# Channel Mapping for Profit

In my previous blog post, "Customer Intimacy vs. Operations Excellence: Why Not Have Both?", I explained that leading companies are gaining market share and growing profits by focusing their resources on the customers that are giving them high sustained profitability, and finding new ways to coordinate with these accounts to increase these *customers' profitability*.

When these astute suppliers increase their customers' profitability, the customers give them much more share of wallet, and ease the pressure on the suppliers' prices. Importantly, the improved operational coordination – smoother order patterns, improved forecasting, elimination of redundant functions, lower inventories – reduces the suppliers' costs and increases the *suppliers' profitability* as well.

This process creates a classic win-win: the customer wins and the supplier wins even more. The only losers are the competitors, who see their market share drop and are left wondering why.

This powerful profit dynamic is critical to profitability management, and a channel map is the key to success.

**Mapping your channel**

A channel map is one of the most important, but least used, elements of an effective profit improvement program. It is the key to big, sustainable increases in profits and growth, especially in your most important accounts. It also provides decisive competitive differentiation – building big barriers to entry based on customer knowledge, relationships, and trust. This enables you to secure and grow your most important customer relationships, and to penetrate and grow critical potential accounts.

The power of a channel map is that it gives you a detailed overview of the cost buildup as your products flow through your company, and into and through your customer's company. The objective is to identify ways to increase efficiency and reduce cost. You also can use the same technique for coordinating with your suppliers to lower your own input costs.

The starting point in a channel map is to partner with a customer, and select a few representative products. I suggest that you "warm up" by developing a channel map with a relatively small, but very well-managed customer, in order to get comfortable with the process.

In developing the channel map, it is important to work with a willing, engaged counterpart manager from the customer. (This underscores the importance of developing relationships with your counterpart managers in key customers well before they are needed.) He or she will help you understand the customer's operation and estimate the costs, and in the process you will develop a close working relationship with a customer manager who can help explain the process to his or her fellow managers, vouch for the results, and later help drive the change process.

The second step in channel mapping is simply to trace the product flow through both companies, identifying each step in the process. Very quickly, you will see important points of leverage. Typically, you will find a number of costly redundant functions, and you will be able to spot key points at which information that is readily available in one company will really help the other. This early, easy step is very eye-opening, and quickly shows everyone the value of the process.

The third step is to roughly cost out the steps in the process. As with profit mapping, “70% accurate” information is almost always sufficient. If you have developed an internal profit map of your own company, you will be very comfortable with this process, and it will go relatively quickly. My new book, *Islands of Profit in a Sea of Red Ink*, explains how to do this.

In this process, it is very important to be comprehensive in your view of cost. For example, channel maps were essential in the work that led to the development of one of the first, most widely-followed vendor-managed inventory systems, which Baxter developed in the hospital supply industry.

A work team from Baxter traced the product flow for representative products through a representative hospital, observing the steps in the process and roughly estimating the cost of each. The hospital’s management had simply assumed that they could gauge the cost of handling the hospital supplies by looking up the budget of the materials management department.

However, when the work team spent time in the hospital actually observing the process, they found that a surprisingly large portion of nurses’ time was spent in ordering and handling supplies, as well as in frequent trips to the hospital stockroom to obtain missing items. When they added in the estimated nurses’ time (based on interviews), it amounted to about half of the handling costs. This was a major issue because there was, and still is, a shortage of highly skilled nurses, and their time is really needed for patient care.

The channel map showed another critical hidden cost: Baxter’s sales reps had to spend an inordinate amount of time expediting product and addressing customer service issues stemming from poor intercompany coordination. In most companies, removing this needless problem in effect increases the company’s sales force by 20-30% - *without any cost*.

**Opportunities for improvement**

Once you’ve developed a step-by-step understanding of the intercompany product flow, and an estimate of the cost of each step, opportunities for improvement will literally jump off the page. Most companies are relatively efficient within their “four walls” internal operational processes, but they almost never see the true *intercompany picture*. This valuable new view almost always shows very easy, lucrative opportunities to quickly improve profitability for both companies.

Returning to the hospital example, the work team observed that the hospital’s metrics included inventory levels, but not handling costs, because the former was easy to measure and the latter was not tracked across multiple departments. Consequently, the hospital CFO managed the hospital’s inventory very tightly, but had no way to understand the essential trade-offs with other important costs. When the team completed the channel map, it became crystal-clear that by increasing hospital inventories slightly on low-value items, both the supplier and hospital could reduce their expensive handing costs enormously.

As another example, the work team was surprised to find that the order pattern for steadily-used products was very erratic, and this was causing very high costs. They decided that the simplest solution was to set up a standing-order process, in which the supplier would ship a predetermined amount of the steadily-used products to the hospital every week. The hospital could alter this standing order if needed, and receive the product promptly. This radically lowered the inventory and handling costs for both channel partners.

It also had other important benefits. Because the standing orders covered the same high-volume products each week, the supplier could pack the products on the pallets in the way that was best for the hospital, usually put-away order. This made the shipment very fast and convenient to receive and handle. This seemingly small change was a huge benefit for the hospital's personnel, and they strongly supported the new process.

**Continuing process, continuing value**

Channel mapping is not a one-time event. It should become a core component of your profitability management process – especially for the key accounts in your "sweet spot." This is how you secure and grow your islands of profit; it is one of the most important arrows in your quiver.

Every element in the process is hugely beneficial. As you work with your key customers on the channel map, your managers will develop close, trusting relationships with their customer counterpart managers. This trust is immensely important: it is the precondition to later change management and a huge barrier to entry.

As your managers and their counterparts use your channel map to discover opportunities for profit improvement, a broader set of managers in both companies will develop comfortable patterns for working together. They will have many opportunities for informal talks in which they will get to know each other's deeper hopes and concerns. This will naturally lead both to work together to develop new ways to create mutual value.

In this way, channel mapping, which starts as a way to develop operating efficiencies, transforms naturally into a core element of an extremely productive strategic partnership. When you achieve this, both you and your customers will strongly and steadily grow your market share and profitability for years to come.

And remember, you can develop the same ultra-productive relationships with your *key suppliers* as well, harvesting huge profit and strategic benefits for years. Upstream or downstream, channel mapping is the key to ongoing success.