



RelayWare

Partner Relationships. Managed.™

Lessons From the Past: Commitments A Channel (Struggling With Its Own Challenges) Will Want to Hear

In recent months, as the world's leading economies sink into recession, commentators have frequently drawn comparisons with previous economic downturns – the early 90's, the early 80's and late seventies and the great depression of the 30's. But in the technology industry, we experienced our own localized recession more recently. In 2000, following the unfounded optimism of the dot com boom when banks, traders, investors and quite a few vendors had behaved foolishly and in some cases irresponsibly; the bubble burst.

There followed between 2 and 3 years of recession in the technology sector as share prices slumped, profits tumbled, workforces were downsized and investment was slashed.

On the whole most vendors behaved predictably, they managed expenses more tightly, they froze salaries, laid off staff, stopped capital expenditure and cut discretionary spend – personnel development, marketing and investment in IT - spending normally considered to be the interests of the long-term profitability of a company.

And so to a new year and a new recession. After barely one quarter of poor results, most manufacturers are quite rightly taking prudent

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steps to reduce costs. Sadly many are also taking potentially damaging actions to cut discretionary spending on precisely those things that will enable them to remain competitive and profitable during the recession and ensure that they are well placed to rapidly take advantage of the upturn when it eventually arrives.

Talking with vendors in recent weeks, I see them falling broadly into three camps in their views on the importance of investing in their channel right now:

- 1) “To hell with the channel, we have enough problems of our own”,
- 2) “We will cut marketing spend in general but will maintain our levels of investment in the channel for now” and
- 3) “We will take advantage of the weak market, fear, uncertainty and doubt and our competitors’ cost-cutting to strengthen our position.”

Needless to say, I’m a firm supporter of the ‘third way’. I would be, I ran channel organizations in EMEA for Compaq, HP and Sony during the last downturn and I witnessed both good and bad behaviors by vendors. For example, many steps were taken that intentionally or unintentionally diminished the competitiveness and value proposition of the indirect channel. Still more measures were designed to force a rapid change of course:

- Traditionally indirect vendors started to sell direct and compete with their own partners



- Vendors sought to load some of their own supply chain costs onto the channel
- Distributor rebates were cut and pay for performance models were introduced
- Channel-held inventory was slashed which often forced ranging reduction onto the most popular SKU's to minimize risk
- Price protection and stock rotation were abolished
- MDF was cancelled or reduced
- Introducing a plethora of initiatives to force partners to focus on the still lucrative SME market

Of course, not all of these initiatives were bad. Some had to happen eventually as they were unsustainable as margins fell but it was the speed with which such measures were introduced and in some cases mandated that caught the channel by surprise and put some out of business. Additionally, vendors sought to reduce channel sales, marketing and operational costs by:

- “Dumbing down” partner programs reducing their value in favor of ease-of maintenance
- Outsourcing program management to external agencies
- Cutting investment in partner training, development and enablement
- Reducing field-based channel account management resources
- Cutting contact center resources
- Moving everything to the web – usually to inadequate partner portals



Now is undoubtedly the time to review and strengthen your value proposition to your partner community. Now is the time to re-launch your partner programs and emphasize your commitment. I am advising my customers to consider the impact the following will have on their channel business:

- 1) Improved communication,
- 2) Improved transparency and sharing of information
- 3) Greater emphasis and investment in closed-loop demand generation and fulfillment
- 4) Investment in cost-effective and efficient methods of improving partner knowledge and enablement
- 5) Greater collaboration in sales and marketing activities between vendor and partner to ensure better cooperation and cohesion and maximize return on joint investment
- 6) Greater rewards for demonstrable commitment, loyalty and investment in long-term business initiatives and short term revenue generation

These commitments are what a channel, struggling with its own challenges want to hear. They will expect you to deliver on your promises too. When the recession is over, there will doubtless be fewer channel partners remaining but the channel will bounce back. It will reassert itself as the route-to-market of choice for technology and associated services into the mid-market. And most importantly it will remember who its friends are!



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In summary, think twice before you de-commit on your channel investment and think again if your plan is to do nothing.

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