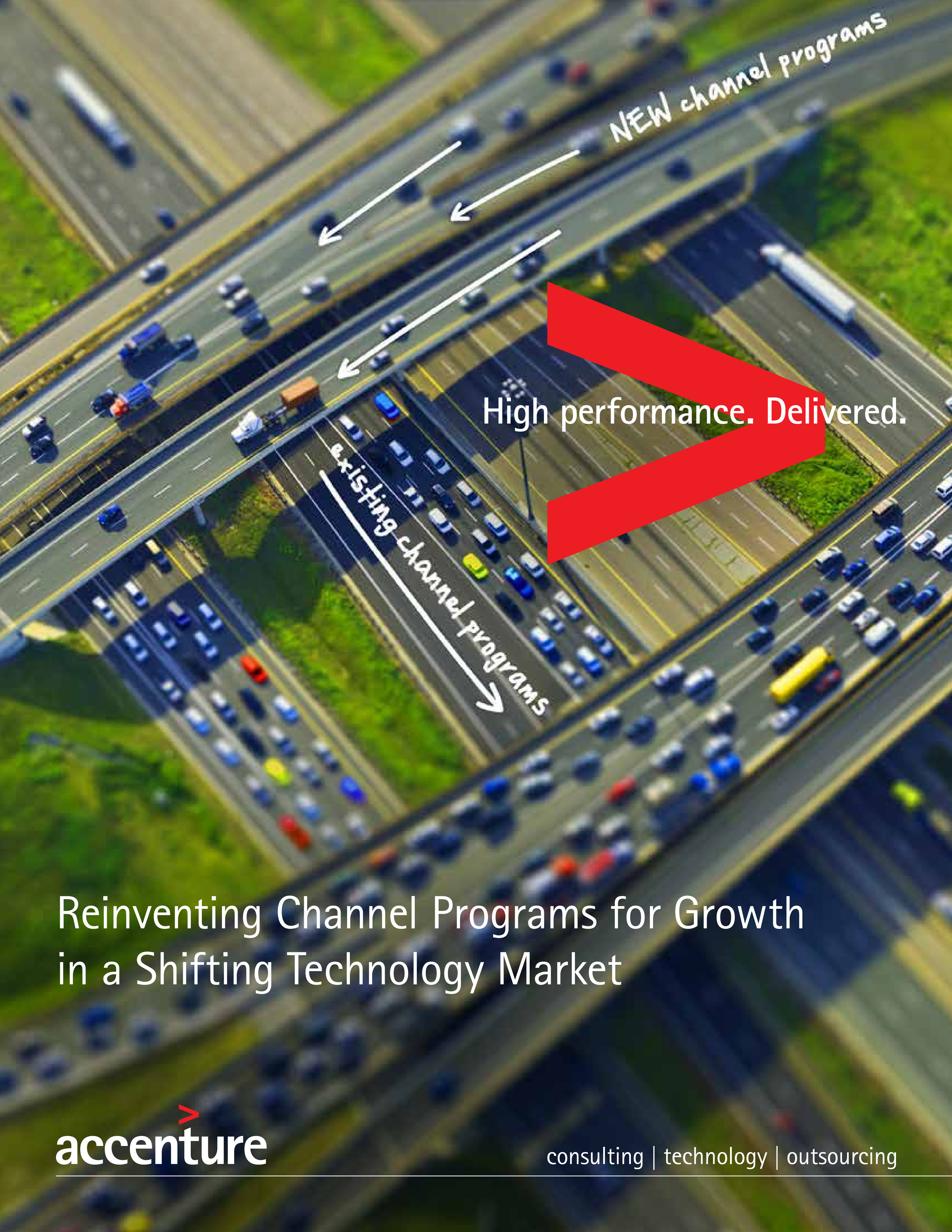

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Reinventing Channel Programs for Growth in a Shifting Technology Market

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Updating partner programs has become a major priority for technology executives. Recent research shows revising channel strategies is one of the top initiatives among sales executives at technology companies, while numerous organizations have recently announced major refreshes to their partner programs in response to changes in the converging technology market.

But today, simply updating or refreshing programs is fast becoming insufficient for technology companies looking for growth in a rapidly changing market marked by such trends as the shift to cloud computing and "anything as a service" (XaaS), the increasing involvement of business buyers in technology purchasing decisions, and the growing importance of the midmarket. Instead, companies need to enact a fundamental transformation of their partner programs to ensure they provide the right incentives and support to capitalize on new growth opportunities.

Such a transformation is particularly urgent in light of an overall softening of the technology sector. International Data Corporation (IDC) recently revised its projection for growth in worldwide IT spending in 2013 downward—from 4.9 percent to 4.6 percent, which is already on top of a drop from 6 percent in 2012.[1] Companies need to respond, and in a way that builds channel confidence that they (the technology companies) are looking out for profitability and growth for not just themselves, but also their partner community.

In this paper, Accenture explores five guiding principles that could help technology executives assess their partner programs to ensure their programs—and their partners—are up to the task. These principles include:

- Simplifying the channel program to improve the partner experience
- Creating new incentives to encourage the pursuit of new market opportunities
- Ensuring the partner mix has the right skills and competencies to pursue new market opportunities
- Refining the partner program brand and segmentation to span multiple offers
- Leading partners along the program evolution journey to help them transform their businesses

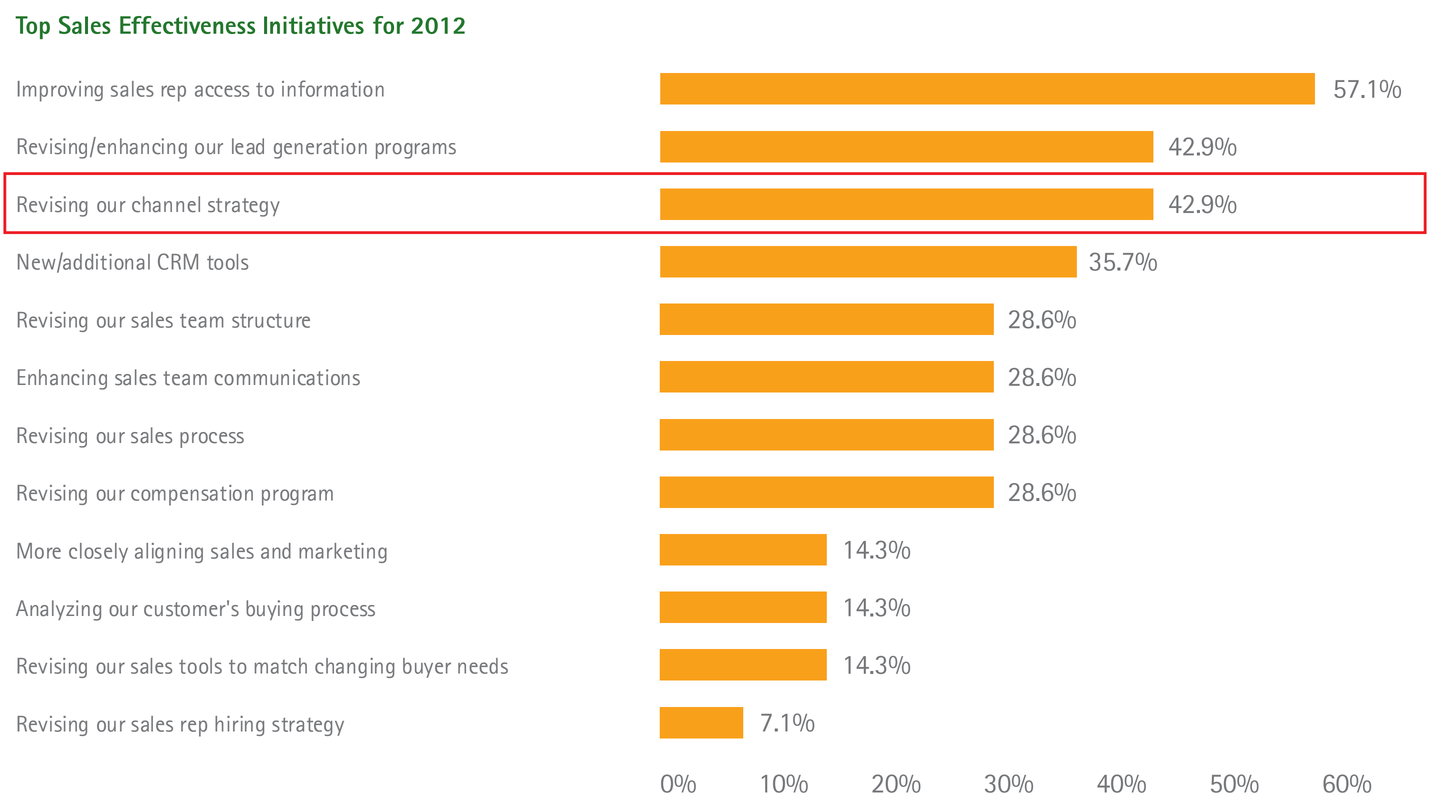
The Critical Role of the Indirect Channel

For most technology companies, the indirect channel has been and remains a vital part of their business. Some companies, such as SAP, drive about one-third of their sales through the indirect channel, while others, such as Cisco, generate upwards of 80 percent or more of their revenue through channel partners.

Given those figures, it's not surprising that technology companies spend a lot of money supporting the indirect channel. On average, the typical technology company today allocates 3 percent to 5 percent of its annual revenue to partner incentives. For a $10 billion technology company, that translates into approximately $300 million to $500 million spent annually to incent partners to sell current products in existing markets.

With channel partners responsible for so much of a technology company's revenue, and the substantial sum that technology companies invest to manage their channel relationships, having a high-performing channel is a business necessity. That fact is not lost among technology decision makers. In a 2013 study by Accenture and CSO Insights[2], 43 percent of sales executives surveyed cited revising their channel strategy as one of their top sales initiatives for the year (tied for second place with revising or enhancing their lead-generation programs) (Figure 1).

Figure 1. Revising their channel strategies is among the top sales initiatives for technology companies.



Source: CSO Insights' 2013 Sales Performance Optimization Study

Three Trends Are Heightening the Pressure to Change

Adding fuel to the fire is the fact that the technology industry is undergoing fundamental changes beyond the convergence that has characterized the industry for the past decade. These changes are having a major impact on how technology companies go to market, and are forcing companies to take a closer look at the program partners and channels they use to ensure they adequately support the agility technology companies need to reach and capitalize on new market opportunities.

Cloud services growth

One of the biggest changes in the industry is how new delivery methods (especially cloud computing and "anything as a service," or XaaS) are shifting the way companies consume software and hardware products—from capital purchases to subscription-based services. For instance, Gartner estimates that in excess of $244 billion will be spent on public cloud services worldwide by 2017[3], and IDC predicts that Software-as-a-Service (SaaS) vendors will grab one or more of the top market-share positions in more than half of the major application software markets.[4] As customers switch to subscription-based models, technology companies are finding the old ways of working with channel partners are quickly losing relevance. For example, subscription service activation, ongoing usage, and renewal become critical metrics in this new world.

More business buyers

Furthermore, increased IT purchasing from Line-of-Business (LoB) owners is making business relevance more important in buying decisions. IDC predicts that by 2016, 80 percent of IT investments will directly involve LoB executives, with such executives being the lead decision makers in half or more of those investments.[5] This trend is forcing a shift from selling products by emphasizing features and functions to selling solutions by focusing on business benefits. And that requires a deep understanding of the needs of these new business buyers, often specific to their business function, the industry vertical in which they operate, and how they work with their value chain partners.

Strong midmarket demand

Finally, midmarket companies are quickly becoming an important growth market for technology products and services. Such companies—those with 100 to 1000 employees—historically have been underserved due to their limited budgets. But the segment's appetite for technology remains strong, and the new delivery methods mentioned earlier now make it much more feasible for technology companies to pursue midmarket firms. In fact, according to Gartner, IT spending in the midsize categories will be $646 billion by 2016, growing at a CAGR of 4 percent through 2016.[6] It's difficult for any growth-oriented technology company to ignore the potential in these figures.

However, cracking the midmarket segment is not easy. While such businesses have many of the same needs as a big business, they have smaller IT staffs and budgets. That means technology companies cannot take the same approach to this market that they use for their enterprise customers. The size of the midmarket is calling for focused strategies that allow companies to increase their coverage, while providing the right partner support infrastructure that can scale to the size of this promising market.

As they think about their channel strategies, technology companies should consider the aforementioned trends and more closely scrutinize their partner program to ensure the programs and their partners are up to the task. More specifically, they should focus on five key questions:

1. What new incentives and competencies are needed to drive the appropriate partner behaviors?
2. What new partner types should be recruited and rewarded? Which existing partners need to be up-skilled?
3. How should the partner program brand evolve to accommodate new programs and partner types?
4. What steps should technology companies take to accommodate new programs without increasing program portfolio complexity?
5. How should technology companies lead partners along the program evolution journey?


Midmarket
Cloud
Business buyers

Five Principles to Guide Change

In Accenture's experience, the answers to these questions typically reveal the need for technology companies to transform some aspects of their partner program—whether it's the types of partners included, the partner program's overall brand, the offers or solutions that are sold through partners, the specific elements that support the partner program, or the market segments partners will target (see sidebar on page 7). Based on our work on channel strategies and programs with leading organizations, Accenture has identified five key principles that can help guide technology companies in their efforts to create partner programs that can more effectively address the needs of their businesses in today's rapidly changing technology industry.

Principle #1

Create new incentives to encourage the pursuit of new market opportunities.

Providing the right incentives to encourage the desired partner behavior is one of the most important dimensions of a partner program. But the incentives that were "right" for past industry paradigms increasingly should be augmented with—or, in some cases, replaced by—new incentives that are more appropriate for today's selling environment.

Cloud services

For example, incentives based on a percentage of the value of the sale of an individual unit—a software license, a server, or a laptop, for instance—provide little encouragement to sell cloud services that are not defined by a "moment in time" transaction. Instead, cloud/Xaas incentives should be based on cumulative metrics, such as total contract or lifetime value.

Line-of-business purchasers

Similarly new thinking is required when it comes to selling to increasingly prominent LoB purchasers, who are more concerned with solutions that solve business problems than specific technologies. While partners may tend to be content selling the latter, because it's what they know best, incentives that help them to earn more money by selling integrated solutions can provide the motivation for them to step out of their comfort zone.

Midmarket companies

To encourage partners to sell into the midmarket, technology companies need to provide incremental rebates and incentives to partners—above and beyond their regular compensation—for increasing business with mid-sized customers, as Cisco has done. The company anticipates spending $150 million in 2013 on its Partner Plus program, which is designed to help the company tap into what it believes is a $61 billion global opportunity with midmarket companies. Through Partner Plus, Cisco provides cash incentives paid at the end of each quarter, virtual engineering support, marketing, sales enablement, and customer intelligence to partners that are committed to selling into the midmarket segment.[7]

A Framework for a High-Performing Channel Partner Program

While every technology company is different and each has its own version of a channel partner program, Accenture has found that a simple but robust framework can serve as the foundation on which technology companies can build a program that meets both their needs and those of their partners. This framework has five main elements, as shown in Figure 2.

Partner Types. This element helps technology companies identify the types of partners they should consider to achieve their sales and market coverage goals—e.g., reseller, distributor, system integrator, ISV, or cloud broker.

Brand. This element helps technology companies develop an appropriate umbrella brand for their partner programs—one that categorizes partners into tiers based on key dimensions, such as annual revenue contribution and specific competencies. It also helps companies determine the investments they should make in brand support to enable end customers to differentiate among partners.

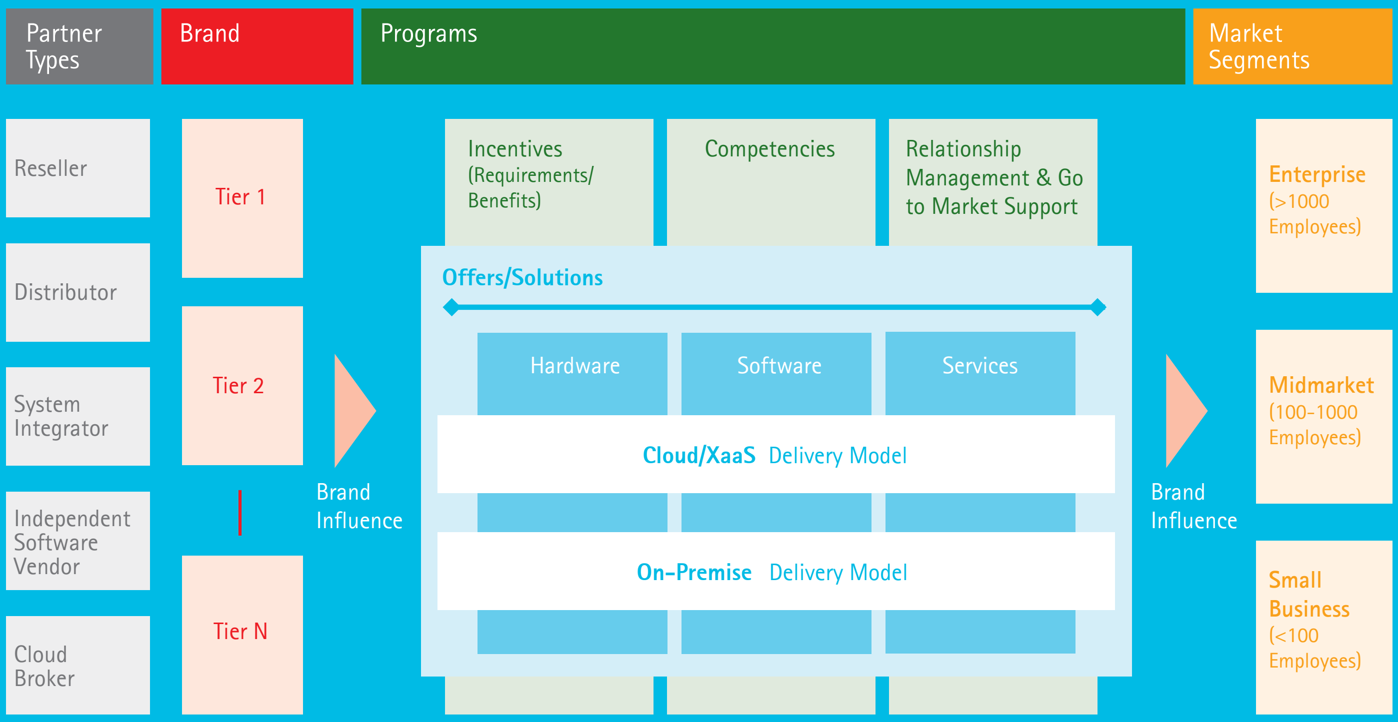
Offers/Solutions. This element helps technology companies decide on the range of offer categories—hardware, software and services—and delivery models around which partner incentives and competencies must be developed.

Programs. This element helps technology companies strengthen the core elements of their partner program:

- Incentives: the sales compensation, registration benefits, market development funds and promotions provided to partners to encourage the sales of products, services and solutions.
- Competencies: training and certifications that attest to partner proficiency in a particular technology, solution or market segment.
- Relationship management and support: practices that align partners and support resources coverage.

Market Segments. This element helps technology companies define the specific segments that partners will cover (as determined by the coverage policy developed as part of relationship management and support): enterprise, midmarket, or small business.

Figure 2. The Accenture Partner Program Framework



Source: Accenture analysis.

Principle #2

Ensure the partner mix has the right skills and competencies to pursue new market opportunities.

The industry developments discussed earlier are spurring considerable change in how enterprise technology companies go to market. One of the biggest areas of impact is the skill set that channel partners bring to the table. As they consider the new market opportunities in the shift to cloud, LoB purchasing and midmarket customers, technology companies should take stock of their existing partners' competencies and, through targeted programs, help those partners develop the skills they need to succeed. In some instances, entirely new partners may need to be recruited to help address market needs.

Support new skills

For instance, to be successful in selling to LoB buyers, vendors should ensure that partners are adept at consultative selling and can clearly articulate the business benefits of a solution—whether custom or off-the-shelf—that typically includes elements across the hardware, software, and services stack. Partners also should have deep experience in specific targeted industry verticals and business functions, which is key to a partner's ability to place the solution in the context of the specific business challenges prospective customers are facing.

To that end, Cisco launched its Business Transformation Certifications, the purpose of which is to enable partners to lead with business conversations and sell solutions to drive business outcomes.[8] Such competencies enable partners to sell business outcomes versus selling technology features or "feeds and speeds."

One software company has taken a slightly different tack, developing specializations that recognize a partner's level of expertise in selling into specific market segments—such as academics, healthcare, and the US federal government. Partners earn specializations through a combination of experience in the specific markets and successful completion of vendor training, and are rewarded with market-specific pricing, education and market information.

From a midmarket perspective, technology companies need to help their existing partners develop selling competencies that are consistent with the segment. As mentioned earlier, while midmarket customers have many of the same needs as their larger brethren, they have only a fraction of the budget for technology solutions. The same is true of the smaller partners that serve the midmarket, which typically cannot afford to invest in specializations designed for larger partners targeting the enterprise market. Thus, technology companies should have simpler and more economical tracks for technology specializations or certifications for smaller partners that are focused on midmarket customers.

Microsoft, for instance, has a Midmarket Solution Provider competency to help penetrate the untapped opportunity in the growing midmarket business segment. This competency includes a comprehensive set of benefits that address key stages of the business cycle, such as business planning, technical and sales training, use of the Microsoft competency logo, prioritized listings in customer directories, and pre- and post-sales support.[9]

Introduce new partners

In some cases, a technology company may find that developing new competencies in existing partners is simply not sufficient to address their growth goals. In these instances, the company may need to recruit entirely new partners with specialized skills that can help the company gain better market coverage.

For example, cloud brokers are becoming increasingly relevant in the XaaS ecosystem. Cloud brokers create the layer of abstraction between user and cloud providers so the user can see one cohesive view of all services. Cloud brokers provide functions such as aggregation (group individual services to provide a unified interface to the user), integration (group services to create a new functionality), and customization (to address an organization's unique need).[10]

Other types of partners a technology company may want to recruit include those that can play an "influencer" role—in other words, help close opportunities in a non-resell capacity; those with particular domain experience and relationships in specific industry verticals, or that have deep experience in selling solutions across the stack (i.e., spanning services, software and hardware/infrastructure); or those with established midmarket coverage and relationships (including smaller partners that are experienced in selling cloud services to smaller enterprises).

Principle #3

Refine the partner program brand and segmentation to span multiple offers.

A partner program's brand is extremely important. It serves as a recruiting tool for prospective partners and also streamlines the selling process by helping customers understand why they should buy from a particular partner. In our experience, technology companies should develop an umbrella program brand that spans its offer portfolio—hardware, services, cloud, and others—to reduce ambiguity in the minds of customers while providing flexibility to accommodate new markets. As companies pursue growth through development and acquisition of new offerings and technologies, they can phase these new entities into the umbrella brand.

As part of this branding effort, companies should consider a partner segmentation or tiering model that accommodates partners looking to focus on certain technologies or products, thereby recognizing partners with specialized knowledge of the company's offers. This is especially important as more partners look to focus on specific competencies to more effectively sell into specific lines of business instead of becoming experts across a wide area. It also facilitates inclusion of new partner types, such as cloud brokers.

For instance, one technology company simplified its brand into two tiers, providing an incentive to partners to specialize to obtain higher-tier benefits. While partners attain the lower-tier status simply by addressing revenue requirements, they can rise to the higher tier by addressing revenue requirements and focusing on any one of the specialty areas across the company's business units.

Several technology companies have used specialization as a way to reverse the dilution of their partner tiers. These companies found that low barriers to entry had created top-heavy partner tiering and, thus, eroded the value of the top-tier designation. Because so many partners were in the top tier, customers had little insight into the specific skills of each partner. In response, the companies created a tier system based on specific competencies. This new model, which favors specialization, created greater differentiation among partners and sets a higher bar for top-tier status—which means it's easier for customers to identify what skills a top-tier partner has.

Principle #4

Simplify the program portfolio to improve the partner experience.

In concert with revising their partner competencies and incentives, technology companies also should make their partner program simpler and easier to understand. Doing so is often difficult given that, when restructuring their programs to accommodate market trends, companies can end up creating more and varied incentives to serve different needs. Thus, balancing market responsiveness with simplification is critical to avoid creating a confusing partner experience that makes it difficult for partners to understand what is expected of them.

Simplifying programs is critical to reducing administrative time for incentive claims processing (and ultimately receiving payment), which results in a greater ease of doing business from a partner's perspective and, by extension, a happier and more productive partner. Simplification often entails such actions as using single rates, eliminating reward caps, extending Market Development Fund (MDF) validity, using standard commissions, and implementing performance-based payouts.

HP announced a simplification of its partner program at the HP Global Partner Conference in February 2013. The rationale for the initiative is for partners to maximize earning potential and grow, while concurrently eliminating administrative burden for the partner. Among the noteworthy changes are the elimination of caps on earning potential, the ability to earn rebates from the first dollar of sales, and extending MDF accrual timeframes from quarterly to semi-annual.[11]

Principle #5

Lead partners along the program evolution journey, helping them transform their businesses.

In many cases, the changes technology companies should make to their partner programs to remain relevant in today's evolving market will be significant. Thus, companies should include a strong change management component in their transformation effort to avoid compromising key partner relationships and to ensure partners are fully aware of and able to capitalize on the company's offers.

As part of the change management element of the initiative, technology companies should consider the following key steps.

Conduct due diligence by gathering the voice of stakeholders.
Technology companies should comprehensively assess their partner programs to understand what elements should be changed, as well as the magnitude and nature of the change. In doing so, it's critical to get the perspective of internal stakeholders as well as partners. Involving partners in the transformation effort—by, for example, soliciting input from partner advisory boards and field teams to help inform program design, and testing out any proposed changes with these groups before rolling them out —is crucial.

Map and articulate the proposed changes.
Technology companies should clearly and regularly communicate what will be changing and what won't; the timing of and steps to implementation of the changes; and how the changes will affect all parties involved (including the value proposition and financial impact).

Understand and deal with risk.
Technology companies should formulate a plan to mitigate the potential financial impact on their organization and their partners when making the move from the current to target state.

Manage the change.
Technology companies should help partners align with the new strategic direction by providing them with demand-generation resources and sales enablement support. This is especially important during the transition to the new programs as they are rolled out.

The experience of one large technology company illustrates how comprehensive program design, roll-out planning and change management can help drive the success of a transformation effort. The company determined that its partner program was neither addressing the needs of partner segments, nor was flexible enough to adapt to the evolving IT ecosystem. Working with Accenture, the company developed a new partner program framework and associated economic model, including a value assessment that evaluated the current and future program structures and illustrated how both the company and its partners would benefit more from the new program. Guided by rigorous program management, the company rolled the new program out to its partners. A key element of the rollout was a field and partner readiness plan, which gave the company the tools it needed to help foster adoption of the program and, more importantly, sustain the desired behavior change over the long term.

Conclusion

Technology companies certainly are no strangers to change. The lifeblood of the industry is continual innovation, and perhaps no type of company is better equipped to deal with, and even thrive in, continual, disruptive change.

Yet that doesn't necessarily make change any less challenging. Indeed, the shift to XaaS, the importance of business buyers, and the emergence of the midmarket make it critical for companies that generate a large share of their revenue through the indirect channel to adapt their partner programs or risk becoming irrelevant. Technology executives need to create new competencies and incentives in the program portfolio, recruit new partners, and preserve the program brand—and do so while reducing program complexity. And to help make these changes "stick," technology companies need to actively lead partners along the evolution journey.

Importantly, as technology executives redesign their partner programs, they need to be continually aware of the operational and financial impact of these changes—how the changes could affect existing processes, policies, people and systems and how program funds should be allocated across existing and new programs. And regardless of the changes made, all should be driven by the overall return the changes will generate for the business. Use of analytics is invaluable in helping technology companies understand where hidden value could be unlocked and the impact of each potential change.

Technology companies that are able to restructure their partner programs in these shifting times will be best positioned to capitalize on the growth opportunities afforded to them by an industry in transition. In our experience, companies that get this right can boost their return on channel program spend by generating top-line improvements of as much as 2 percent to 3 percent.

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