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Channel Advisor — channel marketing for IT vendors

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Building Profitable and Loyal Channel Relationships Part 1 of a 2-part series

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In our quest for profitable and loyal channels, it is worth remembering what BC Forbes, the Scottish writer, once said, "Any business arrangement that is not profitable to the other person will in the end prove to be unprofitable for you. The bargain that yields mutual satisfaction is the only one that is apt to be repeated". It is critical to keep this in mind as we evolve our channel strategies to keep pace with our ever-changing businesses.

With the exception of Dell Computer, who has perfected its direct sales model in the last 20 years, most IT vendors today find direct sales to be an expensive option. Though Dell's online build-to-order sales model allows the company to hold only four days of inventory at any point in time - freeing Dell from the traditional channel sales woes of price protection, product returns, inventory carrying costs and inventory obsolescence - Dell's PC sales model is not a viable choice for most solutions providers.

So, how to choose the right channel model for your company?

Let's face it, some channels provide more value than others, but that value comes at a price. Many consumer IT products sold in retail outlets get there by traditional time-and-place distribution, where channel partners can be mostly focused on logistics - such as order processing, pick/pack/ship, inventory management, credit and invoicing. Especially for these high-volume products, vendors probably need a multi-tier distribution channel, with a heavyweight, well-financed mega-distributor reselling to second-tier partners or retailers. When searching for a tier-one consumer products distribution partner, make sure to choose one with a strong MIS infrastructure and sound financial strength. Commodity products lend themselves to being sold in computer superstores like Frye's or Comp USA, with super distributors like Ingram Micro or Tech Data serving as potential tier-one partners, reselling to dealers and/or retailers.

However, more complex solutions targeted for enterprise users, require a more sophisticated value-added channel model, with partners offering pre-sales services - including marketing and lead generation, as well as post-sales support like technical training, troubleshooting and credit to second-tier channels or customers. If your product is specialized for a vertical market(s), you may need to find niche VARs and systems integrators -- and their value-add distributors such as Access, Agilysys, Arrow, Avnet and Bell Microproducts -- to address those vertical markets.

To carefully select the right distribution model, you have to think through your criteria and understand the 5 Cs to channels selection:

1. Coverage

- What is the ability of your potential channel partner to reach your target customers and achieve your target market share and growth objectives?
- Does your potential channel partner have the sales contacts, industry knowledge and market insights to get you to where you want to go?
- What geography do you expect your channels to cover?

2. Character

- How compatible is a potential partner to your company's desired positioning? What is your vision, where do you want to go and how will your channels help you to get there?
- Are you seeking a channel to move volume or add value? What kind of value add do you need? If you need a partner to help you generate leads, do they have the in-house expertise to develop and execute marketing programs?

- Investigate the channel partner's business practices, business plans, management expertise and commitment to the market. Are they aligned to your needs?
- Does this channel partner carry competitive products and do you care?
- Does this channel partner offer complementary products to yours that can be sold as bundled solutions?

3. Continuity

- How long has the partner been in business?
- What kind of track record does your potential channel partner have with current and past vendors?
- Is this potential channel partner's growth strategy compatible to yours?

4. Control

- How financially strong is this potential partner?
- What kind of margins will this partner require to launch and sustain your business?
- Review their P&L and balance sheet statements to see if they have the financial wherewithal to fund marketing campaigns, if required?
- Do they have the operational capabilities to drive your business?

5. Cost

- What kind of investment will be required to establish and maintain this potential channel partner?
- Can this partner control its fixed costs?
- Think through the variable and fixed costs associated with sales, inventory holding, logistics, training, and support.

Needless to say, before you select a channel strategy and commit to partners, you have to fully appreciate the market dynamics and the competitive nature of the market. There are many third parties who can help you to assess a potential channel partner including other vendors, other channels, banks, chambers of commerce, trade associations and embassies or high commissions, if you are trading internationally.

There are no rules about the right number of channel partners to engage. The newer you are to a market, the more restricted you might want to be in channel appointment to build loyalty with your channel as you gain market share. It then follows that the greater your market share, the more channel partners you can afford to have. And you can wield more influence over what you require your channel partners to deliver. You only want to add more channel partners when you have the margin to support your channel growth. To truly add to your customer base, you should add channel partners that are synergistic to those you already have. It is easier to manage your channel partners if you can keep them focused on a geography or vertical market. If you know your existing channel partners' customer base and that of any potential channels, you can minimise overlap that will only erode your channel margins over time.

Part II: Understanding channel margins and sharing the cost of partnering

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