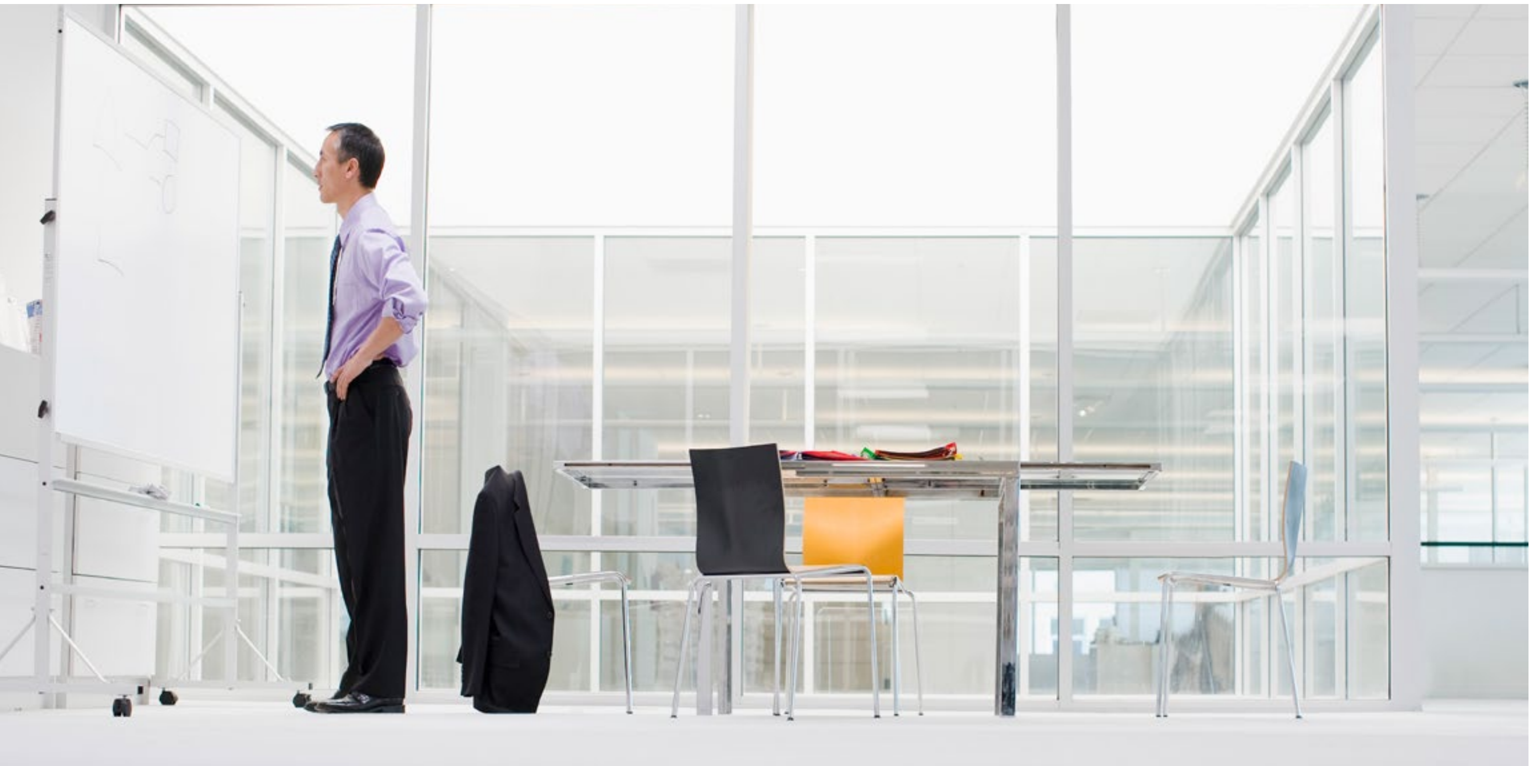
# Top Ten Criteria To Building A Thriving Channel Network



# Bigger Isn't Always Better

When you are starting up a high growth business or a product line, it is always tempting to try to boost sales by building a large **channel partner** network, on the premise that the bigger the channel, the more zillions of your products and services they can sell. In our experience, however, many businesses attempting this model struggle to provide a sufficiently strong business proposition for multiple channel partners to carry their products and services. Furthermore, they very often end up creating channel conflict by building direct sales motions in their efforts to improve results.

After observing vendors' successful and unsuccessful sales approaches for hundreds of product lines, business models and go-to-market strategies, we have identified a set of key checkpoints for businesses to analyze before they invest into building out a channel.

## 1. Do You Have a Clear Economic Model?

Whether you are planning to build a new **channel partner** network or redesign your existing one, it is vital to be clear about the economic proposition for partners. If you have decided on a two tier channel, i.e., selling through a distribution network to a group of resellers, then you have to take into account 5 –10% margin sharing with the distributor, and anywhere between 10 – 50% revenue sharing with your **channel partners**. If you have been in the channel for a while but are looking to change things up, then you may have to rethink your legacy margin structure. In the end, it all comes down to money.

In addition to your margin structure, you need to be realistic about how complex your solution is and whether a new partner can sell it with relative ease or would have to make a lot of investments such as getting their employees trained and certified, or buying equipment. So you will also have to think about how you will enable your partners to get through the initial ramp up investment phase in order to sell your solutions. An all-too-common mistake is to focus too much on run rate business, but ignore the support needed to get a partner up and running financially.

## 2. Are You Selling Ice Cream or Ice Cream Cones?

A typical ice cream shop sells between three to five types of cones, but fifteen to twenty types of ice cream and a dozen or so toppings. Customers buy ice cream first, and put it on a cone and then put sprinkles on. They don't go there to buy cones or sprinkles, but the add-ons add up. Middleware, switches, servers, and so on are perfect examples of add-on sales in the technology space. So, it's important for you to know whether you are providing a partner with a primary product or secondary, or add-on product. The sales motions are very different for primary as opposed to secondary products. It's often the case that partners have more choices for secondary product than for primary. In the face of stronger competition, you may have to fight harder *(and pay more)* to find takers to resell a secondary product through a **channel partner** network.

## 3. Is There an Installed Base Growth Opportunity?

If your products and solutions require upgrades, add-ons and renewals then your partners have good reason to stay in touch with their customer base and drive land-and-expand sales. Many software products today are sold via the software-as-a-service *(SaaS)* model, and may even require deeper, workflow-driven customization. In these scenarios, the partners have the opportunity to provide first of all a base set of modules, but then over a period of time add more application modules or other extras. In larger scale hardware deployments, normally the first deployment starts at the end user's corporate headquarters with a proof of concept, before global rollout. This installed base growth opportunity with its attendant requirement for a support infrastructure demands special consideration in your overall **channel partner development** plan and business proposition. But the rewards are high. We have repeatedly seen, across our entire client base that products and solutions that require ongoing renewals, add-ons and upgrades attract the most loyal reseller network.

## 4. Do You Have a Strong Partnership Proposition?

If a partner cannot attach multiples of four to six in terms of services revenue to every dollar of hardware and software sold, they cannot build a profitable business around your solution. Therefore, as you figure out how you will incentivize partners to sell your products and solutions, you will also need to think about how they may be able to generate incremental revenue from their customer base by offering your solutions. Typically there are seven potential touch points where a solution provider can provide products and services:

| | | | |
|---|---|---|---|
| **1. Define** | **2. Design** | **3. Test** | **4. Deploy** |
| **5. Scale** | **6. Manage** | **7. Upgrade** | |

For transactional products or lower value items, the revenue generated from each touch point is relatively small; however, for a larger value product and complex deployment there are plenty of profitable opportunities for a **channel partner** to specify your solution and provide additional services. Understanding these deployment scenarios both from an end-user and solution provider perspective is critical for you to be able to make your business proposition appealing to your partners.

## 5. Can You Ensure Partner Differentiation?

Once you have figured out your real economic proposition for partners, the next challenge is how will you help one partner differentiate from another when both are reselling for you. For the most part, this is not so much of an issue if you are introducing a hot solution in an under-distributed market. But at some point in time everyone will have to address the problem of over-distribution. Channel publications frequently report partners' complaints about margin losses when they are unable to differentiate and must compete on price alone.

This is where you will need to project your channel strategy two to three years forward, putting partner capability development in place from the outset, so that when market forces dictate a more competitive approach, partners will be equipped to differentiate based on their domain and vertical-specific competencies rather than on price alone. Once partners are backed into a corner where they are competing on price, you will constantly hear rumblings from your channel partner network about over-distribution and uncompetitive pricing. This is a clear indication that you need to rethink your channel focus and capability development.

## 6. Are You Helping Your Partners to Develop?

Developing a **channel partner network** takes time, and few organizations are equipped or ready to wait out the time for their network to mature. More frequently, we see major changes rather than incremental adjustments to a long-term plan. As a result, many vendors suffer significant partner attrition. New partners may join with fanfare and enthusiasm, but without proper nurturing and strategic development, over time they become disgruntled and abandon the program because they feel that they are valued for fulfillment only, while the organization has no skin in the game to help the partners develop.

In fact several successful ecosystems exist today, where a strategic **channel partner development** approach that focuses on a smaller number of partners, helping them create business plans to develop their competencies over a multi-quarter cycle really pays off. Once a partner has made investments across the sales, marketing and technical training functions, they are highly unlikely to abandon that investment by switching to another vendor simply because the cost of switching is too high. Therefore, **partner development** not only engenders loyalty, but also much higher long-term return than over-distribution through an underdeveloped organization. Though challenging, focus pays well, when done well.

## 7. Direct or Channel Sales?

Once you have the entire foundational framework for your **channel partner network** in place, you will need to decide what you sell via the channel partner network and what you sell direct. In the early days it's usually simple to fix on one. However, as an organization grows and introduces higher value and more complex products, at times it makes sense to sell direct. The moment this happens, partners start looking at their vendors with skeptical eyes. So, you need to be very clear about how you are going to deal with this scenario when or if you do decide to sell directly to certain products or certain segments—like the federal government or major enterprise.

If you do go directly, you will need to determine how you will segregate deals from a partner—and who, ultimately, wins? We have seen repeatedly that the deal registration programs that allow a partner to close rather than an internal sales team always end up with a higher partner satisfaction rate. This is a discussion that needs to happen sooner than later, and when it comes to the channel the better way is always early conflict and early resolution. Don't wait for things to blow up—address this upfront and head on when you are launching a new product or solution.

## 8. Rewarding High Performing Partners

Most companies offer some sort of partner reward program, financial or incentive-based, like President's Club or Partner Council Membership, or a combination thereof. However, clarity about how to reward different functions within an organization is critical to building the loyalty of the entire partner base. If you offer **sales rewards**, but no marketing or technical rewards, then there's little incentive to engage with you in other dimensions. It follows that resisting the temptation to offer multiple, product-based promotions in favor of integrated reward promotions across multiple functions will always be more effective in creating comprehensive pull through from the partner side.

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## 9. Performance Management

Just like corporate employees, a portion of your channel partners' staff will be high performing. It is important to have a clear channel partner development strategy about how to take the 'B' players and convert the most promising into "A" players. If you want to increase sales, it is much more realistic to focus nurturing a few partners rather than further **recruitment** of new partners into your channel. If you already have geographical coverage through your channel partner network, focusing on a few high potential players will result in much faster return.

One of the ways to bring partners to a different level is to create specific management objectives for your **channel partner management** team and give them goals of growing revenue and competencies *(technical, sales and marketing)* across your mid-tier, modestly performing partners. You will also need to prune out some of your channel partners that are not meeting your performance targets by having candid conversations. Candor is always powerful in the channel—it saves a lot of time and aggravation down the road.

## 10. A Realistic Time Frame

While it takes one to two years for a company to build a product and service, many vendors expect to build a network of resellers overnight. This is not realistic. It takes anywhere from six to twelve months to build initial sales out motion, and it may take another year to reap the benefit from the first year of investment. Just like product development, channel partner development requires significant upfront investment. Without conscious effort and significant investment, channel development can do more harm than good, if partners are left unsupported across their functions. So, when the time comes for you to engage in building a network, consider the first year of effort as a pure investment before you can start calling your network of resellers a profitable venture. Yes, there are exceptions, but that's rarely the case. Realistic planning and keeping your eyes on a longer-term horizon are key to creating a successful **channel partner network** development program.

This is a long list of complex questions and requirements, most of which require longer term planning and thinking, but this is precisely why channel partner network development is a strategic initiative with a multi-year horizon. You need a clear business plan, which should start with conducting comprehensive channel partner surveys, profiling and financial analysis; after that, development of a successful channel partner network can begin. With the right foundation, you can build a thriving program that will be the envy of your competition and that no one could duplicate overnight. That's where long-term success will come: from a group of loyal, highly capable and high performing channel partners.

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