"The forces of a powerful ally can be useful and good to those who have recourse to them... but are perilous to those who become dependent on them."

Niccolo Machiavelli

(May 3, 1469-June 21, 1527)

CHANNEL STRATEGIES

The discussion has been internally focused in previous chapters: sorting out roles and responsibilities and putting processes in place to get revenue and new business wins under control. While it's important to get your internal house in order, the real world is "out there". Given that your channel strategy defines your "go to market" strategy, it is crucial to get it right.

My first small company experience was with a memory manufacturer. Immediately after joining as VP Sales, I learned that several months before I had joined, the CEO had terminated the company's network of distributors in Asia in favor of one Asia wide (Pan-Asian) distribution partner. For a number of reasons this decision was a disaster and resulted in a loss of 30% of the company's business. It took two years to replace this revenue.

This lesson reinforces the point of the Machiavelli quote, i.e., that partners, in this case channel partners, can have a direct impact on your success. You can severely limit your growth or even ruin a company by making bad channel decisions.

Key Point: *Your choice of channel partners can be a key part of your success or a limit to your growth depending on how wisely you choose your partners. In short, effective channel strategies are key to your company's success.*

The topic of sales channels is a broad and complicated one. To keep the discussion manageable, I'll start with an overview to give you a taste for the available options. Following the overview, the discussion will focus directly on channels relevant to Major Accounts with a specific focus on whether to build an In-House sales team or to outsource the function. I'll briefly discuss the role of indirect logistical partners such as distributors, and wrap up by discussing how to select channel partners and manage them for results.

CHANNEL PARTNER OVERVIEW

Figure 1 provides a top level view of sales channels which cover transactions from a consumer buying a Smartphone (lower right corner) to a Business to Business relationship worth 10's of Millions of $'s per year (upper left corner).

This documents contains opinions concerning business strategies, practices and tactics. Copyright InSite Partners, LLC, 2011. InSite Partners, LLC is not responsible for any detrimental effects stemming from the use of these ideas or suggestions.

Customer Relationship			Product Distribution: Direct	Product Distribution: Indirect
B2B		Internal	In-house Sales Person **Factory to Customer**	In-house Sales Person **Factory to Distributor to Customer**
		External	Manufacturing Representative **Factory to Customer**	Manufacturing Representative **Factory to Distributor to Customer**
B2C		Indirect	Impersonal marketing to customer **Factory to Customer**	Impersonal marketing to customer **Factory to Distributor to Customer**

Figure 1. Top-level view of sales channels available for technology products

The vertical axis, titled **Customer Relationship**, describes the type of entities in the relationship, viz. Business to Business (B2B) or Business to Consumer (B2C). The horizontal axis, titled **Product Distribution**, defines how product is delivered to the customer, whether direct from the manufacturer or through an indirect channel partner.

"Direct" means that product ownership only transfers once, from the manufacturer to the customer. Indirect sales refer to transactions where a channel partner, such as a Distributor, takes temporary ownership of the product prior to the final sale.

Below is an explanation of each of the boxes in the diagram starting with the B2C relationship in dark green.

BUSINESS TO CONSUMER (B2C)

Buying a computer from Hewlett Packard is a good example of a B2C transaction. The product is purchased either directly from HP online or indirectly from a number of online or retail partners such as Amazon or Best Buy.

A consumer will likely purchase this computer without ever speaking to an HP salesperson. Rather, demand is generated through the "marketing mix" which is a balance of impersonal information sources appropriate for that product including advertising, premium retail space, product reviews and trade shows.

Another term for going to market in this fashion is "pull marketing", defined as the process of loading indirect channels with inventory prior to product launch, then generating demand with consumers through a marketing campaign which "pulls" the inventory through the channel.

B2C channels are obviously very different than channels to support Major Accounts, which is our focus for these newsletters. Therefore B2C channels are outside our scope and we will leave our discussion of them here.

This documents contains opinions concerning business strategies, practices and tactics. Copyright InSite Partners, LLC, 2011.
InSite Partners, LLC is not responsible for any detrimental effects stemming from the use of these ideas or suggestions.

With respect to B2B transactions, Figure 1 brackets whether the selling function will be in-sourced or outsourced and whether the customer buys product directly from the manufacturer or from a channel partner who has purchased inventory for resale. Both of these questions are relevant to your choice of channel partners.

The B2B section of Figure 1 is coded in light green and shows all four potential options. The issue of whether the customer buys directly from the manufacturer or indirectly through a channel partner is noted **in bold type**.

Direct Sales

The name gives away the function. The term refers to sales teams that call directly on the customer and therefore own the customer relationship for your company. They are the "one neck to grab" for all issues relating to customer management.

These sales resources can either be on your payroll (In-House) or outsourced to an independent contractor (Manufacturer's Representative).

- **In-House teams.** The advantage of an In-House sales team is focus and control. As direct employees inside your company, they will more easily build trust and better understand how to get things done. On the downside, their salaries are a fixed cost independent of sales volume, so the costs are higher in the early stages of the company when sales are ramping. Because of this upfront cost burden, companies will often enter the market with Man Reps to leverage the benefits of lower cost and improved cash flow, and then transition to an In-House team when cost of sales compare more favorably to outsourcing.

- **Manufacturers Representative Companies (Man Reps).** Man Reps sign agreements with a limited number of manufacturers targeted to a particular market segment. For example, a Man Rep may target companies building wireless systems and therefore choose manufacturers that provide components and subsystems used in the design of those systems. Their portfolio of manufacturers would not include competing products, allowing the Man Rep to act as the "dedicated" sales force for all of the companies they represent.

  In this model, Purchase Orders are placed directly with the manufacturer and the Man Reps are paid a commission on sales after the receivables are collected.

  Selling costs are spread over all of the manufacturers represented, which lowers the average cost to each company. This, combined with the cash flow benefits of paying commissions after receivables are collected makes Man Reps particularly valuable for cash-strapped start-ups. Ideally, your Man

This documents contains opinions concerning business strategies, practices and tactics. Copyright InSite Partners, LLC, 2011.
InSite Partners, LLC is not responsible for any detrimental effects stemming from the use of these ideas or suggestions.

Rep carries complementary lines that allow the salesperson to "drag" sales of your products along with products from other manufacturers. For example, a power supply manufacturer would complement any semiconductor supplier making IC's for system level products.

This strength is also a weakness. Carrying multiple lines also reduces the Man Rep's focus on your products. Ensuring your line is resourced properly will remain an ongoing issue for you in this type of relationship.

It doesn't over communicate the point to say that if you're not the #1 or #2 line, your line will not be proactively sold, at best they will "drag" sales of your products into opportunities for their top lines. This may be okay if your products are very synergistic with their top lines, but if you need proactive, outbound selling, you will do better with a smaller, more focused Man Rep that will give you the attention.

Key Point: *In a Major Account environment, a direct selling team, whether internal or outsourced is a competitive requirement.*

Indirect Sales

Indirect Sales in a B2B context is product sold through companies usually referred to as "Distributors". Distributors are essentially sophisticated logistics companies, managing a large inventory of products across a large number of products and across a large number of competing suppliers. Distributors operate under the "Buy/Resale" model, meaning the distributor takes title to the product and applies a mark-up on cost for resale to the customer.

In a Major Account environment, distributors are managed by your direct selling team and for this reason are often referred to as "two tier distribution" given that the selling team of the distributor and their inventory stands between your sales force and the customer. Distributors do have salespeople that call on customers in an effort to generate new business. Given their lack of technical depth and the breadth of the product portfolio they must support their effectiveness is very limited. In a Major Account, you should consider them as logistics partners and rely on your direct selling team to win and drive your business.

Major Accounts often implement a sourcing strategy that procures their steady state or baseline volumes direct from the manufacturer to leverage the lowest cost, and then engaging a Distributor with local inventory to service any spikes in production. In this model, these distribution partners become part of your sales channel and therefore need to be managed carefully by your direct sales team to ensure terms (particularly pricing) are consistent across all channel partners.

Key Point: *Distributors are essentially logistics companies that provide local inventory and support to their customers. Major Accounts often use Distributors as logistics partners to support production spikes above their consistent, predictable requirements.*

This documents contains opinions concerning business strategies, practices and tactics. Copyright InSite Partners, LLC, 2011.
InSite Partners, LLC is not responsible for any detrimental effects stemming from the use of these ideas or suggestions.

REGIONAL DIFFERENCES AND TRENDS

Historically, the U.S. market has featured a well-developed Distribution network that hasn't left opportunity for Man Rep firms to carry inventory for resale. Therefore most U.S. Man Rep's generate their income solely on revenue booked directly with the manufacturer and then collecting a commission on those sales.

Asia and Europe have evolved differently. Given the language and cultural issues across those geographies, Pan Asian and European Distribution companies have been slow to develop, creating an opportunity for smaller companies to provide local inventory. To fill this need, some Man Reps (known as "Stocking Reps") will purchase and hold a limited amount of inventory for key customers for products they are confident will sell.

Stocking Reps are usually more willing to represent start up companies than "commission only" reps because the initial, modest volumes generated by smaller companies represent a good source of revenue and cash flow when supported through a buy/resale model.

Key Point: *Channels have evolved differently across geographic regions. These differences need to be taken into account when building your strategy.*

EXAMPLE CHANNEL PLAN

The previous section provided an overview of the available options for direct and indirect coverage of your customers. The example provided below will describe the decision process for building out your direct selling team, which is the most important decision you will make when building a Major Accounts program.

To get started, clear marketing objectives are required to build an effective channel plan. You'll need to work with your marketing team to align on a plan that provides:

- **Revenue Goals**. Revenue Goals should be broken out by geography, major customer and key product lines.
- **Served Available Market (SAM).** By definition, SAM represents the revenue achieved if you have 100% share of a market assuming no constraints on your ability to deliver. A SAM analysis that breaks out major customers in addition to competitors highlights immediate targets to build revenue. Your share of the SAM represents your market share, so this analysis needs to be regularly updated to track your progress in the account.
- **Complete Products.** A complete product includes the product itself (what the customer buys) and everything required to make and support the sale. This includes a clear value proposition, effective pricing, and required application support (data sheets, technical support, etc.). Understanding what is already resourced in the marketing plan makes clear what will need to be resourced in the sales channel plan.

This documents contains opinions concerning business strategies, practices and tactics. Copyright InSite Partners, LLC, 2011.
InSite Partners, LLC is not responsible for any detrimental effects stemming from the use of these ideas or suggestions.

Key Point: *Clear marketing objectives are a required precursor to building your channel plan.*

The marketing plan and SAM analysis will identify geographic "centers of gravity" where salespeople should be located. Obviously, salespeople should be physically located as close to their customers as possible.

When deciding whether to build an In-House team or to use Man Reps, the first consideration is cost of sales (see example in Figure 2). The example assumes the In-House Major Accounts salesperson bears a fully loaded cost of $150K USD. For the Man Rep, a 10% commission is assumed, paid in the same quarter as revenue is recognized.

(K$'s)	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Revenue	$ -	$ -	$ 200	$ 300	$ 500	$ 800	$1,200	$1,700
Man Rep@10%	$ -	$ -	$ 20	$ 30	$ 50	$ 80	$ 120	$ 170
Man Rep Cum			**$ 20**	**$ 50**	**$ 100**	**$ 180**	**$ 300**	**$ 470**
In-House Cost	$ 36	$ 36	$ 36	$ 36	$ 36	$ 36	$ 36	$ 36
In-House Cum	**$ 36**	**$ 72**	**$ 108**	**$ 144**	**$ 180**	**$ 216**	**$ 252**	**$ 288**
Delta	**$ (36)**	**$ (72)**	**$ (88)**	**$ (94)**	**$ (80)**	**$ (36)**	**$ 48**	**$ 182**

Figure 2. Cash flow analysis of a Man Rep vs. a single In-House salesperson

With these assumptions, Figure 2 indicates that it takes almost two years into the product rollout before an In-House sales team makes sense purely from a cost of sales perspective.

Therefore, if you're in a start up, cost of sales and cash flow may make Man Reps the only option to launch your program. Another advantage for start-ups is that with teams already in place, Man Reps can provide immediate coverage of your customers.

Note that Figure 2 doesn't assume improved revenues from a dedicated, more focused In-House team. This can be an important factor in your decision given that some Major Accounts strongly prefer to be supported by In-House teams. In fact, in some accounts (Nokia Finland for example) Man Reps are not allowed on site. If your revenue plan is focused on a very few customers, and better yet, if they're in the same geography, the additional upfront costs of an In-House team may generate a good return.

Decisions around product or application support, customer service, and/or the inside sales functions are outside the scope of this chapter.

Key Point: *A well-designed channel plan makes effective trade-offs between the initial cost benefits available from Man Reps and the focus gained from dedicated In-House sales teams.*

HIRING MANUFACTURERS REPS

You are only as strong as the team that you run with. To that point, hiring Man Reps is similar to hiring salespeople, i.e., interviews and references are the primary sources of information to inform your decision.

This documents contains opinions concerning business strategies, practices and tactics. Copyright InSite Partners, LLC, 2011.
InSite Partners, LLC is not responsible for any detrimental effects stemming from the use of these ideas or suggestions.

Just as when hiring salespeople, a clear requirements document is needed to ensure that you and those involved in the interview process are clear about your expectations. These expectations should include coverage requirements, resources and skill levels that the winning Man Rep should provide.

Each Sales Executive has their own style and process for making hiring decisions, so I'll just share some points to consider when selecting Man Reps.

- ***Independent* references.** References provided by the candidate can be helpful, but nowhere near as helpful as an independent source. To that end, references not provided by the candidate are your best source of information.

- **Interview as a *team*.** Interviewing is best conducted as a team sport. Involving stakeholders in the decision brings different perspectives to the interview, improves the selection process and generates automatic buy-in for the new hire. This is particularly important in sales, where the Man Rep will effectively work across functions in the company. To that end, your marketing team should be part of the interview team.

  If you use a team interviewing process, an effective way to organize the output is with a simple matrix. The example provided in Figure 3 takes an average score across the interviewers (top section) weighted for the hiring characteristics drawn from the job description.

Score 1-10	Technical Skill	Comm Skills	Cust Contacts	Can Close	Total
Candidate 1	3	8	2	8	21
Candidate 2	9	4	8	3	24
Candidate 3	2	9	2	8	21
Candidate 4	8	3	9	2	22
Weight	0.2	0.4	0.1	0.3	1
Candidate 1	0.6	3.2	0.2	2.4	6.4
Candidate 2	1.8	1.6	0.8	0.9	5.1
Candidate 3	0.4	3.6	0.2	2.4	6.6
Candidate 4	1.6	1.2	0.9	0.6	4.3

Figure 3. Sample interview matrix showing weighted summaries for each candidate

Of course you won't make your hiring decision off of a spreadsheet, but this analysis does help clarify your thinking and helps communicate the results of the process to the interview team.

Key Point: *Hiring decisions are critical and based on relatively little information. This underlines the importance of involving as many sources of evaluation as possible.*

This documents contains opinions concerning business strategies, practices and tactics. Copyright InSite Partners, LLC, 2011.
InSite Partners, LLC is not responsible for any detrimental effects stemming from the use of these ideas or suggestions.

Require a *Business Plan.* When interviewing Man Rep's, the meeting should begin with their presentation of a business plan for your line. You should ask them to provide a revenue profile and a strategy to drive the results they believe they can generate for your company.

The best plans will provide a SAM analysis, potential revenue for targeted customers, and a resource plan. You'll learn a lot about their ability to build a strategy along with getting commitments on revenues and resourcing that you can hold them accountable to later.

Key Point: *Requiring a potential channel partner to present a business plan as part of the screening process allows you to gauge how well they understand their business and it sets expectations for results if they're hired.*

The most important criteria in evaluating a Man Rep are the quality of their salespeople and the processes used to run the business (these usually go together). You can get some sense for skill sets by interviewing team members, but the real test is how they are positioned in their accounts and what kind of market share they are driving for the manufacturers they serve.

Willingness to resource your line properly is important and can be a particular concern if one manufacturer dominates the candidate company's revenues. On the flip side, a Man Rep that has just lost a manufacturer could be an excellent fit. Bottom line, you need to be comfortable that the Man Rep you select is hungry enough to actively resource and drive your product line when you're not watching.

The companies that the Man Rep represents should not have competing products. Ideally, the products are complementary, i.e., that customers would evaluate a product from one manufacturer at the same time they are evaluating a product from another. Good salespeople love these synergies as they can sell multiple products on the same sales call and can offer bundled pricing when quoting business. Further, a lead for one product is usually a lead for the complementary product as well.

MANAGING MANUFACTURERS REPS

As with any other relationship, getting started on the right foot is important. Specifically, you need to get acceptable terms in the contract and set the right expectations regarding results. Regarding your agreements, they should be one sided in favor of you the manufacturer. Except in start-ups where you lack leverage, you can and should adopt a "take it or leave it" approach to terms.

These agreements should be kept simple and held to a few pages. There are only a few specific terms that you need to make sure you get right:

- Commission Rate. An appropriate rate is one that compares favorably to your cost of an in-house resource performing the same service. With this in mind, start up companies usually pay 15% and higher on revenue since the Man Reps may be making a significant investment up front. High volume relationships can go as low as 1% to provide a competitive rate against an In-House team.

Negotiating different commission rates for different customers or products is appropriate. For example, if the Man Rep is supporting a customer with substantial existing revenue, this volume should be at a very low rate (which still generates substantial commission dollars) while new customers would be at a higher rate. You may also want to provide higher rates as an incentive for products that are more difficult to sell or for new products where the initial revenue wins are crucial.

- Termination. However it is worded, make sure that you have the ability to terminate the relationship for any reason (known as termination for convenience). Your channel strategy is too important to be held hostage to a third party. You need to be able to make a change whenever and for whatever reason you feel appropriate. It is standard to provide notice of termination, typically in the range of 30 to 60 days.

- Termination Privileges. Like an employee, a Man Rep should have some benefits upon termination to allow them to shift resources to other opportunities and get some benefit for business they've generated. It is common to allow them to ship backlog with ship dates within 90 days of the termination date.

  Termination privileges are the most hotly negotiated terms after the commission rate. If you're a small company you may need to flex a bit here. I've inherited agreements that allow a year, but I am very reluctant to grant anything beyond 6 months Enduring a grace period longer than six months forces you to either endure an extended transition period with an unmotivated partner or to pay double commissions.

- Payment Terms. Man Reps should be paid after your company gets paid. This ensures they are motivated to see that receivables are collected.

- Changes to Terms. The contract should allow you to change any of the commercial terms at any time. For example, you may want to bring on a new Man Rep and reduce the size of their territory, or, you may even be required to change commission rates due to you prospects. This flexibility is not often required, but when it is you'll be glad you made this provision.

Key Point: *Agreements with Man Reps should provide flexibility to make changes in terms at any time. These kinds of terms are standard in the industry and should be in your agreements.*

This documents contains opinions concerning business strategies, practices and tactics. Copyright InSite Partners, LLC, 2011.
InSite Partners, LLC is not responsible for any detrimental effects stemming from the use of these ideas or suggestions.

MAN REP REVIEWS

The management dictum “you only get what you measure” is certainly true when it comes to Man Reps. Frequency of reviews is a function of the size of the relationship. If a Man Rep is managing a large or strategic customer, reviews should be held monthly. At a minimum, reviews should be held quarterly to make sure the teams stay aligned and updated on status. Agenda items should include the following:

- Status of Actions from the previous meeting.
- Revenue and New Business Review. A discussion of progress to revenue and design win targets allows you to gauge performance and surface issues that need to be addressed in product or technical support.
- Resourcing. Like any small company, Man Reps are strapped for resources so ensuring they’re resourcing your line properly is always a discussion point and a constant battle. Stick with it, being vocal will help you greatly.
- Actions. You should manage Man Reps assuming they will forget about you when you leave. Make sure to take careful notes on actions and issues and promptly publish them after the review.

Manage Man Reps as you would manage employees; be tough on results, but be fair and minimize surprises.

Key Point: *The management dictum “you only get what you measure” is also true when managing channel partners, so make sure you put a review process in place and stick to it.*

SUMMARY

When it comes to channel partners there are many business models available to you as the Sales Executive. In a Major Account environment, the major decision is between outsourcing the function to Manufacturers Representatives or whether to build an In-House team.

Small companies usually start with Man Reps because the early costs are lower and then transition to In-House teams as the business builds. Distribution partners are also available to provide local inventory and support if needed.

When engaging Man Reps, you’ll need to make sure you get very flexible and favorable terms in your agreements. You’ll be glad you did later.

Improving and upgrading your channel as the business grows will be a meaningful part of your responsibility as the Sales Executive and the processes we’ve discussed in earlier newsletters will be helpful to you in that effort.

In addition to processes that manage the overall business, Account Reviews and Strategic Account Plans set expectations and plans for individual sales territories and Major Accounts. We’ll turn to that topic next.

This documents contains opinions concerning business strategies, practices and tactics. Copyright InSite Partners, LLC, 2011.
InSite Partners, LLC is not responsible for any detrimental effects stemming from the use of these ideas or suggestions.