



CEO's - Indirect Sales Channels Just Fulfill Demand...Right?

This article by Mike Morgan, CEO of RelayWare, Inc. and indirect channel sales and marketing expert sets out to understand and dispel the myth that indirect sales channels serve only to fulfill the demand created by the vendor. With a special emphasis on the high-tech manufacturing sector including ICT and consumer electronics, this article shows that a



well managed indirect channel can be just as effective in generating demand and incremental sales as a direct sales force at a lower cost whilst extending reach and augmenting a vendors capabilities.

I recently attended a conference for CEO's and senior executives at which a number of learned speakers shared their experience about overcoming the economic challenges faced by their audience. In private I asked several of the delegates what role their indirect sales channels - dealers, resellers, retailers and specialists could play in helping out. I say, "in private" pointedly because in public, CEO's always praise their indirect sales channels because that is of course the right thing to do.

Without exception, they gave me variations on the same response - "indirect sales channels just fulfill demand...right?" Of course, I was neither surprised nor disappointed to hear this response. After running channel sales and marketing organizations for leading technology and consumer electronics vendors for many years, I have become all too familiar with the boardroom ignorance of and at times the contempt expressed towards "the channel".

Many encounters with my own CEO's over the years led me to the conclusion that the channel and indeed I (by association) failed to get the respect that we were due given the contribution we made. So I vowed that rather than simply "managing" the indirect channel business, I would

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make it my mission to provide my charges with all of the information, tools and resources at my disposal to generate demand rather than simply fulfilling it and to provide tangible evidence of their contribution through incremental sales.

The origins of the myth

The problem stems, I think from the fact that CEO's rarely rise through the ranks having worked with the channel to any great extent. They're direct sales guys, marketers, accountants or technologists for whom the channel has often been more of an irritation than an asset. What is more, indirect sales channels became very unfashionable in the dot com era. Dell led the way in persuading us that we should "cut out the middle man". Indirect channels were portrayed as an unnecessary cost; fat, lazy and good-for-nothing. Leading vendors clamored to replicate Dell's model and set up their own online stores and dreamed of the day they could wave goodbye to the channel forever. What few foresaw was that the industry was going through a cycle and was experiencing the pain suffered by many industries before - the need to rationalize its supply chain in line with falling profitability. Dell was no more than a disruptive interloper shaking up perceptions of the established, conventional business model for a while. But as ever, what goes around comes around. Dell is now as wedded to an indirect channel as its competitors but along the way, its fortunes have waned and other vendors have ousted it from its once indomitable position as market leader. More of them later. Nevertheless, the damage was done and a generation of senior executives emerged who had no great affection for the channel.

Why should you care about the channel?

Here's an uncomfortable fact. Over $\frac{3}{4}$ of all businesses in the USA employ less than 1,500 employees. But vendors don't often want to sell to them or simply can't for reasons of logistics, reach and cost. So instead, they typically try to sell to large companies and you can see their point to an extent. A disproportionate share of fiscal output comes from large companies in spite of their relatively small numbers and hence, logically, they are inclined to spend more on the things you make. We should not ignore, however, that those companies with under 1,500 employees account for a greater slice of the economy overall than companies of 5,000



employees and above. They also buy an awful lot of what you make. Now let's take a look at the economics and the other implications of selling to large companies:

- Where do you deploy your most expensive sales people?
- Which sales draw the most sales person commission and bonuses?
- Where do you target the largest single component of your marketing budget?
- Where is your highest cost of sale?
- Where is competitive activity greatest?
- Where do you experience your lowest average unit selling price?
- Where do you retain the lowest margins?
- Which are your costliest customers to maintain?
- Which customer segment consumes more of your resources than any other?

So what's my point? Well I have a couple of points actually. The first is that the business market "demographics" many CEO's target at any cost are spending very little right now. The two cash cows of the past - finance and government are either running out of cash, already bankrupt or facing massive public spending cut-backs over the next decade as they pay back their fiscal-stimulus debts. Other vertical markets are in lock down but will open up their cheque books at some time in the future. The second point is that unless you're in mail-order or e-tail, every other market sector is serviced by your indirect sales channel exclusively. I'm guessing that this part hasn't changed. The channel were servicing the vast majority of your market before the recession, they're doing so now and will continue to do so after the recovery.

But indirect sales channels just fulfill demand...right?

If that's what you believe and you have allowed your beliefs to pervade your company culture then yes, you're right. Your indirect sales channels do just fulfil the demand you create. Sure, you will have your partner programs and you tick every box but I encounter scores of companies



just like yours every week who go through the motions, who do what is expected of them and nothing more and who fail to recognise that the indirect sales channel represents 100,000's of people who make a living out of marketing, selling and supporting the things you make. Every day, they - not you - are making eye contact with the very people who buy what you make. And unless you can physically engage in their interactions, you are at their mercy. So to go back to the statistics above, that means that in over 90% of all buying decisions, you are dependent upon a combination of your marketing message getting through to the buyer and the channel sales person's charitable nature. If your competitors have a more compelling marketing message and they leverage the channel more effectively than you do, all other things being equal, you will lose.

What should you do?

If you want to find out if changing your mind, your company culture and your approach will have a positive impact on your top and bottom lines, why not:

- Go out and meet your customers. Not the blue chip's. Try meeting business owners in the SME and small business sector. Ask them what they buy, who they buy it from and why. Ask them what value they perceive in their relationship with their local seller and ask them how much influence that seller has on their buying decisions.
- Go out and meet your channel partners both large and small, loyal and dis-loyal. Ask them which is their top vendor and why. Ask them what makes a great supplier and a poor one. Ask them to rank you and tell you what you could do better and ask them if you made the changes, would they recommend your products over those of the competition.
- Talk to your channel sales and marketing teams. Find out what they do. Find out how you can make them more successful in winning channel mindshare and retaining their loyalty. Find out where they generate most of their channel revenue from - how many partners. Ask them what % of the channel you are actually communicating with and what results could be achieved from talking to more of them. Find out what tools they need to be more effective.
- Finally, talk to your executive management team. Find out what proportion of your:



- Human resource budget
- IT budget
- Marketing budget

goes towards providing manpower, systems, tools, resources and air cover to your channel sales and marketing operation. Ask the tough questions - Why, when most if not all of my revenue flows through an indirect sales channel we:

- Don't know who or where they are?
- Don't know what they do, what their skills are, what specialisms they have or which markets and customers they address?
- Can't communicate with them at all or at least not through their preferred medium?
- Communicate the same message in the same way to the whole channel regardless of profile?
- Don't know if the channel partners we work with today are the right ones to reach the markets we want to target?
- Don't know where to go or how to go about recruiting the right channel partners?
- Don't segment our channel partners effectively so that we can work with them in the most complementary fashion?
- Don't have a means of enabling and educating the channel so that they are more capable and comfortable recommending our product than our competitor's product?
- Don't motivate and incentivize channel sales people as effectively as we motivate and incentivize our own?
- Don't share in the proceeds of growth?
- Don't collaborate effectively in marketing - same message, same audience and same time every time?
- Don't collaborate effectively in selling - generating, sharing and closing sales leads and supporting customer engagement?



- Don't provide the same 24x7, on-demand access to essential sales, marketing and support information, tools, assets and resources that we give to our own people?
- Don't monitor and optimize sales and marketing performance for our indirect channel in the same way that we monitor and optimize that of our own people?

And then, ask yourself that question again: "indirect sales channels just fulfill demand...right?"

Take a look at the top 10 leader board in every sector of the market. If necessary, compare it with the same table from 2000. Make a note of the leaders and the changes. The most successful companies with an indirect or multi-channel go-to-market strategy are consistently those who make it their business to effectively leverage their indirect channels. They embrace the channel as a true extension of their own sales and marketing organization, providing them with the "equipment" and "ammunition" to sell and market effectively and collaboratively on their behalf. Doing so is engrained in their culture. We work with many of them.

And finally...

I don't manage channels now. I offer software and services to companies just like yours to enable them to empower their indirect sales channels to generate demand and to erode competitor's market share and channel mindshare. If you thought that indirect sales channels just fulfill demand, I hope that I have helped to change your mind.

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