

## Chapter 7

# SELECTING THE CHANNEL MEMBERS

### Chapter Objectives

The selection of channel members is the last (seventh) phase of channel design. The selection process consists of three basic steps: (1) finding prospective channel members, (2) applying selection criteria to determine whether these members are suitable, and (3) securing prospective members for the channel.

Each firm must develop its own list of criteria for channel members for its particular objectives and allow for flexibility for changes in policies and objectives. An important point to note is that channel members do not always “stand in line” to be selected by producers and manufacturers.

#### Learning objectives

- 1) Have an appreciation for the importance of channel member selection.
- 2) Understand the relationship between channel member selection and distribution intensity.
- 3) Know the main sources for finding prospective channel members.
- 4) Be familiar with generalized lists of selection criteria.
- 5) Recognize the need for adapting selection criteria to the needs of particular firms.
- 6) Realize that channel member selection can be a two-way street.
- 7) Appreciate the need to offer inducements to prospective channel members to secure them as actual channel members.
- 8) Recognize the human side of channel member selection and the role of fair and friendly relationships in channels.

### Chapter Topics

- 1) Channel Member Selection and Channel Design
- 2) The Selection Process
- 3) Finding Prospective Channel Members
- 4) Applying Selection Criteria
- 5) Securing the Channel Members

## **Chapter Outline**

### **Channel Member Selection and Channel Design**

Channel selection decisions are frequently necessary even when channel structure changes have not been made. Firms may need additional outlets to allow for growth or to replace channel members that have left the channel.

Channel design is presented as a decision faced by the marketer.

As a general rule, the greater the intensity of distribution, the less emphasis on selection.

If a firm's emphasis is to ensure intensive distribution, those intermediaries selected are often selected only on their basis of the probability of paying their bills. On the other hand, if channel structure stresses more selective distribution, the prospective members should be much more carefully scrutinized and selection decisions become more critical.

### **The Selection Process**

Three steps are involved:

1. Finding prospective channel members
2. Applying selection criteria to determine the suitability of prospective channel members
3. Securing the prospective channel members as actual channel members

### **Finding Prospective Channel Members**

The most important sources for finding channel members are listed below in their order of importance.

- 1) Field sales organizations
- 2) Trade sources
- 3) Reseller inquiries
- 4) Customers
- 5) Advertising
- 6) Trade shows
- 7) Other sources

#### **1) Field Sales Organizations**

Company salespeople are in the best position to know potential channel members, usually better than anyone else in the firm. Companies may not adequately reward salespeople for their efforts in finding potential channel members.

**2) Trade Sources**

Trade sources such as trade associations, trade publications, directories, trade shows, and the “grapevine” are all valuable sources of information about prospective members.

**3) Reseller Inquiries**

Many firms learn about potential channel members through direct inquiries from intermediaries handling their products.

**4) Customers**

Customers of prospective intermediaries can be a source of information. Using informal or formal surveys of the views of customers, a firm may well be able to gain insights about the strengths and weaknesses of a prospective channel member from the *customer's* (*end user*) point of view.

**5) Advertising**

Advertisements in trade publications offer another approach to finding channel members.

**6) Trade Shows**

Trade shows or conventions can be a very fruitful source for finding potential channel members. Many trade associations, at the industrial and retail levels, hold annual conventions at which numerous representatives from the various organizations are represented.

**7) Other Sources**

Some firms also find the following sources helpful in locating prospective members.

- a. Chamber of commerce, banks, and local real estate dealers
- b. Classified telephone directories or yellow pages
- c. Direct-mail solicitations
- d. Contacts from previous applications
- e. Independent consultants
- f. List brokers that sell lists of names of businesses
- g. Business databases
- h. The Internet

**Applying Selection Criteria**

Having developed a list of prospective channel members, the next step is to appraise these prospects in light of selection criteria. If a firm has not yet developed a set of criteria for selecting channel members, it must develop one. However, no list of criteria, no matter how carefully developed, is adequate for a firm under all conditions.

**1) Generalized Lists of Criteria**

Brendel developed a list of 20 key questions for industrial firms to ask their prospective channel members.

Hlavacek and McCuistion, argue that for technical products sold in the industrial market, manufacturers should select distributors who carry a small rather than large array of products. They argue that with a smaller, rather than a larger, array of products carried more attention will be paid to a particular manufacturer's product. They also argue that the potential channel member's market coverage should be specified as criteria for selection. Further, they believe that the financial capacity of the potential channel member should not be overemphasized because sometimes less financed firms are "hungrier" and more aggressive.

Shipley reports that there should be 12 criteria grouped under three basic categories: (1) sales and market factors, (2) product and service factors, and (3) risk and uncertainty factors.

Yeoh and Calantone identify six major categories of selection criteria: (1) commitment level, (2) financial strength, (3) marketing skills, (4) product-related factors, (5) planning abilities, and (6) facilitating factors. These are referred to as "core competencies" that distributors must possess for effective representation in foreign markets.

The most comprehensive and definitive list of channel member selection criteria is still that offered over three decades ago by Pegram. Ten of these are discussed briefly:

**A) Credit and Financial Condition**

The investigation of the credit and financial position of prospective intermediaries is vital.

**B) Sale Strength**

Not only the quality of the salespeople but also the actual number of salespeople employed.

**C) Product Lines**

Manufacturers were generally found to consider four aspects of the intermediary's product line: (1) competitive products, (2) compatible products, (3) complementary products, and (4) quality of the lines carried.

1. Manufacturers generally try to avoid intermediaries who carry directly competitive product lines. Many times both wholesale and retail intermediaries carry directly competitive products.
2. Manufacturers prefer intermediaries who handle compatible products.
3. Manufacturers look favorably on intermediaries who carry complementary products because they offer a better overall product mix to their customers.

4. Manufacturers seek intermediaries that carry product lines that are equal to or better than their own lines. They do not want to be associated with “dog” lines if they can avoid it.

#### **D) Reputation**

Most manufacturers will flatly eliminate prospective intermediaries who do not enjoy a good reputation in their community. For retail intermediaries, store image is an especially critical component of the retailer’s overall reputation.

#### **E) Market Coverage**

The adequacy of the intermediary in covering the geographical territory that the manufacturer would like to reach is known as *market coverage*. Manufacturers will attempt to get the best territory coverage with a minimum of overlapping.

#### **F) Sales Performance**

The main consideration here is whether the prospective intermediary can capture as much market share as the manufacturer expects.

#### **G) Management Succession**

Many intermediaries are managed by the firm’s owner/founder and many are small businesses. Therefore, the continuity of management is a critical factor.

#### **H) Management Ability**

Many manufacturers feel that a prospective channel member is not even worth considering if the quality of management is poor. One of the key determinants of management’s ability is their ability to organize, train, and retain salespeople.

#### **I) Attitude**

This criterion applies mainly to a prospective intermediary’s aggressiveness, enthusiasm, and initiative. These qualities are believed to be closely related to long-term success in handling the manufacturer’s product.

#### **J) Size**

Sometimes a prospective intermediary is judged on sheer size. The belief is that the larger the organization and sales volume, the larger will be the sales of the manufacturer’s products. In general, it is usually a safe assumption that large intermediaries are more successful, more profitable, better established, and handle better product lines.

### **2) Using Lists of Selection Criteria**

While checklists such as those described above are not applicable to all firms under all conditions, they are still valuable because they help to point to many of the key areas of consideration for selecting channel members.

## **Securing the Channel Members**

It is important to remember that the selection process is a two-way street. It is not only the producer and manufacturer who does the selecting – but also the intermediaries as well.

The channel manager in producing and manufacturing firms can use a number of specific inducements in attempting to secure channel members. Manufacturers and producers should convey to the prospective intermediary that the *partnership* will be mutually beneficial.

### **1) Specific Inducements for Securing Channel Members**

Generally, the more specific the manufacturer can be in spelling out what kinds of support and assistance will be offered to channel members, the better.

Most of the inducements fit within one of four areas: (A) good, profitable product line; (B) advertising and promotional supports; (C) management assistance; (D) fair dealing policies and friendly relationships.

#### **A) Product Line**

At the heart of what the manufacturer has to offer is a good product line with strong sales and profit potential (to the intermediary). It is especially important for manufacturers whose products are not well known to do a good job communicating the benefits of handling their products *from the channel members' point of view*. These manufacturers should stress how effective their products can be in generating *sales and profits for channel members*.

#### **B) Advertising and Promotion**

Prospective intermediaries also look to manufacturers for promotional support. Such factors as advertising allowances, cooperative advertising campaigns, point-of-purchase material, and showroom displays indicate strong channel member support and serve as good inducements to prospective intermediaries to join the channel.

#### **C) Management Assistance**

Prospective channel members want to know whether the manufacturer is committed to helping them by going beyond advertising and promotional support to help them manage their businesses better.

Management assistance can cover areas such as training programs, financial analysis and planning, market analysis, inventory control procedures, promotional methods, and others.

#### **D) Fair Dealing and Friendly Relationship**

A marketing channel relationship is not only a business relationship but a human relationship as well. The manufacturer should convey to the prospective channel

members that he or she is genuinely interested in establishing a good relationship with them built on the basis of trust and concern for their welfare.

This emphasis on fair dealing and friendly relationships, should *not*, however, be expected to offset failings in the underlying economic or business bases of the channel relationship. Interpersonal relationships, cordiality, and even genuine liking of channel members for each other are no substitute for substances in the form of competitive products, pricing, and support programs.