



Navigating Channel Conflict: **Strategies for Managing Relationships with Suppliers and Customers**

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 **ISA**
FALL SUMMIT

THE CHANNEL'S BEST
PROFESSIONAL DEVELOPMENT EVENT



Agenda



CHALLENGE



RESEARCH



PLAYBOOKS & CASE
STUDIES



With the ongoing supply chain challenges, manufacturers face new roadblocks, distributors alter their capabilities, and customers change their requirements; **the path forward keeps shifting.**



Distributors and their suppliers are busy responding to forces of change from their organizational perspective; **are they also looking at these changes from their channel perspective?**

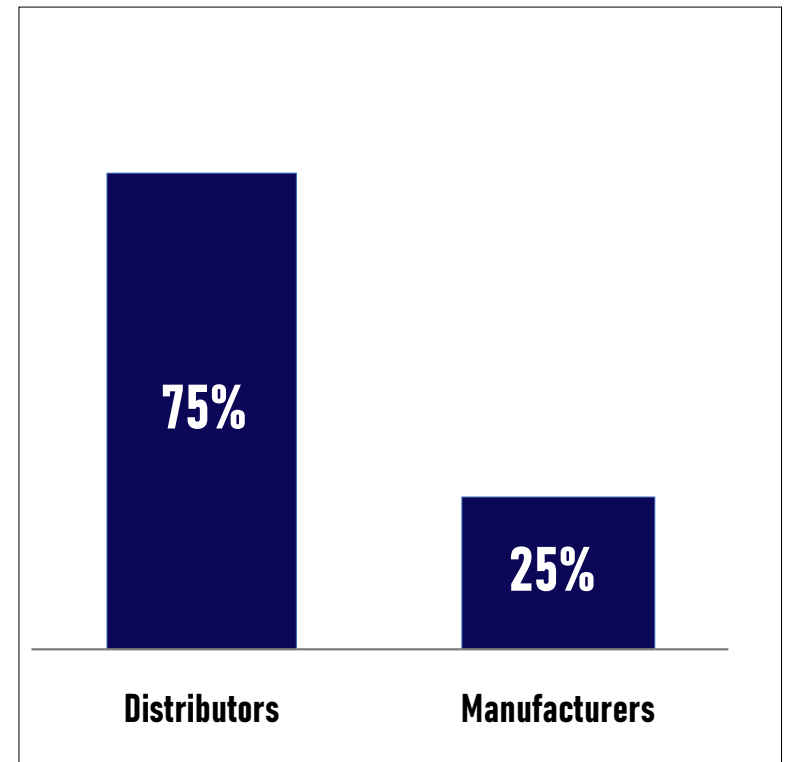


How do we **align our interests** in the channel? How do we force all parties to recognize and respond with **mutually beneficial actions?**

**How to navigate
channel conflicts
and optimize
channel
performance?**

Channel Research

- **9 Lines of Trade**
 - Bearings, Seals, and Lubrication Systems
 - Building Materials
 - Chemical
 - Electrical
 - Electronics and Industrial
 - Fluid Power
 - **HVAC**
 - Process Control and Automation Solutions
 - PVF / Industrial





Channel Conflicts: TWO Root Causes



Channel Goal Misalignment

Lack of common framework linking channel partner *interests* and *investments*



Channel Performance Misunderstanding

Lack of data-driven channel conversations leveraging *visibility* and *communication*

Navigating Channel Conflicts: TWO Playbooks



How to align channel partner goals for profitable growth?

- Channel Alignment Framework
- Connecting Mfr- Distributor- Customer goals and investments



How to leverage data to improve channel partner performance?

- Channel Partner Analytics
- Anecdotal blame game to Analytics-driven channel conversation



Navigating Channel Conflicts: **Playbook #1**



How to align channel partner goals for profitable growth?

- Channel Alignment Framework
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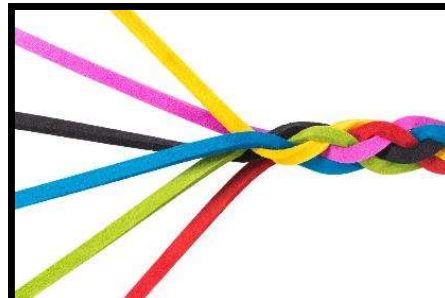
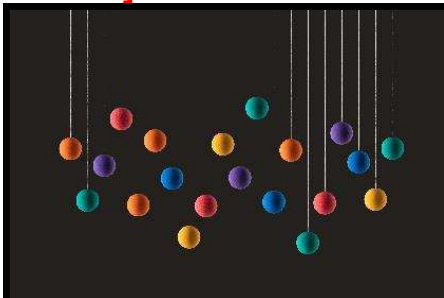
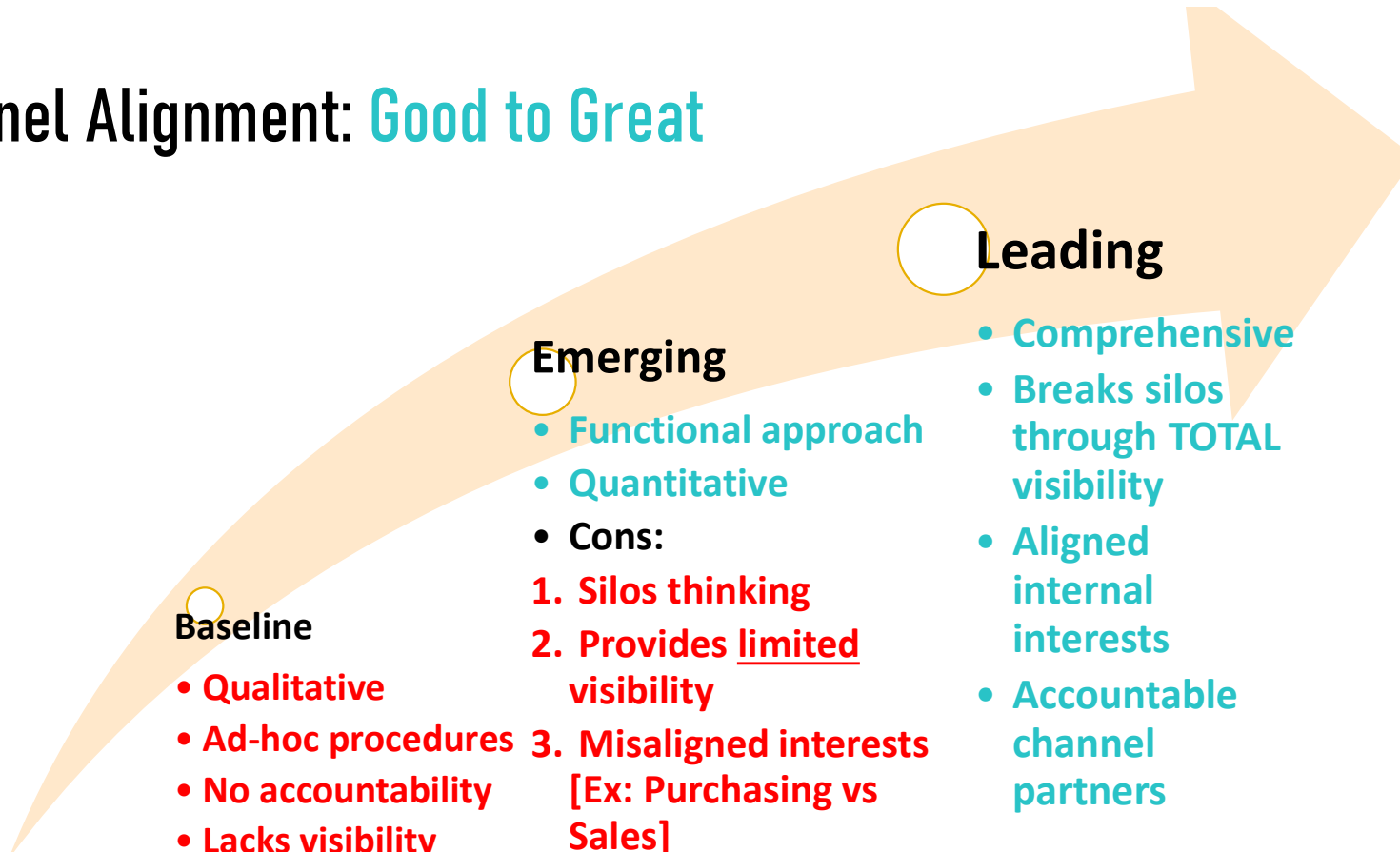


How to leverage data to improve channel partner performance?

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Channel Alignment: Good to Great



Channel Alignment = Minimize ($L_{SM} + L_{SD} + L_{SC}$)

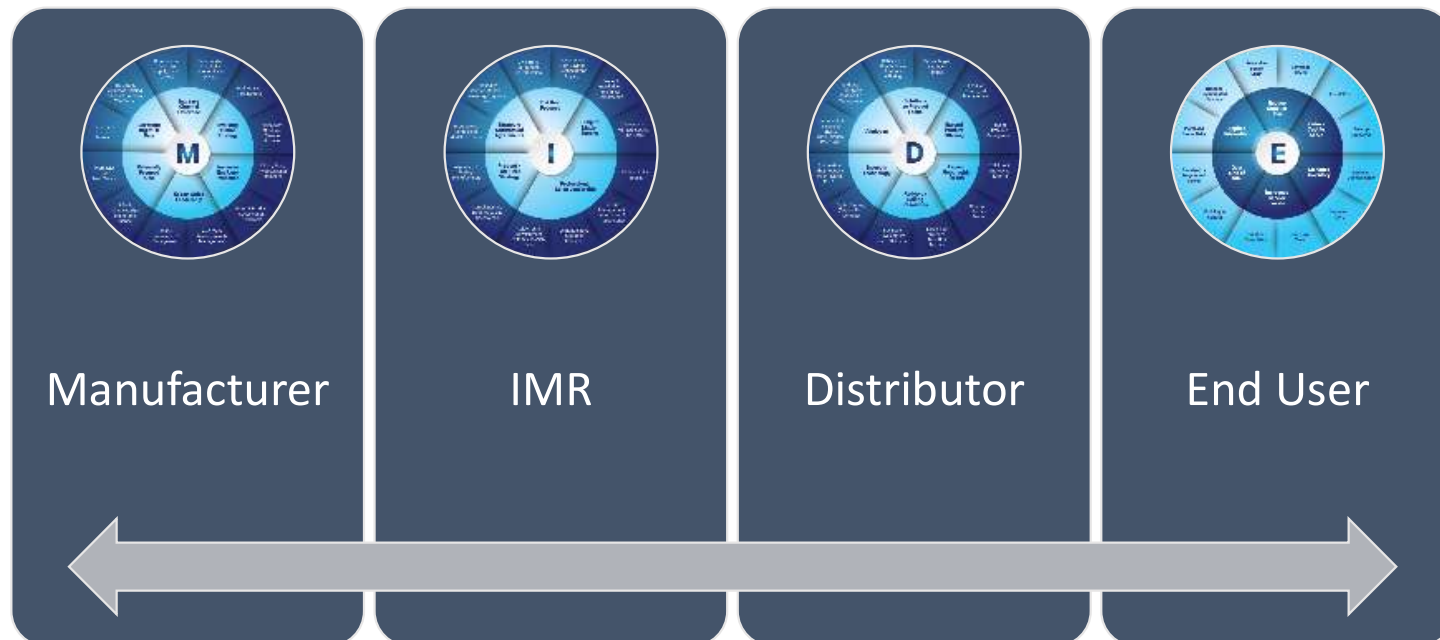
L_{SM} = Level of **S**creaming from **M**anufacturer when the **market share** is too low

L_{SD} = Level of **S**creaming from **D**istributor when the **profitability** is too low

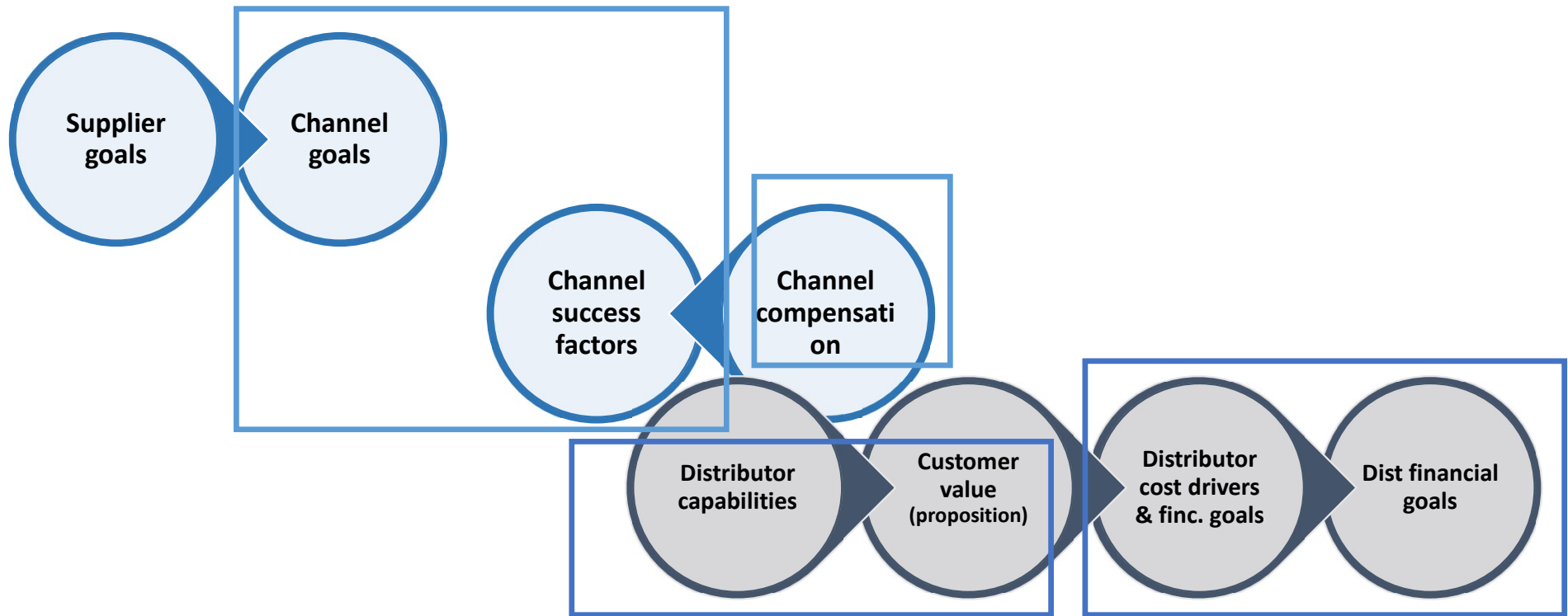
L_{SC} = Level of **S**creaming from **C**ustomers when the **product** is not available

Collaborative Advantage: Channel 2.0

Remaining front of competitive advantage: Channel relationship

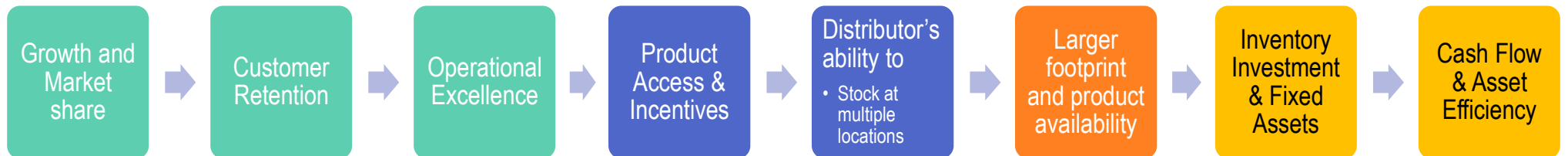


Channel Value Alignment



CHANNEL ALIGNMENT FRAMEWORK

Supplier • Distributor • Customer



CHANNEL ALIGNMENT FRAMEWORK

Supplier • Distributor • Customer

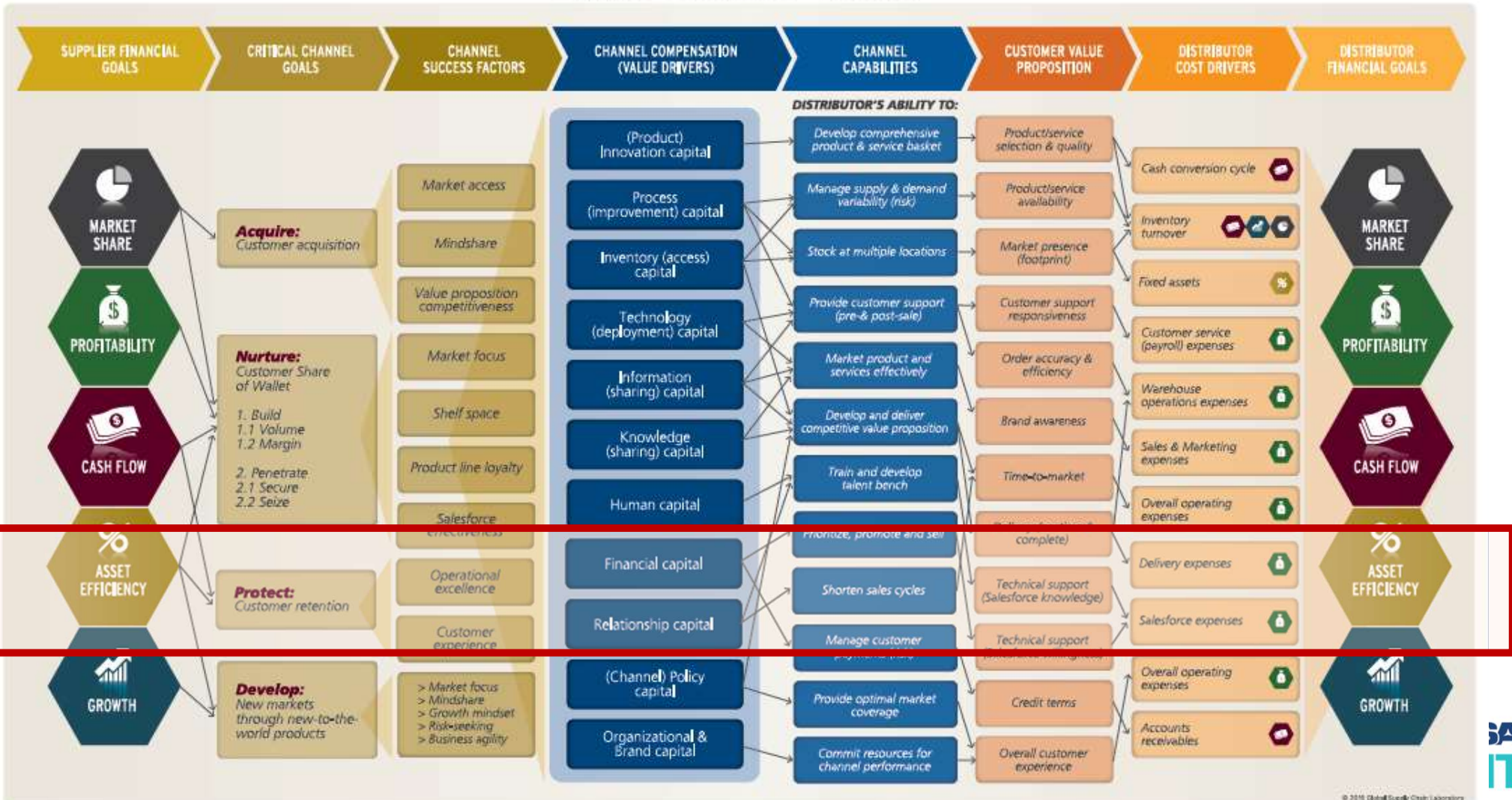
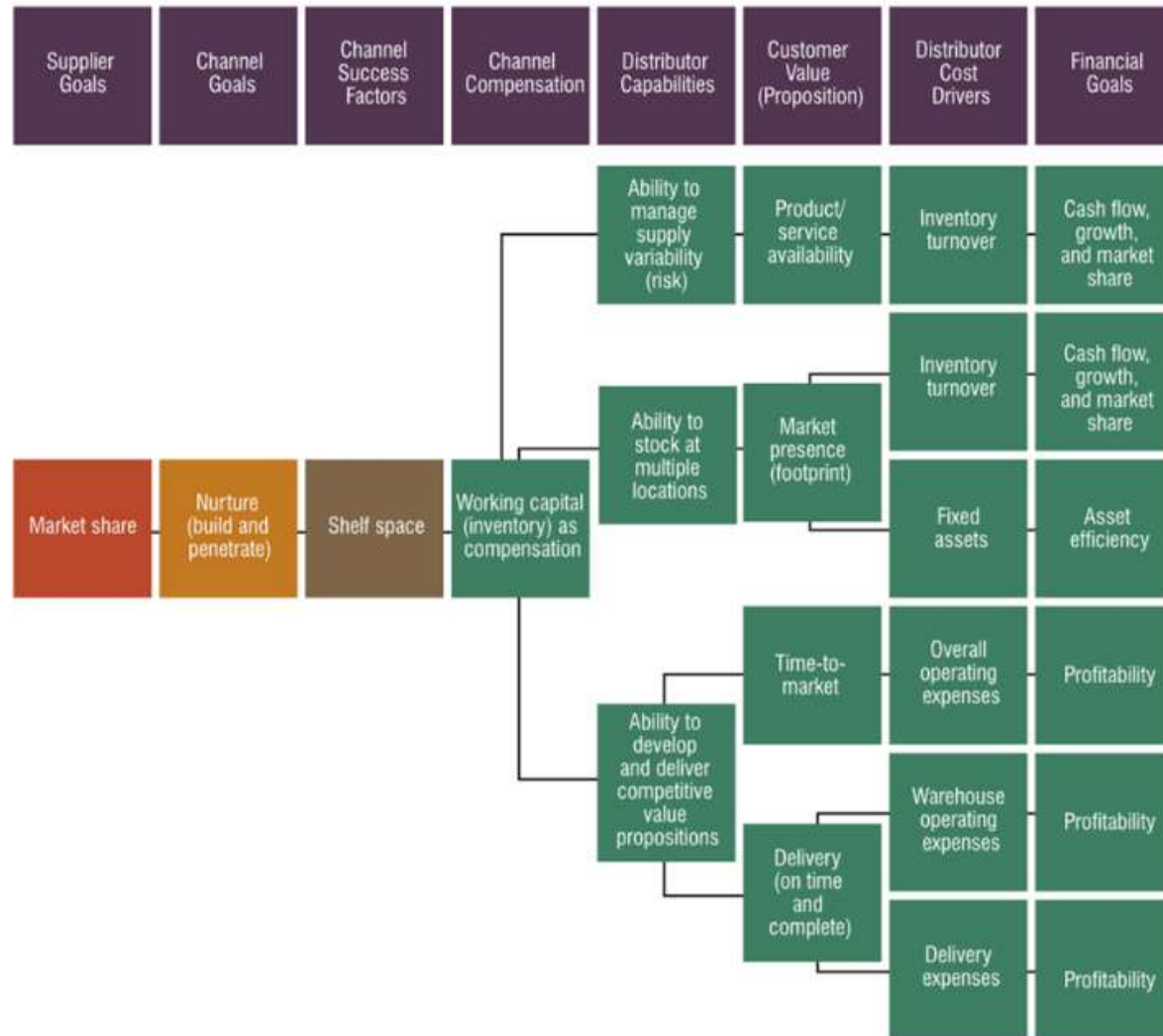
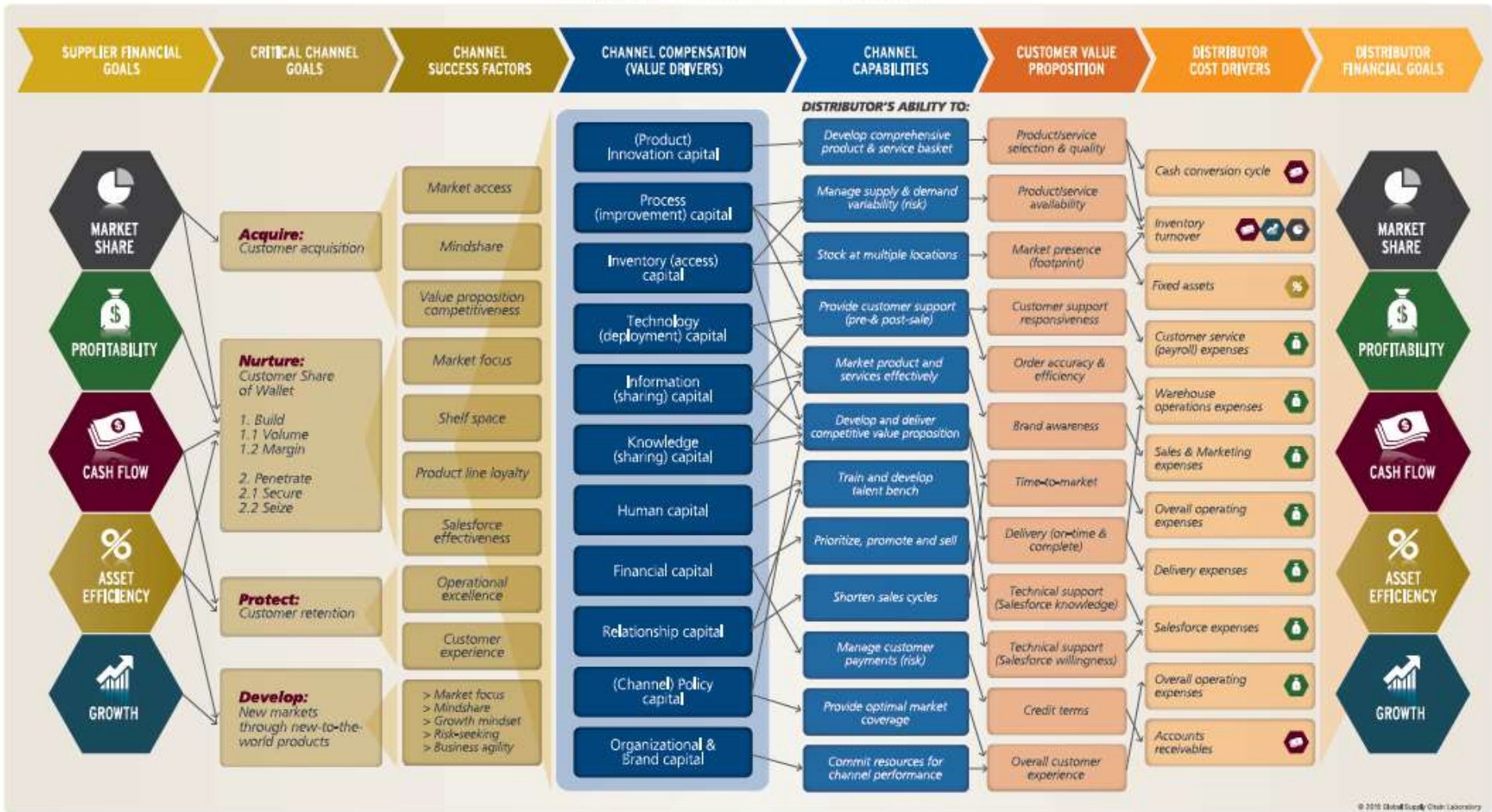


Exhibit 6-3. Channel Alignment Framework: Working Capital as Compensation.



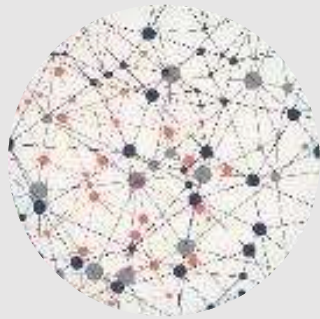
CHANNEL ALIGNMENT FRAMEWORK

Supplier • Distributor • Customer



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Navigating Channel Conflicts: **Playbook #2**



How to align channel partner goals for profitable growth?

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Channel Partner Performance Assessment: Good to Great

Anecdotal

- Subjective
- Selective memory
- Recent incident



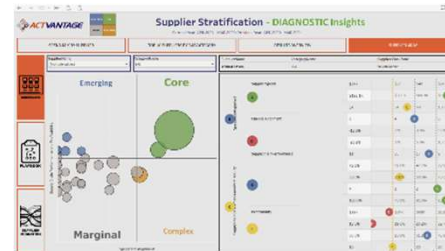
Supplier Scorecard

- Pros:
 - Quantitative & Descriptive [WHAT]
- Cons: **Lacks**
 1. comparative assessment
 2. prescriptive guidance (goals)
 3. follow-through

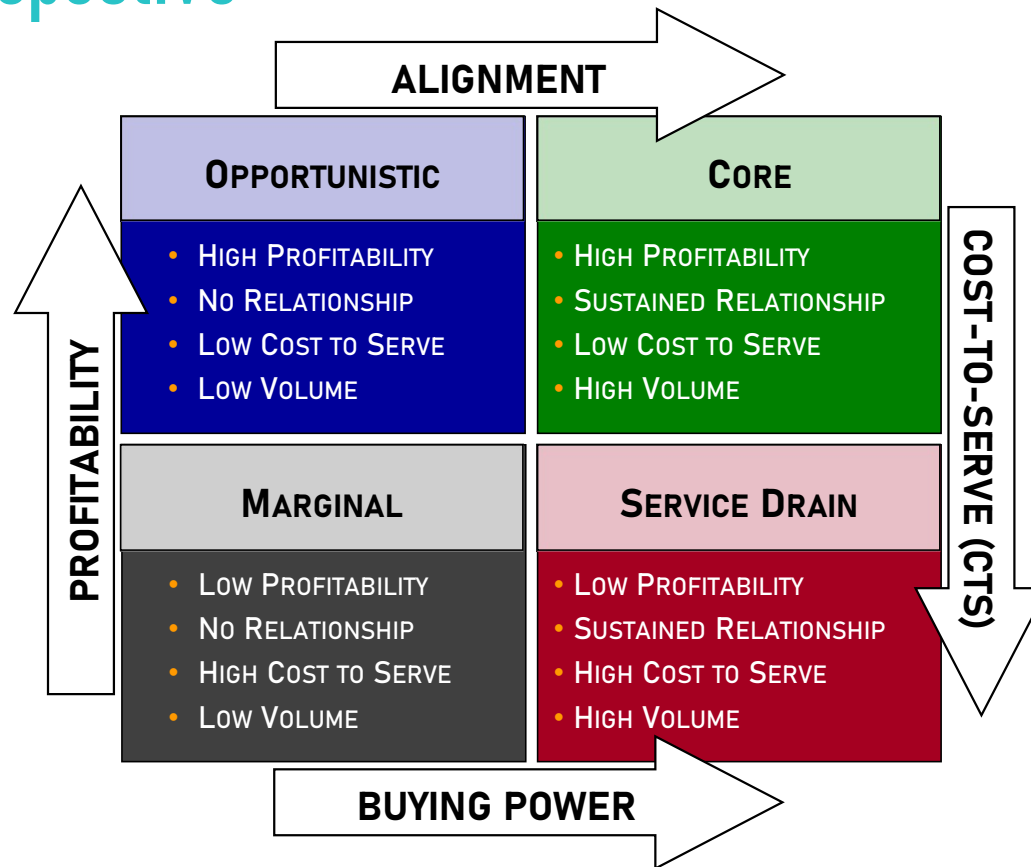


Channel Partner Stratification

- Comprehensive
 - 4 Dimensions
- Diagnostic [WHY]
- Provides benchmark
- Comparative ranking
- Tracks performance over time



Channel Performance – End Customer Stratification: Manufacturer Perspective



EXAMPLE — ELECTRICAL MANUFACTURER

Revenue

\$175MM

Gross Margin

>30%

Brands

17

of SKUs

8,500+

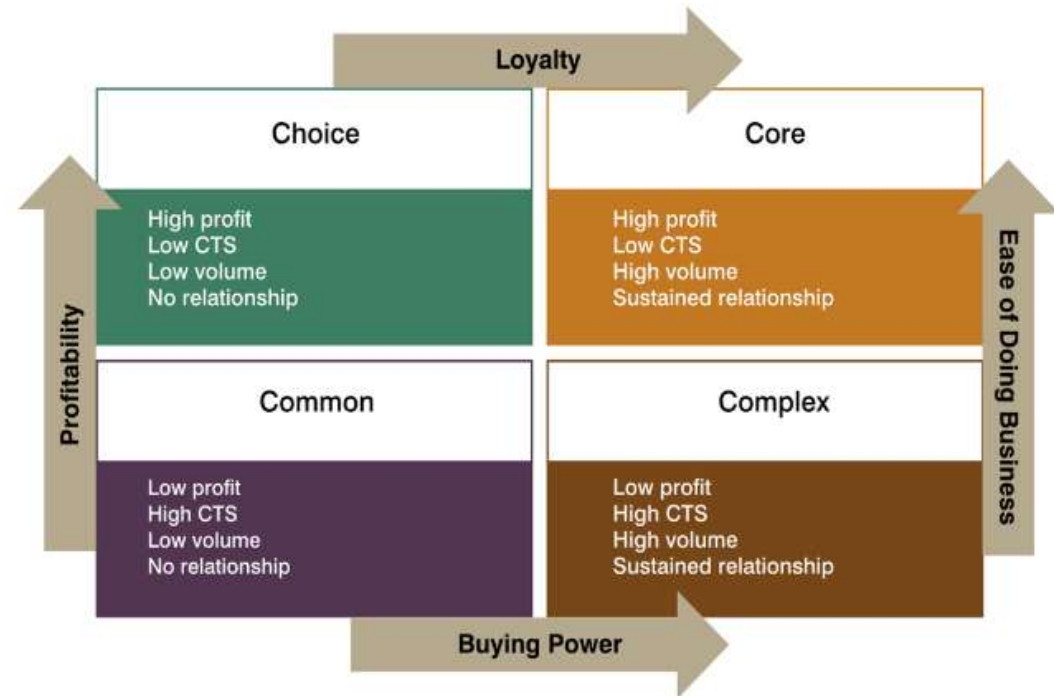
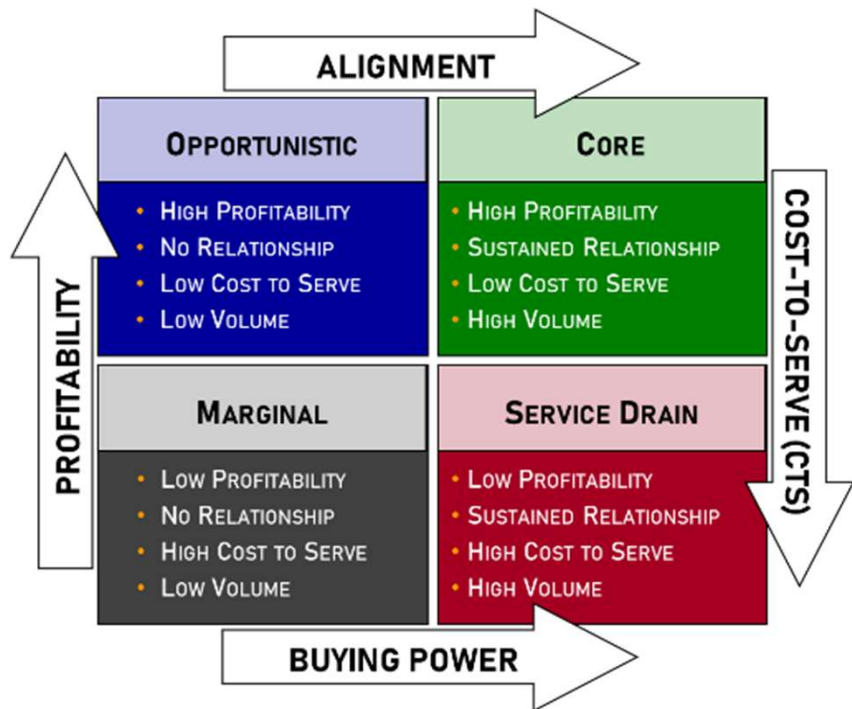
Categories

29

of Customers

1,003

Channel Performance - End Customer Stratification



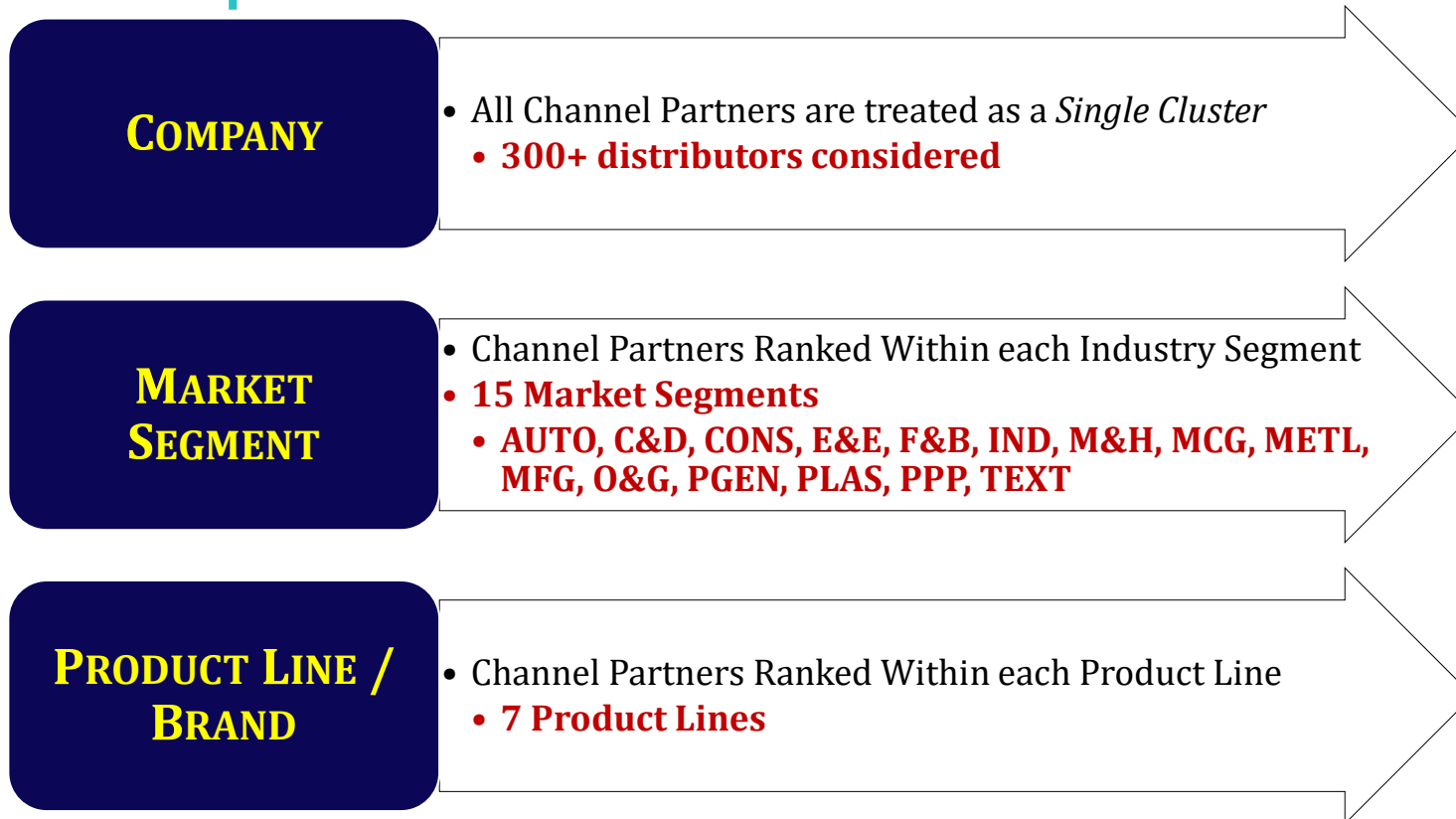
Customer Results by BRAND

BRAND	Core	Opportunistic	Marginal	Service Drain	Grand Total
P003	58	31	377	5	471
P014	47	34	320	4	405
P015	47	17	288	13	365
P622	14	10	156	1	181
P644	12	6	197	29	244
P645	54	15	251	10	330
P646	30	3	143	14	190
P650	30	14	119	6	169
P651	42	10	148	9	209
P654	6	1	28	7	42
P660	6		41	3	50
P661	31	7	126	11	175
P663	31	7	226	24	288
P668	12	2	90	6	110
TOTAL	420	157	2,510	142	3,229

EXAMPLE – COMPRESSOR MANUFACTURER

Geography	Time Horizon	Revenue
North America	2 Years	\$325+ MM
# of Customers	Market Segments	Service Revenue
1,000+	15	\$270+ MM
# Product Lines	Product Margin	Gross Margin
10	\$94 MM	30% / 41%

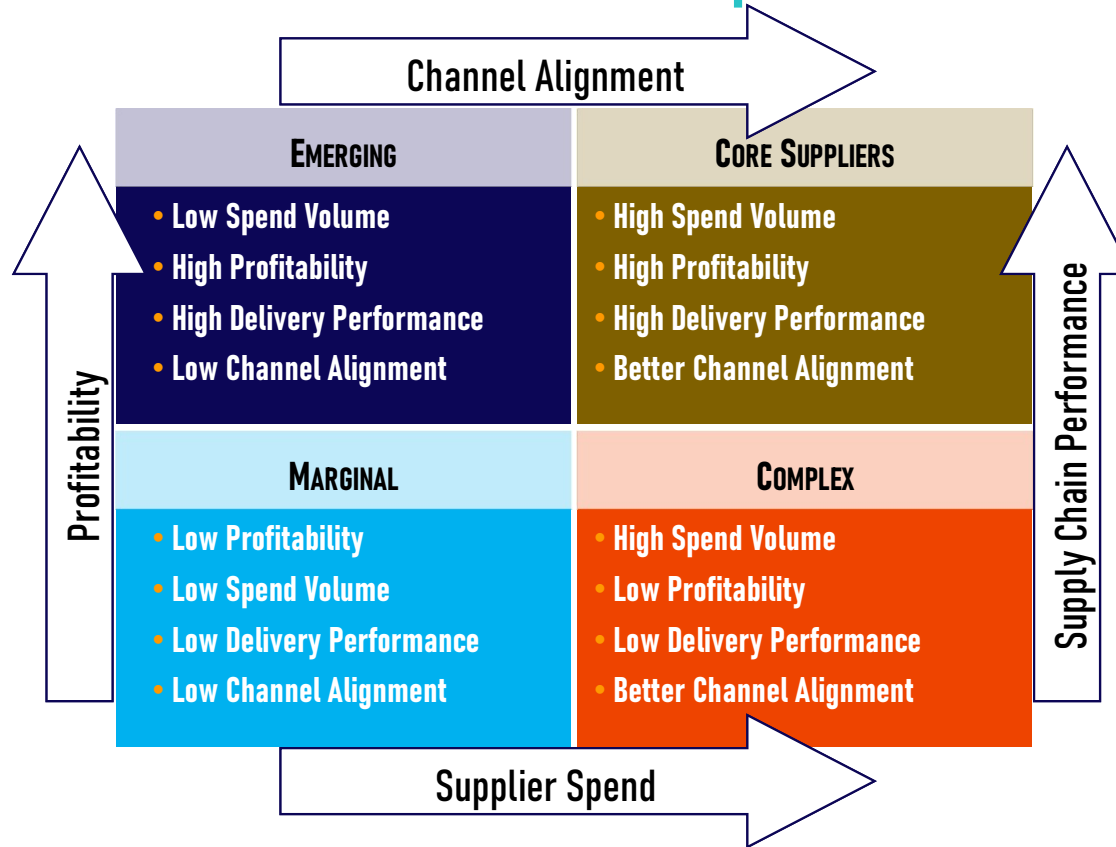
Channel Performance - Distributor Stratification: Manufacturer Perspective



Top 25 Channel Partners

Segment	Total Revenue	Prod GM%	Serv GM%	SEGMENT Rank	COMPANY Rank	PRODUCT LINE RANK					
CONS	\$ 15,175,733	42%	6%	Core	Core	Core	Core		Opp.	Opp.	
IND	\$ 13,734,473	24%	40%	Service Drain	Service Drain	Marg.		SDrain.	SDrain.		
C&D	\$ 13,526,805	21%		Service Drain	Service Drain	Core			Opp.		
IND	\$ 11,724,428	30%	42%	Core	Core	SDrain.		Core	Core		
IND	\$ 9,190,575	29%	40%	Core	Service Drain	SDrain.		SDrain.	Marg.		Marg.
IND	\$ 9,133,951	28%	42%	Core	Core	Core		Core	SDrain.		
C&D	\$ 9,071,853	37%	-1%	Opportunistic	Opportunistic	Opp.	Opp.		Opp.		
C&D	\$ 8,882,569	19%	43%	Marginal	Marginal	Marg.	Marg.		SDrain.		
C&D	\$ 8,258,216	27%	39%	Core	Core	SDrain.		Core	Core		
IND	\$ 8,228,196	31%	37%	Core	Core	Core		Core	Core		
IND	\$ 7,426,962	36%	40%	Core	Core	Core			Core		
C&D	\$ 6,954,620	28%	46%	Core	Core	Core		Marg.	Marg.		
C&D	\$ 6,563,055	12%		Marginal	Marginal					SDrain.	
E&E	\$ 6,187,618	20%	39%	Service Drain	Service Drain	Marg.		SDrain.	SDrain.	Marg.	
IND	\$ 6,105,684	25%	40%	Core	Core	Core		Core	SDrain.		
IND	\$ 6,039,695	32%	42%	Core	Core	Opp.		Core	Core		
IND	\$ 6,034,027	24%	41%	Core	Core	SDrain.		Core	Core		
E&E	\$ 5,776,485	32%	41%	Core	Core	Core		Core	Core		
IND	\$ 5,618,560	31%	39%	Core	Core	Opp.		Core	Opp.		
IND	\$ 5,496,994	30%	39%	Core	Core	SDrain.		Opp.	Marg.		
IND	\$ 5,451,216	32%	37%	Core	Core	SDrain.		Opp.	Marg.		

Channel Performance - Supplier Stratification: Distributor Perspective



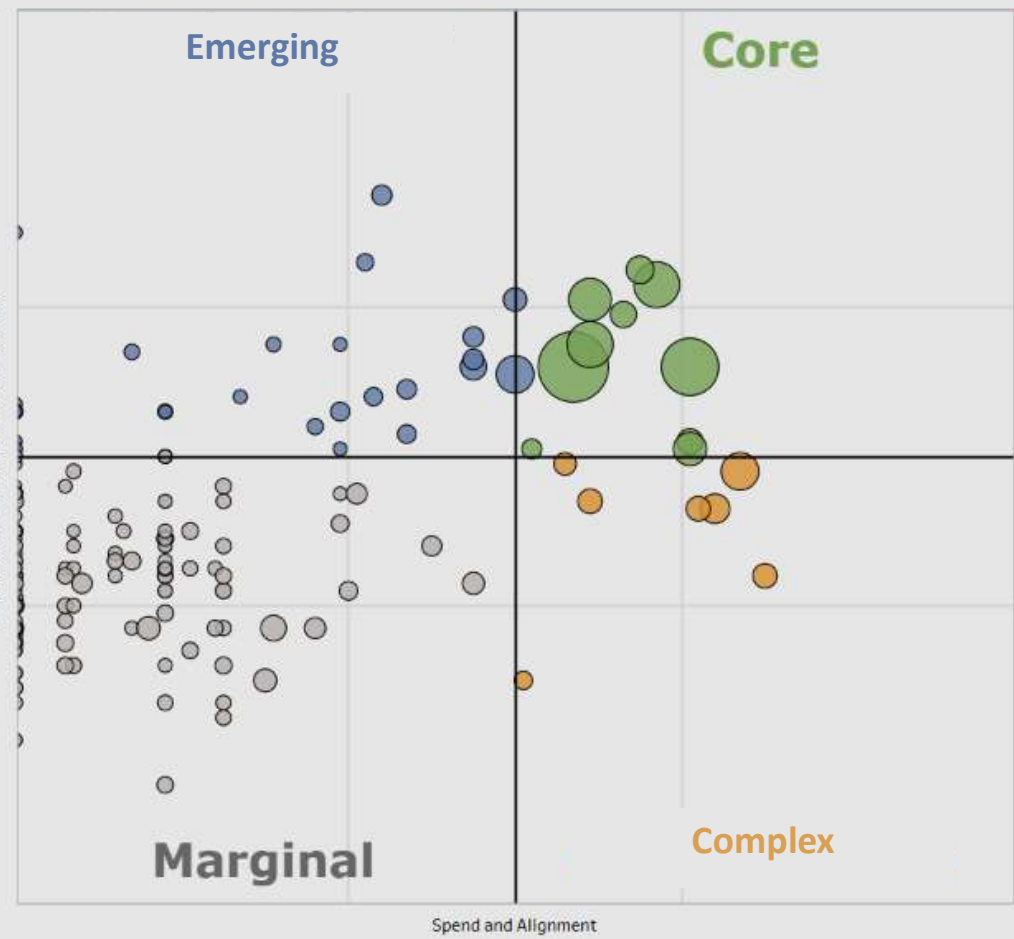
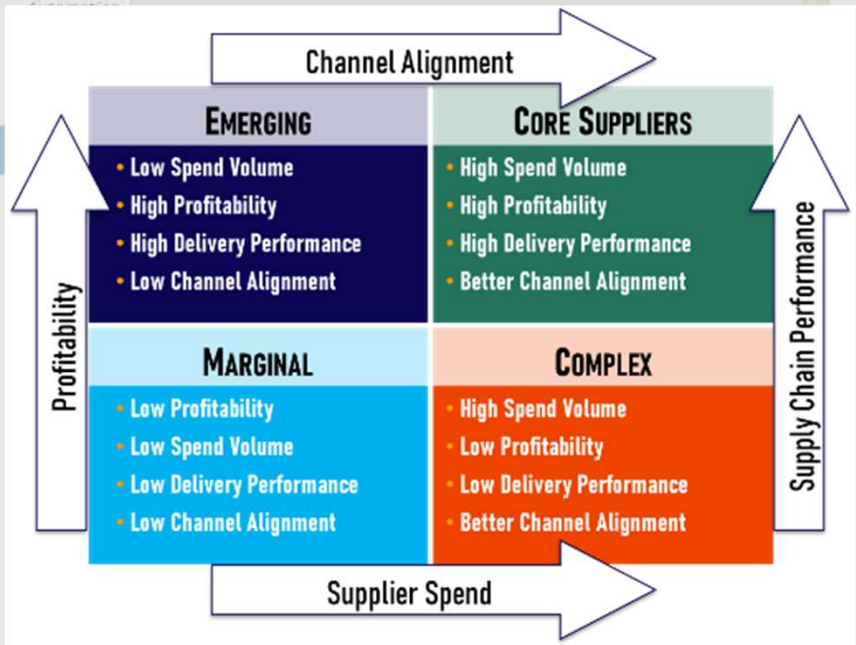


Supplier Stratification - Partner Performance Analytics

Current Year: APR 2021 - MAR 2022; Previous Year: APR 2020 - MAR 2021

CategoryN..	Spend	# Suppliers
Electronics	\$3,597,266	203

CategoryName



SCORECARD

PLAYBOOK

SUPPLIER MIGRATION

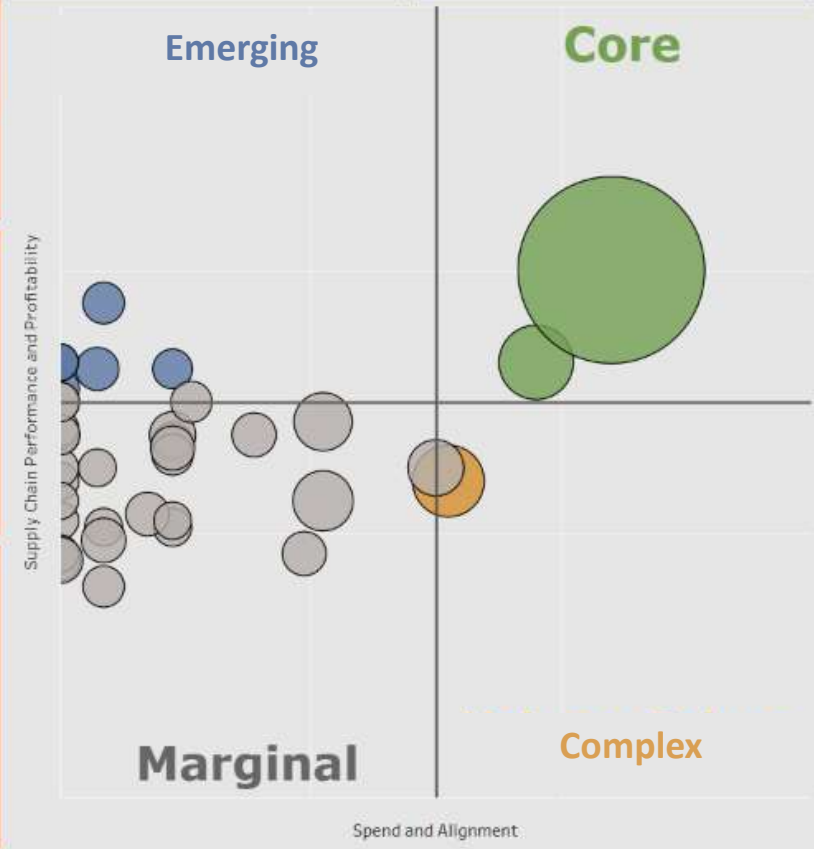


Supplier Stratification - DIAGNOSTIC Insights

Current Year: APR 2021 - MAR 2022; Previous Year: APR 2020 - MAR 2021

SupplierName: (Multiple values) [dropdown]
 CategoryName: IAQ [dropdown]

SupplierName: SPENCER HVAC
 CategoryName: IAQ
 Supplier Final Zone: Volume Driver



SupplierName	CategoryName	Supplier Final Zone
SPENCER HVAC	IAQ	Volume Driver

	\$37K	\$2K	\$4K	\$9K
SupplierSpend	\$37K	\$2K	\$4K	\$9K
SpentAndAlignment	\$198.1K	\$33.0K	\$66.9K	\$111.1K
ChannelAlignment	57	34	68	136
SupplyChainPerformance	-18.6%	.0%	3.0%	5.0%
SupplyChainPerformanceAndProfitability	-36.3%	.0%	5.0%	10.0%
Profitability	12	35	17	9
	78.0%	59.6%	47.7%	23.9%
	33.0%	25.0%	50.0%	75.0%
	4	1	2	1
	100.0%	75.0%	85.0%	95.0%
	\$29K	\$34K	\$68K	\$135K
	13.5%	19.6%	26.2%	32.7%
	66.5%	25.6%	51.3%	76.9%
	10	20	30	40

SCORECARD

PLAYBOOK

SUPPLIER MIGRATION

Supply Chain Performance and Profitability

Spend and Alignment

Role-based Prescriptive Playbooks



Identify product categories with too many suppliers

EXAMINE



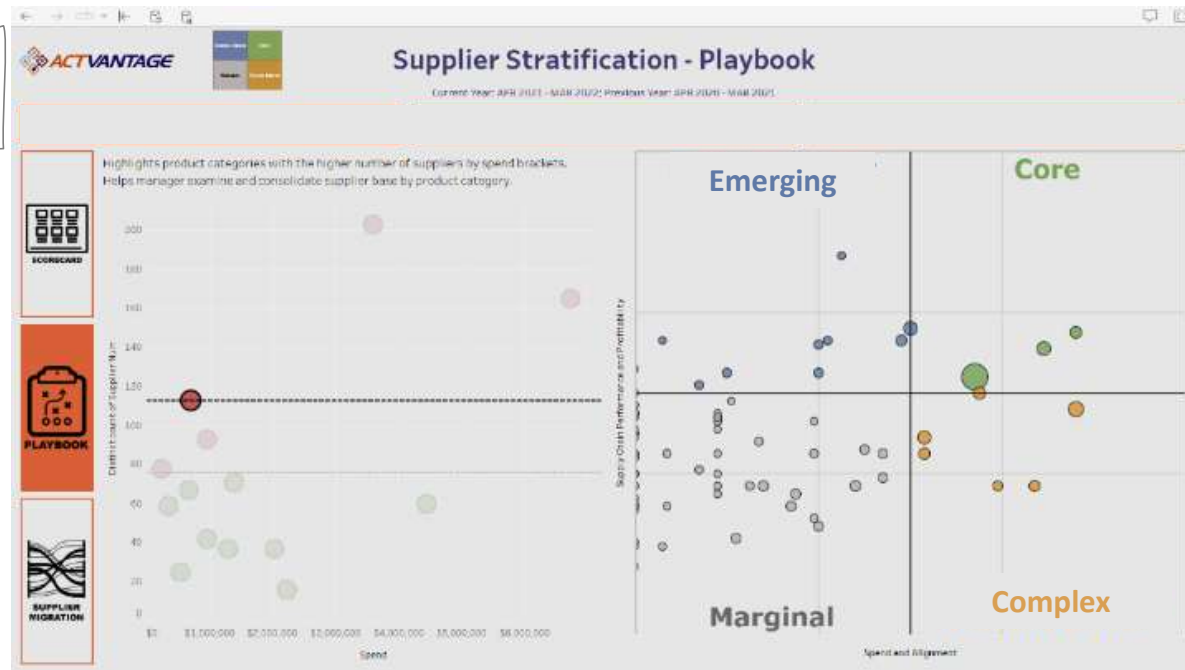
Identify MARGINAL suppliers and consider consolidation, within a product category.

ELIMINATE



Identify EMERGING and consider expansion, within a product category.

EXPAND



Channel Partner Performance: Key Take-Aways

Channel Performance

Not just a partner scorecard

Benefits

Q “the key to managing working capital is to **treat the suppliers as additional customers** in order to build better partnerships...we share **analytics** around **performance feedback, benchmarking and visibility that earns their mindshare ...**”

– CEO, Distributor

Anecdotal to
Analytics

Predictive Guidance

- Less cost-to-supply (channel costs)
- Higher market share, and profitability

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About

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KNOWLEDGE-BASED



www.actvantage.com

- Analytics Cloud Platform: ACTvantage is an Analytics-to-Action cloud platform that integrates Customer-Supplier-Inventory Performance, leading to profitable inventory, sales and pricing decisions
- Thought Leadership: Field-tested principles from our 7 Best Practice Books (NAW).



 FALL SUMMIT

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