

TAKE CHARGE OF YOUR SALES CHANNEL ROI



By Paul Hennessey

Executing third-party “channel” sales programs are an increasingly important—and often frustrating—component of corporate go-to-market strategies.

When margins lag on sales from distributors, dealers, and channel partners, the first order of business is often implementing “programs” to fix the problem. But that’s only half of the solution. The other half: executing a corporate strategy that gets your channel partners to sell value, not price.

IT'S TOUGH OUT THERE...

Put yourself in the shoes of the dealers, resellers, and other third-party sales teams in your channel distribution network. Just like the sales professionals (if any) on your payroll, third-party channel partners face:

- ▶ Increasing competition
- ▶ More product commoditization
- ▶ Purchasing agents rewarded for focusing on short-term cost reduction rather than quality and value
- ▶ Growing demands for customization, unusual service levels, and other special treatment
- ▶ Breathtaking demands for response speed
- ▶ Longer and more complex sales cycles, increasing the chances for margin erosion at every point along the way

In some cases, these demands are *more* intense than those faced by your direct sales force. After all, many dealers and resellers market to “low end” customers who by definition are usually more price-focused (and less value-focused) than the bigger buyers called on by company-employed sales professionals.

In this environment it's no surprise that channel sales professionals put more emphasis on closing the sale—often at any price—than on selling value and closing *profitable* sales. And the result is predictable: even when sales increase, margins erode. Given the increasingly important role of channel sales in corporate go-to-market strategies, this is unacceptable.

CHANNEL “PROGRAMS”: ONLY PART OF THE SOLUTION

Faced with lower-than-expected performance in the indirect sales channel, many companies begin funneling dollars into costly “programs” of various kinds. Unfortunately, these investments don't always provide the desired returns. Problems persist. Channel sales professionals continue to sell ineffectively, making “wrong turns” that erode margins for channel partner and manufacturer alike.

EXECUTION: HOW HIGH PERFORMERS CRAFT BETTER DEALS

Traditional “channel programs” typically underestimate a critical success variable: helping distributors and dealers move from *closing deals* to *crafting value-oriented customer agreements*.

Stated simply, manufacturers have supported their channels' ability to *make* the sale, but have not executed a strategy that gets them to *negotiate* the right kind of sale. To focus not just on helping the customer to decide *whether* to buy, but to help them shape *how* the customer buys.

It's a simple fact: when channel sales representatives focus on both the “whether” *and* the “how” of their deals, they close more and better business at higher margins. What do these high performers do that others don't? Typically, they:

1. **Position effectively:** framing the value of their solution to maximize its value to the needs of each customer.
2. **Manage information intentionally:** knowing how to uncover information to help them sell... and withholding information that weakens their value.
3. **Set high targets:** selling in a way that says “I won't devalue my solution by engaging in price cutting.”
4. **Recognize the full range and strength of their power:** knowing all the sources of “leverage” available to them to avoid price cutting and costly concessions.
5. **Satisfy real customer needs:** avoiding the temptation to give in too quickly to surface requests for price cuts, quicker delivery, or expensive customization...and probing to uncover the customer's real motivations.
6. **Exchange value...concede strategically:** managing the “give and take” of sales negotiation to close the most profitable agreements possible at every step in the selling process.

WHY COMMON SENSE ISN'T COMMON PRACTICE

Developing a “whether + how” mindset seems logical, but it's not easy. Common sense seldom becomes common practice. Why is this so? Most channel sales professionals lack the kind of discipline sales management and sophisticated training given to direct, “on the payroll” sales representatives. If they *are* trained, that training typically encourages them to do things that might close deals quicker, but can lead to poor, unprofitable deals. Some of the “messages” include:

- ▶ *“The customer is always right”* (even though you know you can add more value to the solution by giving them something better or different than what they have asked for).
- ▶ *“You are the customer's advocate to make sure they get what they want and need”* (even though this might encourage you to give away too much, too quickly to close the deal).
- ▶ *“It's important to avoid and reduce tension during the process wherever possible”* (even though tension is the source of creative negotiation breakthroughs).

These messages, along with years of “accepted wisdom” (often passed along by managers), may help create happy customers but they often lead to unprofitable deals.

A STRATEGY FOR PROFITABLE CHANNEL EXECUTION

What does it take to execute a profitable corporate channel sales strategy, to move your distributors, dealers, and resellers towards a “whether + how” mindset, and to close better, value-based deals? How can you take charge of your channel ROI to avoid unnecessary margin erosion? Here are five guidelines:

- ▶ **Focus on building disciplined deal conversations with the channel.** Implement a common sales execution methodology so that channel managers and their channel partners regularly use a shared language and deal planning approach.
- ▶ **Build “mind share” and distributor loyalty by investing in their agreement-building skills.** Demonstrate support of channel partners’ own business goals by training their people to sell value and craft profitable agreements throughout the sales process. If you “certify” your channel partners to sell your products, consider adding training on agreement-building to that program.
- ▶ **Create systems that support channel sales behavior change.** Make sure salespeople have the motivation to make this important shift in selling behavior. *Sustain* value-oriented agreement-building via communication, systems, training, incentives, and other aspects of your channel management program.
- ▶ **Make your channel managers role models.** Channel managers are a crucial link in the chain. They must “walk the talk” by modeling counterintuitive, value-based selling behaviors themselves, both to serve as role models for channel sellers, and to execute your corporate channel strategy.
- ▶ **Don’t stop with the channels.** Channel profitability really begins with brand strategy. Make sure that your value proposition is embedded in every executive communication, and is as much a part of the selling mindset of your internal sales force as it is for your channel sellers.

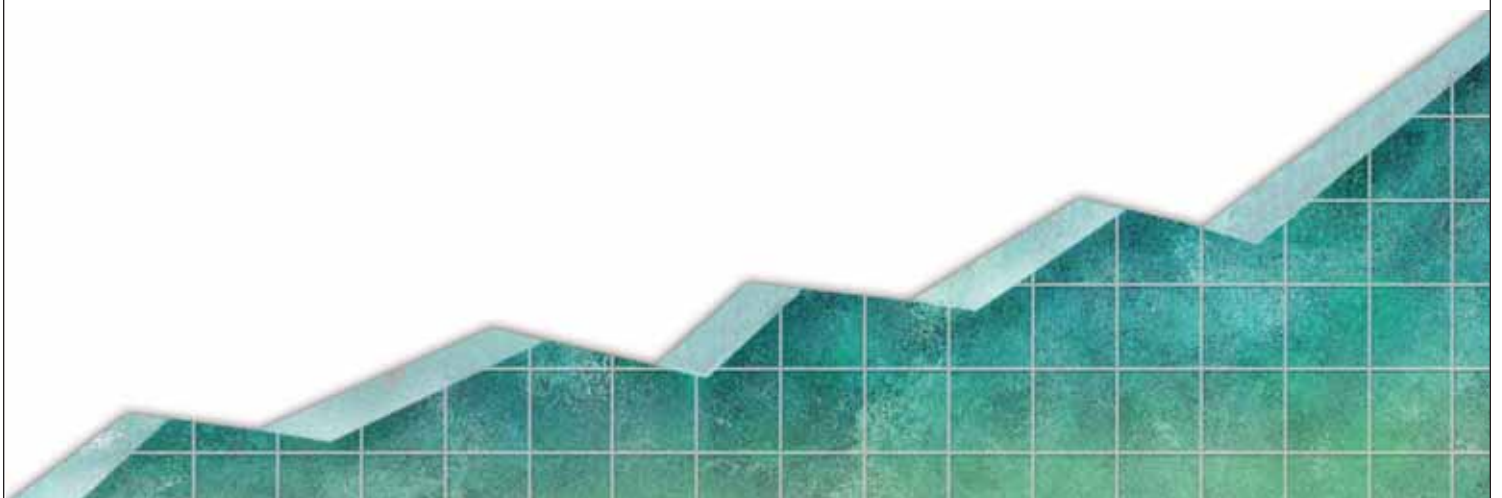
In the end, disciplined execution by your leaders and channel managers is critical. Without it, your channel sale professionals will too often take the path of least resistance: winning the business by giving things away and cutting the price.

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Profitable Selling: It's Counterintuitive

Margins suffer when channel partners react intuitively and don't craft value-driven "Pivotal Agreements" with their customers. Research shows that margins improve when salespeople think and act *counterintuitively*.

IN THIS SITUATION...	THE NATURAL REACTION OF MOST CHANNEL SALES PROFESSIONALS IS TO...	WHEN THEY SHOULD DEMONSTRATE THE FOLLOWING COUNTERINTUITIVE APPROACH...
The customer begins exerting pressure for a lower price.	Begin talking about price ("How low would our price have to be to win your business?")	Acknowledge the importance of price, but keep the discussion focused on value.
The customer asks for product information.	Give <i>too much</i> information.	Give <i>just enough</i> information to earn the right to ask for more information from the customer.
The customer tells the sales person that they have competition.	Make concessions too quickly.	Maintain high targets, and find ways to justify them.
The customer shares something they want (like a faster installation schedule)	Look for ways to get the customer's request met.	Ask questions to identify needs and search for creative low-cost ways to meet them.



About BayGroup International

BayGroup International partners with corporate executives to improve shareholder value by:

- Ensuring that key business initiatives demonstrate significant ROI;
- Helping implement corporate strategies successfully; and
- Building skills across the organization for creating profitable agreements, both internally and externally.

BayGroup International implements strategic projects that include research, highly tailored performance improvement development, and the tracking of results. Our work in client organizations is supported and reinforced through executive leadership communication campaigns, management coaching, and internet-delivered performance support tools. Using our proven behavior change approach has helped clients achieve desired business results, and improve the ability of key employees to build better agreements with:

- Customers, especially when competitive sales pressure threatens profits.
- Suppliers and other outside parties, whose increasing costs can erode the bottom line.
- Internal team members and between individuals, where failure to handle tough, contentious issues can threaten quality, customer service, restructuring, and other strategic initiatives.
- Strategic partners, where poor agreements can threaten the success of mergers and acquisitions, as well as other mission-critical alliances (in areas such as distribution, research and development, and marketing).

By partnering with BayGroup International, clients achieve significant improvements in human performance and millions of dollars in bottom-line results.

Since its founding in 1980, BayGroup International has built a select client list of major global corporations, focusing on the technology, telecommunications, pharmaceuticals, transportation, consumer products, and financial services industries. Our consultants have worked in North and South America, Asia, Europe, and the Middle East. We serve our clients from offices in major cities around the world.

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