WHITE PAPER

Channel Sales Management: New Applications for High-Tech Vendors

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IDC OPINION

Channel management is a pressing issue for high-tech manufacturers that sell through partners. Today, however, it is not a question of whether using sales channels partners is a good idea, but rather how to optimize their use. Seldom can one organization do it alone. As a result, the organization must ask, how do we fully leverage all available channels while reducing the cost of sales and marketing and increasing sales to existing and new customers? Furthermore, how do we stay close to the end customer while using channel partners?

The answers boil down to how a brand owner chooses to treat its partners. (For this discussion, IDC will consider brand owner as the vendor utilizing sales channel partners that directly drive revenue for a brand owner.) For all intents and purposes, the partner represents a layer between the brand owner and the customer, and by definition, this layer will blur the visibility the brand owner has to the customer. To keep this layer as transparent as possible, a brand owner needs to keep the partner as close as possible while building a trusting and solid relationship. Not only is the partner needed to go to market, they are the ultimate liaison to the end customer. For manufacturers in the high-tech industry, this poses a day-to-day issue. The end customer relates to two entities — the name on the product they bought (the brand owner) and the retail location where they bought the product. This last element presents a hurdle for the brand owner in that they do not have the sole attention or control of the consumer in the retail location. Their customer and potential customers are being presented with their brand as well as alternative products.

Information systems have been in place for many years to manage direct sales teams as well as directly acquired customers. However, they have been focused on discrete portions of the process and not the entire flow, which includes pre-sales through post-sales activities. This encompasses tracking customers, executing effective and efficient marketing campaigns, competing for customers, and managing the channel sales process. The customer movement through the entire channel flow has been something of a mystery. Some brand owners try to solve the problem by drop-shipping their product directly to the end customer or enticing customers to register products directly with them, bypassing the channel. Chances are, however, most customers will go back to the company they purchased the product from. In order for any supplier who uses an indirect channel to fully reap the benefits of using the channel, the supplier must not only manage their relationship with the partner, but they must also be cognizant of the role the channel partner plays in maintaining the end-customer relationship.

Today's brand owners face continuing price pressure as markets become more complex and dynamic. Brand owners encounter shrinking margins while trying to improve customer satisfaction in order to keep long-term customer relationships. They feel pressure in a very fluid market scenario: from OEM parts manufacturers competing for design wins in the latest new high-tech gadget to maintaining brand ownership through the channel and to the customer — no matter where the original SKU was manufactured.

Modern software applications must support an integrated front-to-back view of these stages of manufacturing, as well as the channels these products are sold through. The focus of this white paper is from the brand owner's perspective looking toward the customer, through the various sales channels. Additionally, this paper takes into account that businesses must bidirectionally integrate the sales channel systems as well as the manufacturing supply chain channels to respond to the dynamic pressures of today's marketplace.

Figure 1 illustrates the position of brand owners and their mission today, as well as the requirements of their information systems. Gone are the days of warehouses full of inventory waiting for an order to be fulfilled. In order to remain competitive, today's business systems must support the true notion of "just-in-time delivery," once heralded as the new way to minimize a manufacturer's overhead costs of inventorying parts and product. Just-in-time delivery is now being focused on streamlining delivery to the end consumer, not just on the manufacturer's or the brand owner's channels. For such a dynamic form of commerce to function, sales channels must be fully integrated back to the brand owner and, ultimately, to the supply chain of the brand owner's manufacturing process.

The Brand Owner's Perspective of Channel Management
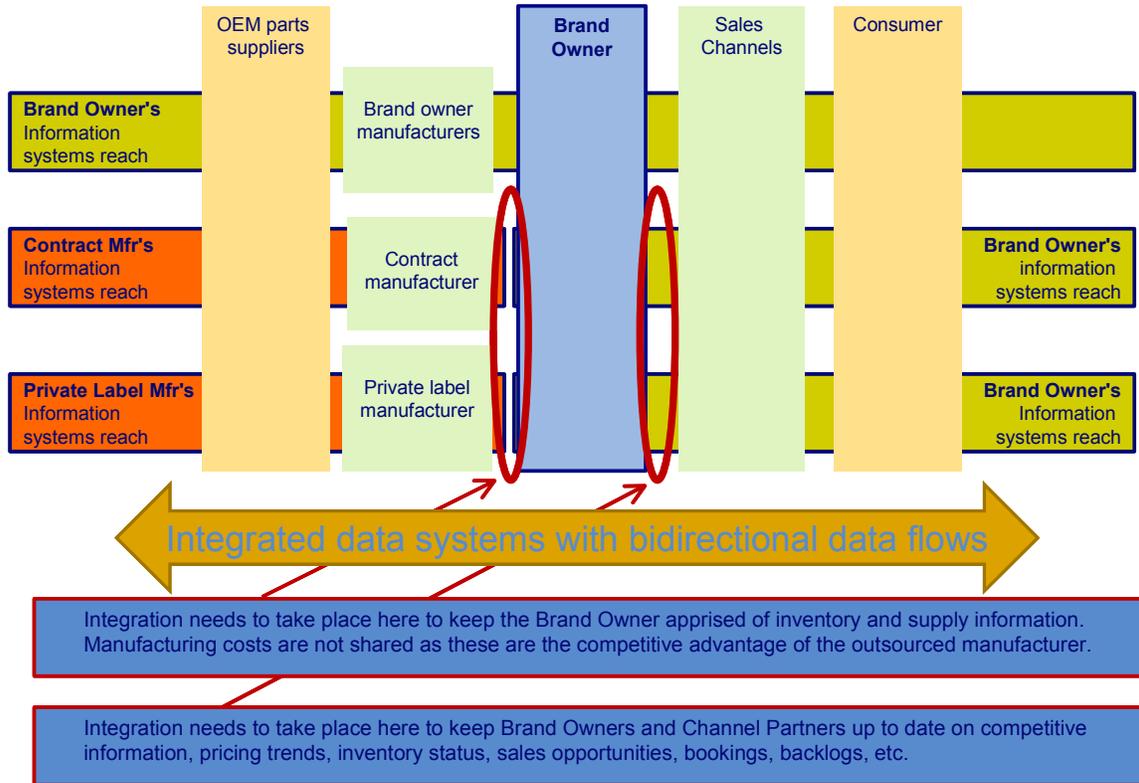
Source: IDC, 2007

SITUATION OVERVIEW

Whose Customer Is It Anyway?

Getting closer to the end customer in a channels-centric sales environment can be difficult for the brand owner. By virtue of their direct relationship with the end customer, the channel partner is going to have a better understanding of the customer's requirements and a closer relationship with the customer than the brand owner.

Due to the inherent mechanics of the channel, internal sales and marketing teams lose visibility to the sales process, including the sales pipeline. However, in this white paper, we also define visibility and reach to the end customer. How is one to get closer to the customer and obtain useful customer data in a world of outsourcing, multitiered distribution, OEM relationships, and soft-bundled solutions? There are so many layers between suppliers, brand owners, and end customers that brand owners must have agile information systems in place to reap the benefits of this type of distributed sales model. Without visibility up and down the channel, it is nearly impossible to track what product goes through which channel, let alone whose hands the products actually end up in.

Today, brand owners rely on a handful of distribution partners to sell their products. These relationships are designed to be solid long-standing situations in which the brand owner and partner heavily invest. The overhead of managing these partners can be complex and require a great degree of resources. In the world economy in which brand owners must compete, the current model does not scale very well. Typically the weight of partner management overshadows the brand owner's global sales strategy. The result is that the market, not the brand owner, ends up dictating sales and marketing strategy. To alleviate these issues, brand owners must rely on channel sales management best practices, streamline business processes, and leverage end-to-end software applications.

If a company chooses to leverage partners as the face to the customer, then the partner ultimately owns the customer relationship. For the brand owner to gain insight, they must keep the relationship with the partner close and competitive; for example, driving the market to the partner through sales and marketing campaigns. The partner sales organization must not simply be an extension of the company's, but the brand owner must be as committed to the partner as it is to the ultimate customer.

FUTURE OUTLOOK

As investing in the channel has become commonplace, high-tech brand owners are using partners to scale their operations while controlling the costs of sales and marketing. By leveraging partners, the partners incur the sales and marketing expenses associated with selling the goods and services.

In high-tech, the channel has become a streamlined demand generation, distribution, finance, and delivery system and is becoming more specialized by the moment. There is great competition among brand owners to secure design wins, as well as shelf space at big box retail touch points. The complexity of these channels has become simpler in some respects and more complicated in others.

It has become simpler due to the fact that for many, the ground rules are set between the brand owner and the channel. However, more and more brand owners are also leveraging the Web for follow-on sales of specialty items and to provide customer service and support.

High-tech channels have become more complex because near-real-time collaboration between the brand owner and the channel is quickly becoming a "check-off" item if one is to compete for this business. The pressure to run dynamic marketing campaigns has become oppressive as the channel, retail touch points included, runs campaigns with weekly turnaround times every other week. There is the potential that if this "check-off" does not happen, or happen well, that the channel could withhold resources and/or promote other brand owners' products.

To support this kind of behavior, the applications software systems must truly be end-to-end and, in some cases, tie back to the manufacturing process as well. True visibility into the sales and inventory pipelines is necessary. As the benefits of these end-to-end and two-way systems are realized, effective marketing and post-sales support will be appreciated as well. Furthermore, such systems will be able to support better product-information flow between the brand owners and customers to support new feature development and release timelines.

Due to traditional inefficiencies of channel management, the trend has been to focus efforts on a few high-value partnerships. However, IDC expects that as companies employ better channel management software applications and improve business processes, they will be able to scale their partner programs without incurring significant new costs. That is, the cost for supporting "high-value" partners will substantially decrease in the coming years, so companies can expand their partner coverage. Companies will no longer be constrained by the inability to scale partner operations but rather will have the freedom to strategically deploy partners to match sales objectives.

THE NEED FOR COLLABORATION

True automation of the channel implies a flow of information at a level that is rarely shared outside the company. In general, IT systems have evolved enough to handle this information sharing, but often the business processes and cultures at the brand owner and the partner have not. Modern partner channel management application software can handle information as well as support the highly collaborative processes between brand owners and channel partners.

Mantra #1: "Treat Partners Like Internal Employees and Trust Them"

The mantra in partner management these days has been "treat the partners like your best customers." IDC believes that excellence in partner management goes beyond this and a brand owner should "treat partners like internal employees and trust them." Train them like regular employees, compensate them like regular employees, and provide reward and recognition programs like those of regular employees.

Mantra #2: "Stay Close to the Customer"

Staying close to the customer is not a novel concept. Keeping an existing customer and reselling to them is much easier than winning a new customer. There is a high value put on every customer retained, and there should be a close focus on why each customer was lost. The only way to maintain this relationship is to know as much about a customer's needs as possible — to stay as close as possible.

However, for brand owners that rely on channel partners to sell, service, and maintain the customer base, staying close to the customer is not an easy task. Partners are not only driving revenue, they also represent a layer between you and the end customer. This is why "Mantra #1" is so important.

Modern channel sales management systems will allow brand owners to stay close to the customer by building interaction and transaction history as the system is used and populated. These systems will allow transparent, two-way communication between the brand owner and the ultimate customer. Of course, they will also allow for visibility to each of the layers between the brand owner and the customer.

Mantra #3: "Own the Customer Data"

As in any industry, ownership of the data regarding customers purchasing, or why they didn't purchase, is critical. As brand owners rely on distributed or outsourced sales channels, leveraging and maintaining the customer data become more and more complex. Modern channel sales software applications must create an end-to-end view of the customer through this data. These systems must track sales and marketing data and be fitted with the tools to support decisions along the sales process — no matter what type of channel partner they might support.

The customer data is really the eyes and ears of the brand owner. Remove effective customer data management, and the brand owner is literally blind to make decisions on product improvements, new products, pricing, inventory in the channel, shelf stock, overall product demand, and appropriate compensation within the channel. Furthermore, end-to-end channel management systems can even reach back as far as the supply chain to the brand owner's manufacturing systems, influencing product development, inventory planning, and manufacturing planning. Performance by the retailer is sometimes a cooperative activity, joint-demand generation can be effective, but at the end of the day, the retailer must drive the volume to be successful and successful with the brand owner.

Figure 2 illustrates a lack of a coordinated effort between sales channels. Ownership of the customer as well as customer data is problematic as both organizations fight for the same business. Efficiencies are lost, and the customer sees disorganized brand owners.

FIGURE 2

Coordinating Direct and Indirect Sales
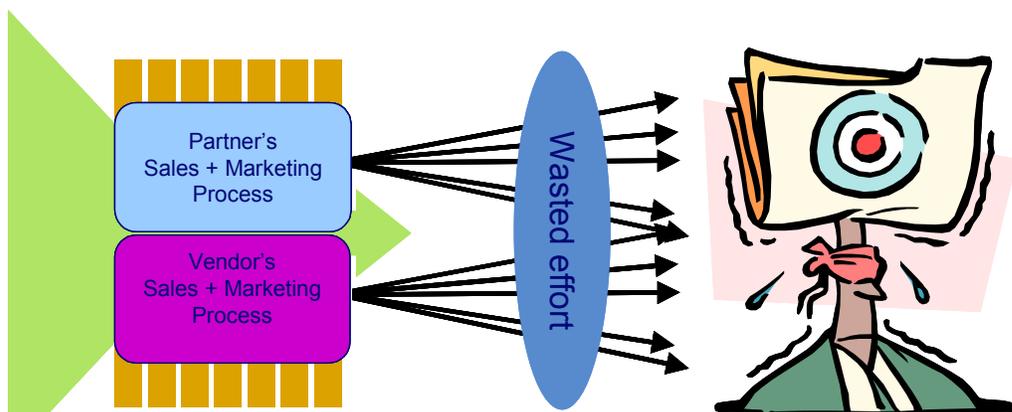
Individual, overlapping, redundant channels lose customer focus because they are fighting over the customer — ultimately offering a disorganized view to the customer, faulty customer data, and worse. They may, in fact, lose the customer entirely – result: nobody wins — vendor, partner, and especially, the customer.

Source: IDC, 2007

THE MATURING OF CHANNEL MANAGEMENT SOFTWARE

Companies manage the channel with software ranging from spreadsheets to Web portals to highly integrated worldwide applications. Regardless of the solution, one commonality is that the software used is rarely called partner relationship management (PRM) or channel management software. Instead, partner-specific functionality is usually delivered via existing tools such as spreadsheets or integrated into more encompassing SFA, emarketing, or CRM applications. PRM has had a rocky history, as we shall see.

PRM V1.0

In its first iteration at the turn of the century, partner relationship management solutions promised to be the silver bullet for managing partners. Companies talked about managing partners of all types, but they quickly understood that channel partners, the ones that generated money, were the ones to invest in. So they began to focus on the channel.

PRM V1.0 offered much partner functionality, but its failure was that it did not manage the sales aspects of channel partners. Solutions did a good job managing the administrative side of things such as partner sign-up, contact/product information, Web portal, as well as limited marketing management, but they did not focus on accelerating and driving revenue. As a result, these solutions quickly lost their appeal.

PRM V2.0

In the second generation of PRM solutions, partner-specific functionality has not been addressed by many individual software application vendors. Instead, this functionality has been added onto functionality for suite applications ranging from SFA to emarketing to CRM. This additional functionality has been aimed at lead management, deal registration, and lead registration. Although channel issues are integrated into core sales and marketing software, they go only halfway toward the ultimate solution.

Where it stops short is the integration of the business processes of both the channel and the brand owner. To fully leverage the resources of both sales teams and gain visibility into the sales pipeline on each side, PRM-style software applications must effectively integrate data across corporate boundaries and share information up and down the pipeline.
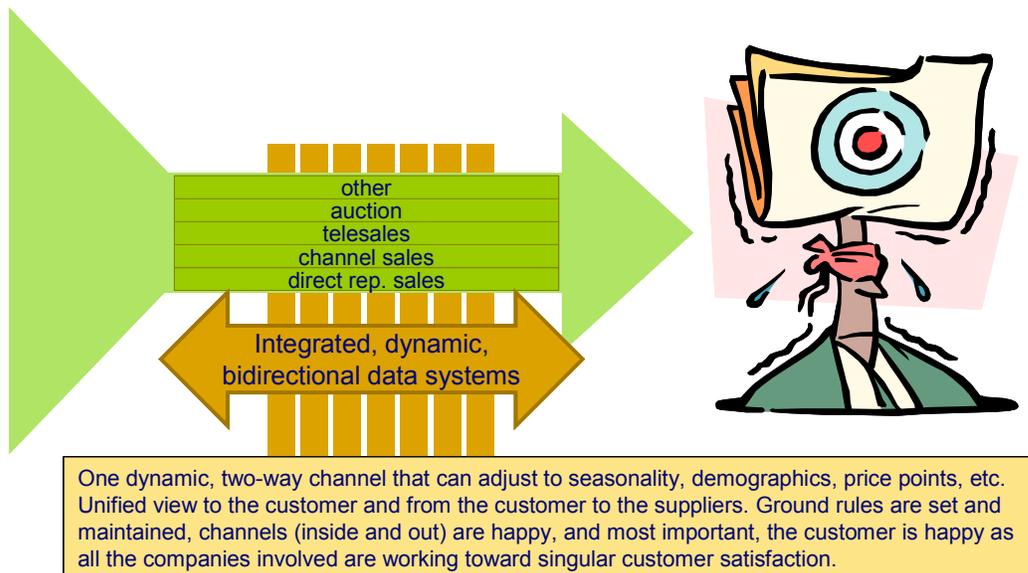
XRM V1.0

XRM is cross-organization relationship management. This promises to be the silver bullet, providing a channel-centric information system aligned with a business process that supports a specific company's sales goals. It is a system that can flexibly and dynamically provide information so that sales management can adjust the channel strategy based on the need of the company and the expertise of the sales resources available. The appropriate channel can be used for the appropriate product at the appropriate time and price. XRM software application systems extend end-to-end visibility for the brand owner back through the distribution channel and ultimately to the supply chain in the manufacturing process. Brand owners can gain a competitive weapon with this visibility as insight to price sensitivity, seasonality, campaign effectiveness, channel effectiveness, etc. Today's modern channel management solution must have the data integration capabilities to look up and down the pipeline — that extends from the brand owner's manufacturing facilities down through distribution and to the ultimate customer.

Figure 3 illustrates the ultimate goal of sales channels integration. Specifically, the customer hears one voice from the company, no matter how the product is sold. Brand owners can stay close to the customer because there are no non-purposeful layers between the brand owner and the customer.

FIGURE 3

Unified End-to-End Sales Channel Management

other
auction
telesales
channel sales
direct rep. sales

Integrated, dynamic, bidirectional data systems

One dynamic, two-way channel that can adjust to seasonality, demographics, price points, etc. Unified view to the customer and from the customer to the suppliers. Ground rules are set and maintained, channels (inside and out) are happy, and most important, the customer is happy as all the companies involved are working toward singular customer satisfaction.

Source: IDC, 2007

THE ELEMENTS OF CHANNEL MANAGEMENT

The following section highlights the elements that are required for a true end-to-end channel sales management solution. Developing a competitive partner program and designing it on paper are only the beginning. The critical key is execution. Partnering communities are an impatient group, as they are committing significant resources to support a brand owner's technology and relying on that brand owner to help drive revenue for them. Brand owners have a limited number of chances to get their programs right. Don't announce a program that you can't deliver on. Fruitful partner programs are built on trust and money. If they don't trust you, they won't make money for you.

Program components break into three general categories:

☑ **Demand generation/marketing programs.** Marketing programs are at the top of the funnel and are designed to narrow down a target audience to companies and individuals that will actually purchase products. Marketing organizations at a brand owner also typically own the customer list, so they are also responsible for driving lead-generation campaigns into the installed base as well as leads for new prospects.

There needs to be close alignment of tasks and responsibilities defined between the sales and marketing organizations, since many leads go stale in the handoff between the boundaries of the sales and marketing organizations.

Activities in the marketing component should include:

❑ General marketing programs — lead generation and awareness

❑ Campaign management

❑ Co-marketing activities and MDF management

❑ Soft product bundles

❑ Brand management

❑ Lead generation, distribution, and tracking

☑ **Sales programs.** Sales programs are where the current PRM V2.0 functionality is aimed. This targets activities that actually drive revenue and the sales process. These programs are where dramatic gains can be made and where automation can truly scale the business process. This ability to scale will allow brand owners to aim specific channel partners at specific markets. Infrastructure issues will no longer dictate sales strategies.

Activities in the sales component should include:

❑ Account/activity management

❑ Lead/opportunity tracking

- ❏ Deal registration

- ❏ RFP support and collaboration

- ❏ Quotation and configuration support

- ❏ Order management

- ❏ Sales tracking and forecasting across partner tiers

- ❏ Channel compensation — rebates, spifs, etc.

- ⊡ **Operational and infrastructure components.** Operational and infrastructure components are where the second "end" of the end-to-end integration takes place. The addition of this piece gives a "holistic view" of the process and is where true performance measurement against stated key performance indicators can occur. It marries customer, sales, and partner transactional data together to allow for decisions based on analytics, bringing true visibility up and down the sales pipelines.

  Operational/infrastructure components should include:

  - ❏ Inventory management

  - ❏ Pipeline stock

  - ❏ Shelf stock

  - ❏ Transactional data

  - ❏ POS data

  - ❏ Pricing within the channel

  - ❏ Analytics

  - ❏ Decision making

Benefits

There are many benefits to implementing a holistic partner channel management system. The sales channels can now be fluid and work together with the same information, responding to changes in the market. Companies are no longer hamstrung by competitive situations and limited resources that force them to make tactical rather than strategic sales decisions. Automation of these programs will allow them to scale to meet corporate sales expectations, and sales and product training can be directly used by both internal and external sales channels.

Sales management will receive improved forecasting because of more complete participation by the channel. Channel partners will feel more confident in sharing their forecast data because territories (geographic, demographic, or vertical) will be clearly assigned and tracked. This improved data flow and visibility will allow sales

management to get a whole view of the entire pipeline — all channels — and manage them based on common key performance indicators. This will improve forecasting accuracy and allow for better resource planning and utilization as well as streamline inventory and manufacturing planning and investments.

By incorporating channel partners in the sales process, a brand owner will have much more accurate data on their customer, no matter who sells services or supports them. Brand owners that rely on VARs to sell will share this customer data since they are working in concert with the brand owner and trust that the brand owner will not challenge them on the next deal. Both sides will win. The brand owner will have a clear understanding of the customer's requirements and priorities, and the partner will be fully compensated for the investment in each and every customer interaction.

Customer satisfaction should improve as well. They will get a consistent clear view of the brand owner with no differentiation between direct and indirect channels — there will be one unified "face" to the customer for sales, service, and support.

CURRENT SOLUTIONS

The appropriate software application solutions can vary depending on the market being served for high-tech channel management. With margins shrinking and retailers specializing in delivery and finance, brand owners must focus on volume and efficiency, their software solutions must scale, focusing on business process and transaction efficiency, while limiting individual transaction costs.

Solutions to address the various elements of channel sales management come from a variety of companies and offer a range for functionality. As is typical in the CRM applications space, business processes vary widely by company, and the handling of the partner channel and internal CRM processes is considered a competitive advantage. Thus organizations seek solutions that deliver industry best practices and that are customizable depending on the specific environment. There are three distinct types of solutions offered today:

☐ **Enterprise applications suite vendors** such as SAP and others offer solutions within their product portfolios that leverage their applications spanning the front office and back office. Suite vendors have the advantage of having the back-end transactional data, inventory management, and accounting processes that are critical to providing a complete end-to-end view into the sales pipeline as well as visibility into manufacturing and other operational functions.

☐ **CRM point solutions vendors** offer solutions focused on the lead management element of the channel and integration into the sales automation application. These suppliers rely on integration with ERP suppliers to provide the ability to integrate the channel performance into the overall sales pipeline for forecasting purposes. Their role is to manage channel lead distribution and conflict.

☐ **eCommerce platform applications and distribution-specific products** offered by other vendors come at the channel sales management market from the perspective of the pure distribution process. Inherently, these products are coordinating the channel, which brings insight regarding the leads and pipeline.

CHALLENGES FACING BRAND OWNERS

Mastering partner programs and specifically channel sales partner programs is not insignificant. There are multiple and often competing variables in play. Since partner programs cross many corporate boundaries, there are many constituencies to please. Any successful program will have to be signed off on at the top. These specific challenges break down into the following broad segments.

Corporate Culture and Commitment

Corporate culture can be one of the most challenging issues in developing and delivering a new channel partner program. Senior management can agree that an aggressive channels strategy is required to compete, but wholesale changes across a large, multidivision corporation can be very difficult.

In many companies, partners are considered a necessary evil to be held at arms length, to be exploited only until the company can come up with sales solutions of their own. What we are proposing here is very close to the opposite. Organizations must embrace partners and treat them as equals while holding them responsible.

For brand owners, however, corporate styles and cultures are some of the slowest and hardest things to change, as they are built into the fabric of an organization. It could take years to fully implement this type of program because of the cultural changes required.

The good news, however, is it is not an all-or-nothing proposition. Choosing to adopt an aggressive partnering strategy is not a binary decision. It is an iterative process that will take time for success. However, the corporation must make the decision to support partners at the highest levels of the organization and demand buy-in across all departments within the company.

The Partner Is a Separate Business Entity

One can control the internal sales organization, but one cannot directly control the partnering company. It has its own P&L, development, personnel, and corporate goals and strategy. The only way a brand owner can influence the partner company is by the amount the brand owner is willing to invest in the partnership. Investment comes in many forms, not just money.

The ability to influence a partner's behavior is through the incentive program, both financial as well as resource based, additional leads and marketing programs, and commitment the brand owner is willing to make, and in turn the commitment the partner is willing to make. This is not the passive one-to-many partner programs we are describing here, but a full sales commitment that the brand owner must come to the game to play. Both the partner and the brand owner must put significant skin in the game for this model to work. Again they must work as a team, not two separate organizations with two separate goals in mind.

IT/Business Process

While putting a partner program list of benefits and requirements on paper is relatively easy, stress testing the business process is where the rubber truly meets the road. This is where the term "garbage in, garbage out" rules the day. Application software can only go so far; the due diligence behind the business process is critical since automating a broken process will only highlight the flaws.

The rollout of a new partner program is similar to rolling out a new product. Everyone from the person answering questions about the product, to order operations, to support has to be trained on the new program.

The process and the rules of engagement must be clearly defined and agreed upon with the partners. These can include everything from how the partners are to be segmented into tiers (e.g., platinum, gold, silver); how they are to be rewarded, certified, and elevated; and how collateral and marketing campaigns are to be internationalized.

These examples don't even touch on many aspects of sales: who owns a lead, how leads are to be assessed across campaigns and countries, whether an SE that reports into the Spanish office should help a Portuguese representative with a different reporting relationship on a deal 10km away, etc.

The rules of engagement must be fully tested, communicated, and enforced to gain trust within a partnering organization. If this trust is lost, the system begins to break down. The data starts to become old and incomplete and then management begins not to trust it. The "system" degrades slowly until no one uses it, and it becomes overhead serving little real purpose.

CONCLUSION

IDC believes that companies that leverage channels partners should begin to integrate channel management into broader corporate infrastructure applications that include the supply chain and potentially PLM applications.

Integrating these systems will provide two key benefits: First, sales channel management will have the ability to stay close to the customer and not have the partner run interference for fear of losing account control. The brand owner will be able to maintain contact with the customer, increasing customer satisfaction and the ability to respond quickly to market demands.

Second, integration will increase the brand owner's visibility throughout the pipeline to improve forecasting, better utilization of all sales and marketing resources, and the ability to bring inventory and manufacturing into the mix. Additionally, with dynamic sales channel management, a brand owner will have the ability to match the product with the appropriate channel based on price, geography, and market segments.

Such benefits that integrated XRM systems offer will take some soul searching; however, business processes and corporate culture will likely need to change. The partners hold the keys to customer visibility, pipeline visibility, and the ability to scale. Visibility can be created only if the partners are considered and treated as equals in the organization — there can be no "us" versus "them" mentality. To do this, a relationship must be built on equality and trust. Only then will a brand owner reap all the benefits of a truly integrated sales channel.

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