

Big results with a tight budget

Direct sales coverage of a major account can easily cost \$500,000. Channel coverage could cost only 10% of that. With direct coverage you need a team to be competitive. Your team could include a sales executive, an inside sales person and a system engineer. With the right channel partner you can gain more people to cover the account, benefit from the long-term relationship of the channel partner and the account, and provide the customer with value-added solutions of the partner.

Direct sales coverage has many benefits. A direct team can better manage global relationships with a global 1000 account than a local channel partner. A direct sales team can patiently develop and execute a long-range plan with an account. A channel partner tends to be more focused on immediate revenue. A direct team can lose money nurturing a breakthrough product from beta to completion. Channel partners focus on proven products with established market demand.

When budgets are tight, most corporations should increase the emphasis on channels, and lower direct sales cost. Direct sales coverage should be reduced to the large global accounts that produce a high-ROI for your channel investment.

Less is more

The 80/20 rule applies in channel sales. Over time, a corporation may find that it has grown to 5,000 resellers. It may discover that 1,000 resellers generate at least 80% of the revenue. These resellers are most likely to be loyal to you as channel partners, better trained, create demand for your products, and profitable for you.

It is tempting to leave the other 4,000 alone. Maybe they will sell something. If you terminate them, you worry about legal problems. You worry that they will go to the competition. You worry that you will not make revenue goals.

In fact, if you terminated the worst 10% of your partners every six months, your channel profits would increase. You may decide that you are legally obligated to offer expensive training and marketing programs to all partners. Less partners lowers these costs. You can give more attention to your best partners, if you are not wasting time trying to fix your worst.

Good agreements with channel partners make it easy to weed out the worst. Contracts include provisions for termination to training certification requirements are not meet. Sales reporting compliance can be required. You should have the right to terminate without cause.

Your worst partners often bid down the “street price”, removing incentive for your value-added partners to develop new business.

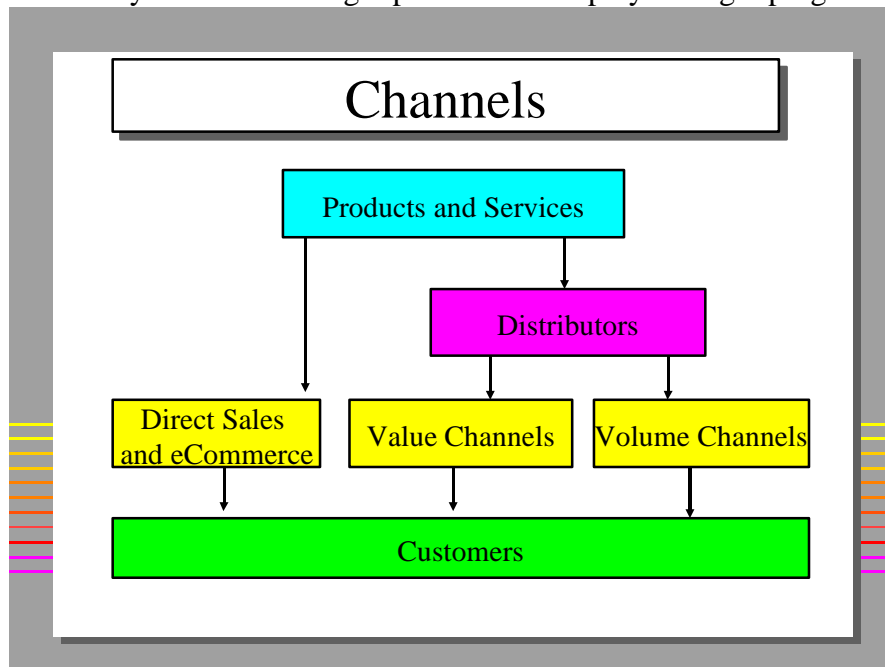
Invest in training, mindshare and marketing programs with your best partners. It will drive revenue. Less is more.

Accelerate channel revenue with these channel field tactics:

1. Strategy
2. Coverage
3. Mindshare
4. Partner relationship management
5. Marketing
6. Teaming
7. Money

Strategy

Strategy is driven by several factors: customer's needs, focusing on your strengths, focusing on competitive weaknesses, and having the right mix of sales channels. Before you do more recruiting, you need to determine your ideal sales coverage model. Only then will you recruit the right partners and deploy the right programs.



Most technology hardware products use the following two-tier sales coverage model. Software and service firms often use the three channels in the following diagram, but do not use two-tier distribution. Direct sales usually involves a team from your corporation of account managers, inside sales people

and customer support who directly work with your customers. They work closely with your top global accounts, and provide a direct link to your corporation. Direct sales must be used selectively since it is the most expensive approach. Large corporations often use direct sales with the 100 largest global customers. Startup firms use direct sales as their main channel as they partner with visionary customers to translate their technology into solutions.

Value channels are the partners who integrate your products and services into the complete solutions needed in their target market segments. They provide more complete solutions than your firm, and at a lower sales cost. Your competitors fight with you for the sales of these partners. Value partners are the best channel for products, which are being adapted in specific market segments, but are not yet runaway best sellers.

Volume channels allow you to reach a broad global market at a low sales cost. You need hot products where you are generating the customer demand. Volume partners tend to efficiently met demand, and not create it. If you are premature in using volume channels, you will erode profit margins and alienate value partners, without increasing sales.

Coverage

Market segmentation is a key to successful recruiting. Start by segmenting your market by product, application, geography, etc. Determine the fewest partners that will cover your forecasted channel revenue. Fewer partners means lower sales cost. Fewer partners will provide for better profit margins for your partners, and develop their loyalty to you. The following is a sample high-level segmentation of a network switch firm.

Product-Market Segment Strategy

Switch Manufacturer Example

	Voice Recg	Wireless LAN	Routers	Opti Switch
Top 100	Direct Only	3 telco 5 SI 5 OEM	3 telco 5 SI 5 OEM	Direct Only
Mid-size	5 NSP Developers	5 NSP 5 OEM	5 NSP 5 SI 400 VAR 5 OEM	
Small Biz	Developers	30 service providers (SP) 5 OEM 400 VAR	30 SP 5 OEM 400 VAR	
Home		30 SP 100 retailers 5 OEM	30 SP 100 retailers 5 OEM	

With this model, the network switch firm can see where it needs to add partners, and where it may need to eliminate excess channel relationships. Firms that can help you segment the market, and develop a partner database include OPTIMARK, Computer Reseller News and Computer Intelligence. Develop the database.

Smart recruiting

Many firms spend too much money on recruiting channel

partners. The “less is more” approach may show that you do not need to spend a fortune recruiting new partners. A modest investment in training and marketing with existing partners will often generate business faster than a new partner. Why recruit an unknown reseller with 500 salespeople, when only 100 of 1,000 salespersons of an existing reseller are promoting your product?

Expensive recruiting marketing campaigns and events are often counter productive. A potential partner should be targeted exclusively. They want to feel special. A personal letter and executive one-to-one meeting is the way to approach the best potential partners.

Large strategic allies can open the doors to their partners, if they trust you and feel that they add value. When Veritas was developing channels, it went to the channel managers of major computer companies and asked about their best channel partners. It targeted the best, with the help of strategic allies. No mass marketing was needed to build this company with a market cap of over \$10 billion.

Mindshare

If you are selling retail products, you have important tactics to gain “shelf space”. You want to be seen by as many customers as possible. In this era of supply-chain integration, zero-inventory in the channels, and services, “mindshare” is more important than shelf space.

Your best channel partners have many suitors. They carry hundreds, if not thousands of products. To get their focus on your products and services, show value partners how you help them sell their highly profitable services. If you cannot, you need to rethink your channel strategy. Show volume partners how they can make money selling in volume. If you cannot, you do not want to have volume partners.

Training is a key to mindshare. The ideal training involves a mix of web-based mentored learning, instructor-led seminars and ongoing collaboration. Certification programs for technical people have been a major component of channel success for companies like Cisco, Oracle, Microsoft and others. Your certification training should be so effective that trained people have higher billing rates and make more money. Sales training should evangelize and have salespeople making presentations and dealing with sales case studies.

Partner Relationship Management

Partner Relationship Management (PRM) is the strategies, processes and software applications which allow companies to work closely with their channel partners, and get detailed information about partner sales. With PRM you can tailor your relationship with each partner, give them the tools to do more business and track the results. Use PRM to distribute leads and track results. Use PRM to enable your partners to generate demand and close more business. Use PRM to manage everything we are outlining in this paper.

Customer Relationship Management (CRM) is the strategies, processes and software applications that allow all those who work with common customers to coordinate their sales and support, develop a history of their customer relationship, and get detailed information about customer sales and support. Ideally, your PRM integrates with your partners' CRM.

You can leverage the Internet to get big channel results on a tight budget. Leverage comes from a separate website for channel partners. If you are a larger corporation, then you are ready to take the next step and have tighter integration with your distributors and

key partners across private extranets with these partners. Increasingly, online configuring, pricing and ordering will be tightly integrated across the two-tier supply chain.

A partner website is rich in tools, files, web-based learning, support and collaboration between you and your partners. It includes all your brochures in digital form. It includes slide presentations, proposal libraries, customer success stories and more. It packages complete marketing programs in digital form so that your partners can spend their money to promote your products and services. If you utilize marketing development funds (MDF), then the entire program is streamlined and uses this site. Make it easy for partners to configure, price and propose solutions that include your products and services. Have a password protected separate website for your channel partners.

Ongoing support tailored to channel partners is another key to success. Leverage the web and collaboration between partners to empower them to solve many of their own problems. Integrate eLearning with mentors inside your company. Provide extensive 24x7 support. Provide for collaboration with and between partners that use various email and instant messaging clients.

Channel Marketing

Your partners protect and extend your brand. That is one reason that you choose partners carefully. You are known by the company which you keep. Your partner website should make it easy for partners to implement your channel marketing programs and extend your brand.

For example, Sun Microsystems wants to continue the high growth of its storage area networks (SAN). It increased MDF on storage sales to create a special incentive to its channels to focus on storage. It hosted brochures and slide presentations on its channel website targeted at different audiences: executives, technical, service providers, manufacturers, financial services, etc. Sun prepackaged marketing promotions for channel partners including ordering of 4-color brochures with the partners name, digital images for various sized ads, telemarketing scripts, approved direct marketing organizations, customer seminars prepackaged, and more.

If you want to direct partner activity to specific market segments, do it with a carrot. Provide added marketing funds. Provide easy to implement programs. Be ready to have conference calls and plan team marketing that includes you, them and other strategic allies. Leverage your funds with co-marketing from strategic allies and partner funds.

Use major product launches to get added mindshare and to announce major channel marketing initiatives.

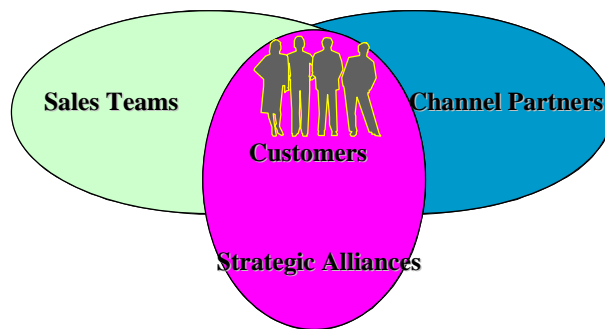
Teaming

Teaming involves getting your direct sales organization to involve channel partners in sales and implementation. Where it works well, there is wonderful synergy. Where it

does not work, there is channel conflict. This conflict is a major challenge of sales executives.

It starts with strategy. Direct sales normally has a high payoff when focused on major global accounts. When your sales people are paid on everything in a territory, then your travel and sales cost can be high. Channels are often the ideal way to cover middle-market, small business, consumers, and international expansion.

Compensation-neutral is an effective way to reduce channel conflict. Pay direct sales people for all business in their assigned accounts regardless of whether they took the order, the order was placed electronically or through a partner. You cannot afford to pay expensive account executives to process routine orders. Do not pay direct sales for general territory business where you do not want them focused.



Do not worry about having “zero” conflict. If you have no conflict, you have left a lot of money on the table for your competition. The idea is to dominate accounts and markets, using the most cost-effective channel to insure customer satisfaction.

An example of teaming would be a software company that has exciting wireless applications for

financial service firms. For their solution to be widely deployed, they need partners who can integrate solutions with wireless switches, network integration, database integration and enterprise software integration. The middle market is 100% managed by channel partners. All leads in this market go to the partners.

50 large banks are directly handled by the software company. This allows them to get close to leading customers, and tailor the applications to their needs. Initial sales would not be profitable to the channels. For added sales when the wireless applications are mature, direct sales people can bring solution integrators into these banks, and know they will still receive 100% of their sales commission. There is teaming, not conflict.

Money

As in the movie, Jerry Maguire, the battle cry of channel partners is “Show me the money!” Unless everyone is making money, your channel program is not working at its best. You could be making more money. Money is the feedback to reevaluate the strategy and tactics discussed in this paper.

You want to be a dominant platform for your partner's profits. When you are, then you have their loyalty. They will invest in added people to sell and support your product. They will train them. They will implement your marketing programs. If mindshare, marketing and sales are below plan, it may be because your direct sales is undercutting your channels pricing. It could be that you have too many volume partners bidding down the street price so that no partners can afford to generate demand for your product.

Partnerships look great in the beginning. Most do not get past the press release. With some of your channels, you will need to discuss the fact that the relationship is not working. With some, the best answer is to agree to terminate the agreement. Create a plan that can be implemented, then implement.

Channels will be the most cost effective way to grow your business. Leverage their total people, implement training and mindshare programs, make it easy for them to sell and market your products and services. You will get big results on a tight budget.



John Addison has been president of OPTIMARK since 1992. OPTIMARK is a leading consulting firm focused on sales channel strategy and development. OPTIMARK is based in Silicon Valley, and works with technology companies globally. Mr. Addison conducts strategic planning. His workshops and speeches are popular in the Americas, Europe and Asia. He has been a keynote speaker about eCommerce and Channel Partner strategy at conferences sponsored by Sun Microsystems, Veritas, GE Access, MOCA and others. Channel partners from over 20 countries have attended Mr. Addison's seminars. Mr. Addison is the author of several seminar books dealing with strategy including *Protect and Expand*, *Channel Management Strategy*, *eCommerce Strategy* and *eSales and eChannels*.

Prior to founding OPTIMARK, Mr. Addison was an area channel manager for Sun Microsystems. For three years, he led a sales team to 270% annual growth in 15 states. Mr. Addison is considered one of the early architects of Sun's highly successful channel programs. Mr. Addison has also held management and sales positions with Compaq, Unisys and a software startup.

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