

Sales Benchmark Index

# 5 Key Components of Channel Management

White Paper



SALES BENCHMARK INDEX

Unless your company sells exclusively to the End-User of your product, you participate in some degree of Channel Management. Whether you are selling through Wholesalers, Distributors, Brokers, Dealers, Agents, or Resellers, your task as a channel manager is clear- to provide the programs and structure to achieve your sales goals without diminishing reputation or upsetting your direct sales force. Whether you are new to Indirect Sales Channels or a veteran, this white paper outlines key criteria for building an effective channel program.

A Good Channel Management Program is composed of five components:

## **Alignment to Corporate and Sales Strategy**

## **A Defined Partner Selection Process**

## **A Partner Focused Recruitment Package**

## **Adherence to a Channel Governance Process**

## **Comprehensive Channel Enablement Content**

## **Alignment to Corporate and Sales Strategy**

This is a critical and often overlooked part of Channel Development. What are your organizations sales capabilities and limitations? If you're focused on controlling the total Sales Experience, utilizing Indirect Channel Partners probably isn't a good fit. Channel management is a good fit for companies who:

- Want to quickly gain access into a new market
- Have a product that is easily bundled with other products
- Are looking to limit sales costs and risk
- Need sales expertise and technical skills that would require a large investment

Now dive deeper: Do you want to maximize revenues or margin? Do you want expand to new markets and geographies, or grab a greater market share in existing markets? These answers will help provide the framework for your channel recruitment strategy.

Let's suppose you've already established that Channel Partners are best for your current business strategy. Now you have to establish formal Channel Partner criteria. Which Channel Partners make the most sense for your business and why?

There are two key questions every Sales manager must ask themselves about every product:

- How does my customer prefer to buy?

Notice the key word here: Prefer. Many companies have succeeded by anticipating a customers changing buying habits. Dell figured out how to sell computers effectively over the internet as customers became more comfortable with the product, and retail shops suffered. Similarly, Channel

Managers should make sure that the Channel Partners they are recruiting satisfy their customers buying requirements. Do they prefer to purchase from Project oriented resellers like System Integrators (SIs) and Original Equipment Manufacturers (OEMs) or Product oriented resellers like E-Tailors or Value Added Resellers (VARs)?

- Is this the most efficient channel partner for me to utilize?

This is one of the most difficult decisions for a Sales Leader. If I move to a cheaper alternative do my savings make up for a decrease in revenue? Conversely, if I give up a higher margin to a Channel partner with more expertise, will I be compensated in extra sales?

Any Sales or Channel Manager who wants to design a Channel Management program should survey their customers and uncover what their greatest needs are and how they purchase. Here are lists of the most important criteria we've captured from a sample Technology company's End-Customers:

- System fit
- Sales Representative's ability to understand my industry and business
- Smooth implementation
- Cost

Once you've figured out which new Channel Partners make the most sense for your firm, do a thorough analysis of your current Channel Partners. Too often, we see Channel Management programs following the 80%/20% Rule where 80% of the revenues are generated by 20% of the partners. Find out what makes these Channel Partners so effective, and incorporate these values into your Channel Partner Selection Criteria. Find the companies that don't produce and remove them from the channel program. Too many Channel Management programs have a flock of unproductive partners that generate minimal sales. These partners aren't worth the effort.

## Building a Defined Partner Selection Process

Once you've determined your Indirect Channel Partner's context within your selling organization, it's time to formally establish the criteria. In our 2011 study of channel sales managers, the top quartile of performers all had strict selection criteria. Furthermore, firms without formal Channel Partner selection criteria experienced up to 30% higher costs in their programs.

Below is the process for establishing Channel partner criteria:

1. **Review the corporate and sales strategy – these are the high level objectives you want to support**
2. **Consider your current market position by maturity, vertical, geography, etc.**
3. **Define your priorities in terms of where to focus channel efforts**
4. **Define selection criteria that best support your priorities**

Here is a sample of list of criteria that the top tier channel managers identified in their potential partners:

- **Years in business**

- Reputation (among customers, other suppliers, peers, trade press)
- Professional background of key executives
- Business and management stability
- Financial strength
- Overall revenue and potential revenue
- Locations, number of active accounts, territory coverage
- Complimentary lines represented, competitive lines represented
- Knowledge of markets
- Employee quality
- Type of market served (horizontal/vertical), number of sales people
- Sales people comp plan, marketing aggressiveness
- Internal support for product
- Payment policies, price integrity
- Ability to develop new markets, advertising spend, training programs
- Accept sales quota, share account information
- Future growth prospects, resource commitment

These are some examples, but by no means complete. Above all, make sure that their strategy and target customers fit with your target market. Too many often, we see Channel Partners and Vendors with misaligned priorities. Remember, just because your strategy hasn't changed doesn't mean your partners will all stay on course.

## Building a Partner Recruitment Package

Too often, we see literature biased towards selecting the right Channel Partner. If only it were this easy. In order to recruit the right Channel Partners, vendors must put together a compelling package. There are three main drivers that a Channel Partner looks for when deciding on a vendor:

### 1. Market Momentum

Channel Partners are looking for a way to build their business and grow revenues. One easy way to do this is through a strong product that is building a following. Channel Partners will do research using Gartner, talking to other vendors, and through their customers. If your product is mature or declining, expect a difficult time attracting the channel partners you want.

### 2. Relevance to Target Customers

Partners want a product that is easily adapted into their business, whether it's a complimentary product to their current offering, or a new product that fits nicely into their Ideal Customer Profile ICP. If the product you are offering partners isn't in their core customers' requirements, you may be in for a tough ride.

### **3. Margin**

Margin is number 3 because this is what the conversation segues to if you don't have a strong presence in the first two categories. All things being equal, margin is the differentiator for many products. However, if you are constantly being squeezed on Margin, it's because your partners fail to see the momentum or relevance to their current audience. The more difficult it will be to sell, the bigger the margin they'll ask for.

Here are some of the typical offerings seen in a solid Channel Recruitment Package:

#### **Margin and Pricing**

- **The amount of money they can make with us**
- **How you handle pricing assistance**
- **Quota Attainments Goals and Rewards for Milestones**

#### **Services**

- **The kind of sales support you will provide (or Sales Engineers)**
- **The kind of tech support you will provide**

#### **Marketing**

- **The kind of marketing support you will provide**
- **The number of qualified leads you will provide**
- **The Media Dollars behind your brand**
- **How their Leads and Prospects Are Protected**

#### **Training**

- **Hours devoted to Training Consultants (Technical Training)**
- **Hours to Training Sales Reps on Product Features**
- **Hours to Sales Process Training**

Remember, in order to make the partnership work there has to be a quid-pro-quo relationship. For every Partner that feels neglected based on the amount of revenues they generate for their vendor, there is another partner who gobbles up resources without producing meaningful results. A strong package outlines the support you are willing to give, but also sets expectations for production.

## **Adherence to a Channel Governance Process**

Our surveys indicate that over 50% of Vendors begin a Channel Management Program without a pre-defined governance process. One channel manager recently said, "Once I get the channel partners, then I'll worry about the process". This is a bad idea; once channel partners have been recruited, going back and getting alignment on key issues will be a difficult and prolonged conversation. Furthermore, if scalability is important, a Channel Governance process is not "Nice to Have", it is a Must. Many of the companies we've engaged with have employed an Ad-Hoc system of Channel Partners, with no standard approach, and highly divergent set of Partners. A tightly defined governance process should assign key responsibilities to both the Channel Partner and the Vendor to ensure mutual commitment. It will also set expectations for both parties. Lastly, make sure there are established exit criteria should your partner fail to meet these requirements.

By creating a proper Channel Governance process, you will avoid one-off relationships, time consuming negotiations for every new contract, and quell squabbling among competing partners. Below is a sample set of criteria. By no means, exhaustive, this should give you a starting point for establishing a channel management program. Far from a laundry list of requirements to join the program, you'll notice there are many Vendor commitments as well. Make sure to honor your commitments. A lackadaisical approach to the program will result in Channel Partners with equal commitment.

Channel Partner Commitments	Vendor Commitments
# Of Certified Sales Reps (Step-Up)	Sales Rep/ Engineer Training Programs
Revenue Commitment (Step-Up)	Sales Technical Support
Pipeline Quota and Close Rate (Step-Up)	Deal Registration Program
Dedicated Technical Staff (Step-Up)	FT Point of Contact Resource
Quota Attainment Standards	Discounts for Quota Attainment
Management Engagement	Management Engagement
Leads Generated Per Quarter	Market Development Funds (MDFs)
Annual Certification Renewal	Certification/Re-Education Programs

## Comprehensive Channel Enablement

The final portion of a great channel management program is establishing Enablement Content.

If you've established the commitments above that you will make to your Channel Partners, it is time to act on them.

There are three types of Channel Process Enablement:

- 1: Process Management
- 2: Knowledge Management
- 3: Performance Feedback

### Process Management

**Lead Generation Process:** How does your organization decide who gets leads? When does the Channel Partner get them? When does the direct Sales force? Establishing clear boundaries here will save you headaches down the road. A good Vendor should also help establish a website that can be directly embedded into a Partners website for accurate and complete information on the product and implementation process. The vendor's own website should have a "Channel Partner Finder" for customers interested in contacting a Channel Partner.

**Deal Registration:** One of the big complaints we here from Channel Partners with competitors in their same territory is the low-value providers swooping in at the last minute with deep discounts to steal business after the early partner did all the discovery and solution work. Use deal registration to ensure that your channel partners have exclusivity over a prospect for a given amount of time, and encourage them to generate leads.

**Defined Sales Process:** One of the biggest gaps between Channel Partners and the Direct Sales Force is lack of a defined Sales Process. Providing and training Partner's with a customized sales process is one of the single biggest ROI Channel Enablement lifts. Understand how their customer buys, and build the process around it.

**Inventory and Warehousing Issues:** Keep track of your Channel Partner's inventory and product demands to help them optimize their current inventory and shipping costs. Too often the Vendor is blind when it comes to Channel Partner inventory.

**Implementation Process:** Are your channel partners on track to complete their installations? We've seen Vendor's reputations tarnished simply because the Channel Partners they recruited weren't capable of installing complex solutions. When you buy a Dell computer and it breaks within 2 months, you don't blame the chip manufacturer. Make sure that you have a program to train the consultants on this process, and enough resources to aid them should the project deviate from a standard installation.

## Knowledge Management

**Certification Programs:** Because Vendors are giving up direct Control of the interaction of their end-customer, Certification Programs are one of the more effective ways to ensure that the Channel Representative is competent and knowledgeable about the product he/she is selling.

**Website Training:** Another method of providing knowledge is through a Channel Partner Portal, where Channel Partners have access to technical product specifications, implementation processes and FAQs, and marketing materials.

**Vendor Specific Information:** There should also be an established website where the vendor can find specific pricing information on key products and peripherals.

## Performance Feedback

**Performance Website:** This website should include specific Partner performance metrics indicating partner performance against goals, peers, and benchmarks for margin/pricing discounts. Real time performance management keeps both the partner and the vendor of the overachievers and the laggards of the group. This also removes excuses from Channel Managers who site lack of knowledge on hitting the number.

**Training Sessions:** Include training sessions for Sales Reps, Consultants, and Sales Engineers that critique and refine best practices. Award higher margin or product discounts in return for successful execution.

**Dollars and Discounts Earned:** On the vendor's website, list the number of certified reps and discounts achieved by hitting these requirements. Also list the Market Development Funds committed to the partner for the year and quarter by these achievements.

**Customer Satisfaction:** The top tier Channel Management programs all solicit feedback from customers on the overall sales and installation process. If you're partners express concern about a program like this, it's a good indication they don't want you to discover what their customers think.

## **Conclusion:**

Although this list is comprehensive, some of the examples are specific to certain industries and verticals. A best practice for any channel manager is to establish the customers end user needs, select channel partners who can deliver, and build a program for their continued success. Failure on any one of these tiers results in a chaotic channel management program and wasted resources. The best channel management programs have stringent goals, benefits, and are easily scalable. They also enable the Partner to succeed with the proper commitment. Learn more about Channel Management best practices by contacting Sales Benchmark Index directly.

## **Resource Blog Post:**

<http://www.salesbenchmarkindex.com/bid/85599/How-Do-I-Build-an-Indirect-Channel-Program-A-New-Whitepaper>

<http://www.salesbenchmarkindex.com/?Tag=Channel+Management+Strategy>