

Coping Strategies for Economic Downturns

A White Paper

May 2009



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Read this whitepaper by William Gilsing, Vice President Global Channel Strategies at hawkeye, where he shares best practice in coping strategies for economic downturns.

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Current economic news has everyone – from consumers to businesses – concerned and wondering, if a worldwide economic recession is already here, how long it will last and how it will affect them. The channel is no different and articles abound right now with predictions about what the situation means for the IT industry and its customers. The situation is so confusing that on the same day, one publication ran an article titled “Solution Providers Brace For Credit Crunch” while another said “No Credit Crunch in the Channel.”

It’s no wonder vendors and partners alike are left wondering how to plan for the future.

Introduction

Current economic news has everyone – from consumers to businesses – concerned and justifiably tense. The channel is no different. Articles abound with predictions on the economy and what impact it will have on the IT industry and the channel. The situation is so perplexing that on the same day, one publication printed an article titled “Solution Providers Brace for Credit Crunch” while another publication issued an article claiming “No Credit Crunch in the Channel.”

How best to plan for the future? Whose advice is trusted? What steps can vendors and partners take to lessen the economic blows and salvage dismal sales figures?

This whitepaper focuses on proactive steps to protect channel programs and partner activities against the economic storm and weather this period of financial uncertainty. This paper does not serve as a crystal ball, but instead will focus on channel spending trends, specific coping strategies and best practices, followed by a look at the critical role metrics play in assessing the vitality of the bottom line.

“Every end user has some applications that are so mission-critical that their implementation simply cannot be put off. Smart solution providers focus on those technologies, especially security and storage.”

VARBusiness, Sept 28, 2008

“You’ve got to look at product segments that are difficult to delay. The more you can focus on those areas that are difficult for customers to put on the back burner, the better off you’re going to be.”

VARBusiness, Sept 19, 2008

1. Solution Focus

Both vendors and partners should re-examine their focus and look to solutions that solve major business problems, present real cost savings and significantly increase productivity.

Change the messaging emphasis to position the product/solution or service to target emotional triggers and pain points that resonate in today’s market - emphasize value, cost savings and increased productivity and don’t forget to address regulatory and compliance mandates that could be costly if overlooked.

Fortunately, there are IT solutions customers cannot live without. According to the *Channel Insider* 2008 Midyear Outlook Survey, solution providers listed the top 10 solutions they anticipate to remain in high demand. Following are the top four:

1. Security

Tools for protecting data and IT infrastructure remain the hottest technology in the channel. Nearly one-third of solution providers say it remains the most profitable product set. Emerging technologies such as data loss prevention and application-aware firewalls are opening new product sales and services opportunities, which translate into hefty margins. This includes data loss prevention products.

2. Software as a Service (SaaS)

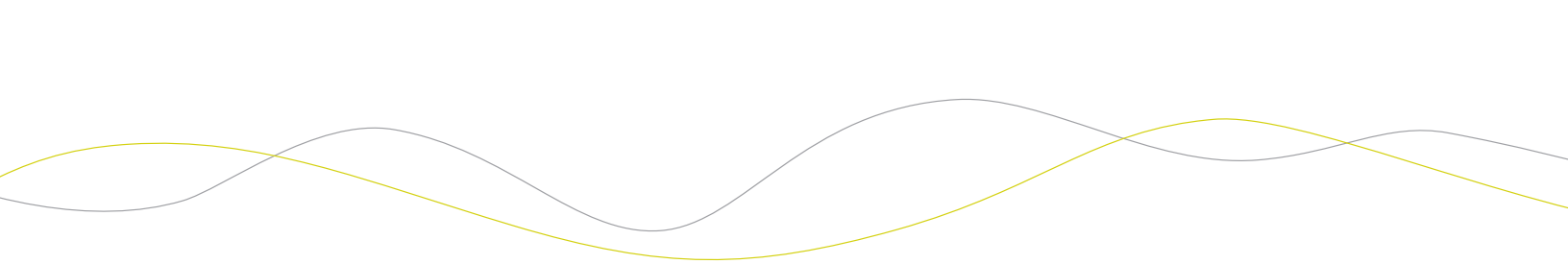
Solution and managed service providers (MSPs) are beginning to discover the profit power of selling and delivering hosted applications as a service. The emergence of SaaS is providing solution providers with a new offering, relieving their customers of the complicated task of managing multiple licenses and constantly being caught in the upgrade cycle. Managed service providers are finding once hardware comes under management, SaaS is the next highest customer request.

3. Managed Services

Many resellers are finding monitoring gives them deep insight into their customers’ needs, which translates into higher hardware and software sales opportunities. Everyone from Dell to local solution providers are getting into the managed services game for these reasons.

4. Mobility Solutions

Everyone is on the run. Blackberries, Treos, iPhones and the coming Google Android-powered cell phones are transforming these telephony gadgets into fully functional palm-top computers. Enabling and managing these devices remains a nightmare for IT departments, a situation which provides a solution provider with the opportunity for selling mobility devices and the services to make them run smoothly. Mobility goes far beyond the cell phone. Everything from embedded cellular cards in computer notebooks to handheld barcode scanners and portable projectors is expanding the definition of mobility solutions.



“We’ve never been more comfortable with our 12 to 17 percent growth long-term projection than we are right now.”

John Chambers, Cisco in
VARBusiness, Sept 16, 2008

2. Current Economic Trends and Impact on Technology Partners and Vendors

Forrester Research recently revised its predictions for the remainder of 2008 and into 2009. Forrester originally predicted 9.4 per cent growth in IT spending for 2009 and modified their prediction to a more modest 6.1 per cent estimate. *Information Week* has stated ***“most of the jumbo tech vendors reported respectable financial results [with] Cisco, IBM, and Intel, all [showing] solid sales and earnings growth.”***

On the other hand, some companies like Dell and Ingram Micro announced softening demand and sales in the US and Europe.

IT executives are ***“going to be looking at an economy that will be looking pretty feeble during the budgeting process, so they’ll be approaching 2009 very cautiously and very conservatively in terms of spending.”*** Bartels quoted in Forrester Research, Sept 19, 2008.

Channel expenditures will experience greater scrutiny with pressure on channel executives to reduce budgets, especially in areas where ROI is difficult to measure. These can include:

- ◆ Rebate programs not linked to marketing activities
- ◆ Marketing campaigns lacking demonstrable sales lift
- ◆ PRM applications with unproven ROI
- ◆ Marketing collateral
- ◆ Channel account manager (CAM)/partner ratio

At the heart of the US financial crisis is a credit crunch with a domino effect on the global economy. On a positive note, partners in the technology industry have options beyond the traditional bank credit lines which may help some resellers weather the storm - specifically distributor-backed financing, as well as finance programs offered by some of the top tier vendors such as Cisco and Microsoft.

“Finance programs like those offered by distributors Ingram Micro, Tech Data and other players in the technology space are making it easier for VARs to quickly get a leg up in the finance arena by offering various options that allow the VARs to extend finance options to their end-customers.” eWeek, Sept 30, 2008.

“Distributors and banks aren’t the only sources of credit for solution providers and their customers. Technology vendors such as IBM, Cisco Systems and Microsoft offer generous financing terms.” eWeek, Sept 30, 2008.

3. Coping Strategies and Best Practices for the Channel

Rapid economic changes require a quick and decisive response from vendors and partners. Consider these immediate steps stakeholders can take, including some suggestions to help partners.

Lessons from previous recessions

A first step forward is sometimes a quick look back – what advice can the industry glean from previous recessions?

A series of key questions should help vendors prioritize where to spend the funds and whether to spend money at all.

During the last recession, vendors took a critical look at all funds devoted to the channel and attempted to determine which channel strategies and programs delivered a measurable return on investment in the short term. While it makes sense to cut longer- term channel investments such as partner recruitment, investments that increase indirect sales in the short term such as proven marketing and demand generation activities with top tier partners should be maintained or perhaps even increased.

In addition, vendors analyzed their existing partner base more closely to determine which partners really produced in the short term and which partners had little impact on short- term indirect sales. The most effective way to do this is to apply a more detailed version of the 80/20 rule (20 per cent of partners contribute 80 per cent of revenues) called a Pareto distribution analysis. Segment the partners (by number of partners) into the following bands: 5 – 15 – 30 – 50 per cent and look at revenues produced by each segment as a per cent of total revenues. Ideally, the sales distribution for each band should look more or less like this: 50-30-15-5 per cent. This methodology will help vendors determine which partners to shift into higher tiers and allocate more resources to and which partners to eliminate and cut resource funding.

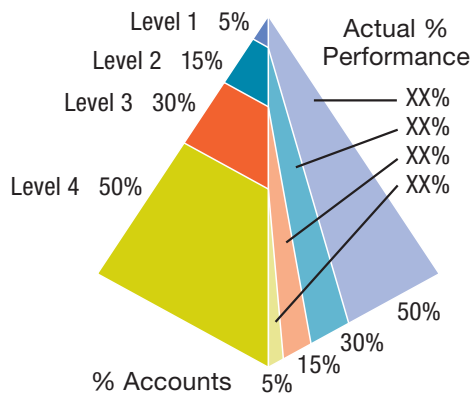


Figure 1. Pareto Distribution Analysis

Another tactic is to divert a portion of marketing funds to finance temporary price reductions that will accelerate a slow sales cycle. An economic downturn is an opportunity to attract new customers with time-limited promotional offers or discounts on products or services.

Spending reductions need to be selective and aim for short-term reductions without sacrificing long-term strategy and opportunities. This is a good time to examine distribution market spend because there is often a longer lead time before companies see an impact, thus little ability to drive demand at customers in the short term.



Steps for Stakeholders

The following three boxes identify steps channel executives, account managers and partners can each take directly to enact some of the lessons learned from past recessions. The focus for channel executives is to wring as much revenue out of the current partner base as possible. CAMs need to focus on program tactics and identify select partners and marketing activities for investment. Partners need to focus closely on solutions that deliver short term ROI for their customers and increase productivity. They should also leverage opportunities, intelligence and resources provided by vendors to compete in a tight market.

Recommendations for channel executive focus

1. Tiering and prioritization of partners
2. Partner access and use of accreditations, certifications, authorizations, training
3. Partner enablement benefits - MDF, leads
4. Deployment of sales resources - field, tele, outsourced
5. Channel expenditures - MDF/Co-op, rebates

Channel account manager actions

1. Identify top producers
 - a) Move high-performing partners into higher tier
 - b) Shift poor performing partners into lower tier
2. Move funding and resources to top tier partners
3. Examine all marketing activities with partners
 - a) Eliminate ineffective activities and focus resources and money on short-term returns

Steps for channel partners

1. Focus on mission critical solutions
2. Focus on services
 - a) Consider the managed services model to reduce capital investment for customers
3. Maximize use of vendor marketing funds to maintain critical demand generation activities
4. Examine vertical market opportunities, especially in areas less affected by economic volatility

What can vendors do to help partners? A careful examination of key areas can help vendors give their partners an edge during an economic downturn. The suggestions range from strategic information to tactical pre- and post-sales support that should not only help boost revenue, but also strengthen the vendor-partner relationship.

- 1. MDF/Co-op funds:** Educate partners on lead generation opportunities through available MDF and Co-op
- 2. Provide technology roadmaps:** Keep partners informed about the technology roadmap so they can offer their customers new solutions designed to reduce IT budgets now
- 3. Sales tools:** Provide eTraining, sales tips and customizable collateral and lead generation pieces
- 4. Managed services:** Consider accelerating/starting a managed services practice as a more economical way for partners and customers to adopt solutions
- 5. Success stories:** Develop success stories that showcase customer pain points and demonstrate how the solution saves time and money. Add partner or user quotes to validate the story
- 6. Vertical markets:** Provide partners with hard data to sell solutions into targeted vertical markets. By widening the market focus, partners can insulate themselves against hard hit verticals
- 7. Opportunity registration:** Optimize opportunity registration programs and be sure to eliminate direct/indirect sales conflicts
- 8. Solution information:** Help partners focus on solutions that attack growing business problems, present real cost savings, increase productivity, and offset the cost of implementing new technologies
- 9. Go green:** Explain to partners and users the benefits of going green and demonstrate the commitment by reducing the use of precious resources
- 10. Financing:** If vendors offer in-house financing, now is the time to evangelize this scarce benefit. Inform partners on financing options geared towards their needs, as well as their customers' needs.

Best Practices

Certain best practices merit attention during slow economic periods, including coverage and capacity evaluations, automation of partner programs and a hard look at key metrics.

Evaluate Channel Coverage and Capacity

Coverage and capacity evaluations include an examination of the quantities, qualities and performance of appropriate partner types required to meet short-term indirect sales goals. Such evaluations will answer the following questions:

- ◆ How to target what customers want and need to acquire products and solutions?
- ◆ How many of what kinds of accounts does the company have and how are they performing?
- ◆ How many of what kinds of partners does the company need to achieve revenue/segment goals?
- ◆ What are the practical methods of valuing and forecasting the company can realistically apply within the organization?
- ◆ What is the gap between what the company has and what it needs?
- ◆ How do channel account managers build a target list of partners to recruit?



Partner Programs

Evaluate hard program benefits that affect both vendor and partner bottom line and soft benefits that affect customer satisfaction.

- ◆ What does the company need to do to enable the partners and how is this accomplished?
- ◆ What are the most critical things – and in what priority – do companies need to offer different partner types?
- ◆ How do hard and soft program benefits stack up against BIC and the competition?
- ◆ Have companies validated the program value proposition?
- ◆ How do vendors optimize channel program spend?
- ◆ Are the programs being developed motivating right partner behavior?
- ◆ Is the program well integrated with other programs and applications?
- ◆ Does the program support global implementation?

Simplify

Now more than ever, partners are anxious for vendors to simplify their programs. Such moves would allow partners more time to focus on selling solutions and services, plus address core business needs.

In recent interviews, partners divulged what vendors can do to help strengthen partner sales efforts:

- 1. Speed approval and processing times:** This is critical during difficult economic times. Partners rely on prompt funds processing to offset cash flow bottlenecks
- 2. Online access:** Collateral, documentation and training can be accessed online through the partner portal to save time and money
- 3. Streamline:** Ask for the minimum paperwork needed to process claims. Consider convenient online forms
- 4. One-to-one marketing:** Provide partners with information tailored to their business needs. From customizable collateral, to email alerts, don't waste partners' time with unnecessary information or materials. Target the message to specific markets and solutions. Keep information current. Partners need to locate the latest product information before customers ask questions. This is also a good time to share product release and strategic roadmap information to prepare partners for new solution sales

“A partner program should be easy enough that it should not require a training course just to find out how it works.” Reseller, November 2007

Measuring Effectiveness

The ability to demonstrate a positive return on investment (ROI) is even more critical when the economy trends downward. In the best economic climate, metrics are important, but when every dollar counts, companies need to know which activities contribute to the bottom line.

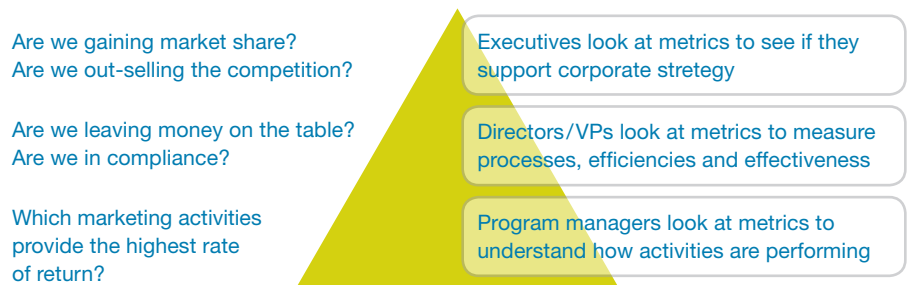
A survey of CMOs identified the five reasons to measure marketing:

1. Effectiveness of marketing organization and plans
2. ROI tracking
3. Justification of budgets, programs and value
4. Improved marketing resource allocation
5. Accountability

Not all stakeholders require the same set of metrics. At the executive level, metrics need to address strategic concerns, while program managers responsible for day-to-day management are more interested in tactical efficiencies. Here is a look at metrics by role and responsibility, as outlined in figure 2 below.

- ◆ Executives need metrics to determine which programs support the corporate strategy and if such programs positively affect market share and brand awareness
- ◆ Directors and VPs require metrics that measure processes, efficiencies and program effectiveness. They look for ways to economize, plus ensure their programs are financially and legally compliant
- ◆ Program managers are interested in an array of tactical metrics that help measure the performance of various activities within a program

Figure 2: Stakeholder metrics



Conclusion

While it is difficult to avoid recessionary pains, there are immediate actions and strategies to help technology vendors and partners cope with current economic conditions. Some steps are common sense or best practice, while other actions need reminding.

- ◆ Determine which partners make a significant contribution to indirect sales in the short term and redirect resources accordingly
- ◆ Selectively engage in those marketing and demand generation activities that have shown measurable and short-term results. Consider shifting a portion of marketing funds to discounts and promotional offers to attract new customers.
- ◆ Attach metrics whenever possible to the marketing activities
- ◆ Focus on those solutions that deliver short term ROI and increase productivity for the customers. Structure the product, solution or service messages with an emotional appeal by demonstrating how the solution can help save money or increase productivity

About the Author

William Gilsing heads the Hawkeye Strategy Team in channel strategy and channel program development efforts for our clients. He has 14 years of experience with technology clients developing GTM strategies, channel strategies and programs for both B2B and retail channel segments. His experience includes strategic engagements with Microsoft, Seagate, Philips, Adobe and TI.

Prior to his consulting career William held middle and senior management positions in marketing and merchandising with Egghead, The Sharper Image, Duty Free Shoppers, and The GAP.

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About hawkeye

At hawkeye, we create innovative channel marketing strategies, programs and applications for leading technology companies with the goal to build indirect sales, mindshare and channel margin contribution. We are a leading marketing agency with offices around the globe. With our channel expertise and global reach, we're able to deploy robust marketing services that address both international and regional audiences. Our aim is to help companies deliver a strong ROI and optimize their channel spend through end-to-end solutions using best-in-class practices.

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