The Extended Sales Enterprise: Enabling Best-in-Class Performance in Your Channel

For organizations that rely primarily or entirely on an indirect sales force via the channel, resellers, distributors, alliances or partners, the de-centralized nature of sales management presents increased challenges in overall productivity. These obstacles include both internal visibility into and control over channel performance, as well as external-facing support and enablement for both indirect selling partners and the end customers themselves. While Aberdeen sales effectiveness research frequently documents the best practices and technology adoption trends among high-performing direct sales teams, the question remains - are these solutions and approaches equally robust enough to maximize revenue within a larger, dispersed marketing/selling ecosystem? Or instead, are there additional ways in which the channel can be uniquely empowered by the original vendor, OEM or producer to deliver substantial, accurately forecasted sales results?

Issue at Hand

By definition, the "channel" refers to outsourcing a company's sales activities across some portion of a customer's lifecycle. Whether the selling process refers to initial marketing and cold-calling, to nurturing producer-provided opportunities in a lead-to-order environment, or creating up-sell/cross-sell revenue from a recently acquired or mature customer in hand, the activity should never end. Yet with partner populations often numbering in the hundreds or even thousands, the ability for the solution providers to control the flow of data and skills deployment becomes more cumbersome with the diversity of multiple geographies, extended product lines, and sheer volume.

Manufacturers have long deployed a variety of "carrot and stick" tools in order to motivate better performance among channel partners. A wide variety of marketing promotions, tiered rankings of VAR's, fringe benefits and pricing strategies dominate the landscape of channel management. Yet do the solution providers have a clear, on-demand and objective view of the results? How do they predict and track the effectiveness of their tactics on the desired channel behavior? How do they avoid channel conflict through sales lead management techniques? Can manufacturers ensure that their core value proposition, pricing, and positioning are uniformly carried out and/or customized by the channel for peak ROI in these relationships? Finally, what are the best ways for producers to make the channel experience as successful as possible for all parties, including the end-customer?
Understanding Peak Channel Sales Performance: Where Do You Want to Be?

In January and February 2011, Aberdeen surveyed 295 end-user organizations to learn about their deployments of indirect sales functions. The resulting benchmark study, *The Extended Sales Enterprise: Channeling Better Results* (March 2011), found substantially different levels of performance between the most successful channel managers, the Best-in-Class, and the remaining 80% of companies surveyed (Table 1).

### Table 1: Best-in-Class Channel Sales Performance

<table>
<thead>
<tr>
<th>Definition of Maturity Class</th>
<th>Mean Class Performance</th>
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| **Best-in-Class:** Top 20% of aggregate performance scorers | - 107% of overall corporate attainment of sales quota — all internal and external sellers  
- 5.4% average year-over-year increase in channel sales lead conversion rate (lead-to-close); 60% showed improvement  
- 4.6% average year-over-year improvement in overall deal size or contract value quota — all internal and external sellers; 49% showed improvement |
| **Industry Average:** Middle 50% of aggregate performance scorers | - 74% of overall corporate attainment of sales quota — all internal and external sellers  
- 2.1% average year-over-year increase in channel sales lead conversion rate (lead-to-close); 24% showed improvement  
- 2.2% average year-over-year improvement in overall deal size or contract value quota — all internal and external sellers; 33% showed improvement |
| **Laggard:** Bottom 30% of aggregate performance scorers | - 36% of overall corporate attainment of sales quota — all internal and external sellers  
- 0.9% average year-over-year decrease in channel sales lead conversion rate (lead-to-close); 6% showed improvement  
- 2.6% average year-over-year decrease in overall deal size or contract value quota — all internal and external sellers; 14% showed improvement |

Source: Aberdeen Group, March 2011

In examining the various processes and best practices adopted more frequently by Best-in-Class channel sales managers, let's look in detail at the leading performance management capabilities, as identified in Aberdeen's "PACE" methodology (see sidebar), that create the kind of quota attainment, lead conversion rate and deal size strengths exhibited by the top performers.

As Figure 1 details, an appropriate framework needs to be in place for the producer organization to **identify the most or least productive**
partners; however, this consistent focus on measurement doesn’t happen with just one yardstick. In Aberdeen’s research study *Sales Performance Management: Getting Everyone on the Same Page* (August, 2010), the Best-in-Class (the highest achievers of quota and deal size growth) were 35% more likely than Laggards (69% vs. 51%) to appraise different on-staff sellers – inside, outside, hunter, farmer, etc. – with unique sets of criteria, rather than one uniform performance management policy.

They were also twice as likely to support channel partners with dedicated resources. The lesson is that clearly understanding which partners are going to help drive continued revenue growth is crucial to the OEM, as is a willingness to apply “tough love” to under-performers, either by mandating training (55% of the current Best-in-Class offer partner training or certification) or instituting probationary or termination protocols. In fact, 75% of the Best-in-Class tell us that clearly defined goals are established and agreed-to with each channel partner, while only 49% and 44% respectively of Industry Average and Laggard companies agree.

**Figure 1: Channel Sales Performance Management Capabilities by Best-in-Class**

![Bar Chart](image)

Source: Aberdeen Group, May 2011

Aberdeen research conducted for *Sales Intelligence: Preparing for Smarter Selling* (February 2010) found that 66% of companies achieving Best-in-Class status – those with the best performance in quota attainment and reduction of both sales cycles and non-selling time - deployed incentive programs for
their on-staff sellers, compared to 57% of Industry Average and 50% of Laggard companies. In the case of **channel partner incentive programs**, we see similar gaps within the current research, showcasing the value of utilizing such solutions to optimize partner sales performance. Managing the complex channel web of products being sold, geographic territories being represented, different tiers of selling partners involved, and ongoing competitive threats, companies seeking Best-in-Class status need to institute incentive protocols that motivate the desirable partner behavior, measure programmatic success and streamline the channel manager’s ability to extract the most value from their partner ecosystem.

Finally, is it wise for OEMs to send money to their selling partners for marketing purposes? Some of the world’s largest companies are well-known for **providing MDF (marketing development funds) or co-op marketing funding** throughout their channel universe, and the Best-in-Class validate the approach with nearly two-thirds adopting this, compared to 43% among Industry Average performers and only 29% for Laggards. Call it “trickle-down marketing,” long-term investing or just a smart way to enhance market share – the channel organizations achieving the greatest sales effectiveness are on board with this performance management capability.

**Channel Visibility: Not Everyone is Getting Their Wish**

Figure 2 showcases two pairs of valuable findings from the research, contrasting a highly ranked desire for downstream channel performance.

**Figure 2: Channel Sales Visibility: Performance and Forecasting Trends by Best-in-Class**

Source: Aberdeen Group, May 2011
visibility with the actual levels of achievement that differentiate the Best-in-Class from under-performing survey respondents. Starting with the need for **visibility into channel partners' performance**, we see that the vast majority of survey respondents agree with the need to evaluate and manage their indirect sellers, though it is worth noting the 12% difference between Best-in-Class and other firms (91% vs. 81%) in citing this as a best practice. When we compare the fall-off numbers between "want" and "have," however, an even larger gap appears, with 46% fewer Industry Average and Laggard firms than Best-in-Class companies (73% vs. 50%) indicating they actually have achieved this kind of visibility. Another way to view the data is that the top performers show an 18 actual percentage point drop between their goal and reality (91% "want," 73% "have"), compared to a 23 point drop among other firms (73% vs. 50%). Clearly the Best-in-Class are doing something differently to achieve their higher-level performance, whether it is optimizing their channel performance through better incentive programs, enhanced collection of point-of-sale (POS) data at the consumer level, or more streamlined inventory flows.

Next, we know from *Sales Forecasting: Analytics to the Rescue!* (June 2010) that sales teams hit quota more consistently when supported by technology-driven **sales forecasting solutions**; the channel universe is no different, with the Best-in-Class more than doubling the rate of Laggard adoption of sales forecasting or analytics solutions, 79% to 38%. Given the similar trends we see regarding channel visibility - most companies agree on the need for channel-wide forecast accuracy, but the Best-in-Class partner management teams are better at achieving it - it seems wise for all companies to adopt sales forecasting and analytics solutions that include channel participation. Indeed, barely a third of Laggards have in place the structure or process to give the OEM easy visibility into estimated channel-generated revenue, compared with about two-thirds of Industry Average and four out of five Best-in-Class companies. By remaining in the dark about the future revenue they will recognize from their extended selling organization, 62% of Laggards are negatively impacting the actual revenue.

### What the Best-in-Class Are Doing Right

Top-performing companies that maximize their channel partner relationships are gaining increased visibility into channel sales performance, and are also achieving higher accuracy in their channel sales forecasting. Let's now examine the best practices that these companies are implementing in order to gain this heightened performance visibility, stronger quota attainment, growing lead conversion rates and enhanced average deal sizes. In Figure 3, we note three distinct trends that are significantly more popular among the channel sales Best-in-Class, in comparison with all other companies (Industry Average and Laggards combined).

**Support for the corporate brand** among disparate selling partners delivers a consistent image that helps end-users - the customers of your channel partners - receive a unified view of the product or services' value.
regardless of whether they are seeing brand marketing content generated by the OEM, or dealing in person with a reseller or independent distributor. While Aberdeen research has recently shown that measuring brand value itself is no longer an effective key performance indicator (KPI) of marketing effectiveness (see Optimizing the Marketing-to-Sales Lead Lifecycle, April 2011), it is easy to understand why having all parties speak with "one voice" can be more effective in delivering a unified marketing, selling and servicing message. Indeed, 60% of respondents in the current research support indicate that "partners are enabled to represent and promote, but are prevented from changing our corporate brand in all marketing content they present to their customers." The Best-in-Class, moreover, report that they "track and report on partner performance in complying with our corporate standards (price, brand, promotions, etc.)" at a 62% rate, compared with 34% among Industry Average companies and 26% for Laggard firms.

**Figure 3: Best Practices in Channel Management by Best-in-Class**

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<tr>
<th>Percentage of Respondents</th>
<th>Best-in-Class</th>
<th>All Others</th>
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<tbody>
<tr>
<td>Our channel selling partners effectively support our corporate brand</td>
<td>86%</td>
<td>66%</td>
</tr>
<tr>
<td>It is vital to integrate any PRM technology into our CRM or SFA solution</td>
<td>82%</td>
<td>65%</td>
</tr>
<tr>
<td>Our partner incentive program has a positive impact on the performance of our channel</td>
<td>73%</td>
<td>50%</td>
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Source: Aberdeen Group, May 2011

**Fast Facts**

- Best-in-Class companies report that an average of 59% of their revenue is partner-generated, compared to 54% and 52% among Industry Average and Laggard companies.

- Despite more aggressive channel funding, Best-in-Class companies pay their own sales staff more handsomely: inside sales reps earn an average of $77k per year, vs. $66k and $48k for Industry Average and Laggard respondents; Best-in-Class field reps average $123k, as opposed to $91k and $78k annually.

**Integrating a partner relationship management (PRM) solution into the corporate customer relationship management (CRM) or sales force automation (SFA) is 26% (82% vs. 65%) more popular among the Best-in-Class than other firms, but since only 40% of all companies even have an installed PRM systems, only 16% of survey respondents actually pursue such an integration. Even so, the Best-in-Class companies, with a 26% integration, contrast sharply with the 19% Industry Average and 9% Laggard percentages, showcasing how important this data integration is to managing a successful sales channel.**
Finally, the research reveals that 40% of the Best-in-Class deploy an “automated incentive, commission, or compensation management solution for producer or partners,” compared with 24% of other firms, a 67% delta. No wonder 46% more top performers (73% for Best-in-Class vs. 50% for all others) report a positive impact on overall performers, echoing the findings above.

**How Much of a Good Thing?**

Of note in analyzing the strategic actions of survey respondents, is that Best-in-Class companies are half as likely as others (14% vs. 29% for Average and Laggard firms) to aggressively focus their energies on simply growing their channel; they instead place more emphasis on identifying, incentivizing and supporting those partners who are most likely to bring them riches. It is telling, too, to consider the question of “how many partners should we support?”

**Figure 4: Partner Volume Desires by Best-in-Class**

The simple answer is: a high number of strong-performing partners will yield better business results. Considering that the Best-in-Class average 205 partners per $100 million in overall corporate revenue, compared with 177 for Industry Average companies and only 61 for Laggards, clearly a “bigger is better” approach to the partner universe is not unwise. Perhaps more telling is an analysis of how much the top performers rely on their channel: 59% of the typical Best-in-Class company’s revenue is partner-generated, which is 11% higher than that of other firms. Clearly the best sales results are associated with a more mature, stable partner ecosystem.
Across the board, 53% of partner sellers are considered “active” by survey respondents, which also overwhelmingly indicate (Figure 4) that raising this percentage is a widespread desire, within the context of a generally larger channel universe. Interestingly enough, not a single Best-in-Class company expressed concerns about establishing partner relationships, whereas other companies report this, in double-digit numbers, as a significant business issue. The takeaway: Industry Average and Laggard respondents are less focused on partner quality than sheer quantity.

Summary

The channel sales model continues to garner a great deal of attention - and budget - as a vital function within the overall corporate sales ecosphere. As Figure 5 indicates, spending trends from the previous to current years, and anticipated budget movement in the near future, favor a growth in the function’s budget among all maturity class averages.

Figure 5: Channel Sales Investments Continue with Robust Growth

With extensive use of marketing, technology and human support for their partners, the Best-in-Class are successfully linking this financial commitment to tangible results, showcased by their stronger performance than other firms around advanced quota attainment, efficient lead conversion rates and growing average selling prices. Rather than let the complexity of channel sales management create barriers, they tackle them head-on with processes,
best practices, technology products and services that yield top-drawer business results.

For more information on this or other research topics, please visit www.aberdeen.com.

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<td><strong>The Extended Sales Enterprise:</strong> Channeling Better Results (March 2011)</td>
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<tr>
<td><strong>Streamlining the Top of the Funnel: How Inside Sales Teams Source, Qualify and Close Business</strong> (February 2011)</td>
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<td><strong>Sales Mobility: Quotas Untethered</strong> (November 2010)</td>
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<td><strong>Sales Training: Deploying Knowledge, Process and Technology to Consistently Hit Quota</strong>; September 2010</td>
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<td><strong>Sales and Marketing Alignment:</strong> Collaboration + Cooperation = Peak Performance (September 2010)</td>
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