Getting More Revenue from Your Channel Program

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Abstract

For companies that market or sell their products through Value Added Resellers (VARs), distributors or manufacturers reps, the initial savings and easier entrée into local markets that channel partners can bring can be quite attractive. At the same time, channel partners often require significant support. And the OEM can give up a lot of margin when they use an outside representative. So while most OEMs appreciate the low initial cost that channel partners provide (compared to building an in-house field sales team), many eventually find that their channel program has failed to fulfill their need for growth despite their best efforts at channel management.

In general, there are three fundamental limitations to the channel model that can prevent success, although they might not, at first, appear to be problems. These fundamental limitations are:

- 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 with other lines.

With regard to channel partners not being motivated to sell beyond their base: While channel partners are often chosen because they have an embedded base of accounts that the OEM wants to tap, after the base has been exposed to the product there is often a disagreement (either stated or, more often, not) between the parties regarding the wisdom, method and priority of prospecting to new accounts and new markets. As a solution, many OEMs will co-sponsor trade show booths, and give the leads to their partners to follow up. Others will provide co-op money for joint advertising, or training and collateral material, in an effort to push partners into new accounts and markets. But pushing a partner whose sales people are accustomed to account management to instead make cold calls can be an exercise in frustration. And it can eventually lead to a failure to meet objectives.

The basic ownership of the account is also a source of failure for many channel strategies, if not a challenge to the relationship. Despite the fact that most OEMs see their lack of a relationship with the end-user as a benefit rather than a threat (because it involves less work and expense), such indifference can have significant long-term consequences for brand loyalty. To counter this, some OEMs will make joint sales calls using regional in-house sales staff, or provide telephone support. And others will facilitate proposal production, or push brand awareness, as a way of bridging the gap. But while most OEMs see a lack of account control as a benefit rather than a threat, it can actually doom the strategy because of the potential for substitution or, more commonly, simple neglect.

Finally, with only limited time available from most partners, OEMs find that they often have to compete with other lines for their partners' attention with incentives and support. Whether the OEM provides a primary line or a pull-through product, after the initial honeymoon partners will generally focus on what makes *them* the most money, not on what makes the *OEM* the most money – which can, again, lead to failure.

Looked at this way, it seems to be a great irony of the channel concept that while many solutions to these fundamental limitations constitute accepted channel management strategies, they fail to actually overcome the deeper, and more important, problems inherent in the relationship.

On the other hand, by directly sponsoring a lead generation program that provides "qualified" sales leads (i.e. appointments with decision makers who have a qualified need, and who want to talk with a sales person about how they can help,) and giving the leads to the channel partners, OEMs can drive their channel partners to extend beyond their base of accounts, they can acquire account control with a minimal expenditure of resources, and they can compel mind share in even the most cluttered channel. As a result, the OEM can – with a lead generation program that generates *qualified* leads –

maximize production and ROI from the channel, and generate long-term success from the strategy.

To be sure, the generation of qualified sales leads can enable the OEM to close new sales without waiting for their partners to find them (assuming they even try). It can enable the OEM to obtain and maintain account control, preventing substitution and neglect. It can enable the OEM to get specced in before their competitors even know there's an opportunity. And it can enable the OEM to reduce their costs and increase their market share significantly, quickly, and with minimal risk and expense.

Background

Channel partners have existed for nearly as long as commerce, in the form of agents and retailers, to help bring a manufacturer's products to geographically distant markets. Industrialization saw the advent of regional and national distributor networks that could tap demand, stock product and deliver material locally. In many industries, in fact, regional contractors have also grown "backwards" into the value chain 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 can make a channel strategy extremely attractive, although a channel strategy – even if it is only an adjunct to a direct sales approach – is not without challenges of its own.

The chief challenges in implementing a channel strategy are well documented, and generally 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 employed, as alluded to earlier. So it is an underlying assumption of this analysis that the principal has a channel program in place, that they've addressed the basic recruiting, training, motivating and tracking issues, and that it is functioning – for better or for worse.

It is a 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. But let's start with four typical examples:

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

A Fortune 200 manufacturer of networking equipment had a field sales force of forty direct salespeople, 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 boost sales through 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 requested by the distributors and VARs to go after new business themselves. But most of what they quoted, they lost – or got substituted – because the OEM lacked any account control with the end users. They also lacked leverage with their channel partners, who also handled competitors' equipment.

(In addition, their marketing program, which consisted of heavy advertising, social media marketing and PR, was producing a prodigious number of leads. Unfortunately, virtually none of the leads were any good. But they soaked up resources being chased down, creating resentment among the VARs who had to do the work.)

In the classic Catch-22 of Sales, the company's salespeople were too busy trying to close business to get in early enough with new opportunities 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, and play defense.

A marketing associate at their corporate headquarters, however, figured that if he could sponsor a lead generation program, he could solve two problems at once. First, he could find new opportunities early enough in the project life cycle to get specced in – increasing the likelihood that he'd win the business in the end. Second, his salespeople could use the leads as leverage with their channel partners, and force them to hold spec. In either case, the in-house salespeople could go after the business directly, or they could give it to a distributor or VAR on the condition that there would be no substitution. If the distributor substituted, they'd get no more leads.

During the initial 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, with $30 million of it having closed already. The OEM's salespeople gained immediate and strong leverage with their channel partners. And some even played one against the other based on loyalty – rather than being victimized by bidding. As a result, market share quickly started ticking up, along with the prices and margins they received on their products. By the end of the second year, over $60 million in new business had closed (on a pipeline that had grown to $600 million). And it was all done for a total cost of less than $500,000.

A Win-Win in the SMB Market

Sponsoring a lead generation program for channel partners works equally well for smaller OEMs, 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 specialized dealers. Most of the dealers' revenue traditionally came from one-time furniture and fixture sales, 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 the exclusive territories assigned by the OEM.

Implementing a lead generation program sponsored by the OEM, however, immediately 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 only to contribute the modest cost of lead generation.

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

A Cure for "Starvation by Acquisition"

The case of a Fortune 100 IT/database company shows how lead generation can also help when a company pursues a strategy of vertical integration with its channel. In this case, the OEM had enhanced its product portfolio over a 10-year period by acquiring a number of VARs and developers of add-ons or complementary solutions. Some VARs gave the OEM a stronger position in specific verticals where they were historically weak, while others were intended to add service and support in underserved local markets.

From a marketing perspective, the advantage of acquiring VARs was clear: The OEM was, at least, buying market share – because the VAR would re-brand their products under the OEM's banner. And the VAR's customers (along with their case histories) would be absorbed by the OEM, broadening their reference base. But beyond helping with the initial re-branding exercise, the OEM left most of the VARs to operate independently.

In fact, the business model assumed that the VARs would maintain their own sales forces, which would continue to operate independently, to market their traditional products in their traditional markets. But because they were now part of the larger OEM's conglomerate, they would also be charged with, and incented for, pulling through demand for the OEM's *other* offerings – thereby increasing the OEM's overall revenues and market share.

The problem of course, was two-fold. First, the revenue objectives of the acquired VARs were now burdened by the need to pay back the cost of the acquisition. Second, with so many different types of VARs acquired, the OEM's one-size-fits-all marketing and sales support strategy was spectacularly ineffective in most markets. As a result, corporate sought outside help for a newly acquired VAR that was hopelessly behind on their sales production.

With insufficient funds to add salespeople or implement traditional marketing programs, corporate – with the agreement of the division (which focused on the banking industry) – hired a professional B2B telemarketing firm to generate qualified sales leads for the group. Specifically, corporate allocated $10,000 to penetrate ten new banks for the year. And while this would have been impossible to do for the same cost using in-house resources (assuming they were available, which they weren't), it took less than three months to accomplish the goal using outsourced B2B telemarketing.

With their pipeline full, the division could focus on developing the accounts, which, while it had a long sell-cycle, they had more than adequate resources to do.

A Cautionary Tale

The example of a manufacturer of building materials, however, illustrates how *not* to implement a lead generation program in the channel. In this case, the company sponsored the creation of a lead generation program, which was piloted successfully in one region. But – believing that their reps would act in their mutual best interests – they left it to the reps to fund and manage the implementation at a local level, if they wanted to.

With their own bottom line to consider, many of the reps simply opted out of paying for the program. In other cases, specifically where the territories were in the worst shape, the program simply highlighted the cause of the problem (i.e. the reps themselves).

In the cases where there was active, voluntary participation by a competent rep, however, the program worked extremely well, generating over $15 million in new sales in three months. But even in these cases, the reps terminated the program when they obtained enough new business to meet their personal needs. So as a result, new sales for the manufacturer eventually dried up.

While the program demonstrated the ability of outsourced telemarketing to generate qualified sales leads and drive new revenues, asking VARs to fund a program simply highlights the parties' divergent financial priorities discussed earlier.

How to Do It Right

On the other hand, a manufacturer of an innovative HVAC product provides an example of how to do it right. They had been the dominant player in their traditional, albeit narrow, market, which they had developed over thirty years in partnership with a network of almost a hundred VARs and distributors. But after being acquired by a Fortune 100 company, the group found itself facing ever-increasing sales objectives that necessitated going after new verticals. But 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 were told, 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 customers and selling in their traditional markets, they were extremely *uncomfortable* going after any new verticals. Few channel partners had ever called on companies in those verticals before, and most didn't have any contacts.

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

Having tried just about everything else to motivate their VARs to go after the new verticals, the OEM reached out to a professional B2B lead generation company to generate qualified sales leads (i.e. appointments) for their channel partners in their new markets. That is, the OEM would invest in a lead generation program where the appointments would be set specifically for their VARs, including coordination of calendars, re-schedules and feedback. The VARs' salespeople agreed to go on the calls, aided when necessary by the principal's regional manager; but the lead would essentially be a gift to the VAR from the OEM.

As a high-end B2B telemarketing company, JV/M has conducted numerous campaigns targeting the particular verticals, including the specific job titles 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 channel partners. So we understood the sales processes, the economics and, especially, the politics.

We knew, for example, that VARs can be very proprietary about their territories. We also knew that personal communication with the VAR was the key to managing it. We understood the logistical issues of scheduling appointments for dozens of independent sales reps. And we knew how different VARs can have different lead qualification criteria that would need to be met.

We also understood that the principals themselves varied greatly in how they managed 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 (positive *or* negative) impact – although a good lead generation program can go a long way towards optimizing the impact.

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 new 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 OEM 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.

What Makes the Difference?

While the primary purpose of this analysis is to show how lead generation can be the key to a successful channel program, it's important to acknowledge that the process is easy to get wrong. For example, how one defines a lead can be a significant cause of failure, as the mailing list vendors have dumbed-down the definition of a "lead" to the point of irrelevance. Trade show vendors call a "swipe" a lead. And networkers consider a business card to be a lead. Some people think that a lead is where a suspect agrees to receive a White Paper or attend a Webinar. But none of these fit the definition of what's required to fix a broken channel program – a *qualified* lead.

In over twenty years of lead generation in the B2B market, we have concluded that the only definition of a qualified sales lead that's meaningful for the salesperson who has to follow it up is "an appointment with a decision maker who has a need, and who wants to talk with the salesperson about how they can help." It can be a telephone appointment, a face-to-face appointment, or even an electronic introduction. And it can be at any level. But they key is that there is a <u>need</u>; i.e. the prospect has some problem that the product can solve. And it requires that the prospect <u>wants</u> to talk to a salesperson about it; because if there's no desire, the process will not move forward.

If anything is "soft" about this definition, it's the requirement that the appointment be with a decision maker. Given the collaborative nature of most decisions, a "decision influencer" is often better. But if there isn't a qualifying need and a desire to address it, there isn't a lead!

Discussion

Working through channel partners presents a unique set of opportunities and challenges. Manufacturers Reps, VARs and distributors can help generate sales in their established territories relatively quickly and inexpensively. But getting partners to open new or underdeveloped geographical areas or vertical markets can be frustrating and expensive. And after the initial honeymoon, keeping channel partners performing at a high - or even an acceptable - level is often difficult, if not impossible.

By implementing a lead generation program and giving qualified leads to your partners, though, 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, and higher sales, with considerably less investment, and a lot less risk and pain than traditional solutions.

<u>Why Use Channel Partners?</u>

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, and often low.

What Are the Downsides?

Even with these benefits, channel partners often fail to deliver the sales results that the OEM needs. 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 on 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. The OEM almost always gives up account control. And sometimes the better channel partners demand commissions that make the whole arrangement uneconomical.

How Can a Lead Generation Program Help?

By providing *qualified* sales leads and appointments to your channel partners, the OEM can motivate channel partners to go after new business that they would otherwise avoid. And, of course, if the channel partner doesn't go after it, the OEM can take it directly, or give it to a partner who will go after it (depending on how the channels are set up).

By providing qualified sales leads, though, an OEM can dramatically reduce substitution in cases where the channel partner handles competitive products – because the OEM "owns" the lead, and has the relationship with the end user. And by generating the lead early in the buying cycle, the OEM can greatly increase the chances of getting specced in and 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 make cold calls, or do prospecting.	A lead generation program can quickly get you into new accounts where neither the OEM nor the channel partner has 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 brings you in, they "own" the account. This often leaves the OEM 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 the OEM owns the account, and the territory. It can keep the OEM aware, 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 the OEM is missing out on business because the Channel Partners are unmotivated, too challenged, or already too busy, they're leaving valuable revenue opportunities on the table	By generating leads for your partners, OEMs can dictate the terms of the relationship. But VARs will also be more motivated and loyal. And lead generation programs are far less costly than events, spiffs or even training programs.
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. Lead generation programs also enable you to churn out low-performing partners without consequences.

Table 1 - Channel Management Challenges and Solutions

By implementing a lead generation program for their channel partners, OEMs get control of their channel, and their market. (Remember: "He who has the gold makes the rules," and there is no gold worth more than a qualified sales lead.) An OEM can direct where their channel partners go, if they need to; and if the channel partner balks, the OEM can simply give the lead to someone else, or go direct. (Actually, just having the option will usually keep partners motivated.)

But more importantly (and especially when the relationship between the parties is positive) by providing qualified sales leads for channel partners, the OEM will be seen as the ideal strategic partner - one that is truly committed to mutual success. It is, in fact, the single, most important investment that an OEM can make in the relationship. (Most VARs feel that it's more important than product training.) As a result of an OEM-sponsored lead generation program, the channel partners will increase their revenues, the OEM will get more sales, and the 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 the OEM with their critical communications challenges. This is because the lead generation provider can often deal directly with each channel partner's sales rep on the OEM's 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."

In other words, filling the channel partner's inventory *isn't* the goal, especially if the OEM has to lower their price to do it. The goal is to get new end-user business, and finding new end-user business is easily accomplished by a good lead generation program.

While channel partners exist to make a profit on the margin that the OEM gives them, it's in their best interests to spend as much time – or more – getting the OEM to cut them a better deal as they do finding new demand. With a lead generation program where the OEM controls the leads, though, the OEM can preserve their account control, their market share and their margin.

From the economic perspective that is ultimately the most important one, lead generation can be significantly less expensive than relying on channel partners to find new business. For example, a typical industrial appointment with a decision maker who has a need (i.e. a qualified lead) for a $50,000 item might cost $200 from a lead generation firm, 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 $12,000!

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

By providing qualified sales leads, OEMs can reduce the pressure on their channel partners to do prospecting, they can magnify the reward when they do find new business, and they can encourage partners to hold spec. OEMs can also enhance their negotiating position when it's time to renew, or take business direct – and further maximize their profits.

Summary

A high-quality lead generation program, where the manufacturer gives the leads to their channel partners, enables the OEM 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 the OEM's behalf. And it can do so for a fraction of the cost and risk – particularly against the instincts of the typical channel partner – of relying on the channel partner alone.

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