Customer Acquisition and Retention

Developing Indirect Channels: A Structured Approach to Reaching New Customers and Growing Revenues

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High performance. Delivered.
Overall, indirect sales channels entail lower total costs compared to direct channels. In challenging economic times, when deal size tends to get smaller, making effective use of indirect channels can become a prerequisite for high performance, by helping to boost revenue and maintain profitability. Whether a company is adopting indirect channels for the first time, or is trying to optimize the cost advantages of existing channels, realizing the maximum benefit from indirect channels requires a structured, analytically driven approach to strategy development, execution and management.
Sustaining High Performance through Uncertain Times

The Economic Significance of Indirect Channels

The mix of direct vs. indirect channels used by many companies has changed significantly over the past 10 years. Direct channels are critical routes into the marketplace, but diminishing economic returns often require a company to add indirect channels to their go-to-market strategy at some point. The experience of many organizations over the past several years demonstrates that indirect channels can be critical to expanding market coverage. This has been particularly true in the electronics, communications and high tech sectors. For example, the indirect channel now accounts for 66 percent of overall technology sales, up from 53 percent in 1997. This change in the channel mix—to include both direct and indirect channels—has enabled companies to better target customers and expand into new markets (Figure 1).

However, while more companies have incorporated indirect channels into their sales approaches, the success of these programs can vary significantly. To build an indirect channel that boosts revenue and ultimately enables high performance, a company must select the right channels partners, bring them on board in the right way, and manage their performance closely.

Based on leading practices and our client experience, Accenture has structured a five-step approach to help companies address these requirements and harness the power of indirect channels.

Figure 1. Technology sales distribution by channel type.

Technology sales through indirect channels increased 26 percent over the past 10 years

Technology Sales Distribution by Channel

![Pie chart showing technology sales distribution by channel type for 1997 and 2007. In 1997, 47% of technology sales were through direct channels and 53% through indirect channels. In 2007, 33% of technology sales were through direct channels and 67% through indirect channels.](image-url)
Cost Savings and Strategic Growth

Analysis and anecdotal evidence highlight a critical difference between the two channel types: in challenging economic times, deal size tends to get smaller (Figure 2). In a weak economy, therefore, it may become more important for companies to strengthen the strategy behind their indirect channel programs and improve the execution of these programs.

A recent analysis of total average IT distribution costs by channel type indicates the cost advantages that indirect channels offer. While indirect channels add more cost categories than do direct channels—for example, transfer discount, market development funds, price protection—both 1-tier indirect channels (for example, value-added resellers, systems integrators) and 2-tier distribution approaches tend to demonstrate lower total cost when compared to direct channels (Figure 3).

Channel-specific costs can differ significantly by firm. Conducting a thorough analysis of the overall cost structure for direct channels vs. indirect channels helps determine the go-to-market approach most effective for each organization. In general, however, indirect channels can lower distribution costs, expand market coverage and enable improved performance by supporting a rapidly growing product portfolio targeted at new markets.

In short, leading companies use a combination of direct, indirect and inside sales channels, taking advantage of the complementary capabilities of each channel type to serve specific customer segments.

For example, two major companies in the software and high technology sector have both used indirect channel programs from the early 1990s onwards to navigate economic downturns successfully, and both emerged stronger when economic conditions improved. They were able to package their offerings so that their indirect channels could enhance, sell and support products and services independently, and drive revenue growth. According to executives at these companies, more than 80 percent of their sales are currently derived from indirect channels.

According to published reports, Hewlett Packard (HP) also grew revenue using indirect channels during a slow economy. When Mark Hurd became CEO in March 2005, HP developed indirect channels to expand its market coverage. By 2006, the company identified more than $68 billion in untapped spending by businesses that had never bought an HP product. Capturing these customers through the indirect channel was HP’s 2006 priority for new growth in the slowing economy. By 2007, the company surpassed the $100 billion mark in annual sales for the first time, largely driven by its strong emphasis on the indirect channel.

Figure 2. Tradeoffs between deal size and volume for direct and indirect channels.

Figure 3. Channel-specific IT distribution costs.

Indirect channels save 11 percent in costs over direct channels

Total Average Sales Cost by Channel

<table>
<thead>
<tr>
<th>Channel Type</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>63%</td>
</tr>
<tr>
<td>1-Tier indirect (Value Added</td>
<td>61%</td>
</tr>
<tr>
<td>Reseller)</td>
<td></td>
</tr>
<tr>
<td>Mail order/retail</td>
<td>58%</td>
</tr>
<tr>
<td>2-Tier indirect</td>
<td>56%</td>
</tr>
<tr>
<td>Web</td>
<td>50%</td>
</tr>
</tbody>
</table>

Notes: IT distribution costs are shown as a percent of sales. Total average costs are determined based on business to business and solution sales.
By studying practices employed by these and other successful companies, Accenture has developed a structured approach for developing and managing indirect channels to enable high performance.

A Five-step Method

Our approach to channel development (Figure 4) defines an effective multichannel strategy for selling solutions and services, which helps companies quickly identify the gaps in their market coverage requirements, identify the right channel partners for addressing these gaps and rapidly bring new partners on board to boost sales.

The approach consists of three distinct phases:

- The prerequisite phase reviews the existing go-to-market strategy and its alignment to the overall corporate strategy.

- Phase one identifies channel development requirements and creates a short list of qualified channel partners who can address those requirements.

- Phase two develops actionable steps for bringing new partners on board.

Step 1: Review Go-to-Market Approach

Accenture’s research into leading industry practices shows that successful companies segment their addressable market and prioritize vertical targets.² Because customer needs vary, it can be difficult to establish new indirect channels that concurrently address the needs of multiple vertical markets. Companies should first prioritize the vertical markets they plan to target, and outline known routes to these markets before developing new channels.

Our research also shows that companies under pressure to boost revenues in a challenging business environment pursue several growth strategies at the same time. This approach can be a drastic shift from a single-focus growth strategy that served a company well in a more stable business climate.

To meet revenue goals in more challenging times, business units often embark on competing and expensive channel development efforts. In contrast, high-performance businesses tightly align their growth strategies across various customer segments. Creating such alignment results in a more unified and efficient go-to-market strategy.

Accenture’s approach to channel development begins with the premise that a well-defined go-to-market strategy addresses specific customer segments within target verticals using well-defined, differentiated offerings. Absent a clear go-to-market strategy, we recommend that companies complete this prerequisite step before beginning phases one and two.

Figure 4. Our approach to channel development helps establish a successful indirect channel program to boost revenue and enable growth.

Accenture Channel Development Method: A Five-Step, High-Level Approach

<table>
<thead>
<tr>
<th>Pre-Requisite</th>
<th>Phase 1</th>
<th>Phase 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Evaluate and Qualify Select Partners</td>
<td>5. Create Onboarding and Implementation Approach</td>
<td></td>
</tr>
</tbody>
</table>

Assets
- GTM framework
- Leading practices
- Industry specific channel structure
- Relationship with 3rd party channel development agencies
- Partner evaluation framework
- Partner on-boarding best practices

Activities
- Review target customer segment profile
- Confirm segment requirements
- Align channel segments with target market/customers
- Assess offering roadmap and value proposition
- Assess channel program value proposition
- Confirm GTM approach
- Determine key players in value chain
- Define players roles, high level economics, operating protocols
- Create specific product / service channel map
- Evaluate existing channels’ ability to provide market coverage
- Identify market coverage gaps (Optional)
- Uncover potential partnership candidates
- Supplement list, as needed, with additional research
- Adapt Partner evaluation framework to meet client needs
- Develop shortlist of partnership candidates
- Conduct 1:1 interviews with prospects
- Complete required due diligence
- Finalize shortlist
- Evaluate current on-boarding plan (Optional)
- Identify caps (Optional)
- Develop on-boarding approach
- Construct channel specific ‘Business Plan’
- Define “100 Day” action plan

Deliverables
- GTM approach - assessment
- Channel map
- Target partner list
- Qualified shortlist of partnership candidates
- On-board approach
- Business plan
- “100 Day” action plan
Step 2: Analyze and Map
Channel Structure

Researching new channel partners for a go-to-market strategy requires a thorough understanding of the industry channel structure and the relationships between market participants. Accenture recommends creating a channel structure map to identify key players and how each influences solutions available in the market place. Because a channel structure varies by market, such a map can be invaluable for identifying worthwhile sales channels.

For example, in an evolving channel landscape high tech vendors use multiple channel partners and tiers, including systems integrators, resellers, independent software vendors, direct market resellers and distributors. The complexity of this kind of multi-tiered channel structure makes it essential to understand the role each partner plays in the original equipment manufacturer’s sales model. Mapping the channel structure bolsters the company’s ability to support multiple partnering models. It is also important to recognize, measure and reward the specific contributions made by partners to growing the partner ecosystem, and it is equally important to manage the channels in a consistent manner.

For example, HP has instituted a holistic partner ecosystem management program to support its HP OpenCall solution. This program engages an appropriate customer segment with the right channel partner, fostering profitable business momentum and lowering development and testing costs. Results include faster time to increased sales and new revenue generation.

This partner program also adds momentum to development and go-to-market plans. Software providers and system integrators help influence deals during the initial stages of deal making by informing and interacting with the right customer segments. Similarly, distribution partners and resellers help in transacting and delivering the product to the customer. The HP OpenCall platform facilitates a seamless flow of information among all the right entities in the partner ecosystem.

Using a mapped channel structure, the HP partner program provides a customer-facing directory of its complete ecosystem of partners and solutions. An accurate partner profile—available 24/7 through the portal—plays a critical role in engaging the right entities on the channel map and linking them with the appropriate customer segments.
Mapping a channel structure is a three-step endeavor:

1. Identify the customer segments you wish to serve.

2. Lay out the basic channel functions that route you to market. A typical model might include the routes you use to:
   - Inform
   - Interact
   - Transact
   - Deliver
   - Service

3. Define how channel partners perform basic channel functions exclusively or cooperatively (systems integrators, independent software vendors, resellers and distributors).

The channel map offers a bird’s-eye view of existing channel participants and the topography of their existing relationships. Figure 5 shows a hypothetical channel map from the perspective of an original equipment manufacturer in the automotive industry.

The different colors show whether the supplier or third parties determine the operational direction of each channel participant.

An external market study would result in defining key channel partner groups, leading channel partners and their company profiles, the regions where they operate, the segments they target, the offerings they support and services they provide, and the strength of their customer base. The study would identify emerging channel trends and additional channel considerations for future expansion.
Step 3: Research and Develop Partnership Candidates

This step in the channel development process varies depending on a company’s channel maturity level. Established companies successfully improve channel performance by using advanced analytical methods.

These methods help companies identify poor performers in their channel strategy and improve the potential of certified partners to improve channel efficiencies.

To improve partner productivity, companies with established indirect channels should also redefine their desired partner profiles to align with their revamped metrics for partner productivity. They reevaluate the current partner network to weed out non-performers and add partners who better fit the new profile.

For example, shortly after the dotcom bubble burst in 2001, a major networking manufacturer realized it needed to transform its volume-based partner program into a value-based one to improve channel efficiency. Detailed analysis of its partner program showed that about 1 percent of its partners generated more than 70 percent of its channel business. Only about 25 percent of the company’s channel partners were certified and had the potential to drive additional business. The others were registered partners.

Step 4: Evaluate and Qualify Select Partners

In this step, Accenture recommends evaluating the strategic fit of channel partners against a desired partner profile. That profile derives from a comprehensive understanding of the industry channel structure and the role the partner plays within that channel. Another critical component is the assessment of a channel partner’s ability to mobilize by evaluating the partner’s business readiness, operational readiness and technical readiness. Lastly, determine a potential partner’s ability to achieve rapid sales impact by evaluating the partner’s credentials, market visibility, depth of territory and opportunities in the pipeline.

Step 5: Create the Onboarding and Implementation Approach

Two key activities for bringing channel partners on-board are enablement and education. This step calls for a customized 100-day onboarding plan that addresses key requirements for implementing the indirect channel program, and establishes the key capabilities required for effective enablement and education prior to on-boarding partners:

- Vendor intelligence (product, market and customer) dissemination, including product roadmaps, addressable market data and business planning input.
- Business planning and accountability management.
- Partner contract amendment and finalization.
- Partner activation and ramp up.
- Solution authorization.
- Joint solution catalog update.

This step should also include developing an approach for education, as well creating materials to train new partners rapidly. Activities here should include:

- Training content development and management.
- Training administration, registration and logistics.
- Training delivery and feedback.
- Training competency management.
- Partner certification, tracking and testing.
- Events content development and management.
Growing Revenues

Sun Microsystems
In July 2008, Sun announced plans to streamline its sales organization and use its 600 or so channel partners to support customers below its top-300 accounts worldwide. Sun’s senior executive responsible for channels reported that two-thirds of business came through it channel partners. By restructuring its sales organization, Sun expects to raise channel revenue significantly, bringing it in line with industry leaders and—as noted by industry experts—streamline its operations and improve market coverage in spite of workforce reductions made prior to launching the program.

Novell
Novell, owner of SUSE Linux Enterprise, saw its 2008 first-quarter revenue increase by 69 percent and its 2008 second-quarter increase by 38 percent. Next year, corporate spokespeople report, more than half of Novell’s SUSE Linux Enterprise revenue is expected to come from the indirect channel. The challenge for companies with emerging indirect channels is to rationalize and scale their programs and then to identify and incorporate new partners in a structured way.

Diversifying the Channel Mix

Dell
Michael Dell is another champion for harnessing the power of indirect channels. When he returned as CEO in January 2007, he recognized the drawback of over-reliance on the direct sales model he helped pioneer 20 years earlier. During the previous three years, Dell’s indirect channels had grown at a compounded annual rate of 16 percent without a formal program structure and generated 15 percent of Dell’s total FY07 revenues. This success prompted the company to unveil a new indirect sales program in December 2007 to increase sales. By July 2007, the indirect channel was generating 20 percent of Dell’s total revenues.

Avaya
Avaya, a leading provider of high tech communications products, is currently transforming itself to become a strong communications contender in the small-to-medium enterprise market. To accelerate this transformation, Avaya recently appointed a new senior executive with successful indirect channel experience at several companies to lead its global indirect channel division. Currently the indirect channel accounts for 55 percent of Avaya’s total sales. The newly appointed channel lead set a corporate target to achieve 85 percent of total sales through the indirect channel by 2011. One of Avaya’s senior executives reported that a main challenge concerned auditing and analyzing the performance of its existing indirect channel and revamping it to meet its very aggressive corporate goals.

Entering New Markets

Juniper
Juniper Networks started in 1997 using a direct sales channel to target telecommunication carriers. After improving its suite of offerings the company sharpened its market focus and targeted large enterprises a few years later. In 2004, Juniper launched its indirect channel program and targeted the broader business market. This measured approach helped Juniper make significant inroads into the networking technologies market and attain a more dominant position in the overall market.

Telstra Incorporated
Service providers typically use direct sales channels to sell and support complex offerings. Increased focus on solution selling has prompted providers to explore options for leveraging their suppliers’ indirect channel capabilities to offer joint solutions. In August 2008, Telstra Incorporated launched an indirect channel program to expand international sales. Telstra Incorporates is the US-based arm of Telstra International—a division of Australia’s leading and largest tier-1 telecommunications and information services company, Telstra Corporation Limited. In the company’s indirect channel program, resellers maintain direct control over relationships with Telstra Incorporated clients and manage all aspects of Telstra Incorporated services as if they were their own. Conversely, the program relieves referral providers of the infrastructure requirements that come with reselling, supporting and billing for an international telecom service. Referral providers share in the revenue based on prices that they can command; they have no responsibility for service delivery or troubleshooting.
To help clients achieve high performance by meeting the challenges of reaching new customers and growing revenues in uncertain times, Accenture offers insight, experience and a distinctive, structured approach—for developing indirect channels. We have developed leading practices for each activity in our approach, based on our extensive experience as a leading provider of management consulting and systems integration services, and as a channel partner for more than 200 partner companies. We also provide access to third-party resources to help identify and screen prospective partners using established evaluation criteria, which we customize to specific client needs.

For more information about how Accenture can help your organization on the journey to high performance, please contact one of the authors, or call us at +1 (312) 737-8290 or send e-mail to accenture.direct@accenture.com and reference this document.

To read more about Accenture’s Sales and Channel Services, visit accenture.com/toplinegrowth

For more Accenture insights on customer acquisition and retention in uncertain times, visit accenture.com/centricity

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