GROWTH THROUGH PARTNERS

Best Practices for Independent Software Vendors

June 2012

EXPANDING MARKET REACH:

While there are several ways to expand market reach, including through distributors, OEMs and online, for Independent Software Vendors (ISVs) with software requiring value added services the two most accepted are either by increasing direct sales capacity or through certified partners. This document examines the key elements of a partner channel strategy and provides guidance based on best practices.

GOING DIRECT:

Expanding your market presence domestically or internationally by setting up new offices or subsidiaries and building up your direct sales, consulting, support and marketing capacity will enable you to have:

- dedicated staff with a focus on selling and supporting your product
- control over the quality of the individuals representing your company and product
- focus on the clients you want to acquire – even the hard to win prestigious ones
- adherence to sales and support procedures that maintain quality and minimize risk
- a local presence to represent your company and build visibility for your brand

However, establishing a three person serviced office can cost around $700,000 or more per year. While this is a considerable upfront investment, if the typical sales value of your solution (software plus services) is high enough, say around $500,000 or more, so that the finite capacity of a direct sales team can generate sufficient profits, then this may be a viable approach. Once a small serviced office has proven itself, you can consider expanding the presence with more staff and locations.

GOING THROUGH PARTNERS:

If your solution (software plus services) is around $300,000 or less per sale, and you are looking to ramp up your sales quickly without a major upfront investment, building a Value Added Reseller (VAR) channel that already has experience selling into your target market(s) and with an installed base of customers, may be the best strategy. A Sales Executive selling directly to clients has limited capacity in how many opportunities they can prospect and win in a year. Whereas a partner channel has the potential for many more – providing partners are self sufficient and pro-active.

PARTNER CHANNEL OPPORTUNITIES:

In a down economy; technology resellers are feeling the impact of declining margins, increased competition and the need to differentiate even more. Providing clients with complete solutions consisting of software, hardware and services is a way to transition from tactical, transaction based client engagements to strategic, project based ones that generate on-going consulting and maintenance revenues. Whether your application runs on-premise or in the cloud, resellers that can tune its

operation to clients' specific business processes will add value for which they can charge. This enables them to help clients address their business needs, not just their technology needs. This is an excellent way of becoming a trusted advisor. Therefore, for technology resellers, there is considerable value in partnering with ISVs, however, realizing these benefits requires a willingness to adapt and invest.

PARTNER CHANNEL BENEFITS:

For ISVs, the benefits of having a self sufficient, pro-active partner channel are many and include:

Increased Market Reach:
A partner channel can give you access to more clients and markets both domestically and internationally. Partners who recognize how your solution can create a pull through effect on their other products and services will become pro-active in creating awareness of your software with many more clients than you could alone.

More Sales and Implementation Capacity:
Once certified, your channel can prospect, win, install and support many more clients with its own resources. The capacity is only limited by the number and size of partners who represent your product.

Lower Costs:
A partner channel provides you with an "army" of sales, consulting, support and marketing resources that doesn't incur fixed costs. Effectively, you could have a sales force only limited by the number of partners in your channel without adding significantly to your full time employee costs and obligations. You do not incur the usual overhead associated with staff and facilities such as offices, equipment, communications, insurance and taxes. All this is paid for by your discount to the partner.

Higher ROI:
In the case of a mid market ERP or CRM solution, a Sales Executive selling directly may be able to prospect and win around 5 sales per year. Whereas the same resource, working as a Partner Channels Manager, managing 12 partners who can each win 5 sales per year can generate 60 sales. Even when taking into account the partner discount and reduced services revenues, the return on investment can be much higher.

While you will always need to have some of your own resources to manage and train partners, the channel will enable you to scale those resources many fold. For example, a field Partner Channels Manager can manage 12 active VARs. A telephone based Partner Channels Manager can manage about 30 VARs. Your sales representative becomes up leveled to become a sales manager of partner sales representatives, your client services consultant becomes a coach, trainer and evangelist and your marketing communications representative becomes a marketing manager assisting partners to run their demand generation campaigns.

The table below uses simple assumptions to estimate a comparison of the return on investments (ROI) from having a three person direct sales serviced office for an enterprise class solution and a mid-market class solution in comparison to a remote based Partner Channels Manager managing twelve partners. Note: the assumption is that the direct sales offices deliver 100% of services to clients, while in the indirect scenario 100% of services are delivered by partners.

ENTERPRISE SOLUTION DIRECT MODEL:		MID MARKET SOLUTION DIRECT MODEL:		MID MARKET SOLUTION INDIRECT MODEL:	
3 Person Office		3 Person Office		12 VARS	
Item	Per Year	Item	Per Year	Item	Per Year
SOLUTION:		SOLUTION:			
Software License Value/Sale	$ 250,000	Software License Value/Sale	$100,000	Software License	$ 100,000
Services Value/Sale	$ 500,000	Services Value/Sale	$200,000	Number of VARs	12
				Number of sales/VAR	5
INCOME:		INCOME:		INCOME:	
Number of sales per year	5	Number of sales per year	5	Number of sales per year	60
Revenue from sales	$3,750,000	Revenue from sales	$1,500,000	VARs' Revenue from sales	$6,000,000
Margin from Sales (100%)	$3,750,000	Margin from Sales (100%)	$1,500,000	Margin from Sales (50%)	$3,000,000
EXPENSES:		EXPENSES:		EXPENSES:	
VP Sales	$250,000	VP Sales	$250,000	VP Sales	$0
Business Development Manager	$180,000	Business Development Manager	$180,000	Partner Channels Manager	$180,000
Technical Consultant	$100,000	Technical Consultant	$100,000	Technical Consultant	$0
Serviced Office	$60,000	Serviced Office	$60,000	Serviced Office	$0
Communications	$20,000	Communications	$20,000	Communications	$2,000
Travel (domestic)	$50,000	Travel (domestic)	$50,000	Travel (international)	$80,000
Taxes	$26,500	Taxes	$26,500	Taxes	$0
Insurance	$10,000	Insurance	$10,000	Insurance	$0
TOTAL	$696,500	TOTAL	$696,500	TOTAL	$262,000
NET Income	$3,053,500	NET Income	$803,500	NET Income	$2,738,000
ROI	4.4:1	ROI	1.2:1	ROI	10.5:1

Larger Pipeline:

If you recruit partners that already have an installed base of customers who are good prospects for your software, then leveraging the partners' existing relationships can rapidly grow your pipeline of opportunities. If the partner-customer relationships are particularly good then the sale cycles for your software can also be shortened.

PARTNER CHANNEL PITFALLS:

Large markets, such as the US, can have an enormous number of resellers (estimated at over 200,000), however, the real challenge is to qualify and recruit the ones that will proactively and self sufficiently sell your product. Often companies have false starts with channels because their focus is on signing up a large number of resellers. It is not uncommon for an ISV to sign up tens of resellers and have no meaningful incremental revenue to show for it a year later.

Wrong Partners

One common pitfall with signing up new partners happens when a partner comes to an ISV with a single opportunity and wants to be signed up as a reseller. While having an opportunity identified is a good catalyst for exploring the building of a partnership, it should not be the deciding factor. If this is allowed to become the deciding factor then often, if successful, the single opportunity is all the business the partner will ever close. There needs to be a commitment by the partner to on-going demand generation.

Lack of Mindshare

Another pitfall is a lack of focus by partners to be pro-active in proposing your product. This typically happens with larger resellers who have many products on their price list and fail to see the strategic importance of yours. Unless sales management and sales representatives understand how your product helps them to leverage more hardware and services sales, as well as elevating their importance to clients, they will not make any special effort. There needs to be a sales and presales resource allocated to your product if you expect to have their mindshare.

Not Self Sufficient

The way to realize the benefits of a partner channel is when partners can bring new revenue to you with minimal effort on your part. This requires partners to become self sufficient. The way partners become self sufficient is through gaining skills. They need to attend and pass both sales and product certification courses and then close at least two or three sales with your assistance. Partners who are unwilling to become certified will force you to do all their work for them. This negates their value as a value added reseller – but they could still be a referral partner -with lower discounts.

THE PARTNER PROGRAM:

Building a partner channel well is not an organic process; it has to be well planned, thoroughly structured, goal oriented and inclusive of every department in an ISV's organization. The partner program describes the strategies, objectives and processes about prospecting, recruiting, activating and growing partners. It is the detailed framework that defines:

- The internal roadmap for establishing and growing a partner channel.
- The processes, benefits and resources for partners to grow a profitable business with you.
- The roles and responsibilities of the partner and your company in this partnership.
- The set of business terms and requirements under which partners will operate.

Some key elements of the partner program include:

- The ideal partner profile.
- A description of the market opportunity for partners.
- A compelling business case for partners. (ROI model)
- Ideal customer profiles and business scenarios.

- Competitive positioning.
- Sales and technical training.
- Demand generating marketing programs.

Finding the Right Partners

To find the right partners, a detailed understanding of your own product's market and competitive positioning is required first. With this understanding, you can then target the partners who are best positioned to win the clients in your ideal client profile. If your application is designed for a specific vertical market, then potential partners should have an in-depth understanding of the business needs or pain points of target clients and have a track record of successfully selling to them. Potential partners should also understand that they need to be pro-active in finding new sales opportunities. Additionally, partners who are willing to allocate a sales and technical consultant will have more focus on your application than the ones that don't.

The ideal partner will have three key attributes:

1. The resources to reach the target market and continually generate leads.
2. The ability to effectively close sales and provide quality on-going support.
3. The willingness to allocate resources to marketing, selling and supporting your product.

Identifying Opportunities for Partners

Resellers will become interested in building a partnership with you if they recognize the market opportunity. Often short term opportunities will come from partners' current clients. This is because they already know those clients' needs and have an existing relationship with them. Your software allows them to address their client's business needs which they could not address before.

New clients are the other source of opportunities. You can often identify the potential clients in a partners' geographical area through market research or directory services such as Hoovers - where you can search a vast database of 80 million companies by standard industry codes (SIC) codes. Presenting prospective partners with a list of potential new clients, in their area, is much more compelling than just talking about target industries as a whole.

Establishing the Business Case for Partners

By developing a partner return on investment model, you can establish a business case for partners to help them justify building a practice around your product and investing in sales and technical resources. A typical mid-market ERP or CRM solution will generate sufficient profits in just two sales to break even on an investment of two dedicated people. Thereafter, all the profits flow to the partner's company. This model is also used to justify investments in marketing demand generation.

The table below uses simple assumptions to illustrate that just two sales (actually 1.6) will allow a partner to break even on their investment in two dedicated and one part time solution resources. This scenario is applicable to a mid-market ERP or CRM solution.

COSTS PER YEAR	SOLUTION SALES REPRESENTATIVE	SOLUTION TECHNICAL CONSULTANT	SYSTEMS INTEGRATION ENGINEER (1/4)*
Wages & Commissions	$150,000.00	$120,000.00	$30,000.00
Overhead	$15,000.00	$12,000.00	$3,000.00
Sales, Marketing, Training	$30,000.00	$24,000.00	$6,000.00
Sum of Costs	$195,000.00	$156,000.00	$39,000.00
Total Costs	$390,000.00		
INCOME PER SALE	LICENSES	SERVICES	HARDWARE
Average Sales Value	$100,000.00	$200,000.00	$50,000.00
Margin on Sales	$40,000.00	$200,000.00	$7,500.00
Total Margin Per Sale	$247,500.00		
Number of sales needed to break even:	1.6		

* Assumption: Systems Integration Engineer also works on non solution installations.

Maintaining Focus

There are several ways to ensure that the excitement of a new partnership maintains momentum which translates into a profitable business for both organizations, including;

Business Terms: Having business terms that drive focus on near term results with a tiered discount structure that can change quarter to quarter is a mechanism to reward good behavior. By establishing quarterly goals which impact the discount levels, partners will need to continue to be active or feel the financial impact very quickly.

Business Plan: To maintain both strategic and tactical focus, a joint business plan containing commitments from both organizations to their mutual success in sales, technical competency and marketing is an excellent vehicle for setting expectations and measuring progress throughout the year. Business plans should be developed with the sponsorship and involvement of senior management. Quarterly business reviews are a good way to keep everyone accountable.

Fast Start Campaign: The first three months of a new partnership are critical to its success. If the momentum is not built up during this time of excitement and optimism then the partnership may never meet its expectations. One tactic for early success is to profile all of the partner's installed base customers and then run a short term, offer based, demand generation campaign to win the early sales that can make the partner self sufficient.

RECOMMENDATIONS:

A partner channel brings the promise of growing revenues, scaling market reach, multiplying the effect of limited resources, reducing costs and increasing profits – if it works. Setting up a partner channel requires a considerable amount of planning, structure and patience. Developing a partner program tailored to your company's specific target markets and product positioning is a necessity for your success. To develop your company's partner program, you will need to:

1. Identify the target clients and build the ideal client profile.
2. Develop competitive positioning with meaningful differentiators that partners can articulate.
3. Identify the potential clients in a partner's geographical area to target.
4. Define the ideal partner profile and assess potential partners on its merits.
5. Establish a compelling business case for partners to build a practice around your product.
6. Ensure that partners allocate sales and consulting resources to your product.
7. Ensure your business terms keep near term focus on results through a tiered discount structure.
8. Require VARs to attend and pass sales and product certification.
9. Implement joint business plans to maintain focus at the field and management levels.
10. Provide marketing assistance to maintain demand generation.

Microsoft's partner ecosystem is one of the largest in the world. It offers ISVs the opportunity to increase domestic and international market reach without building an expensive infrastructure of full time employees and offices. The pressure on product resellers to offset declining margins and deliver more value to their clients represents an excellent opportunity for ISVs to explore partnering with those companies willing to adapt to selling solutions that address business specific needs.