

# Building solutions for customers



How can you use routes to market to creatively build solutions which meet customer needs? We talk to Lars-Erik Gadde, professor of industrial marketing at Chalmers University of Technology, Sweden.

**RTM:** The traditional channels model typically shows channels as pipes taking products from the supplier to the consumer. Why do you see this as dangerous?

**LG:** Many reasons. Firstly, it is a company-centric approach. I think we should start with the customer and see ourselves and other intermediaries being involved in creating valuable solutions for customers.

Secondly, the traditional model sees channels as intermediaries who take title and ownership of the goods. This determines how you draw a channel in a textbook – producer, wholesaler, and retailer. But these players are only a small, marginal part of your route to market. When you look at it like this, you don't see the other firms in this structure. It ignores the host of service providers, logistics operators, banks/insurers and support companies who determine the customer experience.

*"Mass manufacturing and ...mass distribution...are now often out-moded."*

Thirdly, it implies a separation between manufacturing (supplier) and distribution (channels) which is increasingly false.

Car-maker Volvo, for instance, would be seen as a supplier. Yet Volvo only adds 30% of the value to the components shipped in by its suppliers.

It could more accurately be seen as a distributor, who manages a brand and connects suppliers of complex systems with dealers controlling the buyers of cars. And that

definition applies better than that of manufacturer to many, many large 'manufacturing' companies in many industries.

**RTM:** OK, so what are the implications of this way of looking at the world?

**LG:** I'd like to talk about a concept we call 'differentiated distribution'.

Formerly, we had mass manufacturing and that went hand in hand with mass distribution. It led to enormous improvements in efficiency. But I would argue that it is now often out-moded.

**RTM:** Why?

**LG:** We need to look at what business users want and why they have different requirements from distribution.

Some factories want sophisticated just-in-time delivery that a typical mass boxshifter may not be able to deliver. Others simply want the lowest possible price. They may even want to come and pick it up from your factory door! These two groups will definitely not be satisfied with one and the same distribution solution.

If you ignore these different groups and the different experiences they want, then you risk losing marketshare to others, who target more closely. New technology makes it far easier for companies to tailor products for the needs of their customers.

But unless you analyse these needs you will go on turning out the same product.

**RTM:** But isn't mass distribution simply about increased efficiency. I mean how can specialists compete?

**LG:** By understanding the customer experience. The other day we came across an electronics distributor in Norway who actually stated that it doesn't want to turn its inventory more than three times a year.

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**RTM:** But that's nuts! Everyone wants to push down their inventory turn as far as possible.

**LG:** That is what we said at first! But the brilliant idea behind this is to support its customers' efforts to be lean. What makes this distributor special is the sheer width of its inventory.

If customers want a particular component today or tomorrow, they can have it. It reckoned that unless it keeps inventory turn at less than three times a year, it can not fulfil that promise.

And this illustrates the danger of adopting some 'best practice' approach to mass distribution which says that the fewer resources you spend on the activity, the lower operating costs, the better.

But sometimes the opposite is true – the more you spend the better – that is the implication of differentiation. So long as you can use these

resources in a way which delivers real benefits for the customer, which really solves a problem, then it is worth investing.

**RTM:** You mentioned that many companies don't spend long enough looking at service providers, because they are overly focused on channel players as people who take title. Can you explain what you mean?

**LG:** Certainly. Let's take Dell. It is sell-direct, right? So it has no intermediaries. Wrong! A recent PhD thesis done here at Chalmers showed that Dell uses a more intricate network of intermediaries than are used in traditional 'indirect' channels.

But Dell's intermediaries don't take title and are therefore not considered part of the channel. In today's industry there is a huge distribution and service infrastructure out there – ready for us to use. You can always have the capability you need. The trick is to relate your own operations and capabilities to what is really out there. Most big Swedish companies – SKF, Atlas Copco and so on – have done this.

Their distributors and subsidiaries used to have huge warehouses in every European country. Now these local inventories are substituted with a distribution centre in Belgium or Holland covering all Europe which is usually managed, owned and run by a third party. Often, this facility is carrying out assembly or manufacturing the product to meet the customer's specification.

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**RTM:** Can you give an example of a company which has successfully applied the principle of customer orientated distribution solutions?

**LG:** Yes, look at Atea, a big Swedish PC reseller. It has been very clever in thinking about customer value when looking at its operation. The managing director, Pär

Aspengren, has spent a lot of time analysing the real customer experience, looking at things of which customers themselves are often unaware.

Atea starts by identifying and estimating the total cost of buying and using for the customer. That means not just the price tag, or the installation, but the cost of using the computer, and the cost of finally getting rid of it. Atea then asks what it can do, to really add value, to help the customer reduce these costs.

*"Dell uses a more intricate network of intermediaries than are used in traditional 'indirect' channels."*

Now, Atea gives seminars to buyers to enable them to calculate the total cost. They can show big companies like Skanska precisely how much they can save by going for a complete Atea solution. In one case, a large Swedish multi-national now pays a fee per month per user for its PCs - everything included. We are seeing the same 'power by the hour' approach being adopted in other industries, so that the customer only pays for the use of the machine.

To do all this Atea relies on a network of third party service providers – logistics operators, banks and so on.

*Lars-Erik Gadde's research interest is focused on the exchange processes among companies in business networks. These processes are analysed from two perspectives.*

*The first concerns purchasing behaviour and purchasing strategies on the buying side, while the second deals with distribution strategies and distribution system dynamics on the selling side.*

*He is the author and co-author of a number of books and articles, among which some of the recent include 'Managing Business Relationships' (Wiley 2003, together with David Ford, Håkan Håkansson and Ivan Snehota) and 'Supply Network Strategies'*

**RTM:** So all this means that Atea's customers can tailor make their own solution?

**LG:** Precisely! And Atea is creating completely new services to meet demands which customers may themselves, only dimly perceive. For example it is very clever at recycling old PCs. In Sweden this is now the rule, but there are huge issues. For instance, all the hard drives have to be erased in such a way that confidentiality is not breached.

**RTM:** So you see this approach as the future?

**LG:** Exactly. This is where the world, in general, is increasingly moving. We have to provide the solution that the customer wants, working with a whole network of others, whose roles are often more important than our own. This requires humility and the ability to look long and hard beyond the parapets of our own comfortable corporate world.

#### Learnings

- Look beyond the traditional channel model
- Focus on the customer experience and how you can improve it through routes to market
- Challenge best practice assumptions on distribution

*(Wiley 2001, together with Håkan Håkansson).*

*Gadde is a leading member of the Industrial Marketing and Purchasing Group, a European academic school which adopts a rather different perspective from that followed by US business school academia. It tends to be more holistic, looking at overall systems and pioneering the network approach, which avoids concepts such as channels.*

*IMP members often spend years (working with industry) on empirical, long-term research focused on large companies. You can find out more at [www.impgroup.org](http://www.impgroup.org)*