



Communiqué

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Walking the Channel Tightrope

WHEN WALKING ON A TIGHTROPE, PERFORMERS OFTEN COMPLETE A SERIES OF TURNS, HOPS, POSES AND OTHER ACROBATIC MANEUVERS ON A CORD ONLY TWO TO THREE INCHES WIDE.

ABOUT THIS ISSUE

In this issue of the Client Communiqué, we tackle the critical issue of managing and implementing constructive change with channel partners. We examine the need for balance among partners to avoid over-distribution or under-distribution and their respective problems.

Our fall issue also offers an overview of the essential success factors involved in a sales channel annual check-up. We review the three foundational supports for a successful channel strategy and various methods to assess sales effectiveness and enablement.

Finally, from our Latin American affiliate based in São Paulo, Brazil, we offer an overview of the Latin American marketplace and the powerful growth prospects that are available for expansion.

WHAT'S INSIDE

- 1 Walking the Channel Tightrope
- 4 The Annual Sales Channel Check-up
- 6 Latin American Growth Offers Opportunities for Channel Savvy Manufacturers
- 8 Frank Lynn Education

Success in the world of tightrope walking requires poise, planning and, needless to say, balance. These very same skills are required when managing a channel marketing and sales program.

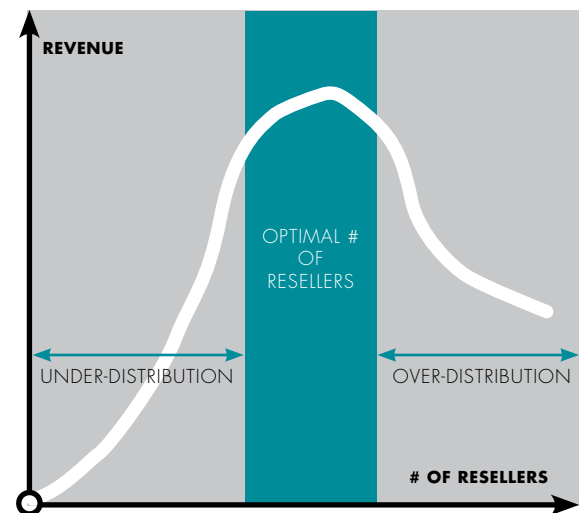
However, in business, particularly within the culture of American business, quick decisive action is highly prized. The “need for speed” often goes hand-in-hand with a need for change. Nothing is perfect; so organizations frequently see change as a sign of striving for perfection. A perceived need for change is particularly strong when a new executive comes on-board. Unless the new executive was part of the original decision-making team, decisiveness often means moving away from the direction set by the preceding management team.

We live in a “super-size” culture. This pertains to business, as well as fast food. The super-size culture is particularly, and often appropriately, present among salespeople and sales teams. More calls, more leads, more meetings, more proposals are all indications of a healthy sales funnel.

In the world of marketing, however, speed, change and “more” are not always desirable attributes. Marketers are often concerned with longer-term issues: industry trends, technology life cycles, brand perceptions and on-going relationships with channel partners. Success with these longer-term issues requires planning, predictability and optimization/balance. These characteristics are almost perfect opposites of the “speed”, “change” and “more” approach common in many other areas of the business world!

So I come to my analogy of tightrope walkers and their sense of balance. A good marketer must balance speed and planning; change and consistency; more and optimal.

In the world of channel marketing, the need for “balance” shows up in many activities.



Number of Channel Partners

As shown in the chart above, companies maximize their profits by finding an optimal number of channel partners. For complex technical products, the optimal point shifts to the left. For more commodity-like products, the optimal point shifts to the right (and in a few, truly commodity markets may lead to “open” distribution).

The dangers of under-distribution (the left-hand side of the chart) are obvious. Fail to recruit enough partners and you leave customers or entire

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market segments uncovered. Competitors will rush in and establish strong market positions. However, over-distribution causes its own set of concerns. If you have too many partners then:

- The over-supply leads to downward pressure on price. Your resellers demand higher discounts to stay profitable. But, this just starts a vicious, downward pricing spiral
- Partners can no longer afford to support your product. Customer satisfaction declines
- Your cost to manage so many partners (and deal with the resulting conflict) eats into your sales force productivity, further diminishing profits

Companies often fall into the over-distribution (“more”) trap. Many managers make no distinction between resellers and customers. The more resellers signed up, the more revenue will increase. All reseller revenue is incremental, they figure. You can’t blame your salespeople, especially if their background is in direct sales. Adding more customers is a good idea. So, why not adding new resellers (especially if one doesn’t draw any distinction between the two groups)?

It is the role of the marketing department to measure market demand and find the optimal (“balancing”) number of reseller partners. Marketers need to communicate this number to the sales team recruiting the resellers, even to the point of creating a territory-by-territory plan.

Furthermore, marketers need to create a profile of the ideal partner and establish criteria that resellers,

nominated by the sales force, must meet before official authorization is granted.

Changing the Channel Program

At the end of each year, companies assess their performance. Whoever manages the reseller channels will look at the sales figures and then consider what big changes will make a dramatic improvement in next year’s results.

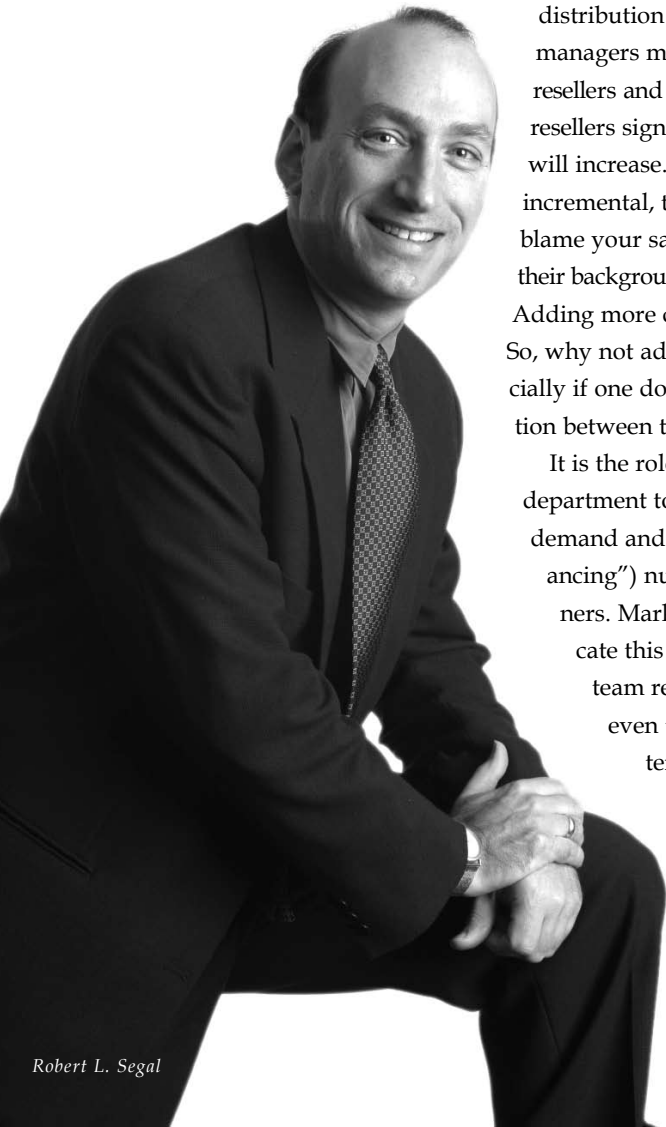
As noted earlier, if a new sales or marketing executive comes on-board, a major change is almost sure to follow. Hopefully, the new executive will not jerk the overall channel strategy 180° (from, say, 90% through indirect channels to 90% through direct sales) unless the company is in a dire situation. While no foolproof method exists for stopping “change for change’s sake,” the best approach is to have a broader executive team (CEO, CFO, CIO, etc.) that has a strong appreciation of the role of the indirect channel.

However, in our experience, partners can only handle so much change. We always hear from partners that they would like more consistency from year-to-year. They can handle major program changes once every three or four years. But, in between, they’d really like to see small improvements to existing programs. Of course, if you have a major gap or program flaw, this should be addressed as soon as possible.

Also, your resellers support many other suppliers besides your company. The resellers have to remember all the programs, processes and contractual obligations from each company. At the end of each year, just as resellers are maybe getting comfortable with your program, here come all the changes for the new year, from all their suppliers.

The Depth and Breadth of Channel Programs

Beyond the frequency of change, marketers must also balance the comprehensiveness of their channel program with the simplicity of their program.





We have a two-columned, five page PowerPoint presentation listing all the channel programs a company might ever consider. The list includes:

- Channel management programs
- Channel finance and leasing programs
- Channel training and certification programs
- Channel marketing programs and material
- Channel sales tools
- Channel operations and logistics programs
- Contractual and legal requirements
- Channel tiers and compensation programs

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Of course, we would never recommend that any one company ever implement every single program in each of these categories!

However, someone in the company may note that competitors offer a co-op marketing allowance. Another person may chime in with an idea for testing and certifying each reseller's salespeople. A survey of partners may indicate a desire for a better lead generation program. A friendly technology company might suggest a new and/or improved web portal just for partners.

Independently each of the ideas may have merit. However, the role of the marketing department is to filter all the suggested changes.

We suggest using filters that address:

- Each proposed program's ROI. Will this program really make a meaningful impact on reseller behavior?
- Reseller's true interest in the program. Many resellers will suggest a new idea, but that doesn't mean they can't live without it. Furthermore, resellers aren't necessarily paying for the program either
- Differentiation. Will this new or improved program really provide you with a defensible, competitive advantage; or, will it just add to the overall cost of maintaining reseller relationships?

SUMMARY

One of the best sounding boards for refereeing the comprehensiveness versus simplicity debate is a reseller advisory council. This panel of your most insightful partners can provide significant input into balancing these two competing considerations.

With these three examples in mind, marketers will find other areas of channel management where the skills of the tightrope walker – planning, predictability and balance – will be needed. Revenue and profit growth will always be the driving factors for the corporation. However, balance rather than mere speed is often the means to those ends.

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