Not business as usual
Changing channels in consumer electronics

For decades, consumer electronics (CE) manufacturers have focused on creating products and retailers have focused on selling them. But things are changing. CE manufacturers and retailers are moving into each other’s business space while still being dependent on each other. We believe that CE manufacturers need to quickly learn more about their end consumers, and rethink their channel strategy mix to best reach their target CE customers, all without alienating existing retail channel relationships.

The CE industry continues to be a difficult place to do business, with cutthroat competition, very short product life cycles and increasing product commoditization.

Perhaps today’s biggest problem is that net margins remain thin, even while manufacturer revenues are reaching record highs.

Today, a CE manufacturer needs to be “consumer centric,” knowing intimate details about the end consumers in target market segments. It has to know what those consumers really want, and has to reach them effectively. However, the consumer relationship has largely been managed by traditional CE retailers. CE manufacturers have neglected it, but this cannot continue. They need to act to deal with the changing sales landscape (see Figure 1).

How can CE manufacturers succeed in the changing sales environment?
CE manufacturers need to take specific actions to deal with the changing sales landscape today (see Figure 1). Each of these actions will be discussed in the following sections:

1. Leverage new sales channels and manage channel conflicts – Re-evaluate current channel strategy and analyze the potential use of direct channels and how channel conflicts can be mitigated
2. Tighten collaboration with retail partners – Establish common supply chain processes
3. Deal with competition from retailers – Develop strategies to proactively drive new solution development in alliances with large retailers
4. Achieve global integration – Leverage full power by establishing a truly global enterprise
5. Herd small retailers – Efficiently manage relations with smaller retailers

FIGURE 1. Seven key success factors for a channel.
6. Align brand and channel strategy
   – Evaluate the need for alignment

7. Meet consumers more effectively –
   Understand customer wants and needs
to deliver truly valuable solutions.

Where do CE manufacturers go from here?
While there is no “one-size-fits-all” approach when determining the right
actions for a CE manufacturer, a detailed channel strategy for products is vital –
one that identifies each channel partner, along with ways to manage them so
the manufacturer can achieve strategic business results. Mistakes in sales
channel management can be costly and difficult to correct.

First, a CE manufacturer should answer these questions for each consumer
product and solution:
• What is the market size for each of your
  solutions, by geography?
• What are your detailed sales
  expectations by customer segment
  and by product?
• How much control does each channel
  partner exert over each sales channel?
• How much power does the
  manufacturer have in each channel?
• What impact does competition have on
  each sales channel?

The channel strategy can then be
developed to answer these questions:
• Which channels bring the most value,
  and how can you encourage those
  high-value channels?
• What channels are causing conflict,
  and what should be done about that?
  Are the conflicts strategic or tactical?
• Do some channels need to be de-
  selected?
• How many channel partners should sit
  between you and the end consumer?
• Do you have the power to push other
  solutions through the channel, or is it
  the channel that’s pulling from you?
  Does this need to change?
• What channels use which distribution
  models?
• To what extent do you want to be
  exposed to the challenges of selling
directly to consumers? Perhaps
  you just want to be a manufacturer
  that leaves all that to retailers and
  distributors?

In the CE industry today, how to
sell is now almost as important as
innovating the products themselves. CE
manufacturers need to make innovations
to their business models for better focus
on how to sell. CE manufacturers quickly
need to learn to create a well thought-
out channel strategy. And, as the CE
marketplace continues to evolve, they
need to continue to gather customer
intelligence and innovate their sales
channel strategies.

Authors
Christian Seider, Senior Managing
Consultant, IBM Institute for Business
Value, Global Electronics Industry.

Sean Lafferty, Global Leader for Growth
& Innovation, IBM Electronics Industry
Leadership Team.