WHITE PAPER

Channel Sales Management: Beyond CRM

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INTRODUCTION

Channel sales management can be one of the most pressing issues for companies today. The channel represents enormous opportunities, but its management has historically been fraught with inefficiencies. This can be the case since channel strategies can vary by industry and the partners can run the gamut from large multibillion-dollar multinationals to small regional shops — often with requirements specific to each.

Supporting these companies means supporting their sales models or processes. While partner portals have taken the first step toward creating communication between the partner and the supplier by providing contact information, marketing, and sales support, their weaknesses are often twofold. First, they lack visibility for the vendor "down" into the partner's sales process (forecasting, lead management, deal registration, inventory, etc.), and second, they lack visibility for the partner "up" into the vendor's sales process (marketing, sales support, lead management, pricing, quoting collaboration, and named account lists). By improving visibility and process integration between companies, channel sales management can gain great efficiencies.

There has been much talk about closed-loop, end-to-end customer relationship management (CRM) solutions focusing solely on the customer. However, as the boundaries, and requirements, between customers and third-party channel partners that support those customers begin to blur, IDC believes that companies must integrate these functions in order to provide a "whole company" view, not simply a "whole customer" view. This whole-company view will ultimately extend beyond the traditional company boundaries and begin to integrate the supply chain at one end and the distribution/channels sales tiers on the other — for a complete ecosystem view. Critical prerequisites to this, however, are integration and business process reengineering.

CHANNEL SALES OVERVIEW

The importance of managing the channel is not new, and the strategies to support channel management are plentiful. Channel management has been fraught with inefficiencies because a company is relying on a third party to sell product and that third party has fundamentally different business pressures and priorities than the "host" company. Despite these challenges, the channel is becoming more and more important to vendor companies for its ability to scale sales operations, control costs, and extend reach.

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When the process is handled correctly, the potential benefits of leveraging channel partners far outweigh the challenges of managing them. Channel partner strategies can introduce new products to new markets, relieve existing sales resources of maturing products, or scale into new verticals and market segments that require specific skills or relationships. Vendor companies can quickly ramp into new verticals by partnering with experts in the area.

As vendors heavily invest in partnerships, the relationships between the two companies will become more committed and more complex. Fundamentally, the channel partner needs to behave as a logical, integrated extension of the vendor's internal sales organization. There must be a tight coupling between the vendor and the partner to have an effective relationship, and this requires that both have a financial commitment to the relationship. One cannot keep partners at arm's length or consider them a necessary evil. Any successful partner organization or program must have top-down commitment from the vendor, in which partnering is not simply a business strategy but a cultural commitment that includes treating partners as well as one's best customers. Vendors can include top partners in sales and technical training, product road maps, sales forecasting calls, and quarterly meetings.

Efficiently managing the channel is a pressing issue. As companies continue to invest in partnering strategies, the pressure to drive revenue through these channels becomes oppressive. However, a successful channel strategy is not all external and simply a matter of finding and investing in the proper partners. Channel management is difficult since constituencies within the vendor company often compete with the partner. These constituencies can include the direct sales team that may compete directly with the partner for a deal, an internal professional sales organization that may compete for service engagements, or the technical support organization that may simply consider the partner a customer and not discount its service to the partner. If the entire vendor company, from the top down, is not committed to a channel sales strategy, an effective channel sales organization will be difficult to come by.

IDC believes that the requirement to improve channel sales management will only increase as vendors attempt to reduce the cost of sales and marketing and scale their products into new and broader market segments.

Integrating the Customer Perspective

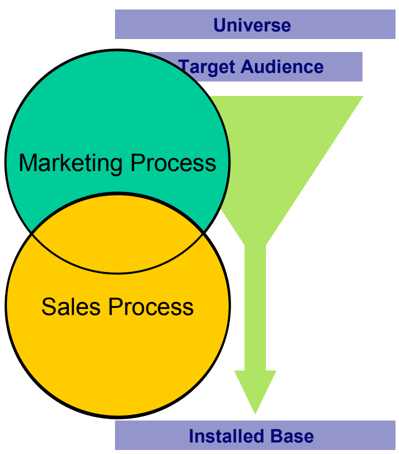
Thus far, this discussion has focused on the perspective of the organization and the management issues within a sales channel environment. An important perspective is that of the customer. Ultimately, the customer makes little to no distinction between the original manufacturer or supplier and the partner presenting that product or service for sale. Customers calling the channel representative with whom they are engaging should receive information about the product, delivery, or service that is consistent with what they would receive from the original manufacturer of the item. The process, delivery, information, and so forth between the supplier and its channel should be transparent to the customer. The complexity of the relationship should be nonexistent in the mind of the end customer. Creating this seamless interaction from the customer's perspective requires very close integration of business processes and clear rules of engagement between the ecosystem leader and its partners. The customer will hold the final word on whether channel management is working successfully.

The Sales and Partner Channels — Two Halves of a Whole

Figure 1 introduces the basic concept of the sales and marketing pipeline. The pipeline is a common metaphor used when describing the processes of winnowing down a target audience into a group of leads that will eventually buy goods and services. The marketing process typically is charged with defining the target audience, presenting offers, and collecting leads. There is some overlap, but the sales process generally begins during the lead qualification stage when there is some catalyst for action. The sales process ends with closing the deal. The individual elements of the pipeline as well as the degree of overlap between sales and marketing can vary widely from company to company.

FIGURE 1

Elements of the Sales Pipeline



Source: IDC, 2006

Figure 2 shows that vendors and channel partners go through the same sales process and, in many cases, that there is a logical overlap between the two companies' pipelines. Each company has its own version of the pipeline diagram. Since the vendor and the channel partner represent individual entities, each will have its own sales and marketing process to drive awareness, identify and qualify leads, and eventually sell goods and services. Each must go through a similar sales and marketing process to drive revenue for each individual company. This overlap between organizations is where business visibility needs to occur, where cooperation and the sharing of information needs to take place to make each company's sales and marketing processes more efficient. Without clear rules of engagement and commitment from the vendor, this is typically where channel conflict begins. Each constituency has its own concerns and requirements. The vendor needs visibility into the partner's pipeline to gain efficiency, have a clear view of partner activity, and ensure that the partner is representing it accurately. The partner requires support from the vendor as well as trust and security that deals are protected and that the vendor will not target deals with direct reps. Both must occur for either to be successful.

FIGURE 2

Sales Process Visibility

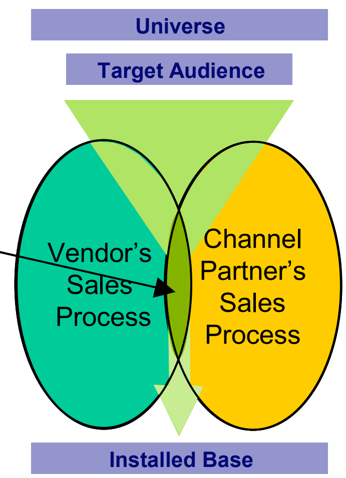
The partner and the vendor share similar sales processes.

The goal is to reduce both parties' cost of sales and marketing, since they are targeting the same audience with the same products and marketing messages.

Direct sales and partners competing for the same business is not productive — they need to work together.

The overlap between these processes is where channel sales management needs to occur — lead/deal management, forecasting, sales support, etc.

The communication needs to be bidirectional to support both parties' sales efforts.

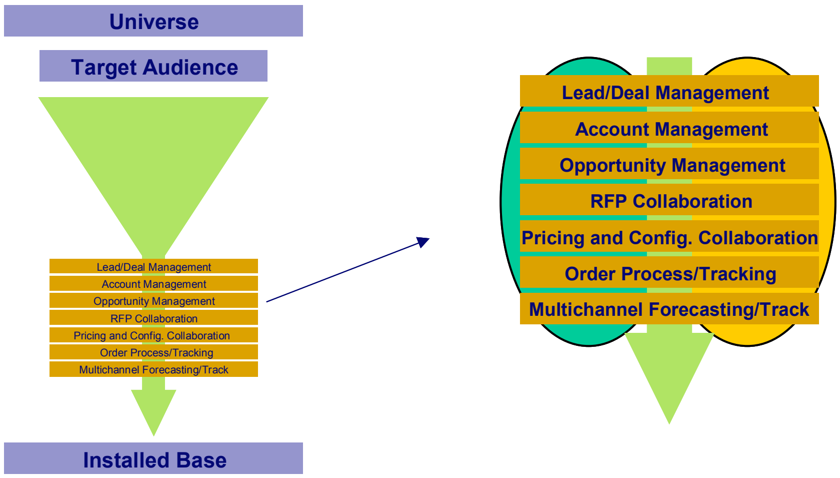


Source: IDC, 2006

Figure 3 takes this notion one step further and highlights the elements of process overlap that the vendor and the partner share and identifies where visibility needs to take place — from a business process perspective as well as a software solution. Since each company has its own pipeline and is in many cases selling the same products and services, chances are they will be competing for the same customers. Competition for the same customers between the vendor and the partner is one of the biggest challenges companies face; this competition is highly inefficient as both companies' cost of sales and marketing increases through the duplication of effort. The cost to acquire a new customer nearly doubles, and the customer sees an unprofessional sales effort.

FIGURE 3

Channel Management — Elements of Visibility



Source: IDC, 2006

Equally important is that this can lead to animosity between a vendor and its channel partners and can create a fundamental lack of trust. It is this lack of trust that will challenge channel sales management and hamstring any movement toward a more transparent sales process. The channel will not want to expose opportunities and register deals with the vendor for fear of competition.

For example, a large hardware vendor has a direct sales representative supporting an account. At the same time, this account has relied on a systems integrator to install and support a new software initiative. During an upgrade or expansion project, new hardware will be required to support additional functionality. The direct representative jumps in to compete for the business with the appropriate hardware and professional services to support the effort. At the same time, the partner can sell the vendor's hardware and has professional service capabilities of its own. Neither party wants to lose a big sales opportunity and the conflict begins. This conflict represents only the broader tip of the iceberg because it represents a single deal. The larger issue becomes a lack of trust between partner and vendor, and this lack of trust leads to less visibility between sales processes, not more — which is the fundamental goal.

Achieving Channel Sales Efficiencies: CRM Versus PRM

By exposing back-end system functionality to the partner sales management, both companies can achieve a more complete view of the pipeline and begin to build an environment that supports sales channel visibility.

IDC believes that despite the great advancements in partner relationship management (PRM) solutions, there remain great inefficiencies in the broad channel sales processes that today are not addressed by current PRM or CRM solutions, nor may they even fundamentally be the domain of PRM solutions to address.

The previous spate of PRM solutions (PRM V1.0), which were popular at the turn of the century, were really administrative and marketing tools that supported marketing-centric partner portals. At the time, this was an important step forward in supporting partners of all types. What these PRM V1.0 solutions failed to address was distinguishing themselves from core CRM functionality and, more important, effectively managing the sales component of the channel sales organization.

The following is an excerpt from *PRM Applications: Managing Partners and Alliances* (IDC #24233, May 2001). Many of the views expressed in that document remain valid today:

> Today, PRM application vendors have largely focused on and succeeded in delivering excellent solutions for partner management (i.e., the front end). However, they have yet to fully address revenue management. From the seller and partner perspectives, this is where the rubber truly meets the road. If a PRM application can also effectively manage the revenue aspects of the indirect sale, it has solved the biggest pain point for an indirect sales organization's management. …
>
> PRM applications vendors are in a tenuous corner of the CRM world. They do address a significantly under-automated portion of most sales organizations, that of partner management and profiling. However, it remains to be seen if that functionality alone will allow pure-play PRM vendors to stand on their own as a market segment. The lack of back-end revenue management functionality to really have an impact on and accelerate revenue may force them into a competitive situation that would be difficult for even more-seasoned companies to survive in, let alone thrive in.

IDC believes when one considers solutions for the channel, the nature of the relationship with the partner will dictate the solution. PRM solutions address the administrative and marketing functionality that all partner types require. All partners — resellers, ISVs, technology partners, and consulting and development partners — need this kind of support. However, only *reselling partners* — the channel — need true sales-specific support and channel management–specific tools. This makes them unique, challenging, and very valuable!

It is the channel segment of broader partner management that is the key to driving increased revenue. Direct sales organizations have been effectively automated, but the channel is only now getting the tools that direct has had for years.

The stumbling block for many companies as well as solutions, is the fact that these systems must support third parties doing business on a day-to-day basis, not simply automating one facet of the business or organization. These partner companies need to be integrated into the ongoing sales process to achieve the greatest efficiencies.

Effective channel management solutions go beyond isolated portals of information and functionality. Automation of these functions is critical as resources become overloaded and expensive and as partners want to streamline inventory management. Vendors need visibility into the channel in the same way they need visibility into their existing internal direct sales organization. This visibility spans the critical channel sales functions, which can include:

- Account/activity management
- Collaborative marketing
- Lead management (distribution, tracking, and reporting)
- Deal management (registration, protection, and reporting)
- RFP support and collaboration
- Quotation and configuration support
- Order management
- Sales tracking and forecasting across partner tiers
- (Partner) claims management
- Service management
- Channel compensation — commissions, rebates, spifs, and so forth
- Partner information and education

This integration's end goal is to provide sales management the ability to roll up forecasting, inventory management, and potentially manufacturing issues across sales channels in order to gain a complete view of all revenue-producing channels for an organization. This visibility, when extended to the partner, makes the vendor company easier to work with and more flexible to a partner's needs.

Benefits

The benefits that can be achieved are multifold. They can begin as simply as reducing the conflict within the channel and in turn reducing the cost of marketing and sales for each company and extend to improving the customer experience for both companies. This all happens on an individual partner-by-partner basis. If a vendor can roll these cost savings up across hundreds of partners, the cost savings as well as the increased goodwill between partner companies and customers can be substantial.

Extending the benefits to resources management, inventory control and management, and manufacturing planning can put the benefits off the scale. It turns just-in-time manufacturing into just-in-time inventory, resource delivery, and solution deployment. It can fundamentally trickle down to the design and building of new products and services.

The efficiencies that can be realized can include:

- Sales management can get the benefit of the integrated view of the sales pipeline. That is, they can roll up all revenue-generating channels — direct and indirect — and more accurately do revenue forecasting. The ability to roll up the forecasting also allows management to use similar metrics for sales performance and optimize plans as necessary. This whole view of the pipeline also allows for better resource planning and utilization, and technical sales support and services resources can be pragmatically managed. Pricing and inventory in the field can also be managed more precisely so a vendor can get a better handle on how quickly the inventory is turning over and what price exposure it has for the inventory that remains.

- Dynamic POS reporting can also streamline inventory processes and ultimately be integrated to guide manufacturing planning and investment. Additionally, efficiencies will be gained through efficient order entry, tracking, and management. The cost savings here expand well beyond the notion of supporting the channel in its sales efforts. Dynamic POS reporting and active inventory control can have enormous implications on cost and overhead expenditures, so any improvement in efficiency can lead to dramatic cost savings and control.

From an organization's perspective, by incorporating the channel, vendors can also gain a single view of the customer — no matter who sells, installs, supports, or maintains the product. For many indirect sales models, the partner may not, or cannot, offer the complete solution. In some cases, the vendor will drop ship the product, the channel partner will provide professional services to install and customize the product as well as provide training, and then the vendor may provide ongoing maintenance — so who owns the customer? In moving toward a transparent, single view of the customer, the customer is supported, there is less conflict between the vendor and the partners, and ideally the customer receives a better solution, with less communications conflicts. The vendor receives a more streamlined delivery model, which is scalable, and with less channel conflict. The result is visibility from the customer's perspective — no differentiation between direct and indirect channel delivery — the same "face" to the customer.

CHALLENGES/OPPORTUNITIES

The challenges to effectively managing the channel generally fall into three categories: business commitment, process issues, and IT solution issues. In every great challenge, there exist great opportunities — for vendors, partners of these vendors, and IT solution providers.

Business Commitment

At the outset, vendor management must be committed to a sales strategy that includes a channel organization as a logical extension of its existing sales structure. Most channel conflict can begin and end here. To reduce this conflict, some companies franchise specific geographies to their partners. Other strategies might segment market opportunities by product line or the size of the deal. Partners have historically been used to leverage vendors into vertical markets that require specific skills to sell into — partnering is a great way to expand into market segments that have high barriers to entry.

This commitment must include all aspects of the company. For software organizations, this could include the direct sales organization, the technical support organization, maintenance, and professional services. Without buy-in from each of these areas, an effective channel organization will be nearly impossible.

Vendors, fundamentally, need to help the partner make money. In many cases, vendors think just the opposite — "the only reason we have partners is so that they can make us money." This perspective was reasonably successful during the expansion of the late 1990s, but in competitive markets, the vendor and the partner need to work as a team. Vendors need to enable partners with a variety of marketing and sales support and then not compete for the same deals they are supporting them on! Successful channel programs need to provide an obvious value proposition for the channel, apply effective sales and product training, and support the partner through the sales process.

Business Process

The next set of challenges to gaining visibility in the channel sales organization is one of business processes and how these processes translate into IT solutions. In order for these partners to be successful, they need to be treated as logical extensions of the vendor's sales organizations.

Vendors need to include partners as appropriate in the organization's systems architecture. The first step today most commonly occurs via a Web portal, and the onus is largely placed on the partner to provide current and consistent information to drive the systems. To make these systems truly transparent, some element of two-way systems integration needs to take place. This commitment to integrating the vendor's and partner's back-end systems will allow for the real benefits of visibility to take place: lead distribution and tracking, deal registration, sales reporting, and inventory control.

IT Solutions

IT solutions prove to be the missing, and final, link in the puzzle of automating channel management best practices. Companies may be fully committed to a channel model and effective channel management, but it still requires IT solutions that can seamlessly extend bidirectional visibility into the pipeline. Without these three elements working in concert, significant channel inefficiencies will remain.

CONCLUSION

IDC believes that the traditional role of PRM or CRM applications must be expanded as vendors begin to integrate the channel as a clear extension of their existing sales organization. This integration will take place throughout the sales pipeline as the vendor's and the channel partner's sales processes merge from account management and opportunity management all the way through to sales tracking and forecasting across all revenue-generating channels. This integration will ultimately impact inventory management as well as manufacturing planning and investment. Creating channel visibility will allow sales management to roll up the activities across all sales channels and forecast sales and opportunities with common metrics. This foundation creates an environment in which greater efficiencies in inventory management and resource planning can be achieved.

This integration could also enhance the core utility of existing CRM applications but fundamentally must expose specific functionality to manage the channel. Ultimately, this visibility could provide a whole view of the customer as well — no matter which channel provided the product professional services, training, support, or maintenance. Ideally each sale should be tracked via direct or indirect channels and then mapped back to the common customer.