

Reboot, recharge and retool your routes to market

Channel segmentation leads the way

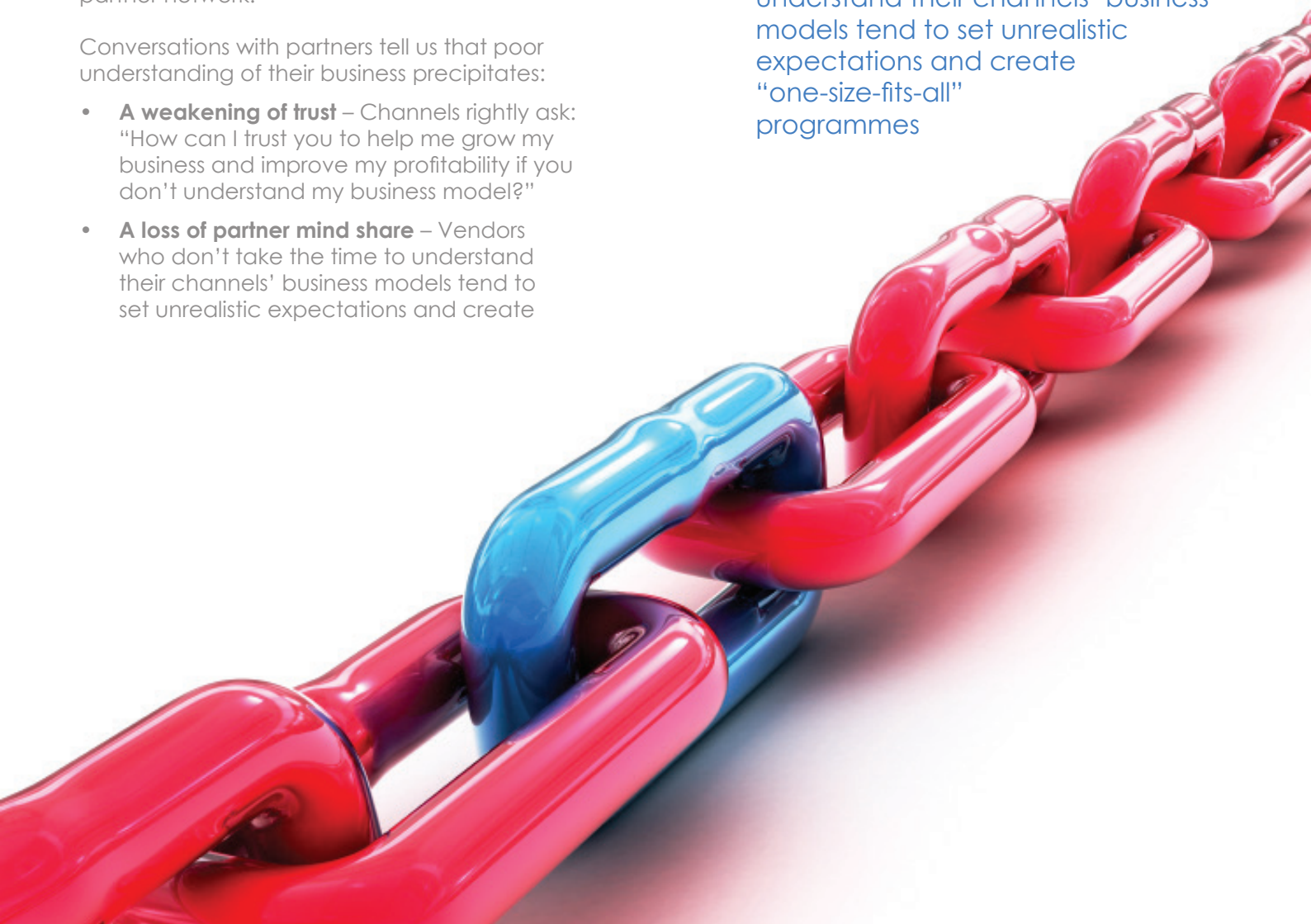
Channel consultant Susan Heintz defines the critical factors that underpin your go to market system

One of the greatest assets a company can have is a strong business relationship with its channel partners. We have found that the foundation of this relationship is a deep understanding of the way channel partners make – and lose – money. The quality of this understanding has significant implications not only for account managers. It also dramatically affects the entire vendor organisation's ability to engage and inspire its partner network.

Conversations with partners tell us that poor understanding of their business precipitates:

- **A weakening of trust** – Channels rightly ask: "How can I trust you to help me grow my business and improve my profitability if you don't understand my business model?"
- **A loss of partner mind share** – Vendors who don't take the time to understand their channels' business models tend to set unrealistic expectations and create "one-size-fits-all" programmes that frustrate everyone and fail to leverage partners' unique strengths. Vendors do not get optimum levels of commitment and performance from their partners.
- **A weak ROI** on programme investments.

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Channel segmentation – a best practice

Vendors who are most successful at capturing share and harnessing the market power of their partners have taken the time to learn about their partners' businesses through a formal segmentation initiative. Similar to customer segmentation, channel segmentation assigns each individual partner company to a group with similar business characteristics.

This ensures partners with similar economics and focus receive types and levels of support customized to help them achieve their business objectives, whilst they are simultaneously incentivised to meet vendor objectives. It's a win/win practice. And it works!

At what stage should you segment your partner network?

Channel segmentation is valuable anytime an organisation needs to clarify and direct its channel strategy and/or its programme design. Some situational "triggers" include:

- Your products and service offerings have changed or expanded and your partner network has stayed relatively the same. You are not sure if all of your partners are able and willing to sell the new portfolio.
- Your growth strategy depends on your ability to enter new types of channels. You have little understanding of what is required to recruit, support and grow these new relationships.
- Your business strategy has evolved. Perhaps you are targeting a new customer segment (for example, a new vertical market, or new size of customer) and your partner network was never designed to serve this new market.
- The market has matured. The "technical" partners that helped your business grow are losing to "logistical" partners and you don't have them in your network.
- You have partner performance issues – your share in key partners is declining, programme participation rates are low, your partner council is unhappy with your business value proposition.
- Your marketplace requires partners to work together and you are unsure of how to help them make this happen.

Analysing the partners' business models – what do you need to know?

Channel segmentation works with specific information about each partner's business and helps you understand:

- the partner's value to your company
- your value to the partner's business
- your power within the partner.

Questions to be answered include an assessment of each partner's major revenue categories, its customer base, types and levels of value delivered, its current and future business strategy and – last but not least – its margin requirements. Answers to these types of questions will help your channel account managers create relevant business value propositions for your company.

A dashboard to drive by

But, as we've said, the benefits of channel segmentation go far beyond the account manager. These answers can be analysed and "rolled up" into a performance dashboard that complements existing metrics and gives sales, marketing and product teams valuable insight into the entire partner ecosystem. There are four major "dials" on our dashboard:

1. Coverage

This is a roll-up of several metrics that all examine the multiple aspects of market presence. It examines how well the partner network is covering:

- Different sizes of customers
- Different geographies
- Different vertical market segments
- Different situations (example: front market vs. aftermarket sales/new vs. existing customers, etc.)

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Example: Using this analysis, we worked with a client who was frustrated by its inability to grow market share for a product targeted at industrial segments – distribution, transportation, manufacturing, etc. We learned two things:

i. the existing partner network had 80% coverage of large enterprise accounts and less than 30% coverage of small and medium accounts where there was significant market growth and

ii. 60% of the partners focused on aftermarket rather than new sales. Once these key facts were known, we were able to develop a targeted recruiting strategy that involved signing on new types of partners and partners who focused on winning new business.

2. Capacity

This is a type of "share" metric that identifies: (1) how much business you could win if you had 100% share of the channels' business in your product category and (2) how much business you actually have in relationship to this "max." We use it frequently to assess our clients' ability to grow share within specific partner segments and also to assess the likelihood of meeting target sales objectives with the existing partner system.

Example: A client with a broad offer portfolio wanted to know if they could hit their $25m sales target for a single, niched product through the existing channel network. We analysed existing data and determined that, in order to achieve the target, the company would have to grow to a 90% share of the channels' business in the category – a highly unlikely scenario. We used this information to create a plan that examined growing share in targeted partners and determined how many additional partners would be required at specific levels of performance.

3. Competence

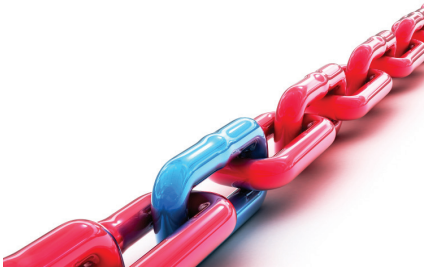
This score examines the readiness of the partner system to sell products and services effectively. It is a roll-up of multiple metrics that include:

- Ratio of sales to service technicians in the business – This metric gives a good insight into whether the partner is a "hunter" or a "farmer." We have found that ratios of 3:1 (sales to service techs) are generally sales businesses. If the ratio is 1:1 or lower (ex. 1:5), the partner may be very valuable for support, but probably cannot be counted on for aggressive selling.
- Margin structure – does the partner's margin match the type and degree of value-add required for the product? Technical products typically put more cost into the channel's business than "commodity" products. If the partner's margins don't support technical selling, the probability is high that the partner will not do what is required to support its customers.
- Average productivity per salesperson – Generally, each industry has an "average" sales productivity for each major partner segment. A lower-than-average score could indicate opportunity to train and support partners to achieve the average – or it could indicate a poor choice of partner. A higher than average score could indicate a "star" – or it could mean that the partner is not spending time to support the sale appropriately.
- Certifications and training – How many certifications and/or hours of training does the partner network have? How well do these match the market coverage the channel provides?

Example: A major communications company was experiencing serious rebellion among its value-added reseller community. The programme it designed placed a high value on the number of certifications a partner earned. The more certifications a partner had, the greater the discount, access to vendor resources, etc. it earned.

What the vendor didn't realize was that some partners served only a very specific segment of the market – small and medium businesses. They didn't need certifications in technologies meant for large accounts – and they resented the "disconnect" between their objectives and the vendor's. Once this issue was identified, we created a separate "SMB" programme, with requirements and benefits that enhanced the partners' performance in this important customer segment.

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4. Cost

This metric uses activity-based costing to look at the vendor's total cost of serving its customer segments through its various channel segments. It helps determine the most efficient route to market if multiple channel segments are equally effective. It can also be adapted to analyse channel economics in order to understand the financial impact of a new product category or new technology on the channel's business.

Example: One of the clearest examples of when this type of analysis is most helpful is in today's "cloud" services environment. Partners used to selling hardware and software have to assess the impact of evolving to a new and different business model that has the potential to displace traditional revenue and under-leverage existing resources. Vendors who do well in helping partners make the transition have figured out how to position their offers and point a path to profitable growth.

Getting started – how to begin a channel segmentation inside your business

Where to look for the kind of information a solid channel segmentation effort requires? You can begin by looking internally. Usually, companies have some of this market intelligence – but it exists in multiple databases, or in the heads of the sales force. The partner relationship management (PRM) system rarely captures all that is required but it certainly should be mined and the quality of the information assessed.

Talk to us to see how we can help you build the complete set of data you need, interpret the information and act upon the implications. Our experts have a wealth of experience in helping companies create solid partner relationships. We look forward to being a resource for you!

About RS Consulting

With truly global coverage spanning Europe, the Americas, APAC and EMEA, we can reach whoever you want to listen to. We are long-term trusted advisers to the UK Government, established partners with the world's largest technology companies and strategic consultants to some of the world's most forward looking industrial players.

Talk to us to about how we can really help you understand your partners' business so you can optimise yours.

Susan Heintz

Susan Heintz specialises in all aspects of go-to-market strategy, sales channel development and management, including new channel creation, entry and growth tactics. As well as heading RS Consulting's US channel consulting practice Sue is president of Channel Management Professionals Consulting, based in Chicago.

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