



# Distribution channel selection tool

The COVID-19 crisis and the rise of online sales have disrupted traditional distribution channels. To thrive in this evolving market, you need to reassess your distribution channels to find the best and most cost effective ways to distribute your products.

This tool outlines the four steps required to assess the different distribution channels and select the one(s) that best suit your needs.

# ① Identify the needs of your customers and your business

## a) Describe your customers, their needs and how they use your product or service:

- Do you sell complementary products or services that work with those of others?
- Does it need installation?
- Do customers typically need your goods urgently?
- How mission critical is it for their operations?

**Example:** People doing their grocery shopping do not want to make multiple trips to different stores. If you want to sell fresh produce, how do you become a supplier to grocery stores? Can you benefit from the new buy local mentality? How can you go direct to consumers?

## b) How do your competitors reach customers?

**Example:** Distributors often specialize by industry, selling many different items to their clients. Are you selling through the best distributors for your product? Is there an advantage to selling directly to customers online? How could you do this while maintaining a good relationship with your distributors?

## c) Do you need specialty equipment for the transportation and storage of your products?

**Example:** If you sell perishable goods, you may need to invest in refrigerated storage facilities and trucks to handle its distribution properly.

## d) Do your products or services need a high level of expertise to be sold?

**Example:** Products such as industrial parts or motors need to be sold by trained salespeople

## ② Determine key components of your distribution network

### Direct

The customer buys the product from your website, your stores or warehouses. You control or own the entire distribution process.

### Indirect

The customer buys your product from a wholesaler, retailer, dealership, online marketplace or some other intermediary. These distributors are not owned by you and you have a distribution contract with them.

### Blend of direct and indirect

Many businesses use a blend of direct and indirect distribution. For example, clothing manufacturers can have their own e-commerce website and retail stores in key locations. They might also sell products on online marketplaces and through department stores or independent boutiques. In this way, they reach out to a variety of customers.

### Distributors broadly fall within four types:



#### Distributors with services

Industrial and commercial products are often sold through distributors that offer sales, inventory management, installation, repairs and returns services. Their value and the commission they receive is often related to the expertise and advice they bring for the purchase of highly technical products.



#### Wholesale distributors

They are more like large warehouse outlets often dedicated to a particular industry or market. Their value is often related to reducing expenses related to retail locations and offering products without elaborate merchandising.



#### Retailers

They create a brand experience to connect with the customer and can either be owned by the original manufacturer or sell many different brands and articles.



#### Online marketplaces or company websites

Customers want to quickly locate their items, look at customer reviews they trust and get their deliveries speedily.

Read the table below for the pros' and con's of direct and indirect channels.

Direct	Pro's	You have full control of: <ul style="list-style-type: none"> <li>• customer service</li> <li>• brand management</li> <li>• messaging</li> <li>• access to client data and feedback</li> </ul>
	Con's	Setting up your own distribution network takes more time and resources than dealing with an established distributor. <ul style="list-style-type: none"> <li>• You assume the full upfront costs of distribution: facilities, assets, people</li> <li>• You assume 100% of the business risk related to your distribution network</li> </ul>
Indirect	Pro's	You benefit from the existing reputation and network of your distributor. Your distributor assumes all costs and allocates them across multiple product lines. You pay a fee or commission for each sale. So you reduce risk by eliminating fixed costs.
	Con's	You are dependant upon your distributor as you no longer control the client experience directly. You need to monitor your distributors' performance. Your products are in competition with other products distributed by your distributor. They will sell those products that are the most easy to sell and that pay the highest commission.

### ③ Review these key considerations of your distribution strategy

#### Build a comprehensive online sales and marketing strategy

The Internet has given entrepreneurs cost effective and easy-to-use tools to punch above their weight and compete with much larger businesses. Many businesses limited the impact of the COVID-19 crisis thanks to their online sales. Others successfully created websites at the beginning of the crisis. As you slowly recover from the crisis, an online sales strategy is crucial.

#### Start small

Consider starting with smaller distributors. With success there, you can establish a track record and credibility to approach a larger distributor. Larger distributors have strong bargaining power and usually seek suppliers that can fulfill large volume requirements. They want a supplier that will be reliable.

#### Consider a multi-channel strategy

A multi channel strategy can help you reduce risk and be complementary in developing your business. For example, many manufacturers now sell directly online in addition to maintaining their

distribution network. Online sales allows them to build their brand and create a direct link to customers. Distributors can still benefit from online sales by performing other valuable services such as installation and repair.

#### Find reputable partners

Most industrial or technical products need an installation and repair network. If this is your situation, make it a priority to find a reputable installer and build a strong partnership with them. Make sure you pay them adequately for their part in your sales process. They are just as much your clients as the end-user. They need to have the latest information on your products and get your feedback regularly. Try to make it easier for them to sell and service your product.

#### Calculate the profitability of each channel

When you assess the profitability of each channel, make sure you take into account intangibles such as the goodwill or brand equity that your distributor has built in the market and the time it would take you to build a similar network from scratch.

## 4 Build your multi-channel strategy

Before you select new channels, assess your current distribution channels:

- How effective are they?
- What percentage of the channel do you control?
- Is the channel very profitable?

It is also appropriate to analyze each store, for example, in a retail channel. Then, try to gather as much information as possible on any new channels in order to properly analyze them.

Here is an example of a multichannel strategy for a manufacturer of chocolates who lost all their retail business during COVID-19 and is now increasing their online sales and targetting new customer segments.

Distribution channels	Location	Target customer segment	Role of the channel and distribution agreement	Costs and investments	Sales and profitability	Key considerations
<b>Retail boutiques</b>	Tourist areas and airports	Traveller who wants to bring back gifts	This channel goes from the number one channel pre-COVID to the third channel post COVID.			
<b>Transactional web site</b>	Serving the Province of Quebec (reach of the delivery network)	People seeking high end chocolates for gift giving (B2C) Modify site to also target businesses (Bto B)	During COVID and for at least another year, this channel will become the main channel. Now need to add digital marketing strategies to target customers and build corporate market	Operational costs: Hosting service, maintenance and site updates, Internet service provider Add: marketing costs	Determine break even and sales projections.	
<b>Assess becoming a supplier to corporate gift giving companies</b>	To be determined	Companies and business people looking to thank employees or customers	Our target is for this channel to become as important as our own transactional web site in three years.	TBD	TBD	

**Use this worksheet to develop your own channel strategy. Start with the customers you want to target and then reflect on how best to reach them!**  
 (See step 1 above)

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## Develop a sound business strategy

We can help you define the right goals for your company and develop the strategies to achieve them, while ensuring that you have the right capabilities and resources in place to make it all happen.

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