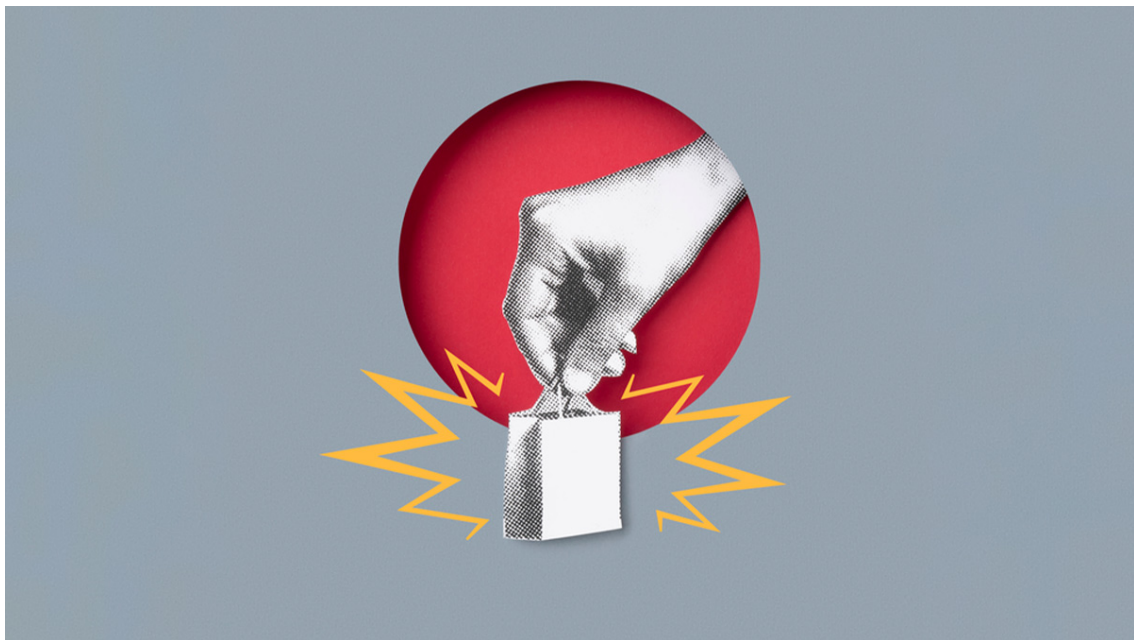


Sales

Defining a Post-Pandemic Channel Strategy

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Summary. Companies have experienced a surge of online orders during the pandemic. As the crisis eases, leaders need to decide whether the dramatic shift to e-commerce is permanent — and allocate investments accordingly.

While consumers sheltered in their homes during the pandemic, more economic activity moved online. “In many markets, the surge in e-commerce has compressed the equivalent of several years of growth into just a few months,” McKinsey noted in a report in August 2020.

Now, with vaccinations proceeding, CEOs and others who allocate resources face a question: Is the increase in pandemic-era online shopping a blip or a big and permanent shift? Across sectors, forecasts aimed at answering this question will form the basis for billion-dollar bets.

Predicting the future is hard, but it can be broken into managerially-relevant chunks that help to separate the knowable and unknowable.

First, consider whether past is prologue. E-commerce is not new. Books.com was selling online when Jeff Bezos still worked on Wall Street. And even after decades largely free from sales taxes, e-commerce was just 11.4% of U.S. retail sales in 2019, a steady but very slow increase from 5% a decade earlier. In Q2 of 2020 (maximum lockdown conditions in the U.S. so far), online retail sales were 16.1%, a gain of less than 5%, and decreased to 14% by Q4.

In fact, a pre-pandemic retail trend was the *opening* of brick-and-mortar stores by once pure-play e-commerce firms like Birchbox, Bonobos, Warby Parker, Wayfair, Amazon, and Alibaba (in China), among others. As companies deal with increasingly sophisticated online ad-blockers and stricter regulatory controls on consumer data, it's unclear how much buying will be online in the future — and whether social distancing makes people readier to transact online or demonstrates the limitations of buying, selling, and communicating virtually.

Second, recognize that predictions about technology are often overblown. In the 1930s, when phone service spread thru the U.S., the press predicted the “death of the middleman” (now called “disintermediation”) because we can communicate telephonically (“virtual selling”). In the 1950s, when the national highway system was built, pundits forecast the demise of retailers because people could drive to get better prices from wholesalers. In the 1990s, a similar prediction was common about the “information superhighway.” None of these predictions proved out. The analogies with current predictions are not perfect but, as Mark Twain said

about history, they rhyme. “A major pandemic does have big effects,” notes historian Stephen Davies in his book *Going Viral: The History and Economics of Pandemics*. “What it does not do is introduce something truly novel. Rather, it accelerates and magnifies trends and processes that were already under way.”

Third, what *is* under way is a shift to omnichannel buying, and that has implications as managers allocate resources in order to achieve profitable growth.

Observers who view the online and physical worlds as “either/or” have usually been wrong. In 2019, more than 1.2 billion movie tickets were sold in the U.S. — about the same as five years earlier. Average ticket prices rose by 12% during that period, despite growing availability of at-home movies via streaming services. Between 2009 and 2018, independent bookstores in the U.S. increased by 49% (from 1,651 to 2,470), despite Amazon. Even within digital channels, sellers use multiple platforms. In 2019, almost 60% of U.S. Amazon marketplace merchants also sold on eBay; 47% also sold on their own sites; and about two-thirds (66%) also sold thru brick-and-mortar stores. Amazon itself is a reseller in many categories, a platform for firms in other categories, a reseller and a marketplace in still other categories, and is opening stores. Online and offline are more often complements, not substitutes, as customers tap multiple sources of information thru and across distribution channels for products and services.

So in adjusting to the future, beware of channel inertia. As the pandemic eases and consumers face fewer restrictions, now is a good time to evaluate your options and the following factors in allocating resources among the options:

Online/Offline Interactions. Shoppers who pick up online orders in store spend more — up to 25% more in some studies. About a third of clothing ordered online is returned versus 8% bought in-store, and processing a return in the store is half of what it costs when an online order is shipped back to a distribution center. Customers who try

clothing on in an in-store fitting room are almost 7x more likely to buy than those who search on the web, according to research firm Body Labs. Before the pandemic, nearly 25% of U.S. apparel shoppers visited Amazon early in their buying journeys, but most of those visitors bought elsewhere. This suggests that online channels are important for search and product discovery in those categories, but less so for specific product evaluations and the purchase itself.

Online/offline interactions have even bigger economic impacts in B2B markets, where global eCommerce transactions are an estimated six times more than in B2C and where sites like PowerReviews and Marketo's Marketing Nation provide B2B prospects during their buying journeys with customers' opinions and usage experiences. In these situations, distinguish what you sell versus how customers buy and the implications for choosing channel partners. In many B2B categories, you may sell the same product to multiple segments, but each customer buys in distinct ways. As a result, adoption criteria differ depending upon the channel through which it is sold and serviced.

In product categories where resellers, outside sales reps, or other partners are involved in making the sale, clarify a partner's role in your strategy. Is it primarily about cost efficiency: that partner can perform important tasks less expensively than you can? Or is it about market access: a partner provides access to certain sectors or decision makers at customers? Or are partners key to the solution that customers buy: they provide necessary complements to the product you sell? These roles have different implications for channel design and management. Distinguish "sell-with" partners who deal with the same buyers as your customers versus "sell-thru" partners who fill a gap in your product or service offering.

Tools and Training. Most firms' market planning and sales training focus on product or platform and ignore the ecosystem in their business. One estimate, for example, is that for every dollar a firm spends on its SaaS platform, it spends four times that amount with systems integrators and other channel partners. And as technologies

are embedded inside other products, services, and solutions, effective selling requires more partners. Salesforce, for example, is recruiting thousands of new partners, while Microsoft is reportedly adding over 7,000 partners each month.

Meanwhile, new software tools can enable you and partners to leverage content, messaging, and demand-generation knowledge. Multi-channel selling is complicated but necessary. Trying to do it without smart use of these tools makes it unnecessarily complicated and burdensome.

Especially in B2B markets, moreover, it's typically sales people who are key in on-going interactions with channel partners and users. But when reps work with partners, their tasks change. For one thing, individual contributors now have managerial as well as selling responsibilities. Channel management suffers unless you are proactive in your hiring and training initiatives.

The future is never what it used to be. It now involves rivalry between channel systems, not only between individual firms. Competing with Amazon means competing with that supply and distribution chain, not just price and product on a web site. Across industries, sales effectiveness is not only about listening to customers and providing value. It requires the intersection of company and channel capabilities with customers throughout their buying journeys.

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