



Reducing Partner Program Spend while Minimizing Impact on Indirect Sales

A White Paper

May 2009



hawkeye

channel focused_results driven



In this paper we will discuss:

- ◆ The role of performance analytics
- ◆ Identifying partners who are contributing to revenue
- ◆ The importance of partner segmentation and tiering
- ◆ Applying performance analytics in a case study of an MDF/Co-op program

“Gartner forecasts a 3.8% decline in global IT spending for 2009.”

“Forrester predicts a 3.1% decline in global IT spending for 2009.”

“Both these forecasts indicate that IT spending will be even harder hit than it was following the dot-com bust when it fell by 2.1 percent worldwide.”

Channel Insider, April 2009

Reducing Partner Program Spend while Minimizing Impact on Indirect Sales

Summary

Economic downturns force channel executives to make difficult investment decisions. Now, more than ever, it is important to know how your channel investments are performing and whether you are getting the desired return on investment. Channel performance analytics enable you to make targeted investment decisions that maximize the value of your investments.

The Role of Analytics

Earlier this year, Hawkeye partnered with the Baptie Channel Focus community to conduct research on channel spend. The results indicated that about half of respondents experienced marketing and channel budget reductions for 2009 and another 40% reported flat budgets. Whether budgets are declining, flat or increasing, respondents were clearly interested in limiting investment cuts to specific programs.

The question for channel executives is how to make those selective cuts intelligently with an understanding of which partners and which programs are providing the best return on channel spend. Applied channel analytics provide a systematic methodology for ensuring that the investment changes you make provide you the best “bang for your buck.”

Channel analytics can help you:

- ◆ Maximize revenue and ROI on your channel investment
- ◆ Target “opportunistic” groups of partners for revenue growth
- ◆ Reduce and refine “wasted” program spend
- ◆ Identify effective programs and actions that you can expand
- ◆ Improve forecasting

Most companies collect revenue and program performance data by partner tier or segment that can serve as the source of input for actionable partner analytics. This information can facilitate even greater analysis that includes partner business models, customer size segments, solutions and/or services offered, certifications held, etc. The depth and breadth of analytics you can perform and actionable insights you can achieve are limited only by data availability and the accuracy of your data.

For detailed information regarding common data sets used in partner analytics, recommended core measures or analyses, performance analytics, standard reporting and statistical methods used for partner segmentation and tiering we recommend you review some of our other white papers which explore the topics in more depth (“The Terrible Tiers” on tiering and segmentation and “Channel “CSI:” Best Practices in Channel Analytics”).

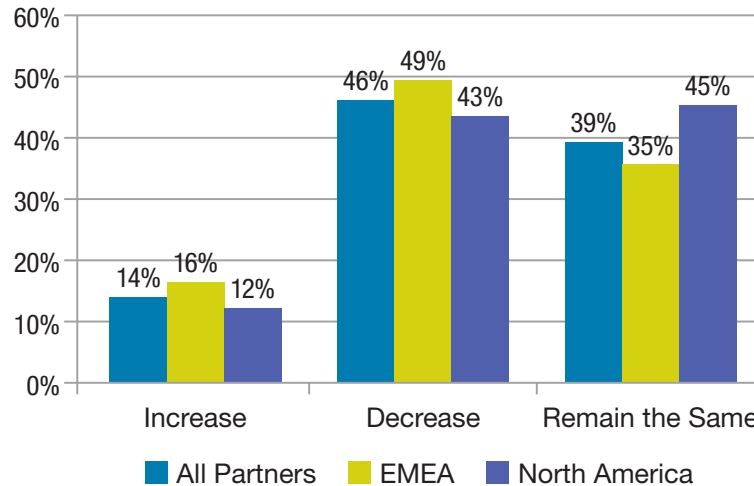


Figure 1: Marketing and Channel Budgets for 2009

Investment decreases are mostly likely to be found in:

- ◆ MDF/Co-op programs (19%)
- ◆ Marketing Resource Centers (16%)

Programs that may see increased investment are:

- ◆ Partner communications (41%)
- ◆ Opportunity registration (40%)
- ◆ Partner portals (40%)
- ◆ Partner community (39%)

Case Study: MDF/Co-op Program

The following case study is a composite of information obtained in real-world examples.

So how do you measure MDF/Co-op program performance using analytics? First identify the kinds of things you want to look for, such as:

- ◆ Do the numbers of accounts receiving MDF/Co-op funds meet your program goals?
- ◆ Is the actual use of the funds made available to accounts satisfactory and how does that usage align with expectations?
- ◆ Does the usage of funds appear to result in increasing revenue? How does the cost of those funds correlate to period-to-period incremental revenue and growth rates as well as other performance metrics?

When you have a clear idea of the data elements you want to measure then it is time to begin to drill down by account attributes as well as product lines or sub-programs. You can look at how factors vary by partner segment based upon the calculated Pareto level as well as by your existing tier segmentation.

For this example, we assume the following characteristics for the vendor in this case study:

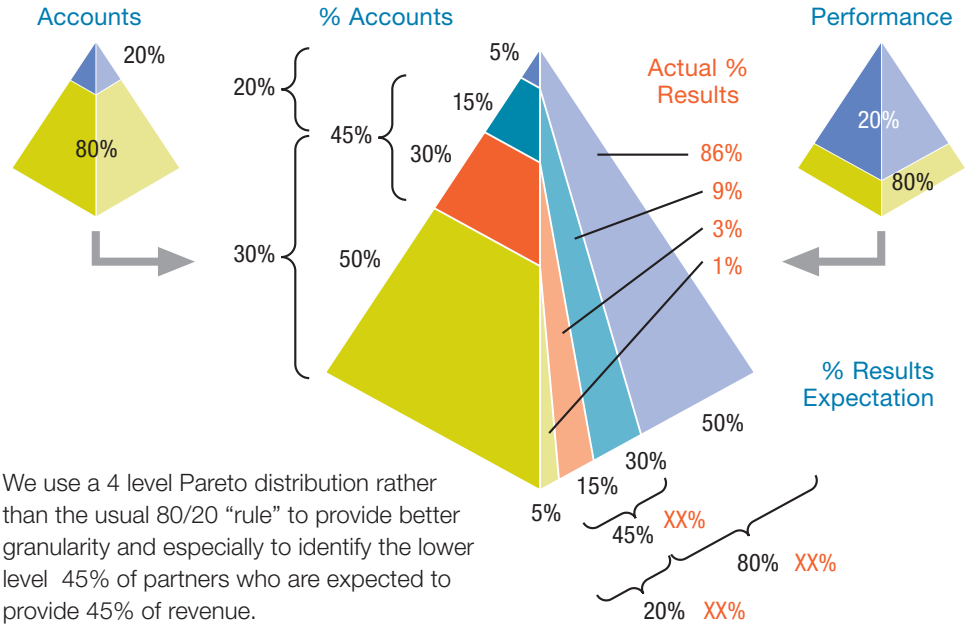
- ◆ The company has a large number of channel partners in North America that are categorized into five tiers: platinum, gold, silver, authorized, and unclassified accounts
- ◆ MDF/Co-op is a key program used to support partners and is the primary focus of this case study
- ◆ For analytics purposes, we divided the partners into two “attribute” groups:
 - ◆ Participating – those receiving and using MDF/Co-op funds
 - ◆ Not Participating – those not receiving MDF/Co-op funds

Next, the company needed to decide which questions they wanted answered through the reporting and analysis:

- ◆ How many and what kinds of partners deliver the bulk of revenue?
- ◆ Are the different partner types meeting revenue expectations?
- ◆ Specifically, how is the MDF/Co-op program working?
 - ◆ Is the utilization rate acceptable?
 - ◆ What is the correlation between participation in the MDF/Co-op program and partner performance measures?
 - ◆ What is the ROI of the program measured against incremental revenue?
 - ◆ How does partner type and level affect measures like utilization and correlation between participation and performance?

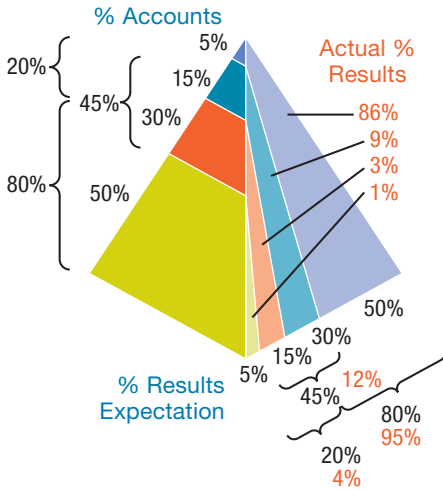
Pareto Distribution

Our first activity is to look at the actual Pareto distribution for this company's partners. It is far different from the expected Pareto distribution, but this is not unusual for many companies. Pareto distribution is a commonly used statistical method that takes the "80/20 rule" to the next level and compares an expected distribution by partner segment and revenues to the actual revenues produced by each partner segment. In the standard Pareto distribution we see the following:



We use a 4 level Pareto distribution rather than the usual 80/20 "rule" to provide better granularity and especially to identify the lower level 45% of partners who are expected to provide 45% of revenue.

The top 5% of partners typically generate 50% of revenue. The next 15% produces 30% of revenue, followed by the next 30% of partners producing 15% of revenue. Finally, the bottom 50% of partners produce 5% of revenue.



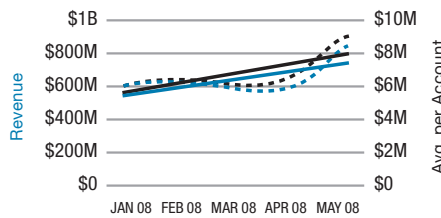
We often find that when we look at a Pareto distribution, results are skewed to the top 5% of partners. In this case study, we see that the top 5% of partners generate 86% of revenues. This indicates the company may be overly dependent on the top 5% of partners. Often the top 5% include high volume fulfillment resellers whose revenues have maxed out. The greatest growth opportunities can usually be found in the 2nd (15%) and 3rd (30%) tiers of the Pareto distribution. In this example, 45% of partners account for only 12% of overall revenue, not the expected 45% so there are opportunities to develop these partners in the future. These are the partners who may also provide the greatest ROI in terms of revenue generated versus required program investment.

Performance by Partner Classification

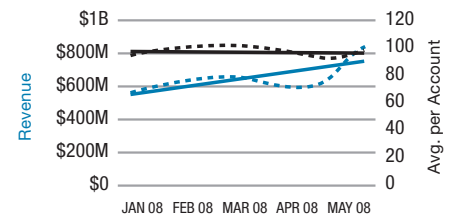
Next we take a look at the performance of partners based on their tier: platinum, gold, silver, or authorized partners. This is a trend comparison, by partner tier, of total performance to average per partner (APA = Average Performance per Account) and Total Performance to buying activity or frequency.

Lessons learned: Vendor is overly dependent on the top 5% of partners and there is opportunity for growth in Pareto levels 2 and 3. Consider further analysis of the top 5% of partners and redirect some investments to develop partners in Pareto levels 2 and 3.

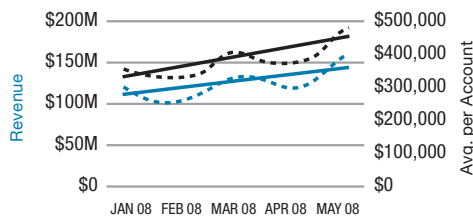
Platinum - Total Performance vs. APA



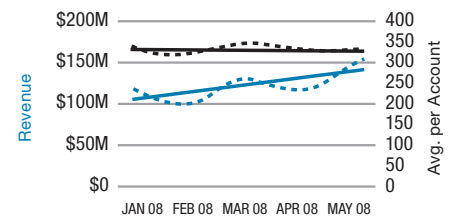
Platinum - Total Performance vs. Activity



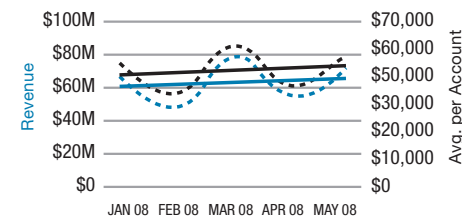
Gold - Total Performance vs. APA



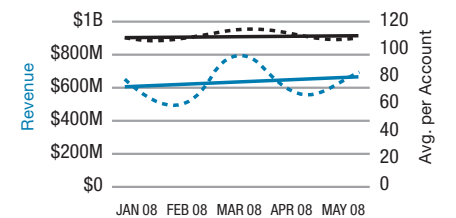
Gold - Total Performance vs. Activity



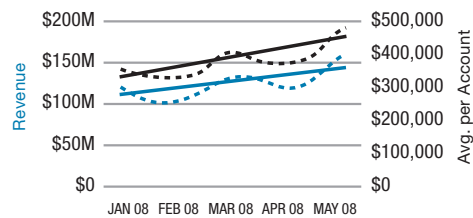
Silver - Total Performance vs. APA



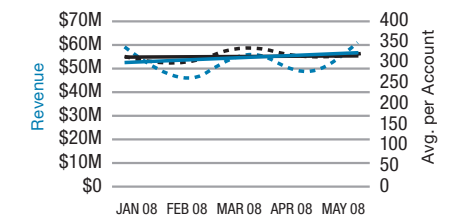
Silver - Total Performance vs. Activity

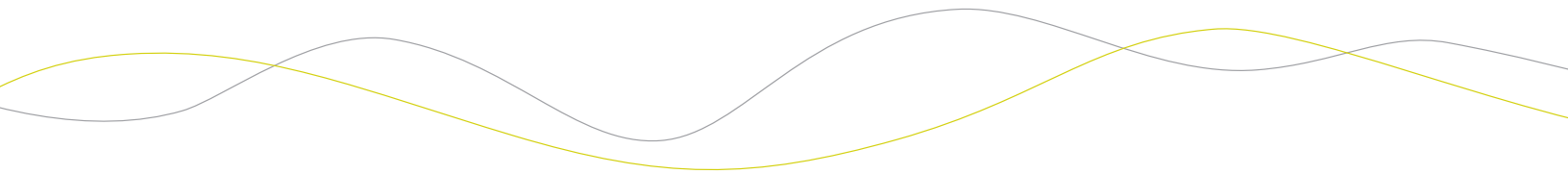


Authorized - Total Performance vs. APA



Authorized - Total Performance vs. Activity





Total revenue as well as average revenue per partner is trending up, and this upward trend is a result of these partners buying more each consecutive month. A deeper drilldown would enable us to examine each partner classification by Pareto level to identify top and poor performing partners within each tier.

Performance for silver partners in this example is trending up slightly. Given that these partners are in the vendor's third tier – a position that typically means less engagement and entitlements to programs and rewards – this group of partners is worth a “deeper dive” into understanding who they really are and what they do. For example, a pilot program for the upper tier within silver partners might be provided – including outbound (telephone) support and/or online access to marketing templates. The results might show performance increases that warrant this type of investment.

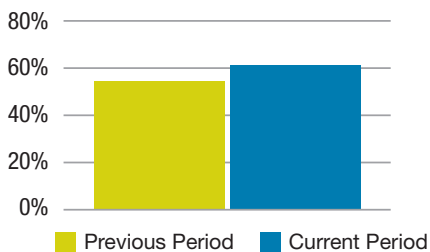
Lesson learned: Silver partner performance may benefit from additional support – pilot some ideas and analyze the results.

Performance of the masses of authorized partners is generally flat which is consistent with the heavy emphasis placed on the small percentage of partners in the highest classification and Pareto level 1 (those 5% of partners responsible for 86% of revenue).

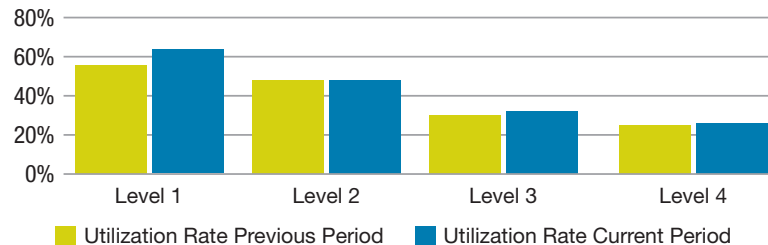
MDF/Co-op Utilization

Our next step is to look at actual MDF/Co-op utilization information. The three charts below show overall MDF/Co-op utilization, then break that utilization out by first Pareto level, and second by account classification (tier).

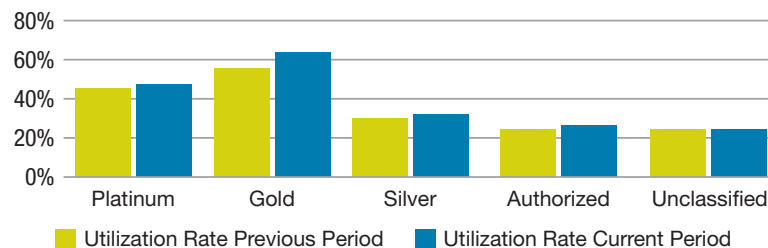
Overall Co-op / MDF Usage



Co-op / MDF Usage by Pareto Level



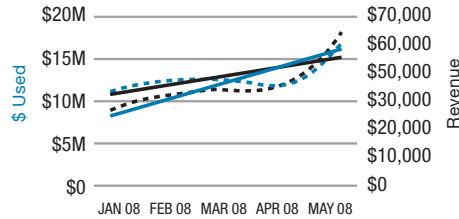
Co-op / MDF Usage by Account Classification



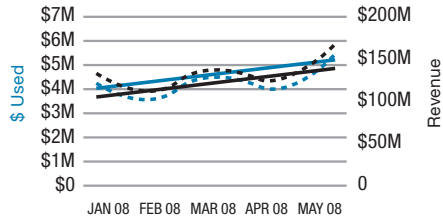
What we learn here is that the utilization rates for eligible partners increased period-to-period. The highest utilization rates and the biggest period-to-period change are for Pareto level 1 (top 5%) partners and gold partners.

In the next set of diagrams, we look at MDF/Co-op utilization trends by account classification (tier) for platinum, gold, silver, and authorized accounts.

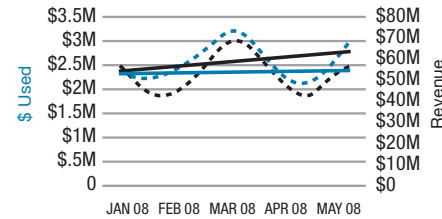
Platinum - Co-op / MDF Usage vs. Revenue



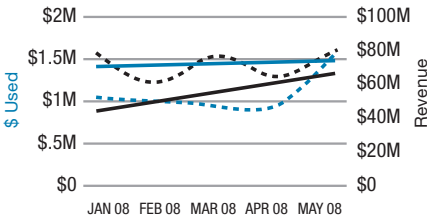
Gold - Co-op / MDF Usage vs. Revenue



Silver - Co-op / MDF Usage vs. Revenue



Authorized - Co-op / MDF Usage vs. Revenue



Lessons learned: Partners utilizing MDF/Co-op funds perform significantly better across a variety of measurements. This program should be a valued investment in the vendor's toolbox of partner benefits.

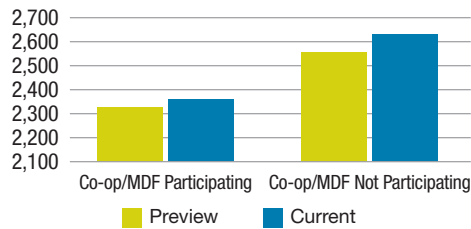
Here we are comparing revenue growth versus program cost for each of the partner tiers. This analysis may alert you to further examine the effectiveness of the program for platinum partners. Perhaps these platinum partners are large fulfillment resellers and marketing programs have less impact on their performance.

This kind of trend analysis can also be completed by Pareto level for all partners participating in the MDF/Co-op program.

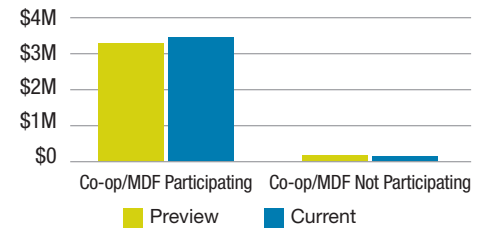
Comparison of Account Performance for Partners Utilizing vs. Not-Utilizing MDF/Co-op Funds

To better understand the impact and value of MDF/Co-op benefits, it is important to include analytics that compare the performance of participating versus non-participating partners.

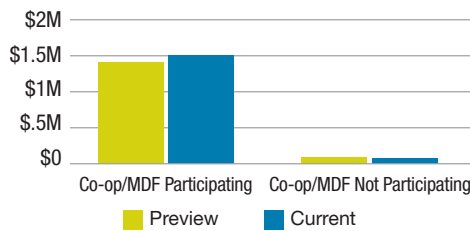
Accounts by Co-op MDF Activity



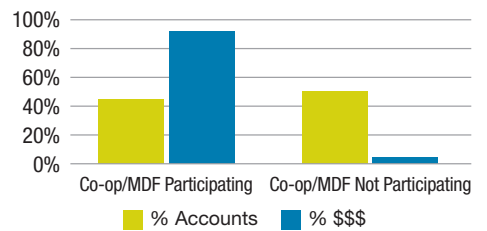
Revenue by Co-op MDF Activity



APA by Co-op MDF Activity



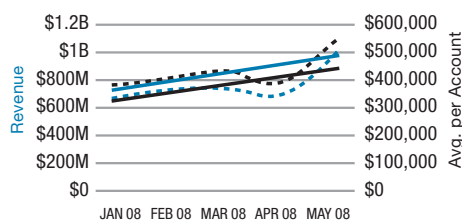
Co-op MDF Activity % Accounts / %\$\$



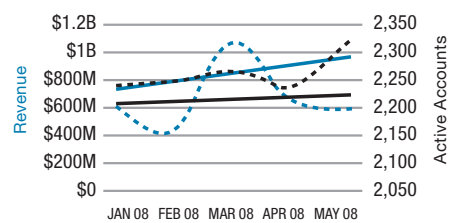
Partners utilizing MDF/Co-op dollars comprise only about 50% of the total partner base, but are responsible for about 95% of revenue. Additionally, partners utilizing MDF/Co-op increased their revenue and APA period-to-period while non-participating did not.

These diagrams also demonstrate that the trends for partners utilizing MDF/Co-op dollars are much stronger than for non-participating partners:

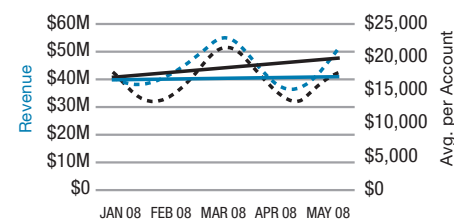
Co-op/MDF Participating - Total Revenue vs. APA



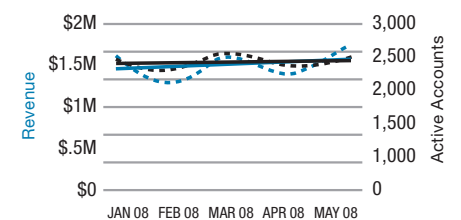
Co-op/MDF Participating - Revenue vs. Activity



Co-op/MDF Not Participating - Revenue vs. APA



Co-op/MDF Not Participating - Revenue vs. Activity



Lesson learned: Drill-down more into utilizing and non-utilizing partners. Are there segments of non-participating partners that show potential revenue growth? Consider expanding the availability of the MDF/Co-op program.

MDF/Co-op utilizing partners have very strong revenue, buying activity, and average revenue per partner growth compared to the flat performance of those not utilizing the funds.

More Analytic Possibilities

There are additional analytics that can be performed dependent only on the type of data available from the vendor. For example, you can drill down further looking at any of the following:

- ◆ Numbers of activities (customer events) conducted
- ◆ Fund usage by types of activities such as media advertising, direct mail campaigns, telemarketing, etc.
- ◆ Claim activity such as the number of claims submitted each month or quarter
- ◆ Parse any number of data points based on product lines
- ◆ Cross-sell analytics (attach rates)

Any of these analytics help you better understand revenue and program performance beyond top line revenues. For example, you will better understand the impact of certain promotional activities enabling you to guide partners in running those programs that have the greatest impact on their performance. You can also refine your allowances and redemption payments by focusing higher reimbursements for the most effective activities.

KEY POINTS

Analytics can be a powerful tool in ensuring that your channel investment is made wisely and provides you with the most “bang for the buck” – especially when difficult economic times require reductions in partner programs. It is important to ensure that program investment cuts are not made “across the board” but are instead targeted to the least effective programs and that those programs with the greatest ROI are protected or that funding for those programs and certain partner segments is increased.

hawkeye suggests that you keep the following in mind when considering analytics for your channel program:

1. *Complexity.* Let’s face it, these computations are complex. Don’t confuse analytics with descriptive statistics. A skilled business analyst with industry knowledge is a valuable resource in performing the required sophisticated number crunching and interpretation.
2. *Executive Buy-in.* Sponsorship and buy-in from top executives will ensure that you can get the data and support needed to make your analytic exercise a successful one. Obtain buy-in from Finance, Channel Operations, Channel Marketing, and Channel Sales.
3. *Consensus.* A well-intentioned analytics exercise can be quickly derailed unless there is early consensus among key stakeholders within your organization regarding the data sets to use and which metrics to report.
4. *Practical Tool.* Analytics are more than an academic exercise – they are a practical tool that produces solid information to guide your channel investments.



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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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