



## Ten Rules for Channel Management

### Introduction

Effective IT channel management requires both strategic and tactical skills as well as the “wiring” of talented sales professional. However, it is also highly rewarding in that you have the pleasure of working with leading entrepreneurs in a highly dynamic arena.

What follows are ten of the key rules in channel management that will hopefully increase your credibility within the elite group of channel partners and allow you to prosper.

### 1. Enhance Your Channel Portfolio

Vendors benefit from having a strong and diversified channel portfolio. A diversified channel network (e.g. Retail, Mass Merchant, OEM, Distribution, VAR, etc.) increases your marketplace, contributes to a more stable sales forecast, provides for additional feedback from the buying public, strengthens your product offerings and increases your personnel resourcefulness.

### 2. Don't Tear Down One Channel to Build Another

The market highway is littered with companies that decided to switch from one type of channel network to another (e.g. two-tier distribution to a direct to reseller channel). Add channels, do not swap channels. Have a clear goal for adding the new channel and be prepared to explain it to your existing sales network. A good time to add a channel is in the introduction of a new product line that is *ideally suited to the new channel*.

**For example:** *If your organization is currently marketing a consumer product through the mass merchant channel (e.g. Costco, WAL\*MART, Best Buy, etc.) an ideal scenario of when to add a new channel would be when you introduce a more sophisticated technology to the market. In this example, the mass merchant network will understand the addition of a VAR/ Solution Provider network.*

## 4. Pricing

Marketing and sales managers have spent decades in accumulated hours fine-tuning their pricing strategy. The introduction of the spreadsheet made it faster and easier but not less excruciating and thankless. The debate between volume-based vs. channel-based pricing strategy will roar on for eternity. However, when developing pricing strategy several factors should be considered with regard to a specific channel: competition, brand “push” vs. brand “pull”, product support requirements and market penetration goals. Remember, where ever there is increased market share, increased profitability is sure to follow.

## 3. There Are Different Services for Different Channels

When adding a new channel, don't expect to port over the set of company policies that have been developed for your existing network. Different channels require different terms; return policies, support programs, CO-OP/MDF, etc.

Additionally, be prepared to make appropriate changes to your organization's internal policies.

**Example:** I am intimately familiar with an organization that for years marketed direct to Enterprise. Purchase Orders from companies such as Boeing had been tracked by the vendor through the quote process so that when the P.O. came through it's was done deal; as in " *the cash is in the bank*". The vendor's direct sales people received 50% of their commission upon order confirmation and 50% upon shipment.

When the vendor added a two-tier distribution network they kept the same commission policy. Naturally, sales people were submitting inflated purchase orders from distributors. It took the Vendor months to appreciate that commissions were being paid for product that was never going to ship. Result: and the compensation plan was changed to reflect an emphasis on order shipment and payment for this sales group.

## 5. Bill Backs

Further to our pricing discussion, never build in the ability to “Bill Back” a Channel Partner due to unfulfilled volume commitments, lack of supporting documents for MDF or CO-OP or any other reason. You will never get it and it will just build resentment. Discounts to the Channel Partner's invoice should be based on *results not expectations*. It is far better to provide a rebate to Channel Partners that achieve specific volume levels.

## 6. Return for Credit

When a Channel Partner has inventory that is not selling I have three words for you: “Take It Back”. Depending on your expected “sell through” for a specific SKU this decision to “rotate” for faster moving inventory should be implemented as painlessly to the relationship as possible.

## 7. Manufacturer Representatives

The use of Manufacturer Representatives can be invaluable. Professional Manufacturer Representatives can raise the visibility of your company and product to the prospective account but also provide the vendor with eyes and ears in the field once the account is signed. However, two rules should be adhered to when working with Manufacturer Representatives 1) *The agreement should be “Account” and not “Territory” based and 2) The word “Exclusive” should never be used in the agreement.*

## 8. Channel Prospecting

When developing your channel prospect list you will be interested in sorting by such items as market penetration, category expertise, competitive vs. complementary vendors, geographical locations covered, etc. However, except in rare circumstances the most important factor you should be interested in is financial stability. If the account is financially unstable it will in all likelihood be a constant drain on your sales and financial resources and always carry the threat of the most feared words in the vendor’s vernacular *“Bad Debt”*.

## 9. Defectives and Crises Management

By “defectives” I am not referring to the isolated lemon, I am referring to that hot call from a Channel Partner telling you that there is a *potential defective manufacturing run*. Jump on that problem without hesitation: 1) Stop all shipments of that SKU 2) Arrange for the immediate return-overnight delivery if possible-of a significant percentage of the shipment in question (2-5%) for evaluation. Further, depending on the technology and Channel Partner relationship, fly out a technical team directly to the partner location. *If you start worrying about the cost of taking prompt and high-impact action then defective product is probably the least of your organization’s concerns.*

## 10. Leads-Feed the Lions

When talking with a channel prospect it will not take long before they ask the following question “How do you handle leads?” I have a simple answer for you *“We feed the lions”*. The clear meaning is that the Channel Partner that takes the lead, immediately contacts and closes the prospect can expect more leads. Here is a follow-up rule that will earn you major loyalty points with a Channel Partner:

The Channel Partner should know that once they have made a good faith effort to have the prospect become involved with your offerings; to no avail, they are free to sell whatever product-even a competitor’s- to the lead you provided. This demonstrates to the Channel Partner that you care about their business.

## Conclusion

The above rules are meant as basic guidelines with regard to working with Channel Partners. These rules come from decades of experience and lessons learned from successful *and less than successful* channel development efforts. The one overriding rule to remember is that a successful Channel Partnership requires that both parties have goals and business practices that compliment each other because no written agreement will keep a relationship together that is destined to break apart.

## About the Author



*John Ochinero has been involved in channel and enterprise sales for over twenty years including founding three technology firms where he served as the executive vice president of sales and marketing. Each organization evolved into 9-10 figure corporations. John has written numerous articles on technology sales and has presented to thousands of IT executives on three continents. Contact John at [jochinero@goldenoar.com](mailto:jochinero@goldenoar.com)*

***Note from the author: This article was originally published for distribution to hardware vendors in Asia, Europe and North America. However, most if not all of the rules can be easily ported over to the software industry with a little imagination.***