Getting More from Your Channel

By Jeffrey L. Josephson
President, JV/M B2B Telemarketing

Executive Summary

For companies that sell their products through VARs, distributors or manufacturers reps, the initial savings and easier entrée into the market that they provide are attractive. But channel partners often require handholding, and you can give up quite a bit in margin. For many companies though, even if the costs are initially acceptable, eventually many channel programs fail to fulfill the needs of the principals because of three fundamental limitations to the model. Specifically:

- Channel partners rarely extend their reach beyond their base of accounts, leaving major opportunities untapped.
- Account control generally accrues to the channel partner, not the principal.
- Principals have to compete for mind-share.

Sponsoring a lead generation program, however, and giving the leads to your channel partners, can offer the principal a simple and inexpensive way to maximize production from the channel. It can enable you to find new business without waiting for your partners to bring it to you (if they even do). It can enable you to obtain and maintain account control. And it can enable you to reduce costs and increase market share significantly and simultaneously.

Background

Channel partners have existed for nearly as long as commerce, in the form of agents and retailers, to help bring the manufacturer's products to geographically distant markets. Industrialization saw the advent of regional and national distributor networks that tap demand, stock product and deliver material locally. In many industries regional contractors have grown "backwards" to become system integrators and find and address complex applications. And more recently, Value-Added Resellers evolved to sell, customize and support IT systems for major and niche providers; while reps and agents of all stripes stimulate and cover demand in the increasingly fragmented segments of many markets.

History has shown that the burden, risk and expense of fielding an in-house sales force to cover national or global markets remotely can make a channel strategy extremely attractive, although a channel strategy is not without challenges of its own.

The chief issues in supporting a channel are well documented, and fall into four major areas: recruiting, training, motivating and tracking. Much has been written on each of these subjects, and many solutions are available. And so the assumption underlying the strategy discussed in this paper is that the principal has a channel in place, they've addressed the basic recruiting, training, motivating and tracking issues, and it is functioning – for better or for worse.

It is dissatisfaction with the performance of their channels and channel partners, despite these efforts, that drive many companies to consider enhancing the program with lead generation. For example:

<u>Starvation by Acquisition</u>

A manufacturer of an innovative HVAC product was the dominant player in the research laboratory market, which they had developed over thirty years in partnership with a network of almost a hundred VARs and distributors. After being acquired several times (and ultimately by a Fortune 100 company) the firm found itself facing ever-increasing sales objectives that necessitated going after new markets, such as hospitals and medical clinics. However, while the division was funded to develop sales aids and collateral material, they needed to achieve their new revenue objectives without adding sales staff because of headcount and budget constraints. Instead, they needed to leverage their channel partners to make their numbers.

The problem with this strategy was that while their channel partners were comfortable talking to their traditional laboratory customers and selling in their traditional laboratory markets, they were extremely *uncomfortable* going after new hospital-based prospects and new medical facility markets. Few channel partners had ever called on hospitals before; and none had any contacts.

To be sure, the decision processes, the economics and even the applications were different, and so despite extensive training, a year after the rollout the division was far from its goal, and getting farther and farther behind.

Having tried everything else to motivate their reps, the company called JV/M to see if we could generate qualified sales leads for their channel partners. That is, the manufacturer would invest in a lead generation program where the appointments would be set for their VARs. The VARs' salespeople would attend the calls, aided when necessary by the principal's regional manager, but the lead would basically be a gift to the VAR.

As a high-end B2B telemarketing company, JV/M has conducted numerous campaigns targeting hospitals and clinics, including the CFOs, engineers and facility managers who make the decisions. We also had experience prospecting to the third-party architects, engineering firms and consultants who did the design work. And we had familiarity with the technology.

But, most importantly, we had had extensive experience working on behalf of principals who funded lead generation centrally on behalf of their various channel partners. So we understood the sales processes, the economics and, especially, the politics.

We know, for example, that VARs can be very proprietary about their territories, and that personal communication with the VAR was the key to managing it. We understand the logistical issues of scheduling appointments for dozens of independent sales reps, and how different VARs can have different lead qualification criteria.

We also understand that the principals themselves vary greatly in how they manage their programs. For example, some programs are run by the sales department, while others are run by marketing, either of which can have an enormous (and potentially negative) impact – although a good lead generational program can go a long way towards ameliorating that.

In any event, after a two-week planning exercise, JV/M implemented a two-month pilot program for under ten thousand dollars that generated more than a dozen qualified sales leads – worth over one million dollars in sales. By the end of the pilot program – which resulted in double the expected number of leads – all of the participating channel partners wanted to continue the campaign. The company was able to get back on plan with their sales results. And, as a bonus, the campaign uncovered a half-dozen national accounts, against a goal of two for the year, that weren't even part of the program.

<u>The One-Armed Paper Hangers</u>

A Fortune 200 manufacturer of networking equipment had a field sales force of forty direct reps, and an equal number of VARs and distributors through whom they worked. Because of the volume of quotes generated by the channel though, few of the in-house salespeople had time to look for new business, and so growth had been flat (and below objectives) for over two years. The company tried incentive programs to goose the channel, and implemented SAP to make sure nothing fell through the cracks, but it was to no avail. By their own calculations their market share was falling; and by their own research, they were missing out on hundreds of millions of dollars in new business that was going to competitors.

The problem was that their in-house salespeople were too busy preparing quotes (that were stimulated by the distributors and VARs) to go after new business themselves. But much of what they quoted, they lost – or got substituted – because they lacked any account control, or leverage with the channel (who also handled competitors' equipment).

In a classic Catch-22, the company's reps were too busy trying to close business to go after new business that would have given them the positioning they needed to get a favorable close rate. And their channel partners were making things worse by turning them into column-fodder: substituting, forcing them to discount the product, or play defense.

A visionary marketing expert in corporate, however, figured that if he could put together a lead generation program, he could kill two birds with one stone. First, he could find new business early enough in the project life cycle to get specced in – increasing the likelihood that he'd win the business. Second, his reps could use the leads as leverage with the channel, and force them to hold spec. In either case, the in-house reps could go after the business themselves, or they could give it to a distributor or VAR on the condition that there would be no substitution.

During the four-month pilot program, the campaign found over $12 million in new sales opportunities, and by the end of the first year it had found over $400 million in potential deals. The sales reps gained immediate and strong leverage over their distributors, and played one against the other based on loyalty. And so market share started ticking up, along with prices. By the end of the second year, over $60 million in new business had closed, for a total cost of less than $500K.

A Win-Win in the SMB Market

Generating leads for channel partners works even for smaller companies, as shown in a long-running campaign targeting the education market. In this case, a company that develops K-12 curricula for math, science, business and IT sold through a small network of dealers who focused on schools. Most of the dealers' revenue came from furniture and fixtures, but the curricula provided an additional line they could use to generate ongoing revenues. The problem was that the dealers didn't have the resources to expand beyond their core geographies, which were smaller than their exclusive territories.

Implementing a lead generation program, however, made it economical for the dealers to go after geographically remote business. In a classic win-win, the dealers were able to increase their sales for no more than the cost of a tank of gas, while the principal needed to contribute only the modest cost of lead generation.

As a result of the campaign, sales more than doubled annually for four years, making the vendor the dominant player in their market.

Discussion

Working through independent Manufacturers Reps, VARs and distributors presents a unique set of opportunities - and challenges. Manufacturers Reps, VARs and distributors can help you generate sales in their established territories relatively quickly and inexpensively. But getting them to open new or underdeveloped geographical areas or vertical markets can be frustrating and expensive. And after the initial honeymoon, keeping Manufacturers Reps, VARs and distributors performing at a high - or even acceptable - level is often difficult. By implementing a lead generation program and giving the leads to your partners, you can get all the benefits that channel programs offer - and more - while eliminating most of the barriers to success. So you'll get a higher ROI, with less investment, and a lot less risk and pain.

Why Use Channel Partners?

Independent channel partners (Manufacturers Reps, VARs, distributors, etc.,) have a significant place in the market, and offer a number of benefits. For example, channel partners already have a presence in the market, and often have established relationships with accounts you want to target. Channel partners therefore reduce the burden of creating awareness with prospects, building rapport and, often, stimulating interest - thereby saving you time, and reducing your market risk. Channel partners also usually work on straight commission, and pay their own expenses, so your initial financial exposure is known.

What Are the Downsides?

Even with these benefits, channel partners often fail to deliver the sales results you need. Sometimes you can't get the attention from your partners that your product line requires. Sometimes they won't go after the accounts that you want them to target. They almost always follow the path of least resistance, and instead stay in the friendly ground they are familiar with. Getting a channel partner to leave his comfort zone can be a challenge, and having them make effective cold calls is nearly impossible, and therefore greatly avoided. You almost always give up account control. And sometimes the better channel partners demand commissions that make the whole deal uneconomic.

How Can a Lead Generation Program Help?

By providing qualified leads and appointments to your channel partners, you can motivate them to go after new business that they would otherwise avoid. And if they don't go after it, you can take it direct, or give it to a partner who will go after it (depending on how your channels are set up).

By providing the leads, you can dramatically reduce substitution in cases where the channel partner handles competitive products – because you "own" the lead. And by generating the lead early in the buying cycle, you can greatly increase the chances of getting specced in or controlling the RFP, further minimizing substitution.

This is summarized in Table 1, below:

Challenge	Description	Solution
Channel Partners Can't or Won't Take You into New Accounts	Channel Partners are typically comfortable with their established accounts. But if you need them to go after anything new, they can't, or won't, do it. Many won't even make cold calls, or do prospecting.	A lead generation program can quickly get you into new accounts where neither of you have a presence - enabling you to increase your market, and your market share.
With Channel Partners, You Often Give Up Account Control	If the Channel Partner brought you in, they "own" the account. This often leaves you at a disadvantage, especially in margin, but also in leverage and knowing the pulse of the market.	By initiating the relationship with the prospect, a lead generation program can insure that you own the account, and the territory. It can keep you plugged in, so you don't lose account control. And feedback is untainted, so you'll always know what's really going on.
Channel Partners Are More Expensive Than You Think	If you're missing out on business because the Channel Partners are unmotivated, too challenged, or already too busy, you're leaving valuable revenue opportunities on the table	By generating leads for your partners, you can dictate the terms of the relationship. But they'll also be more motivated and loyal. And lead generation programs are far less costly than events, spiffs and even training.
Channel Partners Vary Greatly in Quality	Every company that uses Channel Partners has good ones and bad ones. As a result, one-size-fits-all programs seldom work.	A program can be customized by territory, so you can build a high-performing team quickly and painlessly, or build a territory in-house to attract better reps when replacing lower performing Channel Partners.

Table 1 - Channel Management Challenges and Solutions

By implementing a lead generation program for your Channel Partners, you get control of your channel, and your market. (Remember: "He who has the gold makes the rules," and there is no gold worth more than a good lead.) You can direct where your Channel Partners go, if you need to; and if they balk, you can simply give the lead to someone else, or go direct. (Actually, just having the option will usually keep them motivated.)

But more importantly (and especially when the relationship between the parties is positive) by providing leads for your Channel Partners, you'll be seen as the ideal strategic partner - one that is truly committed to your mutual success. It is, in fact, the single, most powerful element you can put into the relationship. (In fact, it's actually more important than product training.) The Channel Partners will increase their revenues, you'll get more sales, and your partners will show their appreciation in long-term loyalty, attention and performance.

From a "channel management" perspective, a good lead generation program can also help you with the critical communications challenges. This is because it can deal directly with each Channel Partner's rep on your behalf, help set schedules, callbacks and follow-ups, and make sure nothing falls through the cracks. It's win-win, with minimal cost and effort.

And from an internal management perspective, a lead generation program can easily bridge the gap between marketing and sales. If Marketing runs the channel program, it can sensitize them to the "real world" issues of the salespeople who actually make the sales calls. And if Sales runs the channel program, it can sensitize them to the strategic positioning issues.

But from a business perspective, perhaps the greatest benefit is expressed in the following quote, in response to a request to add a new distributor:

> [Distributor] is the master at "stack 'em high and sell 'em cheap." Best case scenario is a few more leads. But one can argue that with a broader JV/M approach we will get better qualified leads than this.

Channel partners exist to make a profit on the margin you give them; so it's in their best interests to spend as much time – or more – getting you to cut them a better deal as they do finding demand. With a lead generation program where you control the leads, though, you can preserve your account control, your market share and your margin.

That is, from the economic perspective that is ultimately the most important, outsourced lead generation can be significantly less expensive than relying on your channel partners to bring you new business. For example, a typical industrial appointment with a decision maker who has a need (i.e. a qualified lead) for a $50K item might cost $200, with a close rate of perhaps 33%, resulting in a net marketing cost-per-sale of $600. But the same opportunity might cost 25% in margin (or $12,500,) if the channel partner found it – a swing of almost $12K, or 24 points of margin!

Even stocking can't make up for 24 points of margin.

But by providing the leads, you can reduce the pressure on your channel partners to do prospecting, you can magnify the reward when they do find you business, and you can encourage them to hold spec. You can also enhance your negotiating position when it's time to renew, or take business direct – and maximize your profits.

Summary

A high-quality lead generation program, where the manufacturer gives the leads to their channel partners, enables the principal to gain leverage over its channel, dramatically enhance its account control, and its position in the market, while boosting prices, sales and market share. It can virtually eliminate substitution, and motivate channel partners to work more enthusiastically on your behalf. And it can do so for a fraction of the cost of relying on the channel partner alone.