Indirect sales networks: A solution to dwindling sales?

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A new IESE study reveals, many companies using indirect sales networks remain unconvinced of their benefits, suggesting that there is significant room for improvement.

The good times are over: Sales have decreased in almost all sectors, while turnover is down across the board, forcing a good number of companies to try out new sales formulas.

In many cases, opportunities lie beyond borders. And indirect sales networks are arguably the best way of making inroads into new markets. Not only does their reach extend far beyond that of direct networks, but they also represent a low-risk option that allows for variable sales costs.

As a new IESE study by professors Cosimo Chiesa and Julián Villanueva in collaboration with the Barna Consulting Group reveals, the overwhelming majority of companies (88 percent) are already experimenting with indirect sales networks, be it through agents, distributors, outsourcing networks or joint ventures.

Efficient versus effective

National indirect sales networks are considered to be slightly more efficient than direct ones, but significantly less effective ? meaning that they are cheap, but yield far fewer results than a company?s own sales force.

On the other hand, in the case of export sales, indirect networks are significantly more efficient and only slightly less effective.

A necessary evil?

While satisfaction with direct networks, especially on a national level, was widespread among the companies surveyed, barely half gave indirect networks a passing grade.

Those surveyed highlight product expertise (73 percent), knowledge of the market and the competition (52 percent) and customer loyalty (50 percent) as the main weaknesses of indirect networks. Nor are indirect sales networks seen to be an effective way to inform customers or maintain and develop the company?s brand.

One widespread problem identified by the survey is that companies feel that their products don?t make up a large enough part of the network?s business volume, as they must share the spotlight with other brands.

Despite such widespread negative perceptions, almost all companies continue to use indirect sales networks. What?s more, 5 percent of the companies surveyed reported using this type of network for all of their sales, while just over 6 percent said they were the source of their entire foreign turnover.

Two markets, different approaches

In the national market, nearly all companies (92 percent) use direct networks. Among the indirect networks used, the most common are through agents, brokers, representatives and freelancers, which are employed by more than half of the companies (56 percent). Distributors are used to a somewhat lesser degree (45 percent).

The use of joint ventures between sales forces (27 percent) and outsourcing networks (15 percent) is even less frequent.

By contrast, in the case of exports, the use of direct and indirect sales networks is much more balanced. Although direct networks are still the most commonly used type of network for exports, only 46 percent of companies use them.

Noteworthy among the indirect sales networks are those made up of agents, brokers and freelancers, which, representing 41 percent of the total, are used nearly as much as direct networks. Distributors are also a common resource, used in 35 percent of the cases studied.

Only 1 in 5 companies use joint ventures between sales forces, while outsourcing networks are even less common, used by only 6 percent of companies.

For both direct and indirect sales, the companies surveyed ranked national networks more favorably than export networks in all sectors. This should come as little surprise, considering that for most companies, national markets are the primary source of their sales revenue.

While it is clear that most companies employ both types of sales network, the authors of the study believe that there should be much greater coordination between them.

Moreover, while indirect sales networks may represent a low-cost, low-risk way to explore and penetrate overseas markets, their effectiveness pales in comparison to that of direct sales networks.

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