Increase Revenues with Channel Sales Management

Executive Summary

Why is it so difficult to grow revenue, identify emerging customers and partners, and expand into new markets through the indirect sales channel?

These are the challenges faced by every channel executive. To overcome these challenges, you need more than static lists of existing and potential customers, partners and markets. You must have access to real-time information about your channel sales from your partners — both distributors and resellers — to your end customers, including the vertical markets they serve.

Within manufacturing there is no shortage of systems and processes to manage opportunities: CRM and special pricing/ quoting systems to name a few. These systems do a great job of identifying and tracking opportunities through the sales cycle and even close the loop to the actual sale when the opportunity is sold through the direct sales channel.

However, this closed loop breaks when the opportunity is fulfilled through the indirect channel. What actually happened with your deal? Did it close for the quantity and price that you quoted? Did the forecasted amount ship? Was the opportunity partially shipped and will the remainder ship before quarter-end?

Using channel data to identify and segment your partners allows you to understand their strengths and weaknesses and use that information to create strategies for partner expansion and development. Similarly, understanding the purchase behavior and product and service needs of your indirect end-customers allows you to better meet those needs as well.

With this information you can create performance-based incentives to drive specific partner behavior, such as targeting SMB customers and increasing penetration of strategic vertical markets, as well as finding the partners who align with your strategic goals. This approach leverages channel management best practices and delivers targeted growth and solid program return on investment (ROI).

Manufacturing companies have long been aware of the potential of indirect sales channels to expand sales reach. A well-run channel expands sales, extends market reach and improves inventory positioning. This highly targeted functionality multiplies the efforts of direct sales teams.

To succeed in the channel, just as to succeed in direct sales, you must be able to identify new potential end-customers and growth market segments. You then need to apply best practices to the way you drive business in the channel to maximize your channel ROI. Incentive programs and discount strategies must be focused if they are to attract and grow those new customers and markets. In addition, channel sales executives must be able to identify the partners that serve your key end- customers and target markets, and build channel marketing activities aimed at these partners. Success depends on enabling the right partners with effective incentive programs, special pricing discounts, marketing activities and inventory levels.

It isn't enough to have a partner name. You must know the role the partner plays in the supply chain, the geographies they serve and their vertical market orientation. Incentive programs must target the end-customers and markets with the most growth potential.

Investing in a market that is already saturated could waste limited resources. It is much more effective to use those funds to penetrate a new, untapped or under-penetrated high potential market.

Finding the right partners and implementing effective programs requires accurate, complete and segmented data – available in real-time. Too often, companies do not have visibility into the markets served by their channel. The result is that channel executives are making decisions on flawed, stale and inaccurate data. Crucial investment decisions about incentive programs, partners and end-customers are based on little more than guesswork.

Stop Guessing

Several questions arise when considering the best way to gather and analyze data about market segmentation and effective channel programs.

1. Do you have visibility into the channel sales information you need to make timely decisions?
2. Is the information available accurate enough to drive effective strategy?
3. Do you know which channel sales and marketing programs are working?
4. Do you have the detailed results needed to improve channel programs in real-time?

Lack of actionable data leads to significant knowledge gaps in key areas including customer market segmentation, partner vertical market expertise and the effectiveness of incentive programs. It can be frustrating and time-intensive to uncover this crucial information using manual methods.

The Current State of Channel Sales Management

Information collection and sharing between you and your partners is the cornerstone of successful partner relationships. Consider how important information sharing is in the direct sales process. Without this vital information link, you cannot effectively conduct your business. The same need for actionable information applies to your channel. Without sales data, you lack insight into the effectiveness of incentive programs or discounts; you do not know where products are being shipped or who your end-customers are. Equally important, your distributor would have no knowledge of the accuracy of payouts for rebates, discounts and incentives. You would be guessing on inventory levels, which could lead to missed sales opportunities, or overstock situations that could tie up partner working capital, reducing their profitability and preventing them from investing in new inventory.

In the past, concerns about channel conflict discouraged partners from sharing information. Now partners are more willing to share information because they see the advantages. Your distributors enjoy benefits such as targeted marketing programs, incentive programs, support in expanding into key vertical markets and resources to enhance channel effectiveness. You can pay claims more quickly and accurately because of information sharing. Analysis of accurate, complete and enhanced data in real-time, which can be used for upfront planning as well as for in-quarter correction to improve performance, results in a win-win relationship.

Expanding on a recent Gartner Forecast Alert, Model N surveyed 112 members of the Baptie Channel Focus Community representing both large and mid-sized companies in 2011. Respondents were nearly evenly split in terms of company size — 53% have annual revenues over $1B, and the remainder was under $1B, with average revenues of $600M. Half of these companies derive more than 60% of their revenue from the channel. With global IT spending projected to be over $2T, that means over $1.2T in channel revenue.

With over $1.2T on the table, you need to maximize your channel presence. Your relationships with your distributors and resellers are unique. Neither can flourish in the long-term if both do not thrive; however, each has distinct and separate criteria for success. It is essential that you agree upon priorities to ensure achievement of your mutual growth goals.

> **Global IT spending in 2012 for hardware and software is projected to be $2.058 trillion.**
>
> (Gartner Forecast Alert: IT Spending, WW 2008-2015, 4Q11 Update)

Our survey clearly demonstrated both the importance and lack of meaningful data for understanding the partner and end-customer segmentation so crucial for long-term market expansion and for planning and executing effective incentive programs.

The targeted product and customer is now the basis for route-to-market strategy decisions. This shift in focus from target market to target end-customer emphasizes the importance of visibility into every partner and every end-customer in every transaction. An additional implication of end-customer focus is the need for real-time information to drive immediate strategic and operational adjustments. It highlights the importance of jointly setting your priorities with your distributors and resellers and planning to achieve mutual success.

(Gartner Marketing Essentials: Setting the Foundation for Developing a Leveraged Sales Strategy, September 16, 2010, Bova and Adams.)

Our findings revealed that 66% of survey respondents believe it is important or very important to use partner and end-customer data in planning and decision-making. However, only 34% of respondents have accurate, complete and standardized end-customer data, providing a strong indicator that actionable data is not available when vendors need it to make critical business decisions. 57% of respondents rely on internal team research as a primary source for end-customer segmentation information, with just 28% using a third-party service. When identifying partners and end-customers, 54% are unable to identify end-customer segments, which is critical in determining how to align your partners with your vertical industry growth strategy.

When planning an incentive program, 93% base rebate programs on performance, but only 38% calculate ROI on incentive spend. This discrepancy means that the true cost and margin impact of incentive programs is unknown. Accuracy of payment is also suspect with respondents believing that they overpay on incentive programs by an average of 6%. Additional cause for concern about incentive program effectiveness is highlighted in delayed payments; fewer than 7% pay in less than 14 days, which ties up essential partner working capital and can sabotage partner willingness to participate in future programs. Additionally, only about half of companies test their programs before launch, opening the manufacturer to potential error in incentive calculations. This is especially true as programs get more complex with different eligible products and partners, as well as complex goal attainment payout percentages. Finally, testing a program before it is run provides a baseline to determine effectiveness and ultimately calculate ROI.

66% of high-tech vendors do not have actionable end-customer market data
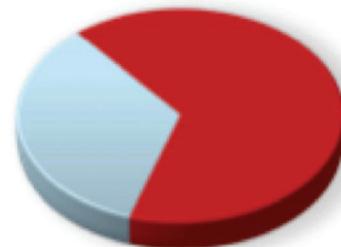
62% do not calculate ROI on incentive spend

Best Practices Driving the Next Generation of Channel Sales Management

What can you and your partners do to overcome these challenges? And, more importantly, what can you do to ensure their success? Simply put, you need to automate the processes of data extraction and submission, and gain visibility into daily 'sales out' data (sync inventory, incentives, rebates, etc.) in order to create a single source of truth for your channel sales information.

Your partners need an easy-to-configure, SaaS-based, accurate, continually updating solution that automatically takes data in any format, in real-time; then standardizes and enhances it to provide you with actionable information in a data export, report or analytics dashboard. This process enables your reseller partners to easily provide quality point of sale (POS) and inventory data to manufacturers and eliminate time-consuming manual data submission and correction, thereby improving timeliness, accuracy and completeness of partner-submitted data.

The ability to analyze accurate, consistent and timely channel POS and inventory data provides better sales alignment between you and your partners. You can analyze this data and use the resultant performance metrics to update your partner strategy, enhance your partner programs, eliminate channel sales conflict and, ultimately, drive more revenue from the channel.

These strategies also facilitate a shift away from the traditional mindset of focusing on sales into the channel and not on the sales out of the channel to your end customer. With a "sales out" culture you are fully aligned with your partners — you manage sales out by setting performance plans, and then enable the plans through monthly reviews against goals.

To maximize the effectiveness of your channel programs, Model N recommends implementing the following best practices:

1. Track reseller performance against key objectives using POS transaction data. POS data is the best way to understand how your resellers are actually performing. a) Identify fastest growing / declining channel partners. b) Find new unmanaged partners and customers.

2. Connect end-customers to vertical markets to better understand their performance and how you can meet them.

3. Compare end-customer vertical sales to industry benchmarks to identify current performance and potential areas for growth.

4. Drive channel growth with performance-based incentive programs.

5. Calculate ROI on incentive spend — even if benefits are "soft," like brand improvement.

6. Speed incentive payments; this is an opportunity to differentiate. Because your partners operate on working capital, the quicker you can pay, the more loyal they'll be and likely to focus on your products, as well as your programs.

7. Implement auto calculation and validate accuracy of incentive payments.

8. Obtain real-time visibility into incentive program performance. If a program works well, you will know immediately and can invest more heavily and roll it out to other partners.

9. Test and model incentive programs on historic data. Make sure calculations are working correctly and that you get a good baseline before you start running the program.

Leveraging these best practices will ensure that you improve partner loyalty, maximize program effectiveness, align your channel with your strategic goals and meet the needs of your channel end- customers. Your result will be increased channel sales revenue.

The Model N Solution

With the Model N Partner Network™, one connection gets you 100% partner coverage through access to 5,000+ distributors, resellers, and retailers reporting detailed POS and Inventory Data. You will gain the highest quality view of high-tech resellers and end-customers in the world with Model N Directory, which processes more than 120 million channel sales transactions annually from more than 10 million business entities. And finally, you will be able to validate, track, organize and segment all partner POS and inventory data by user-specified attributes with Model N Operations Manager.

CDM for Salesforce leverages the combined power of Model N Revenue Management and Salesforce CRM dashboards and reports to provide visibility into your channel sales data. Use the Model N Channel Data Management solution to collect, standardize and enhance channel sales information using our patented technology and unique crowd-sourced Model N Directory. Then utilize your existing Salesforce interface to view the information in familiar dashboards and reports. Our unique partnership also provides you with the ability to track your channel opportunities from lead all the way through to shipment with our unique Lead-to-Ship™ Opportunity Management for the Channel functionality.

Use the knowledge provided by our applications to drive the growth you need in your channel sales. Identify your high/low performing partners. Use your own actionable POS data to understand how your resellers are actually performing against your key horizontal and vertical marketing goals. You can gain additional insight into partner performance by regions, products, partners and end-customers.

Optimize your channel inventory by using Model N Inventory Manager to make sure the right product is in the right place at the right time through calculation of part-level inventory and reconciliation of inventory discrepancies.

> A global manufacturer of semiconductor solutions with revenues of $1.25B annually gained weekly visibility into inventory — resulting in inventory reduction of 10%, with cost savings of $25M.

With the Model N solution, our patented processes, tools, reports and dashboards give you unprecedented visibility into your partners' sales, marketing and operations functions — all the way to the end customer. The Model N solutions not only give you automated collection, matching, standardization and enrichment of channel data, but also provide the largest high-tech partner directory available today, giving you one connection to more than 5,000 global reporting partners and 1 million resellers — and the tools to help you make decisions now.

Our solution is comprised of the Channel Data Management platform and applications. The platform consists of Model N Operations Manager, together with Model N Directory and Model N Partner Network. We collect, standardize and enhance Point of Sale (POS) and inventory data from all of your partners, and deliver it to you in data exports, pixel-perfect reports, drill- through analytics and proprietary workbench tools, so you can use it to grow your channel sales.

To illustrate how Model N has helped a customer increase their channel sales revenue, let's consider one of our high tech vendor customers who sees the value of using the channel to increase sales. They fully appreciate being able to stock inventory closer to their end-customers and leverage credit terms provided to end-customer by partners. In the last three years, they have transitioned from a direct to an indirect sales model, sending 80% of their sales through their channel. To make their channel model successful, they realized they needed to be able to effectively track orders for their complex high tech product line and be able to recognize revenue in a sales-out channel model.

> A leading global computer vendor with over $125B in annual revenue reduced their incentive processing costs by 40% by automating their manual process. They also reduced time to payout by 30% — processing payments within 4 days of quarter end — resulting in increased partner loyalty.

Model N Case Study

The Problem

As is so typical with companies that sell through the channel, our customer, a high tech manufacturer, found that they had little or no visibility Into Channel Sales Data, which meant that they did not know how their channel partners were performing. They could not link quotes to discounts or identify new emerging accounts. The direct reps who sold through the channel had no way of knowing when an opportunity shipped, and as a result, were spending as much as 20% of their time tracking opportunity status instead of selling.

The Solution

"To solve the problem we wanted to leverage the power of SaaS solutions and we worked with Model N, Salesforce and BigMachines® to create a cloud-based, integrated solution." High Tech Manufacturing Customer

The solution leverages Lead to Ship functionality offered by Model N and Salesforce™, and the configuration, pricing and quoting capabilities provided by BigMachines to automatically close the loop from configuration to quote to shipment.

Their POS data flows into the Model N CDM application where it is standardized, matched and enriched and then moved into Salesforce. The customer uses BigMachines to manage quotes and special pricing for their sales team and distributors, while Model N Discount Manager validates the distributor special pricing authorization.

The Results

Our customer now has complete real-time visibility into their channel. As a result of implementing this solution, they have better forecasting, reduced discounting and improved management of opportunities being fulfilled through the channel. Partners are held accountable to program requirements and channel special pricing is easily validated, ensuring that correct discounts are given. Additionally, with closed loop opportunity management, emerging and unmanaged accounts are easily identified and sales reps can spend more time selling and less time tracking sales.

Summary

There are four basic challenges facing you and your partners when considering the best way to gather and analyze the data you need to grow your sales channel:

Challenge 1: Do you have visibility into the channel sales information you need to make decisions?

Challenge 2: Is the information available to you accurate enough to drive effective channel sales strategies?

Challenge 3: Do you know which of your channel sales and marketing programs are working and which aren't?

Challenge 4: Do you have the detailed results needed to improve channel programs in real time?

The following the Best Practices for Channel Sales Management address the challenges of gathering and analyzing critical data and will help increase your channel sales revenues.

1. Gain real-time visibility into accurate, standardized and enhanced POS and inventory data by automating your channel data submission and management process.

2. Increase data accuracy with patented matching technology and a crowd-sourced Directory.

3. Develop performance-based programs targeted to meet specific horizontal and vertical market growth goals to determine ROI on channel programs.

4. Leverage program results delivered in real time to drive in-course program corrections to maximize program efficiency.

Now is the ideal time for you to take a hard look at your channel programs. Understanding where to focus starts with the information that is waiting at your fingertips – your own channel POS and inventory data. Obtaining and analyzing timely channel data helps you and your partners assess the market and ultimately, realign your channel programs for greater success.

Stop guessing and start producing with Model N. Visit www.modeln.com for more information.