

> *"Let's quickly review the areas in which **channel management** activities tend to the same, regardless of country or region. There are several basic principles that apply across all geographies around the world."*

- **When a company sells through a channel network, they will generally sell through either a one-, two- or three-tier system.**
  Yes, multi-level distribution (more than three tiers) exists, but that tends to be more for business-to-consumer products than they are for business-to-business products and services.

- **Vendors provide core solutions.**
  Partners, on the other hand, are selling products or solutions as-is or perhaps extending them with their own capabilities.

- **Partners typically make most of their money after they sell the product, rather from a specific transaction.**
  A prominent exception is franchises, where vendors actually make money no matter what happens because they have a fixed amount of franchise fees coming in. So, while a franchisee may not be making large amounts of money, the brand that is franchising through a network can nonetheless generate a decent return if they have a good solution to offer.

- **Generally, the lower the price of a product the more transactional it is.**
  With higher prices there tends to be more complexity, and this is where solution selling comes in. We see this consistently across all segments, whether it's insurance, finance, manufacturing or technology.

- **When it comes to lead generation, partners are generally not very effective at generating demand.**
  Around the world, a consistent challenge is the need for a vendor to focus on brand awareness, product and solution awareness, and even leads. There is no doubt that in certain parts of the market, partners may be capable of generating leads on their own, but that's not a core competency that most partners have in all markets. Therefore, this is a common element a vendor needs to understand and address, especially in the context of demand generation.

- **The relationships in channel management generally are between companies rather than between people.**
  What this means is that policies aligning the financial objectives of one or more entities that are actually forming the links between those entities. This tends to be fairly consistent around the world, independent of market segment.

So what are the ways in which **channel management** varies?

The first type of variation is the structure of the channel.

This is something that varies greatly across global geographies. The differences are primarily a function of market maturity. Developed countries like the US, the UK, Germany, Japan and Australia tend to have a one-, two- or three-tier distribution system. There is a high level of financial transparency, tight financial controls to address corruption and other money-related issues, with sufficient laws and regulations and enforcement mechanisms in place. In these countries the channel generally behaves in a very mature way. On the other hand, when you look at emerging markets—places like Southeast Asia, certain parts of China, Eastern Europe, and parts of Africa—laws and regulations and enforcement are inadequate to control corruption, especially with respect to intellectual property and financial regulations and controls, and **channel management** activities tend to vary quite a bit from place to place. As a result there are important differences in how companies market and what they need to think about when doing so. Segments like education, real estate, insurance or finance tend to be driven by in-country laws and regulations. (This is less the case in other horizontal markets like retail or food.) Because of those different laws and regulations, the structure of the channel in those segments varies greatly from country to country, and thus **channel management** varies quite a bit too. Retail provides us with a great example here. In most advanced countries, retail is organized consistently across those geographies. However, when you compare the US to developed countries in Europe, you notice that the European countries—while they have some large outlets, chains and malls—they also tend to have more small companies, retail outlets and even mom-and-pop shops that provide products and services to both businesses and consumers than the larger markets in the US and Canada. Some of the Asian markets like Japan, Korea, Taiwan and Australia, as well as certain parts of Europe, are somewhere in between, with a mix of large retail operations and smaller stores. So the maturity of the market impacts the channel structure—who the buyers are, who is distributing the products and solutions—and therefore the approach to **channel management.**

A second factor that varies greatly from market to market has to do with specific solutions.

Certain solutions that are common in large markets are simply not relevant in emerging markets. In the consumer space, a classic example of that is a product like the iPhone. The iPhone has been successful in most developed countries, but it really hasn't had much of a dent in the market in certain parts of Africa, India and other parts of Southeast Asia simply because of its price. In those places, alternative solutions have opened up a whole different market. So retail distribution of the iPhone is very different in those markets compared to the more mature markets. A similar dynamic is at work with business applications like, for example, medical devices. In large markets like the US, Germany, France, Italy, the UK and Canada—countries where lots of regulations are involved and national health care services involved—medical devices are sold through the channel in a fundamentally different way than in emerging markets. So depending on the solution type and the maturity of the market, **channel management** can vary a great deal.

A third factor that is responsible for variations in **channel management** is culture.

I've already addressed that to some extent in my discussions of channel structure and market maturity. The legal structure of a company defines the culture of doing business, and vice versa. In countries like the US, Germany, the UK and Canada, where the business culture is well-defined and policy-based, most transactions follow basic guiding principles and have a high level of transparency. On the other hand, in relationship-centric countries like France, Italy in Europe, or Japan, China, Korea and India in Asia, or in certain parts of Africa, transactions tend to be based more on relationships—who you trust, who you know, what the network is—rather than the merits of the value proposition or the business itself. Therefore, marrying channels in certain parts of the world can be tricky, because some of the transparencies that enable velocity and predictability in established markets are sometimes hard to achieve in a relationship-based market.

Finally, a core factor that varies among different countries and regions is visibility.

"Visibility" in this context refers to the ability of the **channel management** team to forecast what the organization will do in specific product categories over the next three months, six months or even a year. In mature markets like the US, Germany, the UK, Japan, Korea and Australia, the transaction infrastructure is highly sophisticated and there is data available at multiple levels so that when a business-to-consumer or business-to-business transaction is taking place, companies are tracking what's being sold, at what price point, to what type of customer, and so on. So there's a high level of visibility into these transactions, and there's also an integration of systems so that companies have good visibility into their inventory, the demand forecast as well as the overall health of the business.

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It's a much different story in emerging and immature markets, especially when a product or service is sold through a one- or two- or multi-tier segment; channel inventory becomes a huge challenge, as does overall visibility. This is particularly the case when the headquarters of an organization is in an advanced country like the US, the UK or Germany where financial laws and regulations require that companies report and track channel inventory data uniformly across all regions to show the company's financial health and maturity and to confirm there is no buildup of old, obsolete products in the channel which will hit the **channel management** team overnight. However, due to the lack of visibility in many of these emerging markets, companies often fail to understand their exposure or their run rate. As a result of these differences in visibility, once again there's a great deal of variation by geography in how the channel needs to be managed.

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I hope I've been able to share at a high level how **channel management** can vary greatly for the same company across different countries and regions across the world, primarily driven by local needs, regional structure, legal parameters, cultural norms and market maturity. While many elements of **channel management** remain the same, an organization's **channel management** strategy—as well as its approach to executing that strategy—needs to take these differences into account and adapt if the organizations wants to be successful in building its channel and go to market at a global level.

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