# Certified Channel Manager

## Channel Management Defined

*Indirect Channels - Partners*

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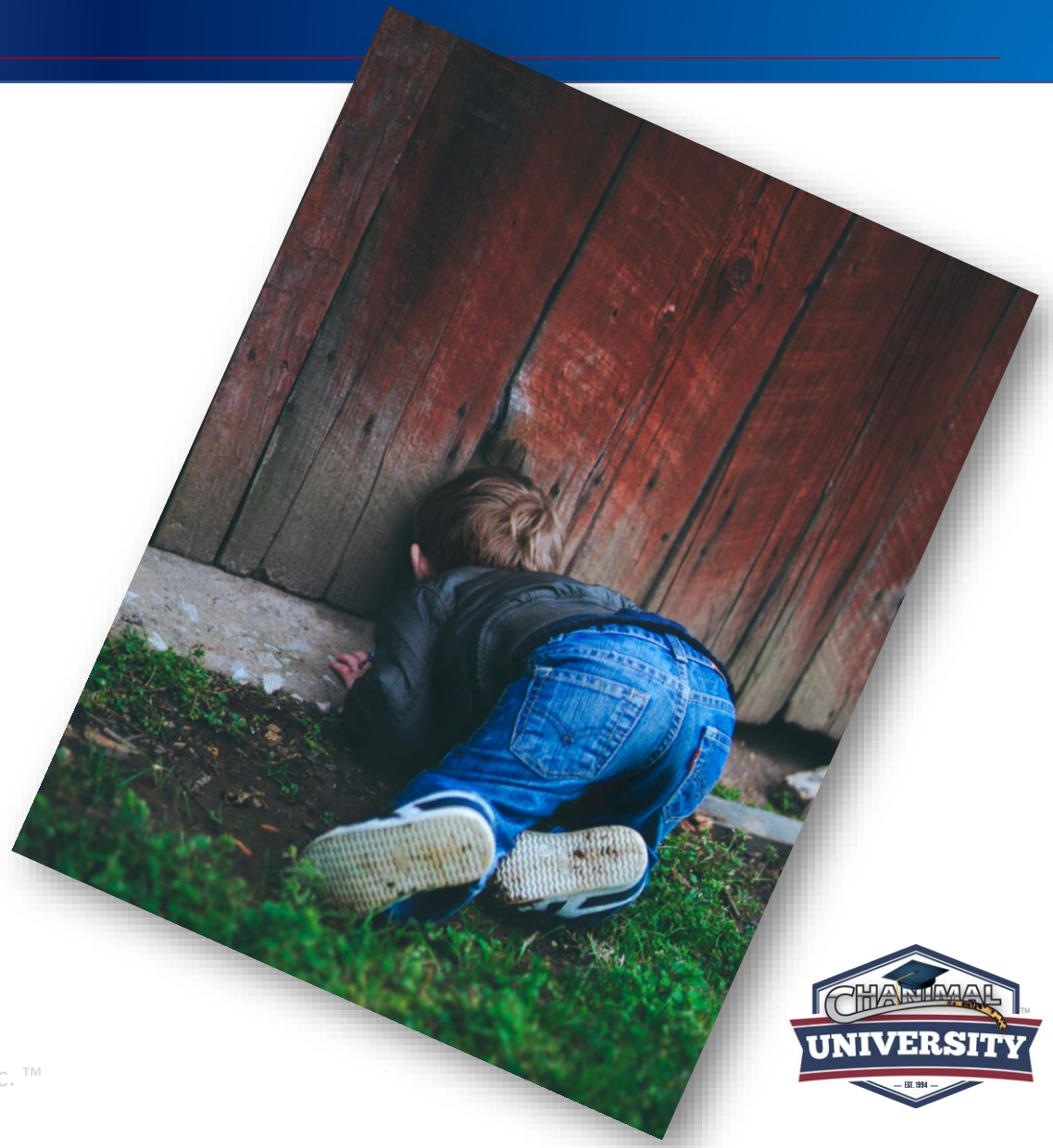
# Overview – Sneak Peek

- Channel Management Defined
  - Terminology

  - Direct vs. Indirect Channels
  - Reseller Continuum
  - Purpose for Distribution

  - Alternative Channels
  - Competitive Channel Analysis



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# You May Be Asked…

Why should we have resellers?

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# New CEO – FLUSHED the Channel

- Company grew from $2 million to $12 million with new channel
- New CEO didn't understand "this channel thing" – nor was he willing to learn
- Decided to FLUSH the Channel
- DESTROYED the company – sales dried up
- MY Fault!

# NEW Division President - GE

- Wondered if should keep “the channel”
- Learned how it worked – built it
- Effected HIGHEST ever channel & division sales
- Big bonuses & promotion
- My Win – Convinced him to KEEP the channel

# You Have to Be the Guru

- Know “if” the channel is the best option
- Understand the pros & cons
- Be able to explain it
- Consider the ROI

# Direct vs Indirect Channel?

- Direct
  - Direct is limited by the # of your own sales people
  - Recommended when you are starting (start-up, or start-up division)
  - Often best for high-end direct products or direct marketing
  - Works well for mature products (when consumers know what they want)
  - Works well for highly specialized products (not a big enough market for resellers to penetrate)
  - Primary approach for most SaaS when starting

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# Dell Corporation

- Known for their direct sales model to consumers
- People touted Dell as good model
- However, it was not the best model when the market was new
- It worked better as PC's became more consumer friendly
- When consumers didn't need hand holding (via Windows) and distribution was accelerated via the Internet then it became the market leader
- They were in the right place when the market shifted
- Now they sell direct *and* through a large reseller channel

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# Direct Vs Indirect

- Indirect
  - Multiplies the number of salespeople who can sell your product
  - The key - have your product available…*where your prospects shop*
  - Do your competitor's have resellers?
  - Your ability to recruit resellers
    - Counterstrike – recruit your competitor's resellers

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# Direct Vs Indirect

- Indirect
  - Problem - Resellers are usually a “shared sales force” so you have to share their time with other vendors
  - If they carry inventory, you also have to worry about inventory levels, price protection, returns, stock rotation, protecting the channel

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# Direct or Indirect?

- Customer requirements
  - Some customers require mandate a direct relationship with the vendor to ensure their needs are met – $1.3 billion set-top deal
  - In some cases, when an account insists on going direct, the reseller can still earn a bounty for delivering the qualified, pre-sold lead
- Ability to manage resellers
  - The company's ability to understand how the channel functions, create a competitive program, and manage the reseller programs and relationships
- The final decision on direct or indirect is based on how you address the issues above

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# Determining Channel ROI

- Channel development has always had the greatest return for any marketing activity
- First, calculate the *value of your average reseller*
- Roll the numbers

| | |
|---|---|
| What is your average deal size ($100/mo x 12)? | $1,200 |
| Avg years a customer remains (SaaS model) | 3 |
| Avg revenue per customer | $3,600 |
| Average number of deals per year per reseller | 4 |
| Avg revenue per year ($1,200 x 4/mo x 3 yrs) | $14,400 |
| Average # of years a reseller remains | 5 |
| Total revenue value per reseller | $72,000 |

- Your values may be different—but each reseller has an average revenue value. Sometimes your deal size is smaller, but you have a lot more sales per year. Adjust variables to match your company.

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# Channel ROI

- With this example, each reseller is worth $72,000
- If you recruit 50 resellers x $72,000 = a $3.6 million return for your efforts
- Many channel managers recruit hundreds or thousands of partners
- Considering the nominal cost to recruit a partner, the return can be over 700 x the cost!

Note: see Channel Operations for additional examples

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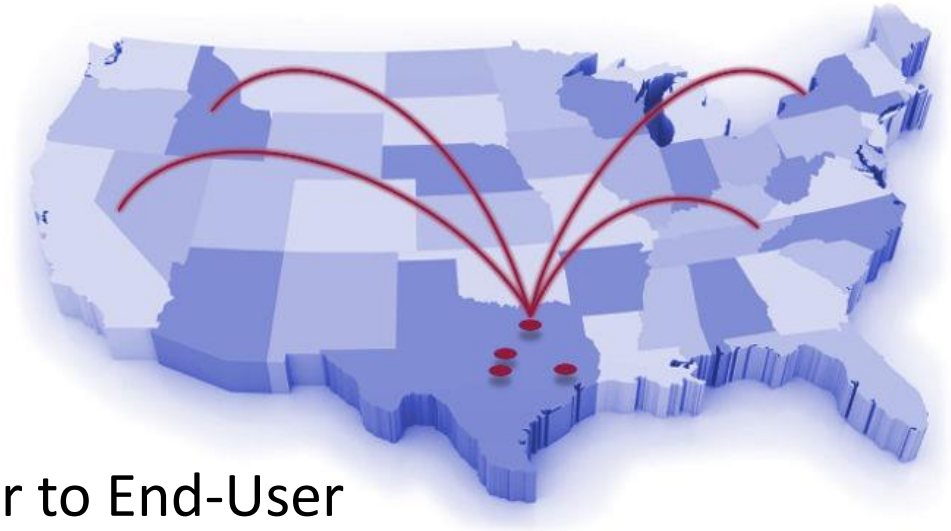
# One vs Two-Tier Distribution

- In channels there are typically one and two tiers
  - Direct
    - Vendor to End-User
  - One Tier
    - Vendor to Reseller to End-User
  - Two-Tier
    - Vendor to Wholesale Distributor to Reseller to End-User
  - Three-Tier
    - Vendor to Country Distributor/Manager to Wholesale Distributor to Reseller to End-User



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# Reseller Continuum

Consumer | Small Business | Enterprise

Internet/Affiliates | Mass Merchant | Retail | Specialty | VARs | MSPs | System Integrators

- Left is usually low-end consumer products (many are pre-branded “pull”)
- Right is High-End System Integrator (more complex “push” products)
- Distributors cover the entire range (more dependent on product type). Not as relevant w/SaaS
- OEM covers the entire channel continuum

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# Purpose of Distributors

- Referring to *Wholesale Distributors* that sell to resellers
- For Resellers
  - Financing
    - Resellers try to get the best terms with distributors. They try to sell inventory before they have to pay for it (cash flow)
  - Centralized buying
    - With thousands of products in retail, the buyers don't want to place hundreds of orders with different vendors (all with different systems)

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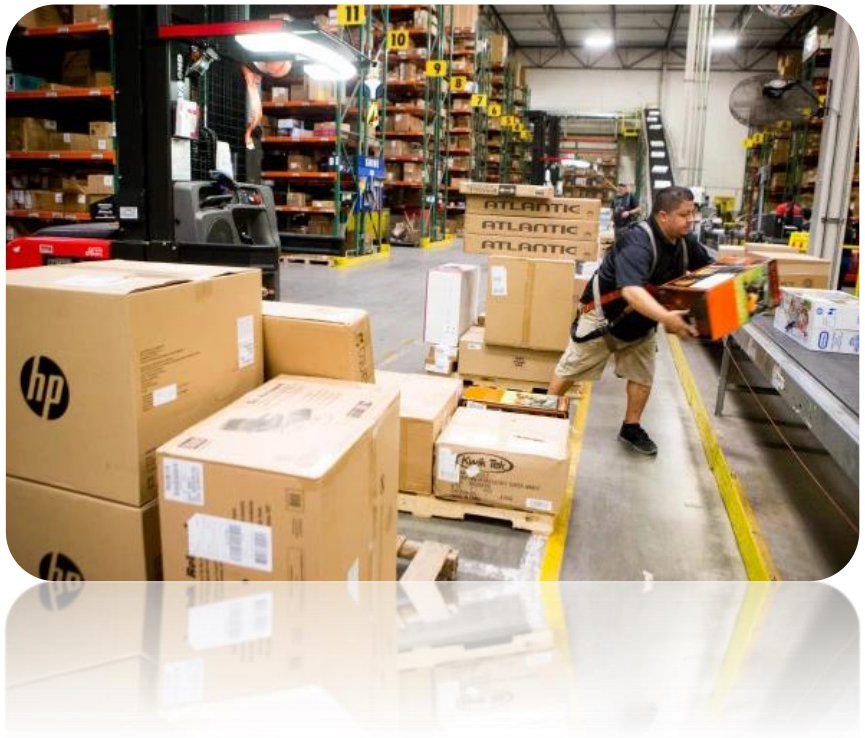
# Purpose of Distributors

- Referring to *Wholesale Distributors* that sell to resellers
- For Resellers
  - Integrated systems
    - Many distributors integrate ordering with retailers back-end systems for automatic ordering. Retailers can't do this level of integration with hundreds of vendors
  - Better Returns
    - Often distributors have better return policies than vendors (since they can re-allocate the inventory to other retailers)

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# Purpose of Distributors

- For Resellers
  - Better Shipping Cost
    - Since they order a lot of inventory from each distributor, they can get more items on a palate. Versus small shipments from hundreds of vendors
  - Centralized training
    - Distributors often have training events where multiple vendors can train at once (economy of scale helps resellers time)

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# Purpose of Distributors

- For Resellers
  - Buying Assistance
    - Distributors can (but often don't) help vendors identify top sellers per category to increase turns/location which reduces risk
  - Centralized Promotions
    - Distributors can deliver promotions from multiple vendors so resellers can be sure to be aware of best prices & promotions

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# Purpose of Distributors

- For Vendors
  - Warehousing and fulfillment – including small orders
  - A few agreements with just a few distributors
  - Don’t have to collect from hundreds of resellers
  - Distributors handle the reseller credit terms
  - Inventory balancing between accounts, returns (reverse logistics)

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# Purpose of Distributors

- For Vendors
  - Distributors have greater leverage to collect from resellers (a vendor can stop *one* product, a distributor can stop ALL products)
  - Can “find” resellers via distribution promotions since the distributors know exactly who is buying what
  - You don’t have to handle fulfillment for small orders

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# *Negatives* for Distributors

- For Resellers
  - Distribution takes a cut of the overall possible margin
  - May not be getting the best deal (if smaller)—unless they join a buyers group (Ascii Group, etc.)
  - May not get enough support from the vendor – not always a direct relationship

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# *Negatives* for Distributors

- For Vendors
  - Distribution takes a cut of the margin
    - Anywhere from 3-12% in high-tech, other markets vary
  - Vendors don't always have a direct relationship with all resellers – can't always tell who is ordering your product
    - Software and SaaS is easy – hardware is harder
  - Have to sell-in to named accounts (like Best-Buy, CDW, Walmart), but independents are hidden (distributors own the purchase relationships)

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# *Negatives* for Distributors

- For Vendors
  - Distributor's know who buys your product—can promote competitors into your reseller base
  - Often required to pay co-op accrual of 1-2% or more. You may not have control of how it is spent
  - Can be hit with double return fees (from distributor and reseller - can squeeze profits

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# *Negatives* for Distributors

- For Vendors
  - Delays in payment. As distributors extend terms, they also expect better terms to cover it (they don’t want to pay for inventory until sold)
  - If inexperienced, you may not negotiate the best terms (margin, co-op, support)

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