Selecting the Right Channel Partners to Maximize Sales Impact
Executive Summary

Technology end-user purchasing behavior has changed from “one-stop shopping” to selecting different outlets for products and implementation services. The indirect channel has responded by fragmenting into an array of firms that cover the full spectrum of business models from fulfillment to implementation. Unfortunately, few manufacturers have adapted to - or are even aware of - the new channel landscape.

Manufacturers who measure and manage the new channel by old revenue-based metrics waste time, attention and money on programs that do not build revenue or market share. Worse, they miss opportunities for the new channel to promote, specify and sell their brand.

Manufacturers must determine what their end-users actually do when purchasing and implementing solutions and then build balanced channel programs to serve them. Balanced programs provide market and geographic coverage, plan for change, and organize to take advantage of the focus and flexibility offered by second- and third-tier partners. The management challenges are greater - but specialist help is available, and the rewards are well worth the effort.
Introduction

Manufacturers rely on channel partners to deliver products and know-how to customers and help them control costs and risks. But after a decade of quick, impressive returns from channel investments, manufacturers today are getting less and less impact from the time, effort and money they spend on channel programs. More than just an economic downturn, they are facing a revolution in their channel partners’ business models. The channel has quietly reorganized in response to fundamental changes in the way end-users act when purchasing and implementing solutions. But most manufacturers - one step removed from end-user behaviors - have not adapted. The result is that their expensive channel investments, appropriate and productive just a few years ago, are going to the wrong partners or programs.

Yet opportunities to build revenue and market share through the channel have never been better for companies who know the new rules. This article - part of a series on channel management - reviews why and how the channel has changed and details powerful methods to help design, build and balance a network of partners who will deliver the results you need.

Revolution in the Channel

When technology was new, demand high and growth fast, manufacturers could choose routes to market based on their own convenience and count on eager customers to invest the time and effort needed to find their products. Vendor-convenient channels were easy for manufacturers to build and manage. Customers received implementation assistance - system configuration, applications help, upgrades and service - through the same channel that sold the product. The manufacturer’s own direct sales representatives and a network of authorized Value-Added Resellers (VARs) were enough to cover the market and move the product.

Customer Behavior Changes

Standardization, market and technology maturity and the Internet changed customer behavior forever. Standardized, preconfigured and self-configuring systems made system implementation easier. And, with buyer’s guides, reviews, installation checklists and case studies only a click away, more and more customers chose to implement all or part of their systems themselves.

With reduced need for outside implementation help, customers looked for cost-effective, unbundled products and services while demanding “here and now” availability. New, customer-convenient purchasing options multiplied, adding pure fulfillment channels like factory-direct, Web discounters and auctions to traditional direct and VAR channels.
Introduction

Of course, not every customer adopted these new behaviors. For every business with the skill and desire to implement its own solutions, others were willing to pay for “complete solution” convenience. Still more took a “mix and match” or blended approach, saving money by taking some services in-house while paying outside firms to help with more complex or demanding tasks.

But regardless of which alternative they chose, the old link between customers’ fulfillment and implementation behaviors is now broken. In 1992, a small business might rely on a VAR to select and configure a “white box” PC, install accounting software and train the staff (fulfillment and implementation: VAR). Today, that same business might buy a preconfigured PC from a discount store (fulfillment: retail), download the software (fulfillment: manufacturer direct) put it all together on a weekend (implementation: self-service), and send its staff to an applications training course (implementation: independent service provider).

The Channel Adapts

Channel members quickly adjusted their business models to the new range of customer behavior - usually by reducing their dependence on hardware sales and focusing their businesses on the higher-margin service end. Channel members chose business models that offered customers their choice from a range of “fulfillment value” to “implementation value”.

- **Fulfillment value** includes in-stock availability of multiple brands and transaction-related services like credit, shipping and easy returns. Fulfillment channels make money on volume and not high service levels.

- **Implementation value** includes the “know-how” to select, configure, install and support a solution. Implementation channels offer deep specialization in a technology, vertical market or service offering. Implementation channels make their money on services but may also offer a limited range of products, primarily as a convenience to their customers.

It should be noted, however, that few channel members adopt a “pure” fulfillment or implementation business model. Instead, they fill up the continuum between these endpoints. Fulfillment channels typically offer some preconfiguration and product support, and service-oriented implementation channels will often purchase product for their customers. The full range of business models, with some of their key roles, is outlined in Figure 1.

As channel members take up positions along the continuum, from fulfillment to implementation, the position of the traditional VAR has become less and less attractive. Lacking the scale to compete in fulfillment channels, VARs typically specialize in a technology or vertical market, migrating steadily toward the implementation value end of the spectrum.
Who Specifies the Brand?

The separation of end-user fulfillment and implementation behaviors and the resulting breakup of fulfillment and implementation value channels raises the central question for manufacturers - who will specify their brand?

The value of the solution comes from the entire system, including all attached services and support - not from any single component part or service. As a result, brand specification falls to the implementer - whoever is responsible for the operation and use of the system as a whole.

Customers who implement their own solutions will specify the brand themselves and then find a fulfillment channel that carries it. Since the fulfillment channel carries multiple brands and makes its money by moving product quickly, it has neither the expertise to change the customer’s mind nor any financial incentive to do so.

When channel members implement solutions for their customers, they take over brand specification. The implementer makes its money on services, and selects brands that fit most quickly and easily into a total solution - usually on the basis of past success with the brand or additional training. Once selected, the item is often purchased through a distributor or other fulfillment channel to take advantage of credit, discounts or other transaction-related services.
Revenue-Tiered Channel Programs

The new makeup of the channel holds two important lessons for manufacturers:

- High-volume fulfillment channels are least likely to specify a brand. Instead, customers and implementers “pull” the brand through them.

- Implementation channels are most likely to “push” a brand. However, they typically transact little volume themselves.

Most manufacturers’ partner programs use some form of “revenue tiering” - recruiting and assigning partners to “Platinum, Gold, Silver”, “A, B, C” or similar tiers according to their revenue-transacting capability. In these arrangements, transaction-value partners almost inevitably rise to the top, receiving the lion’s share of management time, attention and investment.

If a manufacturer used only a single route to market, revenue tiering would make sense. Unless a channel program is built around 100% transaction-value partners, revenue tiering distorts the channel model, directing investment away from partners in the best position to specify a brand and toward the high-volume, low-influence transaction side of the partner spectrum. This draws money, time and attention away from the most influential segment of the partner community as illustrated in Figure 2.

**Figure 2**  Channel Program Distortions from “Revenue Tiering”

Assigning channel-program tiers by revenue alone underestimates the value of partners who offer some (light grey) or primarily (dark grey) implementation services along with fulfillment. The practice completely misses implementation-only partners, shown in red.
Recognizing these distortions, some manufacturers have added a separate “influencer program” to their revenue-tiered partnership program. This is a step in the right direction. However, influencer programs still miss traditional VARs and others whose mixed, transaction plus implementation business model puts them at the middle-to-lower levels of both revenue-tiered and “influencer” programs.

**Building a Balanced Partner Program**

The solution is to build a program that recruits, recognizes and supports partners for their contributions to both product transaction and specification of the brand in any combination. In a balanced program, tiering is based not on the transaction volume of partners, but on their ability to match the purchasing behaviors of end users. There are three options to designing a channel program that reflects the value contributions of both fulfillment and implementation channels. The options are:

- apply a standard model based on the experience of similar companies,
- enhance and modify the standard model with primary research on end-user preferences, or
- develop a custom model based on all end-user, competitor and channel information available.

These models are spreadsheet exercises that manufacturers could apply by themselves. Their full value is realized when the research is conducted with a consultant or partner whose experience spans many manufacturers and channel partners.

**Applying a Standard Model**

There is no need to be a pioneer. Unless a company is launching an entirely new product category or opening an unexplored geographic area or end-user market, its market space is a known quantity and a “standard model”, based on the experience of similar companies selling similar products, probably applies.

For a first approximation of channel coverage and composition requirements, manufacturers need to know four things:

- The complexity of implementing a solution using the product benchmarked against other solutions sold into the space,
- The revenue per customer a partner will generate from both product and attached services,
- The manufacturer’s revenue target for the product in the geography or segment, and
- An estimate of the revenue per partner the product will generate
The first two elements - complexity and revenue per customer - determine what kind of partners are required on the spectrum between a) higher implementation value, supported by greater revenue per customer, for more complex products and less technically-skilled users, or b) higher transaction value, supported by greater volume of simpler products, or those sold into more sophisticated markets. These second two elements - program and per-partner revenue - determine how many partners of each type are needed to meet revenue targets.

Adding End-User Data

The standard model is greatly enhanced by adding end-user data for the target product in the selected market. Manufacturers planning to use their channel programs to differentiate their offering from competitors’ should consider this step a requirement.

Unfortunately, many manufacturers have lost track of their end-users over the years, delegating much of the direct customer contact to the channel. A short survey of purchasing preferences is an excellent start toward correcting this situation.

The end-user survey provides the basis for segmenting the potential customer base according to purchasing behavior. As we have seen, the separation of transaction and implementation behaviors has made purchasing a more complex process than it once was - so these questions need to be asked separately. For every combination of product and target market (geographic, industry, etc.), 75 to 100 surveys, collected over the phone or through the Web, is usually sufficient. The survey should determine:

- Each customer’s preference for specification assistance - who helps them choose?
- Preference for internal vs. external implementation, including system integration, installation, training and technical support - who makes it work?
- Where the customer prefers to purchase the product - fulfillment- or implementationvalue channels and manufacturer-direct or indirect - where do they buy?

Two final questions refine the “educated guesswork” of the standard model:

- What is the annual budget for hardware and software in the solution?
- What is the budget for associated services in their solution?

A surprising amount of useful data may be generated by just these few questions - enough to segment the target market according to end-user purchasing behavior and determine:

- How many customers prefer to work with implementation-value channel partners vs. transaction-value,
- What is the preference for manufacturer direct vs. indirect channels, and
- What is the preference for in-house vs. external implementation of the solution?
The survey may also include segmentation questions based on traditional measures like company size. But these categories should be analyzed within end-user behavior categories because end-user preference provides a far better guide to predicting a customer’s behavior than company size.

The end-user survey refines the basic model by adding specific information on channel mix - the proportion of specification, implementation and transaction partners needed to match customer buying preferences.

**Building a Custom Model**

Manufacturers fortunate enough to have additional data available, or willing to acquire it, can move beyond the standard model, and custom-tailor their partner tiering program to their individual products and target markets. Additional information may come from these sources:

- Analysis of competitor partner choices and those partners’ value contributions - what is the size and mix of competitor channels?
- Historical “sales out” data for the subject or related products through channels in the target market - how realistic are the “standard model” projections for these products and markets?
- Analysis using Partner Relationship Management (PRM) database tools.

**Putting it All Together**

The correct mix and number of implementing and transacting partners allows creation of a program that meets end-users’ preferences for implementation and transaction and optimizes investments in channel support. A properly-balanced channel program will begin to look like the example in [Figure 3](#).
Recruitment and engagement of channel partners is the subject for another paper in this series. However, the following general principles should be considered during the planning stage:

1. **Uncover hidden value in your current partnerships**

Your current channel partners may be capable of much more than you are asking. If your revenue-tiered program “buries” low transaction-volume partners at lower tiers or fails to compensate them in a way that matches their business models, reorganizing your current program offers some of the highest possible returns on your channel investments.

A systematic evaluation of your current tiering assignments - conducted inhouse or with a consulting partner - can quickly identify hidden revenue opportunities with minimum disruption to your current sales and marketing activities. It is so valuable and easy that it should be considered a “first step” in any channel strategy.

2. **Plan for channel changes**

As we have seen, product commoditization and eroding margins pressure fulfillment and hybrid partners to move toward the implementation end of the partner spectrum. And implementation partners consistently seek out the latest, more complex and profitable solutions. Manufacturers of those new solution components may deepen and strengthen their relationships with existing partners, while the others may need to recruit new partners. In either case, it pays to review channels and refresh end-user data at least annually to review the mix and range of partner programs.
3. Plan for end-user behavior changes

Just as yesterday's “custom solutions” have become today's commodity products, the complexity and profit margins of today's products will steadily decline. As more and more end-users become comfortable specifying and installing today's solutions, channel programs will need to increase coverage of the market by fulfillment channels and reduce focus by implementation partners.

4. Profit from the “lower” tiers

- Motivating this group to promote - and even build their business around - any manufacturer’s product is much easier than with the giants at the top.
- Because these partner’s resources are more limited, they are more dependent on manufacturer training, technical support and service assistance.
- Growth is highest among second-tier channel partners. These are the ones who have achieved critical mass, but have not yet reached their markets’ limits. Investment here is an investment in the future.
- Second- and third-tier channel partners are the most effective in reaching small and medium businesses where the potential for growth and profit is highest.
- Many investments among smaller partners builds a steadier business than a few big ones at the top.

5. Do not neglect geography

Just as second- and third-tier partners offer tight focus on markets, regional and local partners can deliver intense geographic coverage. The same benefits apply - motivation, reliance on your technical resources, growth, access to high-potential customers, and stability over economic cycles. And once again, there are management challenges from managing a larger group of partners - but help is available and the rewards are significant.

6. Do not neglect fulfillment

As we have seen, revenue tiering created an imbalance, biasing manufacturers’ efforts and investments toward fulfillment channels. In correcting the situation, it is important not to swing too far in the opposite direction. While implementation value partners offer the best chance to build specifications and sales, adequate coverage of fulfillment channels is essential for any successful channel program. Both self-service end-users and the implementation partners themselves rely on fulfillment channels to have products available at the right place and time.
7. Organize and manage for channel success

While manufacturers will want to maintain direct contact with their top tier of channel partners, the range and number of second- and third-tier partners presents significant management challenges. Fortunately, there is no need to do this alone. Outsourced channel management companies offer a wide array of services to help manufacturers design and fine tune their programs. Since these companies are in constant communications with second and third-tier providers, they can help build effective channel programs that adapt to change and deliver maximum impact in the most productive routes to market.

Conclusion

The channel has changed. End-users no longer buy both products and implementation services from the same manufacturer-dominated channels. The channelsthemelves have adapted by offering their customers a full spectrum of fulfillment, implementation and support services. Manufacturers who respond to these changes with balanced channel programs can gain sales traction and competitive advantage by reorienting their channel programs to match end-user purchasing behavior. A systematic, disciplined channel program starts with careful analysis of end-user behavior, such as we have described here. Selecting the type and number of partners to match end-user purchasing and implementation preferences requires a systematic approach, the right information and a little time, money and good advice. But the rewards will be well worth it.

About MarketStar

MarketStar, founded in 1988, is the leader in multi-channel sales development for the Information Technology and Consumer Electronics industries. MarketStar helps clients develop channel strategies and execute programs in the sales channel. As a leader in outsourced sales solutions, MarketStar offers implementation services to recruit, engage, manage and sell through channel partners.
Glossary of Channel Marketing Terms

Associated services: Revenue-generating activities such as configuration, installation or training connected to the sale of a hardware or software product.

Auction: One-to-many variable-price negotiation; a form of transaction that typically includes little implementation value.

Balanced partner program: Channel-management program that measures and manages partners according to both transaction and implementation value.

Brand specification: Selection of one manufacturer’s product from a range of alternatives. Control of brand specification typically rests with the system implementer.

Consultant: High implementation-value channel member offering implementation advice and services but rarely product.

Customer-convenient routes to market: Separate transaction and implementation channels matching customer purchasing preferences.

Direct sales representatives: A manufacturer’s own internal high implementation value channel.

Distributor: High transaction-value channel member offering a wide range of products in each category, deep stock, credit, returns and other transaction-support services.

eCommerce: High transaction-value channel member, typically offering high convenience, quick shipping and minimal transaction-related services.

Factory-direct: Manufacturer’s own internal high transaction-value channel.

Fulfillment: Activities surrounding physical delivery of and payment for a product, including stocking, shipping and delivery, credit and returns.

Fulfillment value: Equivalent to “time and place utility” in economics: the value added to a product by fulfillment.

Implementation: Activities that bring a product into productive use, including design, installation, system integration, applications training, product service and upgrade.

Implementation value: The value added to a product by implementation.

Mail order: Transaction-value channel member offering minimal transaction-related services.
Partner relationship management (PRM): Enterprise information system designed to keep track of, analyze and support a company’s relationships with partners, including channel partners.

Pull: End-user demand for a product or brand, creating follow-on demand in the channel.

Push: Manufacturer or channel motivation to specify and sell a product to end-users.

Retail store: Transaction-value channel member, typically offering broad stock and display, immediate fulfillment, and often a few implementation services such as in-store tech support.

Revenue tiering: The practice of organizing manufacturers’ channel programs according to partner transaction volume. Underemphasizes contributions of implementation-value partners.

Routes to market: A synonym for channels - includes manufacturer direct and indirect models, fulfillment and implementation-value types.

Specification: The act of choosing a brand, typically by the end-user or partner who implements the system.

Systems integrator: A high implementation-value channel member, typically offering a range of design and installation services to assemble and modify component products into a system.

Transaction-related services: Services surrounding fulfillment, including stocking and reordering, shipping and delivery, credit, returns, etc.

Value-added reseller (VAR): A mixed model channel member offering transaction and implementation value. VARs traditionally made money on product margins, but are now moving toward a service-based business model.

Value-added service partner (VASP): A high implementation-value channel member - essentially a VAR that has made the transition to a service-based business model.

Vendor-convenient channels: Traditional manufacturer-direct sales and manufacturer-authorized VAR channels; offered vendors the convenience of simple management and distribution of products and services through the same channels.