SAP White Paper

DRIVING YOUR CHANNEL BUSINESS

Leverage Information Technology to Improve Partner Relationships and Boost Channel Performance

THE BEST-RUN BUSINESSES RUN SAP™

CONTENTS

EXECUTIVE SUMMARY

As global competition intensifies and customer-centric business strategies evolve, organizations need to rethink their channel strategy and how they want to engage with partners in order to successfully market, sell, and provide service to end customers. To achieve market differentiation and maintain a competitive edge, it is no longer enough to focus on improving internal business processes and attaining operational efficiency gains. Companies need to focus on relationships with customers and partners: success is now determined not only by price and product, but also by well-designed sales and service channels and processes. Therefore, more organizations need to strengthen collaboration with their channel partners and take their partner channel management practices to the next level in order to efficiently deliver value to their customers and generate profitable revenue growth.

In a customer-centric enterprise, the role of channel partners goes way beyond serving merely as a distribution channel. In order to successfully attract and retain customers, partners need to become an integral part of a value network extending the core competencies of a brand-owner organization. Partners provide distinctive capabilities that complement the goods and services of the brand owner – from promoting its brand to selling its products to offering value-added services. By successfully leveraging partners within the value network, brand owners can achieve a market-leading value proposition and consistently deliver on brand promise. In the future, such well-orchestrated ecosystems will become even more imperative for superior performance, if not for the very survival of a business. To achieve success, it will be critical to define the role of channel partners (as well as other players) in this ecosystem, proactively manage partner relationships, and integrate them in such a way as to enable seamless end-to-end business processes across organizational boundaries.

In order to drive indirect revenue and improve channel performance, organizations should leverage the four pillars of partner channel management shown below to effectively manage, enable, incent, and integrate their channel partners:

- Manage channel partners throughout the entire life cycle and monitor partner performance to improve channel coverage and increase partner loyalty.
- Enable channel partners by providing them with easy access to relevant information about products and services, critical transactions, customer data, and sales leads so that partners can sell and service more effectively.
- Incent channel partners and reward desirable behavior to motivate partners to promote your brand and sell more of your products and services.
- Integrate partners into order and service management processes to integrate supply and demand chains and ensure fast and reliable order fulfillment as well as consistent and timely service to end customers.

A key success factor across all channel and partner management activities is to understand your partners' business and help them be more successful. Brand owners who are able to provide partners with tools and technology to make selling their products and services more convenient and make their partners' lives easier will have a significant advantage over their competitors.

Organizations also need to have clear visibility into their channel business processes, provide customer insight throughout their partner network, and align their indirect channel with other customer channels. Successful organizations have put themselves in the driver's seat, proactively managing their channel business, creating a win-win environment, and leveraging information technology to make the most of their relationships with partners and buyers. They successfully leverage their extended ecosystem to reach out to new customers, penetrate underserved segments, and enter entirely new markets, while taking advantage of automation efficiencies.

This white paper discusses key channel business trends, highlights the complexities and challenges of different channel models, and shares insights about how best-run businesses leverage information technology to improve partner relationships and increase channel performance.

DRIVING YOUR CHANNEL BUSINESS

Organizations have long relied on partners to help them drive business – serving as sales and distribution channels, service contractors, or marketing partners. But the evolution of the business landscape along with technological advancements has permanently changed the dynamics between brand owners, their partners, and end customers. In today's business environment, organizations need to formulate their channel strategy against a backdrop characterized by globalization, increasingly competitive marketplaces, ever-more demanding customers, the increasing use of the Internet and other technologies, and stringent financial expectations around costs and compliance. At the same time, partners are evolving their business models to get ahead of the curve, meet customers' needs, and drive their business. Organizations need to focus more on their core competencies, as well as cultivate and depend on an integrated network of partners and suppliers to meet customers' demands. As these business dynamics rapidly evolve, brand owners are challenged to turn these dynamic forces into win-win-win situations – for themselves, their partners, and their customers.

To cope with these challenges and drive growth, many organizations need to reshape their channel strategy, redefine the role of their partners, and redesign the way they manage relationships with their channel partners. It's becoming critical to deploy new customer-focused and demand-driven business models that map not only traditional value chains, but also entire value networks in order to secure competitive advantage. In this context, old designations of partner relationship management have given way to a more holistic approach and a more process-driven perspective. Today and in the future, operational excellence must encompass not only customer-facing operations within an organization, but also end-to-end business processes across entire ecosystems. These should be designed to meet customer expectations regarding quality, speed, convenience, and reliability in order to create sources of differentiation. This requires consistently fostering and optimizing partnerships thereby ensuring channel coverage, building brand strength, providing complementary products, and delivering value-added services.

The bottom line is that the indirect channel plays an integral role in achieving overall corporate objectives. Channel partners are your face to the customer, and they have a strong impact on the customer experience and the brand image. Therefore organizations need to optimize indirect channel business by integrating channel partners into the business approach in a way that recognizes and fosters your unique business drivers. This enables brand owners to build mutually beneficial business relationships that will endure and succeed in the long run.

Leveraging the Indirect Channel to Achieve Overall Business Objectives

Business Priorities	Partner Channel Management Enablers
Maximize brand owner and partner revenue	▪ Increase channel collaboration and reduce channel conflict ▪ Streamline the closed-loop lead-to-cash process ▪ Optimize channel pricing ▪ Gain visibility into channel inventory and drive sell-through
Increase value to customers and partners	▪ Better prepare partners to market, sell, and provide service to end customers ▪ Present a single face to end customers across channels ▪ Extend a customer-centric business approach through the partner channel ▪ Provide more buying options increasing customer convenience
Reduce costs for brand owners and partners	▪ Provide partner self-service capabilities ▪ Leverage end-to-end business processes ▪ Transition manual processes into e-processes ▪ Enable distributed business processes
Ensure regulatory compliance	▪ Put in place auditable and repeatable accounting practices ▪ Ensure compliance with pricing laws and regulations ▪ Gain visibility into and track financial commitments in the channel ▪ Identify noncompliant situations for quick resolution

In building an effective channel strategy, you must understand your industry's business trends and drivers, formulate your business objectives, and construct a channel model that produces successful symbiotic relationships throughout the demand chain that are aligned with overall business objectives. Although indirect channels have different complexities and dynamics across different business landscapes, they all point to and benefit from similar channel elements.

THE FOUR PILLARS OF PARTNER CHANNEL MANAGEMENT

The four pillars of partner channel management highlight the core elements organizations should strategically leverage when managing their indirect channel business. Simply put, the four pillars are to manage, enable, incent, and integrate partners. Best-run organizations choose techniques across the pillars that support the specific needs of their business, as well as their geographic and industry environment.

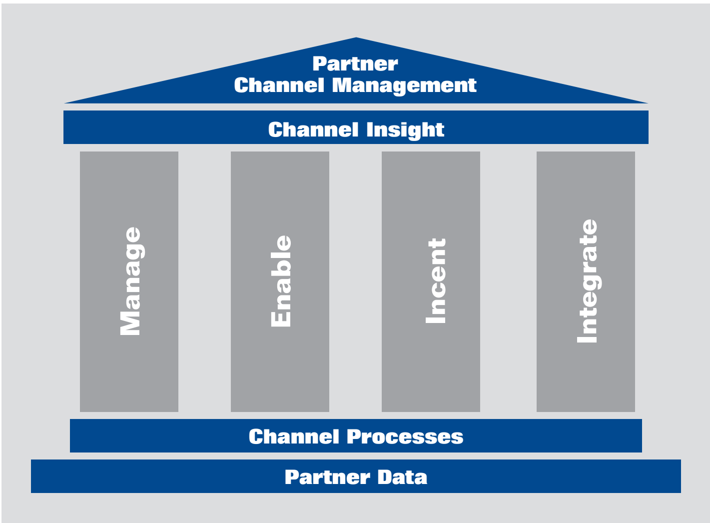

Figure 1: The Four Pillars of Partner Channel Management

By considering and then solving business challenges across the four core areas of partner channel management shown below, organizations can deliver a well-balanced partner channel strategy as well as programs, processes, and an interaction model that result in a satisfied, profitable, and loyal indirect channel.

Manage

Organizations should proactively manage channel partners throughout the entire life cycle to achieve the visibility into and influence over their extended ecosystem as is necessary to meet end customer expectations and build customer and partner loyalty. Organizations that understand channel coverage and gaps, strategically segment their partner base, and streamline partner-management processes can successfully deliver a well-run indirect channel while keeping channel-support costs down.

Enable

Companies need to enable their channel partners by providing them with the same knowledge, tools, and expert advice as that given to their direct sales force so that partners can more effectively sell and service more of their products. Organizations that empower their channel partners with self-service tools, targeted communications and training, and sales-cycle support gain insight into demand across all selling channels, more accurately forecast future business, and drive more revenue.

Incent

Organizations should explicitly incent their channel partners' behavior in order to align sales and marketing efforts throughout the indirect channel with their own business objectives. Companies that put in place processes and programs that motivate partners to sell their products and services, promote their brand, and reward specific behavior build partner loyalty, reduce channel conflict, and close more business than their competitors.

Integrate

Companies need to integrate partner processes into their core order and service management processes to ensure operational excellence, streamline partner ordering processes, and ensure consistent and timely service to end customers. Organizations that integrate their partner ordering and service processes with their back-end and fulfillment operations are able to execute critical business transactions more quickly and more reliably, increase customer satisfaction, and achieve better control over costs and compliance.

Organizations should also leverage channel insight, consolidate partner data, and streamline channel processes across the four pillars.

Channel Insight

Throughout the entire partner channel management process, it's important that organizations track and understand partner performance as well as gain visibility into channel inventory sell-through. They should then use that intelligence to make smarter decisions and ongoing adjustments to improve productivity at the information worker level, as well as overall productivity and optimization of their indirect channel. Organizations that tie insight to action and adopt an approach of continuous process improvement achieve stronger competitive advantage, increase predictability across their indirect business, and consistently achieve their overall business objectives.

Channel Processes and Partner Data

Consolidated partner data is the foundation on which all channel business processes run. Businesses are looking for new ways to use information technology to improve the automation and streamlining of their business processes. Organizations that effectively consolidate their partner data and leverage that data across their business can achieve intelligent and continuously improving channel business processes. Successful organizations today create innovative, data-driven, end-to-end business processes that can be rapidly adapted and changed based on the behavior and actions of their customers and partners.

Manage Partners Throughout the Partner Life Cycle

Many organizations struggle with basic management of their indirect channel. They have limited visibility into their partner community; use cumbersome processes to recruit, manage, and measure their channel partners; and lack the ability to collaborate with partners in a structured and system-based manner. To efficiently and effectively drive business through the indirect channel, it's important for brand owners to proactively manage their channel partners to gain clear visibility into their channel coverage, reach, and competencies; maintain an optimal mix of partners across geographies and offerings; and proactively and effectively manage partnerships in way that minimizes costs.

Achieve Optimal Channel Coverage Through Ongoing Recruitment

In addition to the challenges of growing a partner ecosystem, many industries struggle with partner churn as partner organizations and reps come and go over time. Given the importance of sales coverage on overall business results, it's important to gain clear visibility into partner coverage and proactively recruit, approve, and ramp up new partners in an ongoing fashion so that brand owners can ensure the optimal number of active, productive partners in targeted regions in order to achieve revenue and business goals.

Brand owners should monitor channel coverage gaps and partner churn rates on an ongoing basis as dips in coverage can considerably impact revenue achievement. Organizations can increase partner recruitment efforts while expanding geographically or introducing a new product line, or when sales volume exceeds the bandwidth of the existing partner channel. Organizations can begin partner recruitment by creating awareness – communicating partner programs and benefits to the pool of potential partners. Organizations should look at a combination of push and pull approaches – from pushing recruitment and program information out to targeted prospect lists via e-mail or mail campaigns to self-service approaches where prospective partners can pull pertinent recruitment and program information from a public Web site. Additionally, organizations can facilitate recruitment through an online registration process that enables prospective partners to self-register and lets brand owners streamline and automate the approval process for incoming requests.

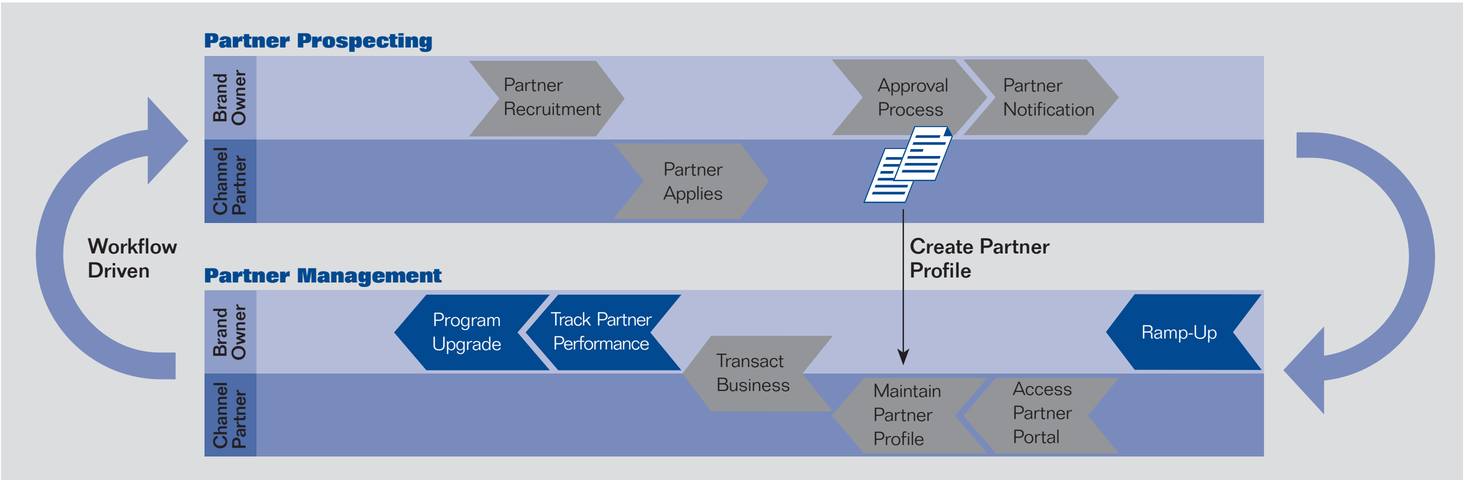

Figure 2: Partner Management Life Cycle (Manage)

Align Business Efforts Through Collaborative Business Planning

Because business efforts in the indirect channel cross organizational boundaries, it is particularly challenging for brand owners to plan, strategize, execute, and measure specific business objectives within their indirect channel. Channel business objectives require orchestration and collaboration across the brand-owner and partner organization to ensure alignment and success. Brand owners rely on the indirect channel for considerable revenue. Therefore it's important that channel managers have a consistent way to plan future channel business and a structured way to create, track, and measure business objectives with channel partners.

Many organizations use planning and historical data to analyze trends and forecast future business. Just as companies plan their sales targets internally, targets must also be set for channel partners. Without setting targets, brand owners can't quantitatively plan and predict their future indirect business, and aren't able to effectively tie forecasted demand to supply chain planning.

Also, brand owners may take a more comprehensive approach to business planning with key partners by establishing joint business plans and review cycles. In this case channel managers work with target partners to establish a shared business plan including a mission statement, specific partnership objectives, and an underlying action plan to achieve the jointly agreed-upon objectives. Both the brand owner and partner organization take an iterative approach to establish, review, and approve the business plan on both sides. Using information technology, brand owners can put in place a powerful, data-driven business-planning process that automatically tallies and reports results against a plan based on data throughout channel business processes. For instance, a lead-generation objective that specifies a target number of qualified leads can be systematically tracked by linking the objective to actual lead data in the system. Or a revenue objective can be linked to point-of-sale (POS) data in order to automatically calculate progress toward revenue goals.

Another important mechanism for aligning partner behavior is a comprehensive partner program entitlement strategy. Brand owners should employ a partner-program mix and approach that effectively segments partners and incents them to move up through the program levels to benefit from additional entitlements of the upper program tiers – and drive more business. Benefits may include lead sharing, advanced sales or technical support, discounts, market development funds (MDF), co-op funds, and more. An organization's partner-program mix and structure should be easily understood by the partner community and have a feedback and incentive loop that enables the brand owner to reward partners for strong performance – driving business for both organizations.

Tie Insight to Action to Achieve Continuous Improvement

Best-run organizations put into place a framework to measure, analyze, and act on channel business processes to ensure continuous improvement across their indirect business. In addition to visibility into channel processes and transactions, it's important that organizations systematically roll up transactional activity, provide analytical tools for channel stakeholders, and leverage business triggers to act on channel activity. Organizations should adopt a multifaceted approach to delivering intelligence and insight – from reporting and analytics to in-process decision support and triggers to partner scorecarding.

It's important to provide both transactional as well as analytical measurement to provide different channel stakeholders the necessary level of intelligence. Channel managers, inside sales support, and channel marketing stakeholders need access to easy, flexible transactional reporting that provides them with status and trends around particular transactions, processes, or partners. On the other hand, channel executives require more analytical information around revenue trends, inventory levels, partner gross margins, partner utilization, and channel ROI. This gives them better visibility into leading and lagging indicators, which enables them to make strategic decisions that impact their overall indirect business. Best-run organizations also expose both transactional and analytical information to their partner companies to provide their partner counterparts with the visibility and insight that will lead to mutually beneficial and successful partnerships.

Using scorecards is a valuable way for channel managers to quickly and clearly understand the status of a partner's performance. Partner scorecards comprise a set of key performance indicators (KPIs) the brand owner has decided best reflects the health and success of a partnership – including trend statistics and warning indicators for poor performance. Scorecards may include KPIs such as sales for the year to date, lead close rate, sales rep certification levels, and channel marketing ROI. Best-run organizations identify and deliver end-to-end visibility on all channel KPIs for more effective and impactful decision making. Scorecards give a quick and easily digestible view into the state of any partnership for both the channel manager and the partner organization, and serve to inform and motivate both parties.

Enable Channel Partners to Drive Business

Providing relevant information, tools, and training to channel partners is critical to maintaining an effective indirect channel. Partners need up-to-date information about products, pricing, and programs in order to effectively sell and service products. Often companies lack the tools to appropriately target and deliver content and leads to partners so they are not "spammed" with irrelevant information or unqualified leads. Brand owners should provide partners with the same knowledge, tools, and expert training and advice as their direct sales force and match leads with best-fit partners so that they can more effectively sell to and serve end customers.

Empower Partners Through Self-Service

Using the Internet, organizations can leverage online self-service to drive process efficiencies and cost cutting to new levels. By providing self-service partner portals to their partner community, brand owners increase partner satisfaction, streamline channel business processes, and reduce channel support costs. When empowering partners through self-service, brand owners should adopt a self-service approach that involves both pull and push modes of information exchange.

With a Web-based partner portal, brand owners can provide partners with relevant information and content, critical business transactions, and powerful analytics so partners can pull the information they need at their convenience. A partner portal is the partner's one-stop shop where it can manage all of its activities with a brand owner and get all the information it needs to effectively market, sell, and service the brand owner's products. Brand owners can inform their partners about new products, distribute collateral and documentation, convey company news, offer training courses, and announce upcoming promotions. They can also support key channel business processes within their partner portal, such as lead and opportunity management, deal registration, channel-marketing funds management, and special pricing. Brand owners should personalize and target information and transactions within the portal so partners have easy access and clear visibility into the information and transactions related to their business.

You can allow partners to set notification preferences indicating when they want status updates via e-mail – for which processes and at what points in the process. Additionally, brand owners can send leads or service requests out to partners via e-mail to enable partners to take immediate action and make updates to the lead or service request by e-mail without having to log into the partner portal.

E-Plus, Germany's third-largest mobile network operator, has put in place a state-of-the-art dealer management solution that improves service to dealers, cuts time to market, increases end-user value, and reduces IT overhead. With this solution E-Plus has built stronger relationships and improved process efficiency with its dealers who account for a large part of sales to its 12.7 million end customers. Overall E-Plus expects to cut dealer administrative costs as a result of this new solution. Through their dealer portal, E-Plus provides single sign-on and role-based access to all applications and services a dealer is entitled to use. Product brochures, technical specifications, updated tariffs, promotions, seasonal offers, commission data, stock replenishment orders, and sales tools are available in the portal and can be accessed online. Each dealer also receives a personalized daily update via the portal on sales, new activations, performance against target, and commissions due. Because the information can be targeted to individual dealers, E-Plus can tailor its communications, making enhanced support services or information about higher commissions available to specific dealers, such as those in its highest category or those with the best month-end performance figures.

Educating Partners and Leveraging Partner Competencies

Companies need a way to ensure their partners are sufficiently educated and prepared to represent their product and services. Because many partners represent product lines from multiple, different brand owners, it's especially important that brand owners make the education process as easy and streamlined as possible. Organizations should also track partners' competencies in an ongoing fashion and then use that information to better target business opportunities based on the specific strengths and expertise of each partner.

Brand owners across the board should provide a library of information where partners can educate themselves in a self-service fashion about the brand owner's business and channel practices. Best-run organizations push key information to partners via e-mail. In this case, partners subscribe to topics they want proactive updates on; then brand owners push new material out to those interest groups via e-mail when updated and new collateral is available.

In addition to a self-service library, organizations with more sophisticated product offerings often put in place more formalized training programs – from self-paced online training to scheduled Webcasts to in-person training. In order to effectively tie training to a certification process, brand owners can test partners – either online or in a proxied setting – and then use test results to drive certification levels.

Finally, organizations should track partner competencies or training certifications in an ongoing fashion within the partner's profile and factor those competencies and certifications into business processes such as distributing leads, matching opportunities, and distributing channel marketing funds. Competencies may be brand-owner specific certifications, industry certifications, or general assessments of expertise and product focus. Most importantly, tracking certifications and competencies are a valuable way to match business opportunities and service activities to partners who have the expertise to execute most effectively, thereby closing more business and improving customer satisfaction with channel sales and service processes.

Extending Sales Force Automation Out to Partners

Brand owners often lack visibility into their indirect pipeline and partner's sales activities. Many brand owners also lack the ability to target leads to channel partners – and have little or no visibility to the leads once they have been distributed to a partner. To effectively extend sales force automation (SFA) out to partners and drive business through the channel, brand owners should intelligently target potential deals to the best-fit channel and the best-fit partner, and then ensure full visibility into customer deals in order to foster collaborative selling and accurately forecast demand and revenue.

When extending SFA capabilities out to channel partners, brand owners may choose to support lead-management or opportunity-management processes with partners. Lead management is generally used for simpler sales or is used earlier in the sales cycle, whereas opportunity management is often used for more complex team selling. Whichever approach you take in your channel – and you may use both – it's important to manage leads and opportunities from a cross-enterprise perspective in which organizations drive business through the desired channel, forecast and recognize demand across all sales channels, and provide end-to-end closed-loop processes.

Lead management enables brand owners to capture, route, and manage sales leads to ensure that each lead is directed to the best-fit channel, partner organization, and sales rep. All stakeholders in the process – both partner and brand owner – should have full visibility to acceptance and follow-up. Organizations should drive the matching process through a rules-based approach. The logic may be as simple as matching the prospect's product interest or location to the product offering and location of the partner. Or organizations may use more sophisticated logic to improve the customer's buying experience. For example, they may distribute leads based on partner affinity, quicker follow-up times, or higher close rates.

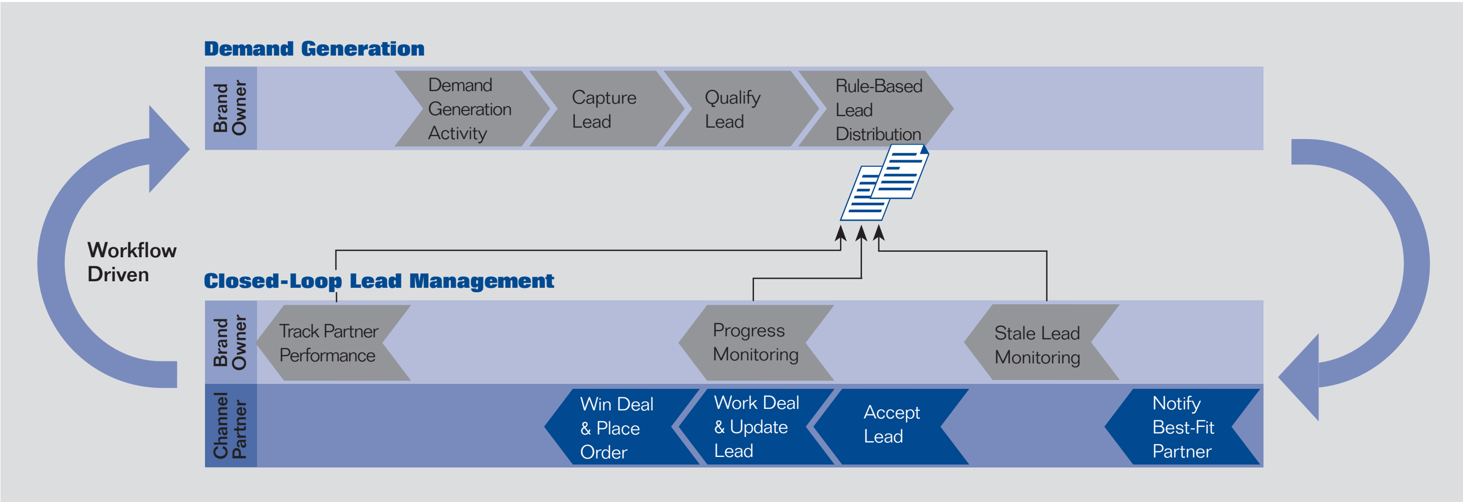

Figure 3: Lead Management Process (Enable)

In terms of opportunity-management processes, brand owners often promote a team-selling approach in which partners and their channel managers can work collaboratively to close business, manage customer accounts, and drive ongoing revenue. Key stakeholders working on an opportunity can jointly capture, manage, and monitor the business-account information and additional details of potential deals.

Increasingly, brand owners are looking to refine and evolve their pricing strategies to meet internal and external pressures to grow profits as well as achieve top-line revenue growth. Today, sophisticated pricing techniques are essential to effective company-wide execution of pricing strategies. Organizations need to meet their margin-enhancement goals and remove the variability from their pricing processes. An integrated approach to price and margin management lets brand owners price products and services correctly, yielding substantial new revenue and higher margins. With price and margin management processes and methodology, brand owners can identify missed pricing opportunities by eliminating negative performers and realigning rebate structures and payment terms. Organizations can reduce price-administration costs significantly and cut days sales outstanding (DSO) and invoice disputes by increasing the accuracy of invoices.

Incent Partners to Align Indirect Sales Efforts

Brand owners who incent partner behavior around marketing and selling to end customers more effectively optimize market coverage, gain market share, increase revenue, and build brand awareness. Brand owners not only have less control over their indirect sales force than they have over their direct sales force, but they also often compete for their partners' loyalty with other brand owners. In the competitive selling environment, brand owners should proactively leverage incentive mechanisms such as channel marketing funds, deal registration, and special pricing to incent partners to behave in a manner that strengthens their brand loyalty, optimizes sales resources across the extended ecosystem, and drives brand owners' business.

Tallard Technologies is a value-added distributor and integrated service provider for hardware manufacturers in Latin America and the Caribbean. With aggressive plans for growth, Tallard believes it is at a key moment in its history and plans to increase revenues by 50% over the next three years. To help achieve these bold growth objectives, Tallard realized that the more information it has about its channel partners' sales cycles, the more it can play an active role in helping with negotiations, offering price discounts and providing advice on improving sales to end users, which ultimately increases business for Tallard. In response to these business needs, Tallard is developing a high-touch customer-centric sales model that involves bidirectional sharing of information with resellers. To this end, Tallard's sales reps will help channel partners cultivate leads that they enter into the sales pipeline, focusing on the highest probable sales opportunities and providing the intelligence to help them close the deal.

Providing Marketing Incentives to Partners

Through channel-marketing programs, brand owners can incent partner marketing behavior by providing partners with funding to execute approved marketing activities that promote the brand owner's products and services. Many brand owners don't have sufficient mechanisms in place to effectively calculate, distribute, and measure the effectiveness of channel marketing funds given to partners. By taking an end-to-end approach to the channel marketing funding process, brand owners can better allocate funds to effective partners and projects, align channel marketing efforts with their corporate goals, and ensure legal compliance with accounting regulations.

Channel marketing funding programs are generally either fixed-funding programs or accrued-funding programs. Fixed-funding programs such as market development funds, business development funds, and account development funds all enable brand owners to take a top-down approach, strategically committing a certain amount of marketing funding to particular partners, partner segments, or business focus areas for specific marketing activities. Accrued-funding programs such as co-op programs enable brand owners to offer a more bottom-up approach where partners accrue funding based on a percentage of their sales volume.

With both approaches, it's imperative that brand owners put in place end-to-end processes that are integrated with their financials system. Organizations should work to streamline the process from requesting funding to submitting claims to payout – ensuring a convenient, quick, and reliable experience. End-to-end integration enables brand owners to accurately calculate and appropriately pay out claims avoiding costly errors and overpayments, as well as ensuring compliance with legal regulations around accounting practices.

One market trend that has recently garnered attention is ingredient marketing, in which an organization produces ingredients, or components, for an end product. By funding channel-marketing activities, these component manufacturers make their contribution to the final product visible to consumers. For example, brand

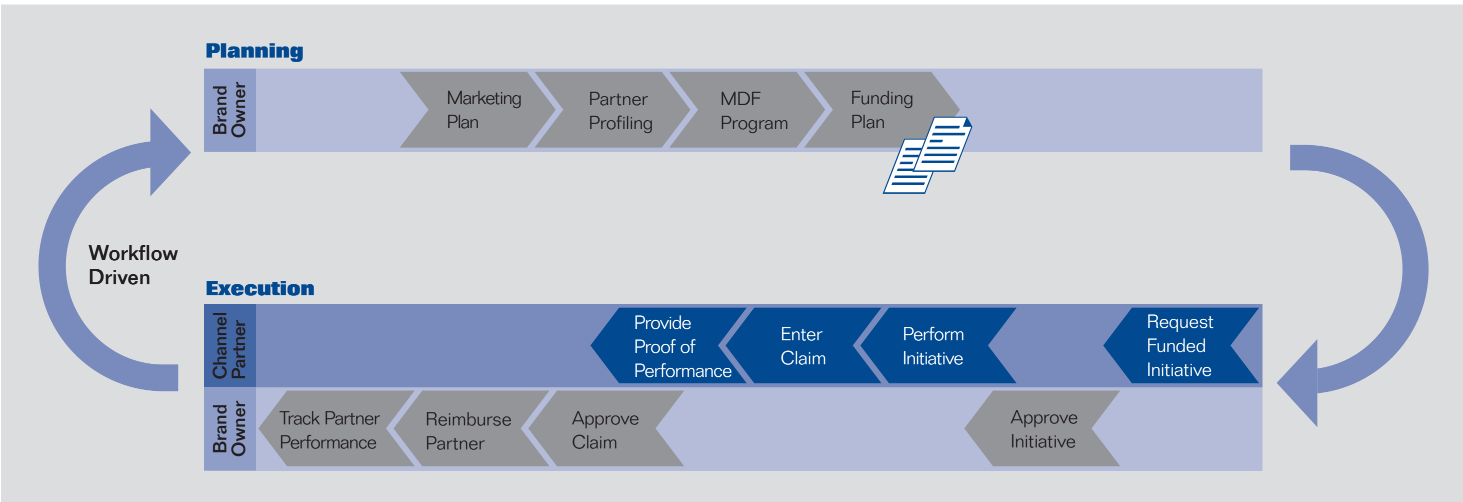

Figure 4: Channel Marketing Funds Process (Incent)

owners provide channel marketing dollars to their channel partners to run cobranded advertising. Familiar examples include the Intel Inside Program for the processor component, as well as campaigns for NutraSweet sweetener in soft drinks, and Dolby noise reduction for stereos. By eliminating just a small percentage of errors and overpayments due to automation and better visibility, such as 3% to 5% on a marketing budget of $200 million, companies can reap immediate benefits.

The world's largest cooperative advertising and branding initiative for OEMs and system integrators is the very successful Intel Inside® Program. The multiple marketing tools offered to "qualified program licensees" help extend their reach to customers by amplifying marketing development funds. The main objectives of the program include promoting partners' technology and the Intel brand together in a clear and positive manner; reimbursing partners for advertisements that feature qualified products and the Intel Inside logos; and highlighting the benefit of the Intel® brand to create end-user excitement about partners' products. The Intel Inside logos that appear in advertising or on computer systems serve as a reminder to computer buyers that the systems they are purchasing contain a genuine Intel® processor that offers quality, reliability, and compatibility from the world's leading chip maker. The combination of the Intel brand with the partner brand is stronger than one, and offers a more compelling product for computer buyers.

Providing Deal-Based Incentives to Partners

On a deal-by-deal basis, brand owners must provide support and incentives to help partners close business – otherwise they risk losing the business to a competitor. Additionally, brand owners should look to leverage deal-based incentives to build channel safe zones and programs that protect partners from channel conflict as these situations result in inefficient sales efforts, degradation of partner loyalty, reduced margins, and lost deals. Brand owners that provide special pricing and deal-registration programs to their partners are able to quickly react to competitive pricing situations, reward value-based selling by protecting margins, incent partners to go after new customers, motivate partners to share pipeline information, and help increase partner profitability.

Special pricing programs enables brand owners to more quickly and intelligently respond to their partners' requests for discounted pricing, incenting the partners to sell their products over those of competitors. Partners may request discounted pricing because a competitor is offering a lower price or to respond to a specific bid request. With self-service portals, partners can easily submit special pricing requests for quick review and approval. Best-run organizations include decision support tools for their bid desk to quickly assess outstanding discount amounts on special pricing agreements as well as any red flags. Also, partners should have an easy way to submit claims manually through the partner portal or in bulk fashion via POS data. Brand owners can then automatically parse the POS data, validate the sale information against the special pricing agreement, generate claims, and push claims through the validation process to pay partners either via check or on their account. It's also important for brand-owner organizations to automatically track financial liability of approved special pricing discounts in their general ledger to comply with accounting regulations such as the Sarbanes-Oxley Act of 2002.

Deal registration (also referred to as design registration) is growing in popularity among organizations. Deal registration enables brand owners to recognize partner ownership of a particular deal and then avoid situations of channel conflict and protect partner margin on the deal. Partners register deals to qualify as the partner of record and become eligible for additional sales support or special discounts and rebates. Best-run organizations are fine-tuning their programs to increase the success of the program. For example, they may give the discount to the first partner in the door in order to protect partner margin from last-minute lowball bids and to encourage other partners to go after greenfield deals that have not been registered. These types of programs increase partner profits, enhance partner loyalty, and broaden channel coverage. To effectively manage this type of program, brand owners need cross-channel visibility into all sales deals. Deal registration also enables brand owners to recognize and reward services partners that play a role in closing deals. Although influencers or services partners may not sell product, by registering the deal with the brand owner, they can be paid for their role in driving business for the brand owner.

Brand owners may also use commission-based incentives to enhance their partner community's productivity by rewarding channel partners with variable pay according to their performance and business contributions. This enables brand owners to align desired behaviors with business strategy and help partners develop a connection between their contributions and the brand owner's goals. Telecommunications companies heavily leverage commission-based incentive programs to reward their partner community for services they sell that the service provider fulfills. These commission structures are generally quite complicated, involving different payment tiers and schemes depending on what and how much was sold. Because dealer business involves a mix of selling hardware and services, dealers need clear visibility into their commissions, which are offset against invoices on hardware sold, in order to calculate final payment amounts. Many service providers are looking to put in place performance-driven commission structures that reward dealers that bring in the best customers, not just the most customers. This is very powerful in an industry where customer acquisition is costly and the break-even point for each new customer is 12 to 14 months out in the customer's life span.

Providing Incentives to Move Channel Inventory

In multitier distribution models, brand owners struggle to gain visibility into channel inventory in order to optimize inventory levels. To alleviate the risk distributors take on when holding large volumes of product, brand owners offer price-protection programs that deliver rebates on inventory if the price falls. Brand owners need comprehensive POS and inventory tracking solutions, as well as robust price protection analysis, to effectively manage their channel inventory programs and reduce their exposure while incenting distributor partners to hold enough inventory to effectively meet demand.

Many brand owners lack visibility past what they sell to distributors. POS information provides brand owners with insight into that sell-through data. Organizations can use this data for inventory tracking, sales and marketing analysis, commission reporting, revenue recognition, sales performance incentive funds, and rebate calculations. With this insight, brand owners can move inventory more quickly and optimize price protection programs. Brand owners need to leverage POS tracking systems to receive POS data and reconcile with sell-in information. Incoming POS data can be validated based on configurable rules and used to update channel inventory information and process resale or special pricing claims. Consolidating and reporting channel-inventory levels results in considerable savings and the ability to move inventory more quickly, as well as proactively reduce price protection and stock rotation. POS data collection and analysis provides sales departments with information that is critical in developing new business, long-term relationships, and partnerships, as well as in improving strategic planning and resource allocation.

In the highly competitive, global semiconductor market, managing costs is imperative. The semiconductor group of a FORTUNE 500 high-tech manufacturer sought to boost profitability further by improving the efficiency of its sales-channel activities in ways that benefited the manufacturer itself and its distributors. Managing inventory data derived from its own transactions and POS data was a challenge, because distributors transmit large volumes of POS data at different times (daily, weekly, and monthly). After putting into place end-to-end inventory tracking and management processes, the semiconductor group decreased the time it took to close its monthly resale processes from eight days to six days. The ability to track and reconcile inventory became easier, which, in turn, helped the company calculate credits for ship-and-debit claims more accurately. Perpetual channel-inventory tracking functionality enabled the group to improve the accuracy and efficiency of stock rotations and price protections.

Integrate Partners to Streamline Order and Service Management

In today's business climate, order and service management is crucial to corporate success as the demands for process perfection increase, and tolerance for errors decrease. Many organizations struggle to expeditiously and reliably handle partner ordering processes, optimize the relationship between the demand and supply side of their business, execute fulfillment, and deliver well-run partner service networks. Best-run organizations extend their order and service management processes out to partners in a cohesive, flexible, and integrated manner. To streamline ordering, production, and delivery, and to consistently deliver on customer commitments, organizations need to incorporate partners into demand and supply chain planning, ensure order management for partners, and provide best-in-class service management.

Integrating Demand and Supply Chain Strategies

Supply chains chronically underperform if they fail to analyze and respond to the needs of end customers. A company can't reach its full potential in terms of developing, refining, supporting, or delivering products and services without using partner and customer insights to shape and refine the supply chain.

When integrating demand and supply chain strategies, organizations should put in place cross- and extended-enterprise planning and forecasting processes that consolidate data from across the entire enterprise, as well as their partner community. Marketing and manufacturing organizations should jointly develop production and marketing plans and share data in real time to identify and respond to customer demand, optimizing inventories and production runs, exploiting sales and product development opportunities, and servicing the customer base. Marketing, service, and production departments should collaboratively develop forecasts to avoid excessive inventories and out-of-stock situations.

STMicroelectronics is a global, independent semiconductor company. It is the number-one European manufacturer of semiconductor chips and works with a worldwide network of strategic alliances to develop an unsurpassed selection of solutions. Although STMicroelectronics had formed strategic alliances with large customers and partners that resulted in strong supply chain interaction, the company had many thousands of smaller "mass-market" customers with which it had a far less integrated relationship. STMicroelectronics has improved management of its supply chain by integrating all supply chain information into a single cockpit, giving easy access to information such as partner forecasts, supply backlogs, and the stock position both within STMicroelectronics and its partners. This provides an at-a-glance view of how supply is evolving over time and quickly highlights potential problems. As a result, STMicroelectronics can actively manage its channel and customer inventories, reducing stock-out situations.

Organizations should improve visibility by exchanging data across their front- and back-office processes. That includes showing inventory, pricing, and delivery dates for specific products and services to partners and customers in real time. The direct and indirect sales force needs to know which promises the logistics and production teams can make and keep. Consistently and reliably delivering as promised is a driving force behind customer loyalty, customer satisfaction, and ultimately ROI. Organizations should use demand-chain intelligence and customer insights in a timely manner to benefit product development, service, support, and logistics. An organization's direct and indirect sales force, call center agents, Web site, and service department continually gather data about product performance, acceptance, and evolving customer- and competitor-driven product and service requirements. Companies that don't share and respond to this data miss opportunities in product and service development, reduce customer loyalty, and face increased support and warranty expenses.

Achieving Order-Management Excellence in the Indirect Channel

Well-executed order management can be a strong differentiator, especially in the indirect channel where the success of the brand owner's ordering and fulfillment processes directly impacts their partners' ability to meet customer expectations and achieve excellence within their business. Order management suffers when forecasts are far from actual demand, when the orders themselves are inaccurate, and when orders are not prioritized properly. Order-management problems will be exacerbated if supply chain disruptions delay deliveries, sales and customer service are not notified, delivery dates are missed, customers can't access order status or reach sales, and they don't receive information from the interaction center. The subsequent negative responses from customers and sales forces often cause executive management to hike inventory buffers that lower profits. Brand owners should provide rich and integrated ordering capabilities, an open platform and processes, and a strategy that ensures consistency and connectedness across all customer touch points and with back-office fulfillment processes.

Mascot International, Europe's fourth-largest workwear company based in Denmark, has put in place a state-of-the-art system that optimizes overall efficiency of multiple business processes – including their order-management processes. In a two-year time period, Mascot grew between 20% and 25% without having to increase its customer service workforce. Previously, sales assistants entered and tracked orders manually, and sales information was not automatically tied into its customer relationship management system. Oftentimes, customer support and marketing groups waited up to one month before receiving updates to the clients' accounts. Mascot put in place an online solution that would help address worker productivity. Specifically, the organization sought to free its workforce from mundane administrative tasks to be more proactive and focused in pursuing revenue-generating opportunities. By automating its sales transaction processes and enabling dealers to order online, Mascot realized several gains: faster time to sale, lower order entry errors (reduced by 40%), ability to analyze and utilize customer data, and a decreased total cost of sales (reallocation of five order-entry personnel) and total cost of service (savings of 12 FTE hours per day). In addition, visibility into the dealer's buying patterns allows Mascot to optimize its stock of raw materials. Mascot has realized a 272% internal rate of return over five years.

Partners should have a single, self-service portal where they can easily request quotes and special pricing, order products, obtain delivery commitments, and track their orders through the fulfillment process. To ensure superior, uniform service to end customers, companies must deliver simple, personalized, and convenient ordering, configuring, and quoting capabilities to their partners. Partners need anytime, anywhere access to order-management tools and real-time information. Partners also benefit greatly from guided selling processes that help them quickly and accurately determine the right mix of products and services to meet the unique business needs of customers – especially for complex, configurable products and options.

Brand owners should put in place a platform on which they can easily and flexibly set up, manage, and extend their order-management practices to integrate their partners into their ordering activities to achieve an optimal order-to-cash process. Being able to accept electronic data interchange (EDI) and XML feeds to automate business-to-business order processes is a key requirement. Increasingly organizations are considering scenarios of outsourcing where they leverage their partner community to quickly and cost-effectively receive and fulfill customer demand. Through distributed order-management processes, organizations can focus on their core competencies and choose to outsource fulfillment activities to their partner channel. Organizations can also empower end customers by hosting online marketplaces that enable customers to order products and services from across the entire demand network.

Providing Service to End Customers Through Channel Partners

Organizations that leverage their partner community to provide service to end customers can benefit greatly from the extended reach, geographic proximity, and community familiarity their partner ecosystem brings to the process. However, ensuring that service processes run smoothly across organizational boundaries is challenging. Tightly integrating partners into service processes enables brand owners to ensure successful and timely completion of service activities. To ensure customer satisfaction when providing service through the indirect channel, brand owners should take an integrated approach to incorporating partners into their company's service processes and ensure partners have the assistance and tools they need to provide superior support to customers.

Many organizations have built integrated service networks to get closer to their customers and respond faster to customer needs when it comes to service delivery and support, making sure service resolution that involves partners, such as service contractors, works as fast and reliably as if it were in-house. Today, customers still get frustrated when they have to wait for days to schedule an appointment with service contractors who then show up without the information or parts needed to fix the problem – if they show up at all. Hence, organizations need to think about how they can integrate their service partners in such a way that service processes and execution run seamlessly, end to end beyond the enterprise. They need the ability to automatically route service tickets to partners based on availability and skill profiles, as well as track when service orders are accepted, scheduled, and completed in real time. They must be able to ensure their partners have visibility into the customer's service and case history and provide partners with the tools and information to fix the problem. They also need to ensure correct billing that is in accordance with warranty and service-level agreements.

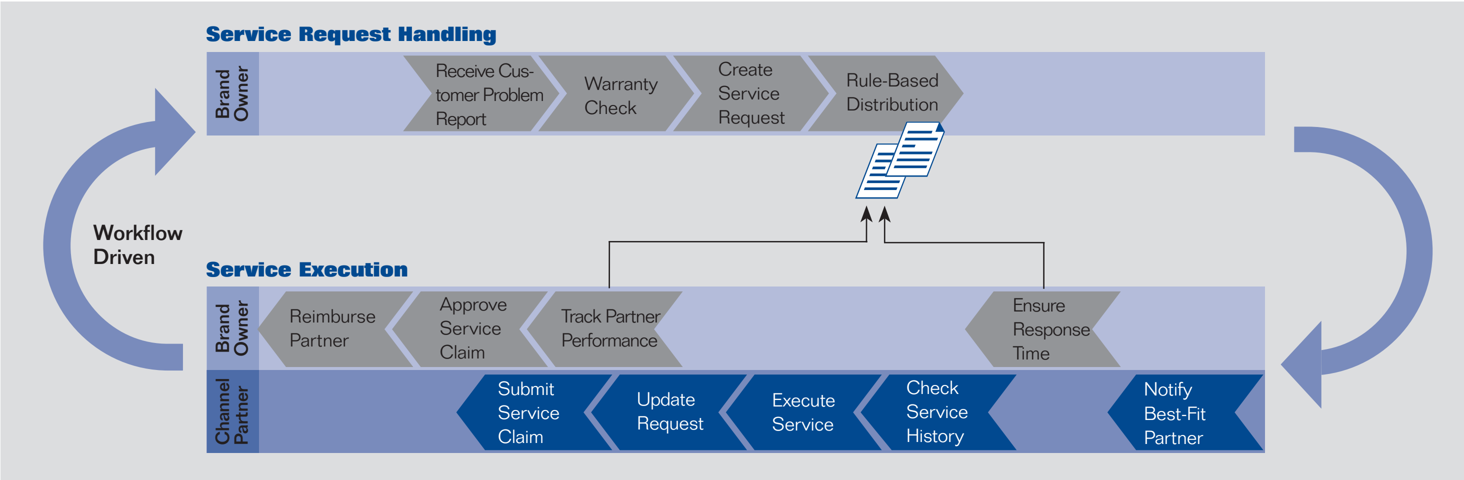

Figure 5: Channel Service Process (Integrate)

Additionally, partners need ready access to the right information and tools that will help them resolve customer issues quickly – ideally without involving the brand owner. By providing partners with self-service access to enterprise knowledge, brand owners can make their partners more self-sufficient and reduce channel support costs. Organizations should provide partners with access to FAQs, knowledge-base information, and solutions-based searches in order to quickly research and resolve customer issues. In addition, it's important to proactively push information out to partners, such as service bulletins or recall notices, and enable partners to subscribe to updates in their areas of focus.

Service parts sales is an important revenue stream in many manufacturing industries. For example, nearly two thirds of profit in the automotive industry's OEM-to-dealer channel comes from service parts sales. This is why brand owners seek to foster the sale and use of their own branded parts. A leading European automobile manufacturer has put in place a market-leading partner networking strategy to streamline the indirect sales and distribution of spare parts to better serve end customers through its partner channel. This organization provides end customers, such as nonauthorized dealers, independent body shops, and fleet customers, with access to the entire dealer inventory – they have visibility and can order online from the inventory of 3,000 dealers across Europe. Orders for spare parts are routed to the appropriate authorized dealers based on availability and location. Dealers can then fulfill the orders from their own inventory or by placing an order directly with the manufacturer.

End-to-End Benefits

As mentioned previously, leveraging the appropriate elements of partner channel management can help brand owners achieve greater channel efficiency and effectiveness, as well as improve revenue, profitability, channel support costs, and partner and customer satisfaction. Based on estimates of revenue generated, money saved, and processes improved, SAP customers have reported results as shown in the table below, while improving specific indirect-channel business processes.

Estimated Benefits of an SAP® Solution for Integrated Partner Channel Management

Tangible Benefits*	% Impact
Revenue	
■ Increased channel revenues	5% to 20%
■ Increased opportunity win rate	5% to 15%
■ Increased collaborative opportunities	10% to 25%
■ Improved margins	2% to 5%
Operating Cost	
■ Reduced effort for channel inventory management	20% to 30%
■ Reduced cost of channel sales (including rebates, claims, and ship and debit administration)	15% to 30%
■ Reduced partner support costs	25% to 40%
Working Capital	
Reduced channel inventory levels (one-time benefit)	5% to 15%

* Benchmarks from SAP analysis, Value Engineering

TAKING PARTNER CHANNEL MANAGEMENT TO THE NEXT LEVEL

Partner channel management is both a business strategy and a technology challenge. The business side is charged with creating top-line growth by deepening partner and customer relationships, identifying new market opportunities, and delivering the maximum value per customer. Traditionally, technology has been focused on the bottom line – increasing productivity, streamlining costs, and automating business processes. Technology's role has always been to support the efforts of the field by automating and consolidating partner and customer information and processes into an easy-to-use set of tools that codify best practices and simplify the jobs of business professionals.

Best-run companies today are creating new, end-to-end business processes that can be rapidly adapted and changed based on the behavior and actions of their partners and customers. At the same time, they are looking for ways to consolidate their vast, heterogeneous technology landscapes that drain their IT resources on a daily basis. The goal is to reduce the numbers of vendors they depend on, rely on industry standards, and ultimately reduce the total cost of ownership (TCO) of their technology investments. The bottom line is that companies are looking to drive greater business agility through new, unified business process platforms that integrate people, processes, and data across the extended enterprise into cohesive and adaptable go-to-market strategies.

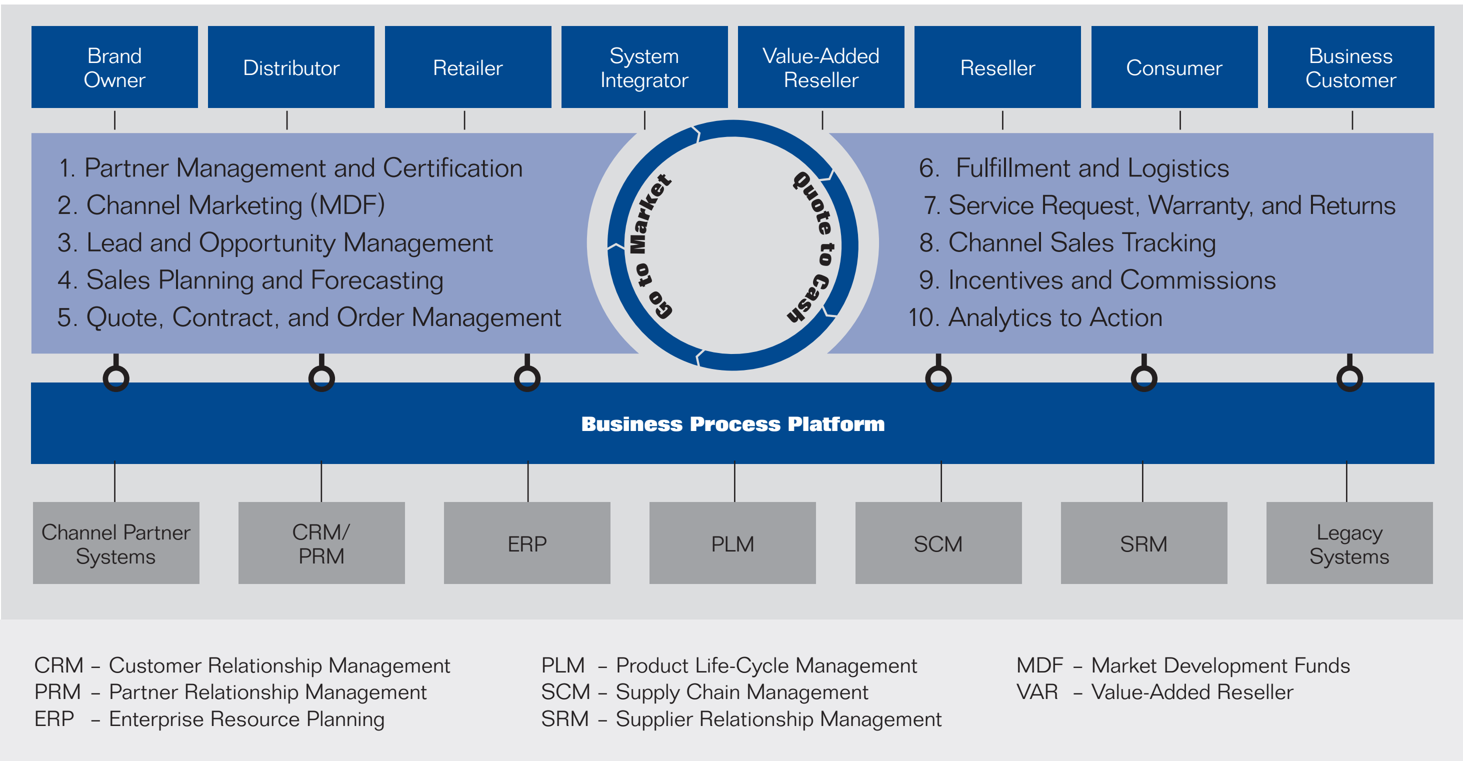

Figure 6: The Extended Enterprise

Traditional partner relationship management platforms have proven too rigid and closed to effectively support a heterogeneous environment and ecosystem. Well-architected platforms are designed for the highest levels of flexibility at the lowest levels of TCO – they support end-to-end business processes across organizational boundaries using service-enabled technologies, embedded analytics, and process-centric design principles. Organizations should be able to get the ROI they expect from partner channel management projects by reducing the costs of putting together all the systems and components required to deliver consistent and effective customer service across their enterprise and partners. Organizations need to be able to design and deploy more innovative and effective customer-facing processes. The integration, flexibility, and design of partner and customer-facing processes represent an enterprise's ability to effectively support customers' requests and needs. Orchestration of these processes is rapidly becoming a key differentiator for companies to gain market share, increase revenue, and outpace competition.

Organizations that adopt this strategy will better transform their cross-enterprise relationships toward becoming a truly customer-driven business. They'll be able to build a synergistic ecosystem with employees, customers, and partners that consistently creates and delivers customer value. In such an ecosystem, customers will enjoy a consistent and superior experience regardless of channel. And with the increased process efficiency and effectiveness extended from partner organizations, to the front office and the back office, brand owners and partners will have a sustainable, competitive advantage in the marketplace.

To learn more about how SAP can help your organization with channel partner management, call your SAP representative today or visit us online at www.sap.com or call us at +1 888-727-2955.

APPENDIX

Channel Model Complexity

There are compelling advantages to selling and servicing products through the indirect channel. However, going to market through the indirect channel requires unique and deliberate strategies and tactics to market, sell, and service products. In evaluating channel strategies, it's important to analyze and understand the complexities and dynamics of the indirect channel model – both for today's market, as well as into the future. Channel models are in large part characterized by the players involved; their business models; and how products, services, and money flow through the demand chain.

Manufacturing

As the technology market steadily improves and the broad cost-cutting measures of the past few years yield results, high-tech manufacturing companies are once again looking for growth opportunities. Having survived the Internet-propelled threats of channel disintermediation, the indirect distribution, reseller, and retail channels continue to retain significant power and influence. At the same time, customer demands have matured and become more complex, as have the products and services manufacturers bring to market. For example, high-tech manufacturers are now reinvigorating their efforts to better reach their end-customer segments through greater alignment and collaboration with their channel partners.

High-tech OEMs, such as computer manufacturers, medical device manufacturers, and consumer electronics manufacturers sell through large-scale, multitier distribution models. Their partner channel is mainly nonexclusive, meaning that partners sell multiple, competing product lines. In this environment, it's important the brand owner effectively manages all tiers of partners in an effort to build mind share and loyalty, encouraging partners to sell its products over those of its competitor. While managing distributors is important, it's the customer-facing tier of value-added resellers, systems integrators, and retailers that receives the lion's share of incentive programs to stimulate sales and marketing efforts. These efforts include rebates, price protections, and MDFs. One of their biggest challenges is gaining clear visibility into inventory and tracking product movement through this multitier channel. Increasing intelligence, collaboration, and end-to-end process efficiency with greater regulatory compliance is a constant challenge in generating greater revenues and profitability, both for manufacturers and their channel partners.

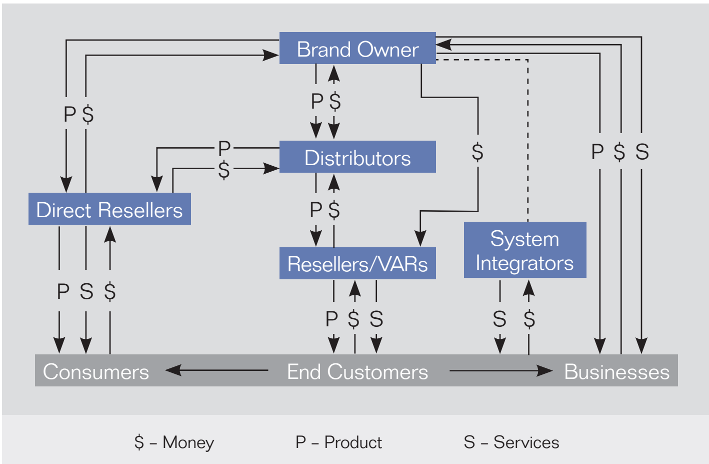

Figure 7: Manufacturing Industry Channel Model

Semiconductor

Moore's Law, the increasing exposure to new geographies, and increasingly competitive, consumer-products markets have all forced midsize semiconductor and component manufacturers to continuously drive costs down while features become more densely integrated. An effective way to improve profitability and reach remote geographies cost-effectively is to boost the efficiency of their sales and marketing activities. A key to increasing top-line numbers is to maximize ROI in the sales channel and improve general selling and administrative performance. Enterprises must carefully manage business opportunities with customers, provide appropriate incentives and rewards to sales representatives, and collaborate efficiently with channel partners – even when design and purchasing activities are remotely connected in both time and distance.

Semiconductor channel models typically are multitier, with only a small percentage of transactions occurring directly with the manufacturer and the bulk taking place through a network of sales representatives and local, national, and global distribution companies. Additionally, because customers of semiconductor manufacturers tend to outsource manufacturing, purchasing and manufacturing are frequently performed by a contract manufacturer for the OEM or original design manufacturer that won the contract. There are several complex sales processes – such as design registration, ship and debit, and price protection – that need to be managed between the manufacturer and its channel partners.

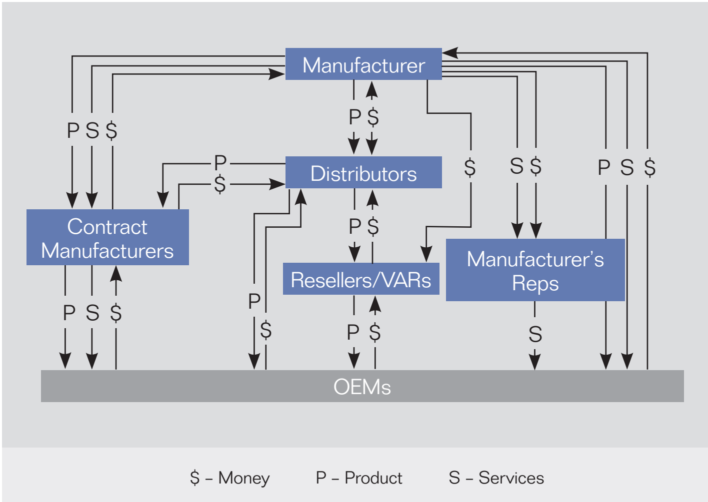

Figure 8: Semiconductor Industry Channel Model

Telecommunications

Not long ago, telecommunications companies were rushing to move new technologies and to newly deregulated markets, and investing heavily in building market share. Today the story is quite different. As telecommunications companies face maturing, highly competitive markets, they are working to reduce costs – and at the same time enhance their ability to reach customers. For telecommunications companies, the key to success on both fronts lies in building closer, more efficient relationships with indirect sales channel partners. That means brand owners need to work with dealers to improve their ability to sell their products and attract and retain customers. Service providers must ensure their dealers can provide high-quality, consistent service. And through it all, they have to support their dealers by managing the supply chain from their company to their dealers to streamline processes and increase responsiveness – while reducing inefficiencies, fraud, staffing expenses, and inventory. The battleground for convergence will be won on the basis of service providers and the ecosystem of sales and service channel partners providing the ability to consistently offer customers a seamless and highly satisfactory experience across all modes of interaction – from phone to the Web to dealer storefronts.

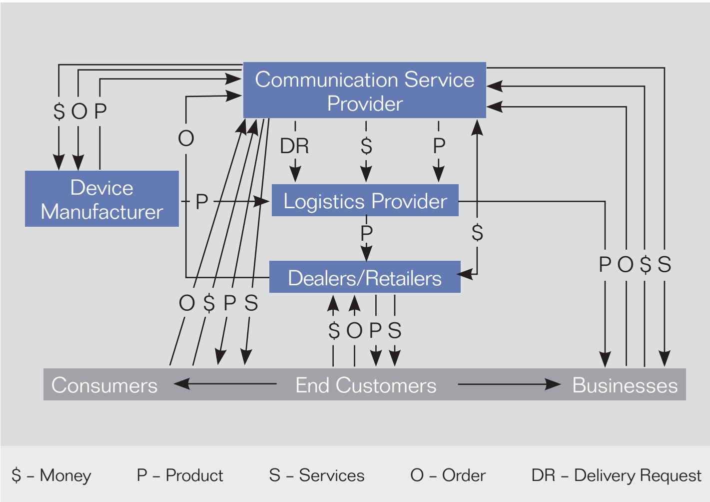

Figure 9: Telecommunications Industry Channel Model
(Wireless Consumer Services)

One of the biggest challenges for wireless telecommunications companies is their complex and distributed order-management process where service providers, device manufacturers, and logistics providers all play a central role. Because each order has dependencies across both hardware and service components, process orchestration is critical. And jeopardy management and rollback processes that handle order errors and customer cancellations require sophisticated process alignment. A flexible IT infrastructure is required not only to perform seamless order capture with the customer, but also to position dealers to offer advice for real-time cross- and up-sell opportunities in order to drive more business. With the high cost of customer acquisition in this industry, it's critical to hold onto customers as long as possible. So understanding how well each partner supports that goal is crucial in shaping the channel to bring in and keep valuable and profitable customers. Mixed payment models in which partners receive revenue via hardware sales and commissions put pressure on service providers to deliver transparent payment processes. Service providers also need strong demand analysis capabilities in order to effectively manage inventory shortfalls – for instance, during a new product introduction – in order to distribute their limited supply in an optimized fashion by considering local population and sell-through trends.

Automotive

Automotive companies face a struggle for market share, constant pressure on margins, and well-informed customers with unprecedented power in the marketplace. To differentiate themselves in this environment, manufacturers and dealerships are focusing on sales and service processes – the keys to providing a high-quality customer experience. Operational excellence around service processes is especially important because nearly two thirds of profit in the automotive industry's OEM-to-dealer channel comes from service parts sales. Manufacturers and dealers want to drive customer satisfaction, operational efficiency, and profitability while providing lower TCO.

Across the OEM-to-dealer value chain, the increasing amount of friction created by business process and communication breakdowns is causing automotive manufacturers, which are OEMs, and dealers to expend substantial resources to market, sell, and service motor vehicles. This situation is manifested in significant numbers of unsold vehicles, as well as poor scores for customer service and sales satisfaction. Motor vehicle dealerships are facing numerous challenges. In Germany, price competition is high and profit margins are shrinking. However, through the sunset of the block-exemption regulation enacted across Europe in 2002, dealerships can sell and service a variety of brands, creating additional revenue potential albeit with increased complexity.

In North America, automotive dealership profitability remains at an all time low despite significant consolidation and increasing power of multistore, multibrand dealer groups. With intense competition and profit pressure, dealers are attempting to improve customer satisfaction in a variety of ways, from increasing choice by offering more brands and accessorizing opportunities to increasing dealer capacity by expanding the number of service bays, operating hours, or service-parts inventory. As a result, manufacturers and dealers are burdened with additional costs and challenges that impact profitability, brand equity, and, most importantly, customer value and retention.

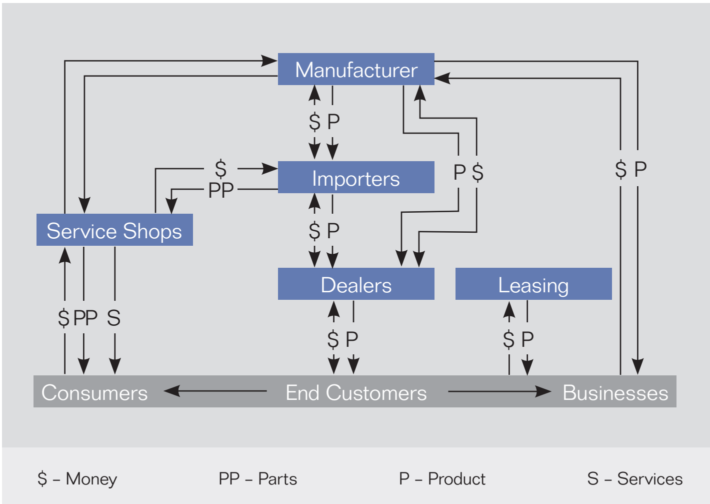

Figure 10: Automotive Industry Channel Model

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