KEY CONSIDERATIONS FOR EXAMINING CHANNEL PARTNER LOYALTY

AN ICLP RESEARCH STUDY IN ASSOCIATION WITH CHANNEL FOCUS – BAPTIE & COMPANY

NOVEMBER 2014
Executive summary

The changing landscape

During this time in the IT industry - when both vendor and channel partner business models are evolving and end customer relationships with their technology providers are changing - achieving and managing channel loyalty is increasingly complex.

These significant shifts are creating new business opportunities and operating environments that are challenging traditional procurement patterns. With lines of businesses becoming more involved in determining their requirements for cloud-based services, both vendors and channel partners need to establish new best practices to increase revenue and growth.

The impact on channel loyalty

With more and more vendors selling direct and partner margins shrinking, is channel loyalty achievable in today’s market? Is it a goal that vendors strive for? Do channel partners trust vendors enough to invest in building long term relationships? In this new world where customers are more uncertain than ever, who wields the most influence?

In order to evaluate the channel loyalty environment and establish the views and observations of vendors and partners alike, ICLP commissioned a research study in association with Channel Focus – Baptie & Company. In conducting and analysing both online survey results and in-depth interviews, sizeable gaps in perceptions between vendors and partners have been identified. In summary, the 4 key findings are:

- Channel partners that sell cloud solutions believe vendor relationships (and loyalty) are more important than ever before.
- Channel partners who are selling 2 and 3 year subscriptions to their customers need to trust that the vendors who make up that solution are going to continue to invest and support that solution for the long term and not alter commissions to the detriment of the partner.
- In the era of the cloud, partners are choosing to work with fewer vendors.
- Cloud solutions are multi-year contractual agreements involving the partner, end customer and vendor. These long-term commitments mean partners would rather invest their time with one, maybe 2 vendors of a solution. In a resell/transactional world, there is much less commitment and a partner can easily switch between vendors from one quarter to the next.

Vendors need to do a lot more to better understand their partner’s business models.

With the exception of ‘born in the cloud’ vendors, many vendors still rely on historical partner types and segmentation to drive their partner programmes and communications. More effort is needed to update partner profiles and business needs in order to be more relevant and help partners be more successful selling cloud solutions.

Vendors who invest in helping partners build their brands will be able to build deeper and more profitable relationships.

Partners that have moved from a resell model to a more managed service business are focused on building their brand as a provider of business solutions and less as a vendor ‘Gold reseller’. Vendors that understand and support this new brand hierarchy are creating new tools and re-aligning some of their existing tools and benefits to attract and retain this new breed of partners.
Key findings

1. Channel partners are embracing cloud but remain focused on their core business

Though forecasted channel growth in cloud is strong, partners aren’t expecting cloud to transform their business in the next couple of years, with both partners and vendors forecasting a 15% increase in the next 2 years (see figure 1). Partners and vendors still rely on traditional hardware, software and services for the majority of their revenue.

The challenge therefore for vendors is in creating a partner strategy that will appeal to partners that have a mixed model (i.e. hybrid), and will likely do so for some years to come. Understanding which partners are doing business in the cloud or how much of their business is in the cloud is critical in helping vendors craft propositions that meet the needs of partners in today’s market.

Another challenge for vendors in supporting hybrid partners is defining the best way to engage with them. Often a vendor’s cloud and traditional businesses are treated as separate entities, each with its own partner programme competing for the same customer.

From a partner’s perspective they experience competing propositions, different rules of engagement and twice as many email communications, tools and even account managers. Finding an approach to engage with partners in a way that is efficient and valuable for the partner will go a long way in helping them evolve their businesses and grow by selling vendor’s cloud solutions.

Figure 1: Future predictions of cloud Vs. non-cloud business

<table>
<thead>
<tr>
<th></th>
<th>Today</th>
<th>In 2 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>10%</td>
<td>40%</td>
</tr>
<tr>
<td>Vendors</td>
<td>50%</td>
<td>30%</td>
</tr>
</tbody>
</table>
Key considerations for examining channel partner loyalty

In order to grow cloud business with traditional or hybrid partners, vendors should consider:

Taking an ‘outside looking in’ approach to assessing your go-to-market programmes

Partners will continue to work in both traditional and cloud models, so closer alignment between programmes will make vendors more relevant. Where possible, consolidate and align them to present a more unified, vendor-led proposition that values the total relationship vendors have with that partner.

Investing the effort to build more complete partner profiles

Use partner programme and sales data to identify those partners that are fully engaged in the cloud (e.g. certifications, sales data), those that are selling infrequently (e.g. sales data), those that show interest (e.g. attended a webinar) and those that have not yet taken the plunge. Vendors can also enrich their understanding of partner profiles by requiring their sales or account managers to provide input and from carrying out, simple, desk-based audits of partner websites.

Recognising and rewarding the investment partners make upfront

In order to transition their business to vendor cloud solutions, retraining staff to sell and service cloud solutions, educating customers and generating demand take considerable investment and time. Focusing all of the financial incentives solely on the transaction is no longer enough. Investing in the partner’s presales efforts will go a long way in building loyalty. Compensating them with resource support and expertise and introducing loyalty-based programmes where partners can accrue value by completing tasks and achieving goals are some of the things vendors are doing to address this need.
2. Channel partners rate programme engagement and early technology adoption as key loyalty indicators

From the vendor perspective, the strongest indication of loyalty is the early adoption of their technologies followed by more active involvement in channel programmes. Positively, channel partners are in agreement that vendors demonstrate loyalty (over 50%) in 5 out of the 8 categories, as indicated in Figure 2.

Interestingly early adoption is rated by channel partners as the one behaviour that they associate most with loyalty. From a vendor perspective this should be good news as it is something that can be easily tracked and monitored, helping to identify those more loyal partners.

Partner programme engagement is another interesting metric that can be easily tracked. It may not be a direct revenue indicator and may be overlooked as a meaningful KPI but, as an indicator of loyalty, it reinforces the importance of focusing on driving engagement through targeted promotions, incentives and partner communications.

Continuing to do business with a vendor (63%) and encouraging customers to buy the vendor brand (54%) are also positive indications that engagement and loyalty ultimately drive longer-term advocacy.

Key recommendations

- Consideration needs to be given to these loyalty drivers and their part in the channel partner ecosystem to drive and motivate more loyal partner behaviour. Vendors must consistently consider their programmes from the partner’s perspective.
- Vendors can use these loyalty indicators (specifically early adoption and programme engagement rates) to profile partners, and identify those with the greatest on-going potential.
- Relationships drive loyalty, so vendors need to focus on key issues defined as top challenges by partners, including access to technical support, ease of doing business, etc., as these will drive the loyal behaviours vendors seek in order to improve their own commercial performance.

Figure 2: Partners loyalty indicators to vendors they feel loyal to

- I am actively involved in their channel programme
- I tend to have more of their certifications
- I am an early adopter of their new technologies and products
- I will continue to purchase from them in the future
- I encourage and educate my customers to buy their brand
- I would go out of my way to do business with them
- I would be willing to pay a small premium price for their products and services
- I am less willing to switch to one of their competitors

Percentage of 4 and 5 responses on a scale of 1 to 5
3. Vendors must do more to meet partner expectations

During this complex time of industry changes, vendors warrant a new vision that incorporates fresh approaches to partner enablement. The efforts and investments being made should be based on what is most important and will make the most impact on channel partners. The research findings highlighted some key gaps between what partners want from vendors and how they perceive vendors to be delivering in these key areas.

Understanding how well a vendor thinks it is performing continues to play a major role in the development of a successful partner programme. From a true understanding of revenue opportunities the vendor provides, to lead generation, there is definitely room for improvement, as indicated in Figure 3.

Partners feel there is a long way to go when asked how well vendors are doing in achieving their loyalty; the difference between perspectives when understanding the importance of driving loyalty is clearly demonstrated.

### Figure 3: Loyalty behaviour indicators – What channel partners want from vendors and gaps in delivery

<table>
<thead>
<tr>
<th>Service</th>
<th>Importance to partners</th>
<th>Delivery by vendors</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of timely information</td>
<td>91%</td>
<td>44%</td>
<td>48%</td>
</tr>
<tr>
<td>Support with lead generation</td>
<td>91%</td>
<td>40%</td>
<td>59%</td>
</tr>
<tr>
<td>Marketing support</td>
<td>89%</td>
<td>40%</td>
<td>49%</td>
</tr>
<tr>
<td>Account management</td>
<td>84%</td>
<td>61%</td>
<td>23%</td>
</tr>
<tr>
<td>Financial compensation</td>
<td>83%</td>
<td>61%</td>
<td>22%</td>
</tr>
<tr>
<td>Additional revenue opportunities</td>
<td>75%</td>
<td>27%</td>
<td>48%</td>
</tr>
<tr>
<td>Avoiding conflicts in detail registration</td>
<td>68%</td>
<td>35%</td>
<td>33%</td>
</tr>
<tr>
<td>Access to technical experts</td>
<td>64%</td>
<td>40%</td>
<td>24%</td>
</tr>
<tr>
<td>Ease of doing business</td>
<td>62%</td>
<td>54%</td>
<td>9%</td>
</tr>
<tr>
<td>Points/rewards</td>
<td>29%</td>
<td>12%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Importance to partners, Delivery by vendors, Gap
Key recommendations

The partner ratings of vendor performance provide direction on the areas against which reviews on initiatives can be conducted to look at where improvements can be made. Some ideas and recommendations are outlined below:

Ease of doing business

Create social platforms or forums to help partners with questions or organise partners in groupings of similar partner structures and have one account person managing those accounts for real-time support.

Timely and consistent communication

Create a consistent flow of communication through email, social posts and phone contact to keep partners informed. Create consistent and integrated to-partner marketing efforts to help them know when communications are coming and which vehicles they come in to create a timely and consistent approach to delivering relevant communications.

Deal registration to avoid channel conflict

To help put a stop to channel conflict; create a system internally to assign leads to partners and track their success in closing. If they are not closing; that the opportunity will be sent to another partner or provide incentives to help close the deals. This will increase their willingness to close deals, with the proper support, and engage with the vendor more often.

Access to technical expertise

To help partners close deals and work new opportunities, group partners in similar profiling mechanics and assign one technical expert to them for real-time assistance in technical challenges.

Additional revenue opportunities

Create MDF or co-marketing efforts to support partners’ growth while increasing overall revenue build.

Compensation and rewards

Whilst financial compensation will always be significantly important to partners, vendors should look for alternative rewards and recognition strategies; such as the introduction of a points currency where partners build up points to redeem against relevant rewards to further motivate and recognise loyal behaviours. Some vendors are already introducing such loyalty-based programmes where partners can accrue value by completing tasks and achieving goals.
4. Vendors don’t meet partner expectations when it comes to supporting them in selling cloud solutions

Vendors need to better understand partners and their appetite for cloud solutions. It is important that vendors understand what their partners are selling or not selling. Once identified, crafting appropriate proposition messages or incentives to respective partners through a single programme and engagement strategy will be possible to meet a wider range of partner needs while advancing market penetration.

5. Vendors don’t feel they’re doing a good enough job to support Tier 3 and 4 partners in selling their cloud solutions

Most vendors have a deep understanding of their top tier partners. These partners are individually account managed, fully supported and usually have a long history backed up with sales data and partner programme information. However research indicates (see figure 4) that vendors don’t feel they are doing a good job with Tier 3 and 4 partners, although these tiers do provide a large opportunity for revenue growth for vendors.

In the US, 95% of all businesses are small businesses, making this a true area of growth for the vendor. Tier 3 and 4 partners may be smaller but they are also more agile and adaptive to rapid change.

Vendors need to understand this diverse partner segment which is no easy feat. For every common trait shared by a small partner (e.g. lack of marketing resource) there will be another data point that differentiates a partner, whether that’s the mix of services they offer, the vertical they target or where they are located. A vendor needs a programme with the right balance of incentives and communications to engage and support these partners to aid their success. Fortunately, most of the information a vendor needs to build up a complete or near-complete partner picture of its Tier 3 and 4 partners is available through the partner programme and sales data from distributor partners.

SMB partners who are new to cloud need to be convinced of the business opportunity being offered and require education on how they can make money from cloud solutions. Once they buy into the proposition, help is required in the transitioning of their business; including people training, updating their website, creating demand and selling in the solution. These are all elements that can be provided through a partner programme and via other online channels to help them reach the potentially vast partner base.

Tier 3 and 4 partners also require support with contract renewals as they may not be set up to handle recurring business and given the increased profit to be shared in year 2 and in year 3, this is the area that vendors should really focus on when supporting partners. Vendors have a great opportunity to provide them with timely information to lock in early renewals and facilitate that renewal process with attractive commissions.

Key recommendations

- Recognise the investment that partners need to make for cloud entry and reward those behaviours. Partners recognise the vendors who execute well in the areas that matter to them. Vendors need to know what their channel partners need to build a successful loyalty programme.
- Most vendors today still allocate the majority of financial incentives (rebates, MDF, deal registration) on traditional solutions and rewards are only recognised upon a confirmed sale. For a partner to retrain their sales team to educate customers and sell cloud solutions involves additional time and cost investments long before some of those first sales are made. Demonstrating an understanding of the demand on their business and backing that up with recognition, support and incentives during the pre-sales process will strengthen relationships and encourage the partner to maintain that commitment.
Figure 4: Loyalty indicators by tier of partner
How well do partners think vendors are doing?

- Look at all partners. Vendors may be doing well with tier 1 and 2 channel partners but what about tier 3 and 4? Ignoring these lower level channel partners can leave vendors vulnerable to competitive influence. These partners will expand market reach into the largest segment of business, the SMB market.

- Make it easier for them to engage as they transition their business, by creating modular ‘tracks’ in the partner programme with varying services that will help them be better equipped for selling cloud solutions (e.g. finance, sales training, market opportunity). Generating insights from partner data will enable vendors to push segmented propositions to suit different partners’ needs and opportunities. For example the owner of a small reseller will be most interested in understanding the impact on cash flow if they transition a percentage of their business to cloud. Targeting the owner with a webinar that addresses cash flow and describes how selling cloud solutions can create a recurring annualized revenue stream that can be more profitable that traditional business will be more effective than promoting sales incentives in the first instance.

- Invest resource to better understand unmanaged partners. Combine partner profile information with the last 4 quarters of sales data to identify partners that have the greatest potential to sell more cloud solutions. Given the large volume of data involved, this can only be achieved by carrying out data analytics to chart partner-specific trends and unlock insights. This exercise will identify distinct partner segments that can be targeted with relevant and timely engagement, training and sales driven messages.
6. Channel partners DO want to build valuable relationships with key vendors

Partners continue to ask vendors to support them in areas that will free them up to concentrate on sales and customer service. This includes making things easy in terms of the relationship but also regular and relevant communications, from providing support when it’s most needed through to incentive programmes that will make it all worthwhile; partners need to know the vendor has their best interest at heart.

Despite the gaps previously indicated as key areas of focus for improving partner loyalty, the majority of partners are indicating that vendors could significantly improve their approach to achieving partner loyalty. Only 38% stated that they felt vendors were positively doing well, as indicated in figure 5. There is however a long way to go to improve vendors efforts in driving partner loyalty.

As cloud offerings evolve, there is often less possibility for flexibility due to fixed processes; therefore relationship building with partners is key to creating meaningful and loyal relationships.

**Figure 5: How well are vendors doing at achieving partner loyalty**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Well</td>
<td>5%</td>
</tr>
<tr>
<td>Very Well</td>
<td>10%</td>
</tr>
<tr>
<td>Expecting</td>
<td>15%</td>
</tr>
<tr>
<td>Satisfied</td>
<td>20%</td>
</tr>
<tr>
<td>Partially satisfied</td>
<td>25%</td>
</tr>
<tr>
<td>Not very well at all</td>
<td>30%</td>
</tr>
<tr>
<td>Not well at all</td>
<td>35%</td>
</tr>
<tr>
<td>Disappointed at all</td>
<td>40%</td>
</tr>
</tbody>
</table>

Percentage of partners answering on a scale of 1 – 5
About ICLP

We drive customer devotion. We give your customers compelling reasons to engage, spend more and become loyal advocates - whilst delivering commercial results for your business.

As a worldwide leader in loyalty marketing and CRM, ICLP builds loyalty and creates devotion. From acquiring customers and understanding them as individuals, to creating relationships that engage, reward and inspire loyalty, we turn customers into advocates and relationships into profit – and have done for over 25 years.

We have global experience in B2B and B2C loyalty marketing in multiple industry sectors including retail, travel, financial services and technology. Our expertise is underpinned by the skills and talents of over 600 talented colleagues who work across our 16 offices for clients in over 170 countries. With customer data at its heart, together we uncover insights, determine and deliver tailored experiences that create loyal customers and improve commercial performance.

ICLP is a Collinson Group company. Collinson Group is a global leader in influencing customer behaviour to drive revenue and add value for our clients.

With a unique blend of industry and sector specialists, the group develops and delivers market-leading products and services to help build, manage and optimise customer relationships across four core capabilities: Loyalty, Lifestyle Benefits, Insurance and Assistance.

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About Baptie & Company

The Baptie Channel Focus Community is the world’s largest and most successful community dedicated to channel professionals in the key vendors in the IT and telecom industry.

They have one of the largest bodies of best practice and how-to information in the world, with over 5,800 active members sharing their thoughts and ideas, a series of webinars, experts ready to answer your questions, leading bloggers discussing the key issues affecting the channel today, the Channel Focus conference as a leading industry event and much more.