

## Special Report:

### **B-to-B Channel Marketing in Crisis--Top Three Pain Points**

10/04/2005

By Contributing Editor Dianna Huff

“It’s a critical time right now for channel marketing,” states Paul Rand, Ketchum’s Director & Partner, Global Technology Group.

“Conflict between manufacturers, distributors and resellers is growing--on a daily basis. The channel is going through a tumultuous time due to unprecedented changes in the marketplace. Hence, the traditional methods for driving sales aren’t working--and it’s up to marketers to find solutions. Unfortunately, no one is paying attention.”

When MarketingSherpa's research team first conceived of bringing you a special report on B-to-B channel marketing, we thought we would be reporting back to you on how savvy companies are dealing with issues such as PPC competition from resellers or improving reseller loyalty via “self-service” marketing programs.

What we uncovered, however, is a topic so big and so complex it blew us away. Conflict and lack of trust is rife and runs up and down the channel.

-> Manufacturers, who spend billions of dollars building their brand and generating demand for their products, frequently have no clue who their end-users really are.

-> Distributors are dealing with profound technological changes in the market and with manufacturers going “direct” to end-users.

-> Resellers are desperate for help to grow their businesses--help that goes beyond the “canned marketing” approach taken by many manufacturers.

Yet, according to the experts we interviewed, very few companies “get it” when it comes to understanding the dynamics at play within the B-to-B channel.

Hence, what you’re reading is our first “State of the B-to-B Channel” report. Based on hours of interviews with manufacturers, distributors, consultants, and researchers, this report gives you an overview of the key channel players and their role, the pain channel partners are experiencing, and what marketers can do to increase their effectiveness in selling products and services through the channel.

## **Channel sales outpacing direct sales**

For the first time in 2002, indirect revenue outpaced direct revenue in the IT industry, according to IDC. “What this means,” explains Kathleen Hayes, VP Marketing BlueRoads Corporation, a provider of channel CRM software, “is that the majority of business is flowing through the channel. And, it continues to climb dramatically.”

In their book 'The Channel Advantage' authors Lawrence Friedman and Timothy Furey assert:

“There are a handful of companies who have completely dominated their markets by using sales channels creatively to grow faster, drive down their selling costs, and establish a larger base of satisfied, loyal customers. Dell Computer comes to mind. Charles Schwab, GEICO, Fidelity Investments--they come to mind too. These companies have a powerful advantage in their markets, one that is often difficult for competitors to copy or emulate. It's an advantage in how they go to market, and we call it the channel advantage. The rest of us are facing a big problem.”

The problem with companies today, say Friedman and Furey, is that products don't provide as much differentiation as they used to, price cutting no longer lends an advantage, and most companies have reached parity in terms of lowering operating costs.

To differentiate themselves--and increase revenues--companies need to use sales channels to meet customers where and how they want to do business. In other words, companies need to become less sales driven--which is all about numbers--and become more marketing driven--which is all about the customer.

“This is a huge, huge issue,” says Ketchum's Rand. “The old way of pushing information out to the market no longer works because customers can filter, delete, or ignore messages. Companies need to build better relationships with customers. The channel is a powerful element and it's something marketers need to start addressing in their marketing programs.”

### **Quick background: B-to-B channels defined**

The term “channel” has two meanings: it's the way a product gets to the end-user, and it also refers to the channel universe of manufacturers, distributors, resellers, and end-users.

A simple way to envision the channel is to think about how a consumer buys a new computer: he/she either goes to a retail store or purchases it online. Both the retail store and the Internet are distribution channels. If you're Best Buy, you're the reseller and your distribution channels are the Internet and your retail stores. If you're Dell Computing, you're the manufacturer and distributor and your only distribution channel is direct marketing.

(Note: Consumers can bypass Best Buy and Dell altogether and get a computer through the “secondary market” i.e.: eBay. But that's a different article.)

The B-to-B channel and the relationships between the various entities, however, is much more complex, according to Scott Pipitone, President and Chief Creative Officer, Pipitone Group, channel marketing consultants. According to Pipitone, the channel is comprised of the following:

### #1. Manufacturers

This is the company that actually makes the product, whether it's a polymer that eventually goes into roller skate wheels or memory chips for computers and cell phones. Manufacturers are often referred to as "suppliers" or "OEMs"--original equipment manufacturers. Manufacturers sell to distributors, dealers and resellers, and end-users, who are usually large national accounts.

### #2. Distributors

Distributors are usually thought of as the "middleman" because they take product from the manufacturer and sell it to dealers, retailers, and resellers (but never to consumers or end-users). Distributors can be very large corporations, such as Ingram Micro and Tech Data in the IT space, with \$25 billion and \$19 billion in revenue respectively, or they can be much smaller businesses with considerably less scope.

Distributors carry brands from multiple manufacturers and can represent dozens to thousands of resellers. Ingram Micro, the world's largest wholesale distributor, represents 165,000 resellers around the globe.

Distributors are vital to the supply chain because they warehouse product in bulk for the manufacturer and in turn sell smaller lots to resellers. "Distributors provide time and place inventory management to the marketplace," says Tim Curran, CEO, Global Technology Distribution Council (GTDC), an international trade association whose mission is to promote the value of distribution to IT vendors (i.e.: IBM, HP, Oracle, etc.) and Wall Street.

Curran explains, "Say CompUSA has a relationship with Ingram Micro or Tech Data. A store manager calls his distributor rep to say, "We've just had a stock out and need 10 units immediately." It's much easier for the distributor to get the CompUSA store its 10 units than it is for the OEM."

### #3. Resellers, Dealers, & VARs

Resellers and dealers are the channel's "selling machine." They purchase either directly from the manufacturer or distributor/wholesaler and then in turn sell directly to the end-user.

IT resellers are often referred to as VARs--value added reseller--because the VAR's expertise and ability to provide a complete solution to the end-user adds value to the products being sold.

A VAR installing a new IT system for his customer will generally make one call to his distributor for the routers, machines, monitors, software, firewall, and other components he needs rather than make a dozen calls to various manufacturers.

“Like distributors, VARs are an integral part of the market,” states Curran. “Not only does the VAR provide an integrated solution, he is also the point of contact for the end- user, who doesn’t want to call six different suppliers if his system goes down.”

#### #4. Influencers/Specifiers/Affinity

Lesser-known channel partners include those entities that exert influence over purchasing decisions. Influencers, as the name implies, influence the choice of a product or service but don’t actually purchase it. These are often independent consultants.

Specifiers are those businesses, such as architectural firms, who specify products in their plans (i.e.: a specific brand of window for an office building). “An affinity player,” says Pipitone, “could be a small business association that offers a health insurance plan to its members, or a big box retailer, like a Wal-Mart, that offers products and services--cell phones and plans, car insurance, even the cars themselves--to its customers.”

#### #5. Consumer/End-User

This is the person or business who actually uses the products designed by the manufacturer.

### **Top three channel marketing pain points**

The challenges facing those in the channel are dependent on where they are in the channel. An OEM’s problems, for example, include building brand, demonstrating value “downstream,” and generating demand for product.

Distributors, according to Justin Crotty, Channel Marketing VP, Ingram Micro, want to ensure they are relevant to their reseller base and that they get paid for the value they provide to OEMs and resellers. Resellers, on the other hand, want leads and they want help growing their businesses.

However, a number of pain points that affect the entire channel cropped up during the course of our interviews--and it’s these pain points we advise marketers to pay attention to first and foremost.

#### Channel Pain Point #1: Conflict, lack of trust

“Minimizing conflict in the channel is an issue few people are talking about,” states Rand.

Ralph Oliva, Executive Director, Institute for the Study of Business Markets at Penn State agrees. "Conflict exists because many OEMs don’t understand how the channel works. Most don’t understand, for example, how a distributor makes money. Distributors have to constantly

“turn” or sell inventory. When a manufacturer tries to bring on new distribution channels to increase sales, it causes distributors to compete against each other and/or lose sales. It’s sloppy channel management--and it makes channel partners angry.”

Crotty agrees. Distributors, he says, have spent years building their pipelines and efficiently moving product to market and don’t appreciate when OEMs “go direct.” He goes on to add, “OEMs are great at demand generation but really struggle with knowing where product goes. This is distributors’ “value-add.” It’s something OEMs really need to understand--and it’s something we struggle communicating to them.”

Conflict can also occur when an end-user firm grows and decides it wants to deal directly with the OEM. For example, say a small company starts out buying its copier(s) from Office Max. The firm grows and is buying hundreds of copiers versus two or three. Office Max can no longer provide the service and support the firm needs, so the firm’s owner calls Xerox or Ricoh directly, who in turn gives out the name of the local VAR. Then Office Max (the reseller) finds out they’ve just lost the end-user’s business. Commence wailing and gnashing of teeth.

Says Oliva, “These transactional conflicts are common--and they are good in that they mean business is growing--but OEMs, distributors, resellers and VARs don’t know how to manage them with finesse. Hence, there’s more conflict than need be.”

And finally, conflict occurs because channel partners don’t trust each other. For years, says Oliva, OEMs focused only on their downstream partner--the distributor--who in turn insulated the OEM from resellers and dealers. Now that companies are looking at the channel to increase revenue, they want the customer data distributors have been collecting. According to Peter Kowalchuk, Executive VP, Qgenisys, Inc., an IT channel marketing consulting company, “Distributors are sitting on millions of records but have not yet figured out how to use this huge asset to their advantage and that of their partners.” Getting this information can be difficult due to poor communication and/or lack of trust between suppliers and distributors.

This distrust runs up and down the channel and includes resellers--who don’t trust the OEMs, distributors, or each other. Because they sell to the end-users, resellers have a goldmine of customer information. However, this information is not making its way back up the channel due to fear and distrust, the inability of the resellers to mine their databases, and OEMs’ inability to track sales.

#### Channel Pain Point #2: No closed-loop feedback process

Simply put, OEMs have no idea who their end-users are or how long it takes to close a sale once an inquiry is generated. This is because until recently no automated method existed for tracking leads to sales (closed loop feedback) through the channel. And, if the reseller does keep good data, the information isn’t flowing back up to the OEM (see “channel conflict” below).

“It’s an epidemic!” states Hayes. “And people are just starting to realize it’s a real problem. Pressure is building on marketers to provide numbers to the CFO and CEO-- and you can’t do that without data.”

Companies doing direct sales already know how difficult it can be to track leads through the sales process. However, when you're working through the channel, the problem is compounded because of the method of lead processing (not standard for all companies):

OEM -> Marketing -> Field Sales -> Partner/Reseller -> Sales Rep

How long does this process take? "Good question," says Hayes. "A prospect forgets he has asked for information within 72 hours. According to our new benchmark study on lead management, 53% of leads are getting to sales people within three days. However, 19% of leads in the channel aren't made available to a sales person until 4-20 days after the initial inquiry and 23% aren't available until after 21 days. We've seen cases where the average sales cycle is shorter than the lead distribution process, which indicates that a prospect is ready to make a decision while the lead is still stuck in processing!"

Confirms Crotty, "Lead generation and tracking in the channel is one of the codes that hasn't been cracked. Cisco, for example, has a fantastic sales team. For them it's 'feet on the street.' Their field sales and internal sales people work very well together to validate and follow up leads -- however, their lead management system is manual!"

Given this problem, are suppliers rushing to buy Partner Relationship Management (PRM) solutions? Our experts were a bit wary about the topic. "PRM is just CRM for partners." "If inside sales reps aren't going to fill in the blanks in CRM systems, what makes anyone think partners will?" "Companies really need to ensure they have good programs with their partners before they consider PRM software."

But, according to Marc Metzner in his article, "PRM and the Channel Marketing Challenge Today," PRM will become an essential tool because the dropped sales lead rate is so high. He says, "Nearly 80% of vendors generate and distribute leads to their partners at an annual rate per vendor expense of between \$2 million and \$20 million. However, nearly 80% of those leads are 'dropped' by the partner--often because they are not distributed to the right partner in the first place or because there is insufficient vendor follow-up."

"Traditional PRM wasn't designed with the partner sales guys in mind," adds Hayes. "That's why sales guys won't use it. PRM needs to provide a benefit to the partner. It can provide an audit trail for the supplier and it empowers the salesperson. Of course, successful adoption of PRM is based on trust. Will the supplier use the information in a trustworthy manner? Will the supplier share the information across the channel in order to help partners grow their businesses as well?"

Channel Pain Point #3: Adding value downstream

Manufacturers and suppliers have traditionally added value to their downstream partners by giving money to distributors who, according to Kowalchuk, parse the dollars out via tiered levels to resellers in the form of sales and marketing support. This support includes things like "co-op advertising," training, collateral development, financing, and marketing programs. OEMs also

develop comprehensive marketing programs for resellers that include newsletters, mailers, case studies and the like.

However, according to a GTDC survey of 2,500 resellers (with a 10% return rate), there is room for improvement in vendor channel programs. According to Curran, GTDC partnered with Colorado State University and Oregon State University to develop a rigorous survey. Vendor channel programs were evaluated along three “facets” or “lenses”--each of which impacts the reseller and his/her decision process to use a vendor:

A. Instrumental evaluation--Do I make money selling this vendor’s products? If the answer is yes, but “no” to the following two questions, the reseller limits his investment to the short-term.

B. Equity evaluation--Is this agreement fair?

C. Strategic fit--Does the vendor program fit strategically long-term with my company?

Sums up Curran, “If all three lenses are aligned, a reseller will invest significant time in and will align their organization to the vendor program. Manufacturers, however, have been focused internally and tend not to focus on their downstream channel partners. Hence, vendor programs are not aligned with these three lenses in mind. Manufacturers really have to start addressing why resellers aren’t loyal and why they have conflict.”

### **First steps: what marketers can do**

Recent research, says Oliva, indicates that manufacturers want better tools, technology, and approaches to understanding customers and their needs. Indeed, in a recent GTDC survey, suppliers stated they want to accomplish the following:

- o Implementation of programs
- o Avoid conflict
- o Avoid reseller “deception”
- o Resellers committed to their programs
- o Active learning by the reseller of the product
- o Satisfied end-users

To obtain these objectives, channel partners must begin to genuinely communicate and collaborate. “Tim Furey,” reports Oliva, “is doing the research right now on the premise that the deeper the collaboration between channel partners, the better the result.” According to Furey’s preliminary findings, three elements contribute to deeper collaboration:

1. Information must be shared up and down the channel.
2. Programs must be genuinely developed in a collaborative manner.
3. Cooperation between partners must be end-to-end.

Michelle Kabele, Senior Manager Channel Marketing, Zebra Technologies, agrees with these findings. "As a marketer for a company producing specialty printing solutions, I need to know what my end-users want. We realized our first step in getting this data was to work directly with our resellers.

"But let's face it, it's not an easy task--getting the data, that is. Most of these guys have no clue about marketing. When I ask a reseller a question like, 'Who do you sell to?' the answer is, 'Everybody.' And when I ask, 'When was the last time you updated your database?' the answer is, 'Never.'"

Zebra uses a marketing consulting approach when working with VARs. "VARs," Kabele says, "are focused on selling. We interview them every six months to find out what end-users want--and then give it to them. Meeting end-users' needs is what closes sales. But we also want to help resellers grow their businesses, which is one reason I'm working with individual resellers to help them clean up and mine their databases. Zebra is also currently putting together a Web site resellers can use to sell our products. Content will be dynamically generated from our server but the pages will carry the resellers' branding."

"In the end," sums up Pipitone, "it's about helping your customer, whether you're a manufacturer, distributor, or reseller. We surveyed 95 companies headquartered in southwestern Pennsylvania in April 2005. Survey respondents ranked, 'Growing existing channels and identifying new channels' as "very important" to their businesses. Yet these same companies also put channels last in terms of effectiveness behind sales force, marketing communications, and use of technology. Clearly there is room for improvement, and those who elevate the effectiveness of their channels will reap the rewards."

Endnote: MarketingSherpa's special reports usually include more specific tips and tactics for improving your own marketing. Because of the complexity of issues within the channel, we'll be researching and publishing an entire series of channel marketing Case Studies instead.