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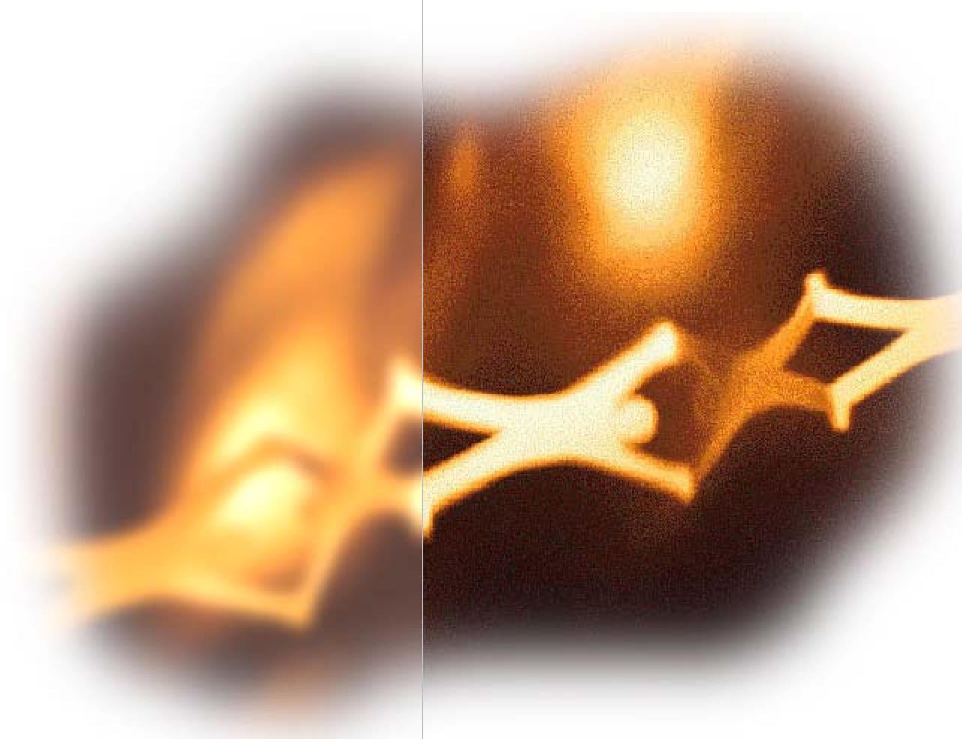
Building customer relationships through indirect channels

Companies across many industries are finding that more value comes from strategic partnerships, where two companies have a vested interest in and commitment to creating a mutually beneficial relationship that returns value to both the end customer and to the partners themselves. Strategic partnerships extend beyond the initial deal and establish a culture of sharing between partners. A collaborative culture takes time and effort to develop, but it works – and the numbers prove it.



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Introduction

When it comes to using indirect channels, companies should no longer ask: "Do we need channel partners?" but instead: "How do we use channel partners as strategic assets to enhance our business?" In a market that is increasing in complexity and pace, partnerships will be a necessity for companies to attract (and keep) the best customers. The quality of partner relationships, evidenced by customer centered strategies, collaboration mechanisms put in place and, ultimately, how the partnership delivers value to the end customer, will differentiate successful partnerships.

As recently as 2000, companies looked at partnerships as a way of reducing costs and increasing returns – both desirable goals. Surprisingly little consideration was given to the end customer, in spite of the fact that these very customers were (and are) the primary source of those highly sought after increased returns. With the end of the dot.com boom and the beginning of tougher economic times in 2000, partner deals focused more on holding the power in the partnership and negotiating the best deal.

Customer satisfaction was not on the radar screen as a measure of success in partnerships

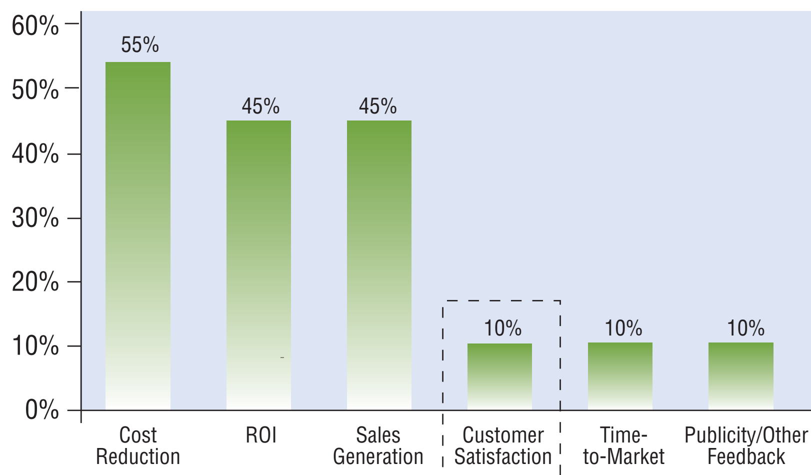


Figure 1: "How do you measure the value and success of partnerships?".

Source: IBM Institute for Business Value, 2002: Year 2000 IBM Survey.

Today, focus on the end customer is key because, as many companies have realized, partnerships will not work well without it – the desirable benefits of reduced costs and increased revenues cannot be fully realized unless the end customer is satisfied and actively purchasing. The days of high profile partnerships that looked good in press releases, spiked a company's stock price and dissolved rapidly into a few click-throughs to a popular portal or a short lived, co-branded promotion are gone. Now, partnerships need to deliver long lasting, real value to the end customer.

Companies across many industries are finding that more value comes from *strategic partnerships*, where two companies have a vested interest in and commitment to creating a mutually beneficial relationship that returns value to both the end customer and to the partners themselves. Strategic partnerships extend beyond the initial deal and establish a culture of *sharing* between partners. A collaborative culture takes time and effort to develop, but it works; the numbers prove it. Highly collaborative partners realize a 40 percent increase in revenues, for example, versus the 12 percent average increase realized by moderately collaborative partners.[1] Collaborating around customer data and planning together to satisfy the end customer affords partners an informed, educated view of customer behavior and a shared focus on the end customer. This translates into opportunities for co-innovation of new product and service offerings and for identifying new ways to enhance customer relationships.

In our research, we tested some conventional assumptions around partnering.

What we found partially validated our thinking, and also somewhat surprised us

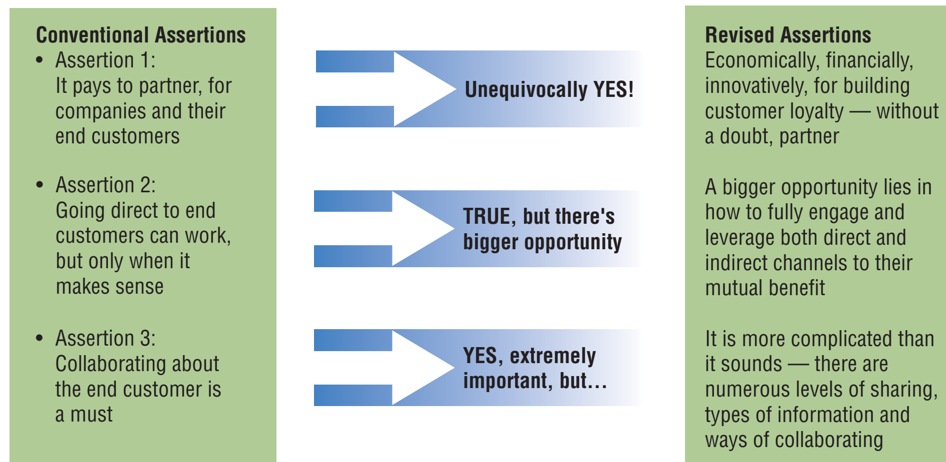


Figure 2: Research findings.

Source: IBM Institute for Business Value interviews and analysis, 2002.

A dozen forward-thinking companies with whom we spoke shared their approach to partnering with us. These companies are highlighted in *italics* in this paper. Perspectives came from companies in a variety of different industries including:

- Leading global communications company, U.S.
- Leading global communications company, Europe
- Top tier networking and infrastructure company
- Start-up healthcare information technology company
- Leading global financial services company
- Leading investment management business
- Leading global financial institution
- Specialty finance company
- High end, global apparel company
- Leading consumer electronics company
- Leading pharmacy benefits manager
- Digital business unit of a top U.S. newspaper.

The business case

As with most worthwhile business endeavors, there is a business case for partnering and making use of indirect channels. Relying on a single channel limits value for two reasons:

1) Customers today like choice and convenience and frequently buy across channels.

2) Companies cannot optimize return per transaction unless they are able to match appropriate customers with the right sales channels. The right mix of channel partners to customers can be determined by taking into account and aligning product complexity, value-add potential of a sale and average transaction cost per sale per channel.

Not to mention, today there just isn't time for companies to be vertically integrated. The fast paced market requires companies to be flexible and able to adapt and change with minimal lead time. Partners provide companies the means not only to adapt, but also to innovate faster and better than they can alone – and often at reduced cost.

Customer needs should drive partnering decisions. For example, customers today expect expanded product and service offerings and faster response times. Partnerships can deliver broader solutions and garner increased share-of-wallet, while reducing distribution and inventory costs through outsourcing and specialization. Customers, in turn, benefit from the fuller, bundled solution offerings, larger assortments, better in-stock positions and faster delivery.

Many well established companies are enjoying the value created from successful partner relationships in the form of improved revenues, reach and efficiencies.

It pays to partner

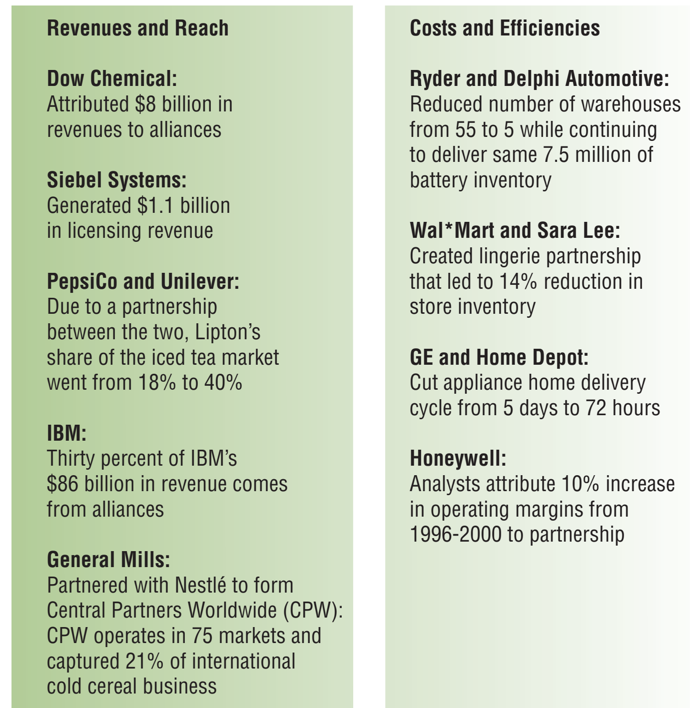


Figure 3: Financial benefits of partnering. *(Note: Metrics are CY 2000 data.)*

Source: IBM Institute for Business Value analysis, 2002; "5 Keys To Creating Successful Strategic Alliances, Forbes, July 2002; "The Forbes Magnetic 40," Forbes, May 2001; "Collaborative Commerce in Consumer Business Industry" (year 2000 data), Deloitte Research, 2002.

Still skeptical? Why isn't it cheaper and faster to go direct? Going direct can actually limit the customer relationship. Why? These days, it is the customer that holds the power and drives demand. As a result, downstream channels are becoming more specialized, less straightforward and more fragmented. Companies should partner with these downstream channels in order to better serve their end customers. These partners can augment customer service offerings, provide individual attention and build and manage end customer relationships.

Furthermore, cutting out established intermediaries and relying on a direct only salesforce, or the Internet alone, can be costly. In the first case, long time partners often own the customer relationship; they have intimate knowledge of their market and in many cases can predict customer buying behavior. Past experience shows that when such established partners are removed, a significant number of customers, approximately 20–50 percent, move with them.[2] Also, going direct can mean a loss of flexibility. A manufacturer, for example, would have to increase sales and service infrastructure, acquire inventory (and carrying costs) and assume default risk if it chose to eliminate distributors and value-added resellers.

In the second case, going direct over the Internet, channel conflict can be a heated battle. Instead of going this route, many companies have found that the direct channel makes most sense when it supports other channels. Maytag Corporation, for example, realized that partnering to reach online customers was a more lucrative, and lasting, route. Initially, Maytag tried selling its appliances directly on Maytag.com; however, this approach alienated dealers. Maytag then launched a new Web site providing convenient online purchasing through links to local dealer Web sites. More than 3,000 dealers participate, and online sales are exceeding expected levels by 35 percent, with the average online sale more than double the average offline order.[3] Finally, as much as we talk about sharing, it doesn't come naturally for the majority of companies. Most companies are more comfortable with moderate sharing than they are with full collaboration and high integration.

To fully benefit, companies cannot merely tolerate partners, they must embrace them

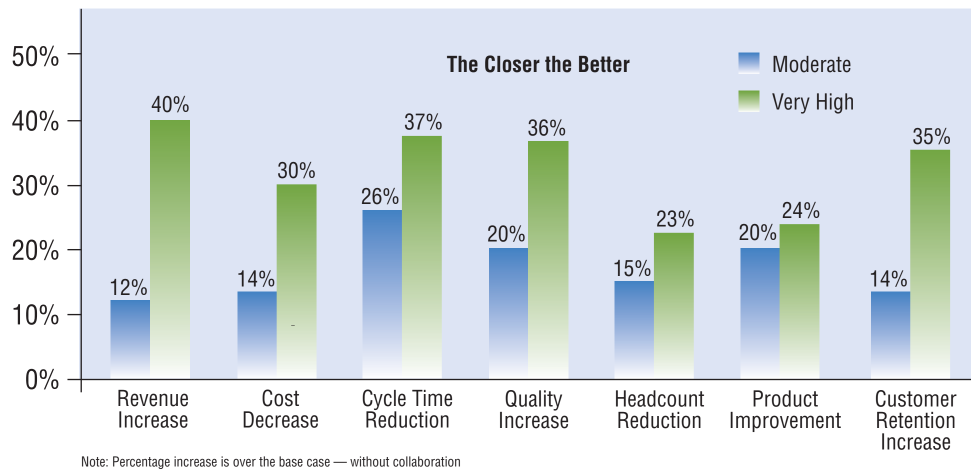


Figure 4: Benefits from moderate and very high levels of integration.

Source: "Collaborative Commerce: Compelling Benefits, Significant Obstacles," NerveWire, 2002.

Partners should be viewed as extensions of a company's own business. Cisco is a great example of this. Over ninety percent of the company's business is conducted through channel partners, up from just over 30 percent in the mid-1990s. Cisco's revenue has grown from $6 to $22 billion over the last five years, driven primarily by 1) focusing on channel sales and collaboration; 2) using the Internet to connect and work with suppliers, partners and customers; and 3) contracting out product and component manufacturing.[4]

Additionally, to promote collaboration, Cisco has implemented the "Value Engagement Model," which promotes partner involvement in new deals earlier in the process, encourages partners and direct sales teams to work together and replaces volume requirements with new, value-add criteria around certification and customer satisfaction.[5]

Finally, Cisco has used the Internet to create an online platform that links suppliers, partners and customers, making realtime sales information and inventory data visible. As a result, inventory declined 4 percent over a three month period. Generally, the more companies combine the Internet and collaborative partnering, the closer they will get to their customers – indirectly.[6]

Partnership approaches

While companies today actively partner, partnership approach varies from company to company and partnership to partnership. The approach chosen in any particular situation is driven by the goals of the partnership and its criticality to the core business of each of the partners. Partnership approaches can be broken into three levels of collaboration:

1. Low collaboration = *simple, transactional* – minimal to no electronic exchange of customer data; majority of information exchange conducted through fax, meetings, phone and e-mail.

2. Medium collaboration = *partially integrated* – basic electronic exchange and viewing of each other's customer and other data; limited ability to access each other's information and databases.

3. High collaboration = *fully integrated* – open sharing of customer data and collaboration to better serve customers; majority of interactions involve integrated and shared databases; processes are redesigned to reduce redundancies between partners.

The decisions that direct partnership strategies revolve around four primary strategy elements: customer ownership, partnership structure, customer data sharing and financial implications. Interestingly, these elements of partnership strategy are similar regardless of approach; however, decisions made within each element differ.

The elements of partnership strategy are similar regardless of approach

Partnership Approach

Customer Ownership	Customer Data Sharing	Partnership Structure	Financial Implications
Brand • Co-brand 50/50? 75/25? • Single company brand? • New, jointly created brand? Buying experience • Who will own the customer? • How will customer interact with partners? Customer support • Who will provide ongoing customer service?	Level of sharing • Aggregate or individual customer data? • Privacy and security procedures implemented? Types of information • Demographics, purchase patterns, needs? Ways of sharing • Regular meetings with partners? • Co-visiting and co-contacting the customer? • Database integration?	Offering to customer • Value proposition? • Pricing, positioning? Operational approach • Level of integration? • Resource allocation? Cultural alignment • Incentive programs? • Training requirements?	Making money • Revenue sharing? • Cost reduction? • Increased productivity Sharing the wealth • Process for sharing in mutual benefits?

Figure 5: Key elements of partner strategy.

Source: IBM Institute for Business Value, 2002.

Decisions made within each element determine the strategy specific to each partnership and how each partner fits into a company's portfolio of partnerships. A company's partnership portfolio will likely include partnerships of all three types. A company can benefit from all three types of partnerships, as long as the chosen approach is aligned with the goals of the partnership; however, as research has proven, highly collaborative partnerships typically yield greater benefits. The following examples highlight how companies can create successful partnerships using all three approaches.

Low collaboration, simple, transactional partnership – An *online digital newspaper* that participated in our study uses low collaboration partnerships to extend its reach without compromising customer privacy. The newspaper is held accountable to strict privacy laws and therefore does not share much information. The company's partnership with a leading online portal is representative of a highly beneficial low collaboration partnership. Through the partnership, the leading digital online newspaper extends its reach to new customer segments, while enabling the partner to leverage new content to attract and retain customers. Though data is not shared and integration between the companies is minimal, both companies benefit from the partnership.

Medium collaboration, partially integrated partnership – To help ensure that its partners and customers are satisfied, a *leading global financial institution* collaborates through multiple mediums with its broker partners, employer clients and end customers. The company regularly conducts customer satisfaction studies with end customers (with brokers' permission), new employer clients and seasoned employer clients. Through collaboration and data sharing, this company is able to identify trends, collect feedback and gauge customers' needs for new products. The company's partnership with one of the world's largest information technology companies is representative of a medium collaboration partnership. The leading global financial institution's products rely heavily on technology and Web-based applications to increase efficiencies and better serve the end customer. Oftentimes, when this company is selling into large companies, the primary barrier to the sale is a technology issue. When that happens, the company's salesperson leverages the partnership with the information technology company and refers the potential client to a contact at that company who understands the financial institution's products and can sell the customer the technology he or she needs to run the solutions. An executive at the financial institution explained, "Right now this is just a handoff; the end game for this partnership is to have full integration of the salesforces and full collaboration."

High collaboration, fully integrated partnership – This *leading global communications company's* partnership approach is driven by its goal to further penetrate key accounts. Through collaboration with partners, the company is able to capture a greater share of each customer's spend. The company's partnership with a leading global systems integration firm exemplifies a high collaboration partnership. The partnership manager from the communications company, who is specifically assigned to that partner, meets regularly with the partner to create a strategy for sharing customer data. In some sales deals, the communications company and the partner jointly develop the solution plan. The company finds that as trust in this partnership builds, data sharing and customer ownership sharing come more freely. An executive explained, "Alone, we cannot achieve our goal of capturing 20 to 50 percent of a customer's spend; partners are needed to accomplish this."

The partnership strategy dictates two critical pieces of the relationship: the customer buying experience and the companies' working relationship. The customer buying experience is important because it determines how the customer interacts with partner companies and includes such things as the convenience of additional points of access, broader and deeper product selection, better customer service and access to customized offerings. How the companies work together sets the stage for collaborating on sales efforts, teaming on delivery, combining offerings, integrating techniques, co-marketing, co-branding, data sharing and customer ownership.

Looking at these three partnership examples shows how each chosen partnership approach and strategy manifests itself in the customer experience and the companies' working relationships.

Partnership approach and strategy drives customer experience and how companies work together

	Low Collaboration, Simple Transactional	Medium Collaboration, Partially Integrated	High Collaboration, Fully Integrated
Customer Experience	• Customers find online offerings easy to use • Content formatted for multiple platforms • Content is deep and broad • Content is targeted when desired	• Customer needs are assessed and matched with most appropriate contact at the partner • Salespeople are trained to understand and fulfill customers' needs	• Customers have complete, bundled solution available from one provider • Partners selling company's solutions are experts in the offerings and deliver high quality customer service
How Companies Work Together	• Integration of technology and data kept to a minimum • Together, co-develop new online offerings	• Customer satisfaction studies conducted with partners' customers • Partners are mutually invested and partnerships are mutually beneficial	• Partnerships jointly deliver solutions • Partners pull each other into deals to better serve customers • Co-marketing efforts driven by partners

Figure 6: Impact of partnership approach and strategy.

Source: IBM Institute for Business Value, 2002.

Important lessons learned

Regardless of partnership approach, there are some critical lessons learned that apply across all partnerships:

What's not working

1. Dominating the deal – structure instead for mutual benefit
2. Ignoring channel conflict – address it and use channels to your advantage
3. Shying away from competitors as partners – research them and pursue the good ones
4. Hoarding the end customer – better to co-own, co-contact and share.

What is working

1. Trusting and integrating – include partners in strategy and execution
2. Investing in the deal – contribute resources, time, even an equity stake
3. Planning to satisfy the end customer – make it a central focus
4. Training partners' salesforces – make them experts in your product.

A company is likely to encounter several of these instances when managing its partnership portfolio. For example, a computer manufacturer partnering with a chip manufacturer and a software provider could identify new customer groups and potential new product features by sharing customer information across the partnerships. The company will, at the same time, need a plan for dealing with partners within its portfolio that are competing with each other, for example, service providers that are trying to expand into each other's most lucrative industry segments. Finally, choosing to sell direct versus through reseller partners means that channel conflict will need to be actively addressed. How a company deals with the partner challenges it faces will determine overall portfolio performance. Proactively addressing these lessons learned can yield significant benefits, especially in the areas of innovation and customer relations.

What's not working

1. Don't dominate the deal — structure instead for mutual benefit

A mutually beneficial partnership does not have to mean a 50/50 split on everything. One company may have more resources and thus can contribute more money or assets to the partnership. On the other hand, the impact of the realized benefits from the partnership may be skewed towards the smaller partner because the effect on their bottom line will be a greater percentage of their total profits. Instead of focusing on evenness, companies forming a partnership should structure the deal so that both companies feel they are getting out more than they put in. When partnerships are mutually beneficial, interest, commitment and attention will likely remain strong on both sides throughout the life of the partnership.

2. Don't ignore channel conflict — address it and use channels to your advantage

Don't assume that channel conflict will go away and don't fear it. Companies that fear channel conflict will miss the opportunity to fully utilize all available channels. Instead, companies should face channel conflict head on, work with partners to get around it and create incentives to convert channel conflict into channel excellence. The president of a *global, high end apparel company* explained, "Companies that worry about channel conflict are wasting their time; they are procrastinating more than anything." He continued to tell us that customers have high expectations and expect 24x7 access in all mediums. To meet these demands, the company is often forced to develop partnerships that could result in channel conflict if not managed properly. The company feels that now is the time to experiment with the Internet and new partnership types to exceed customers' expectations and build the brand for the future.

3. Don't shy away from competitors as partners — research them and pursue the good ones

In industries from financial services to telecom, deregulation and new laws are enabling companies to broaden their offering sets. Because of this, many of the financial institution's partners compete with some aspect of the company's offering. However, in other segments, these companies have complementary strengths that make them strong potential partners. Shying away from partnering with competitors can cause companies to miss partner opportunities that are aligned with their goals and clearly fit the profile for which they are looking. While partnerships with competitors usually require a shift in mentality, more up-front negotiations and additional partnership parameters, the resulting partnership can end up being a highly successful and valuable relationship.

A *leading global financial institution* serves as an excellent example of a company that successfully partners with its competitors. Since the repeal of the Glass-Stegal Act and the passage of the Financial Modernization Act in 1999, financial services companies have been able to conduct business across sectors. Because of this, many of the companies with which the financial institution partners, compete with some aspects of the company's offerings. To make partnering with a competitor possible, both the company and the partner agree to wall off their joint customers from other aspects of the companies' offerings. Prior to forming the partnership, boundaries are set for which competitors are off limits for up-selling and cross-selling offerings. While it has required a cultural shift to embrace competitors as partners, the company is forging ahead. A senior executive at the company put it best: "It [partnering with competitors] makes life more complicated, but that's the world we live in today."

4. Don't hoard the end customer — it is better to co-own, co-contact and share

Sharing the end customer, from a customer ownership perspective and a customer data sharing perspective, often makes for an ideal partnership: both partners have equal "face time" with the end customer and both partners can benefit from shared customer data. Most importantly, the partnership benefits from co-owning and sharing; the strengths of each partner and the sharing of customer information influence the development of products and services that meet customer needs and provide the best possible customer experience. Long lasting partnerships often lead to long lasting customer relationships.

A *start-up healthcare information technology company* integrates its software with its partner's healthcare enterprise practice management software. The practice management software is then brought to the end customer from both companies; however, the partner identifies the accounts into which to sell. The partner and the start-up co-market and co-sell the offering. The healthcare start-up is responsible for implementation and ongoing support and takes the lion's share of the revenue, though both partners share ownership of the end customer.

What's working

1. Trusting and integrating — include partners in strategy and execution

Everyone likes to have a hand in forming relationships of which they are going to be a part. Involving partners in both setting the strategy and executing the partnership can result in more commitment and buy in from both sides. The companies should meet regularly to evolve the relationship to ensure that it continues to be mutually beneficial and to meet customers' needs. These efforts will help establish a partnership in which both entities are enthusiastic and remain actively involved throughout the partnership.

Marriott International and the Italian jeweler, Bulgari, have formed a partnership to create a new chain of luxury hotels and resorts. This partnership serves as a good example of how companies can team up to integrate individual strengths and create an offering that customers will trust and embrace. Marriott brings proven expertise and a brand image of hospitality excellence to the partnership. Bulgari brings strong brand recognition for luxury and bold, contemporary, Italian design to the deal. Together, they will launch Bulgari Hotels & Resorts – exclusive, high quality, luxurious accommodations with individualized, contemporary, Italian style located in cosmopolitan cities. The first hotel will be launched in Milan in late 2003.[7]

2. Invest in the deal when appropriate — contribute resources, time, even an equity stake

Investment in a partnership, both tangible investment of resources and intangible investment of effort, are critical to success. Tangible resources include partner managers, money, technology, distribution networks and other operational assets. Intangible resources include time, dedication, commitment and effort. In some cases, an equity stake can be an appropriate form of investment to ensure that both companies share the risks and rewards of the deal. During the up front partnership planning, companies should carefully and jointly determine what types of investment are most appropriate for that particular deal.

The partnership between a leading online services provider and *a leading global financial services company* exemplifies the benefits of investing in partnerships and taking an equity stake. When the global financial services company formed an alliance with the online service provider, it determined that it would be beneficial to both companies for the financial company to take a 20 percent equity stake in the Internet company. While this is unusual for a bank, the financial services company found there to be an intrinsic fit between the companies and a shared strategic vision with complementary objectives and strategies. The partnership results in benefits to both companies: links to popular bank Web pages are highlighted on the online interface and the Internet company is given access to the bank's world-class customer relationship management (CRM) system and analytics engine to analyze customer data. Additionally, the two companies jointly create marketing campaigns and cross-sell to each other's customer bases.

3. Plan to satisfy the customer — make it a central focus

As companies enter into more and more partnerships and serve a greater percentage of their customers through channels, it becomes paramount that customer satisfaction be a central focus. The partners should develop a plan to monitor end customer satisfaction and take active steps to ensure customers are happy. Successful actions include co-contacting the customer, surveying the end customer directly, conducting customer visits, holding partners accountable to satisfaction metrics and taking an active role in helping partners improve their sales and service programs.

Over 90 percent of a *top tier networking and infrastructure company's* products are sold through partners and these partners play the primary, active role in managing the end customer relationship. To ensure that end customers are served well through channel partners, the top tier networking and infrastructure company regularly conducts satisfaction studies with end customers. Partners are required to enter customers' names, contact information into a database, so that the top tier networking and infrastructure company can administer online customer satisfaction surveys directly to end customers. Furthermore, partners must meet customer satisfaction targets to achieve and maintain Gold and Silver tier partner status. The top tier networking and infrastructure company helps its partners excel in customer satisfaction by 1) offering training on customer satisfaction best practices and 2) providing access to customer feedback data so companies can focus their improvement efforts.

4. Train your partners' salesforces — make them experts in your product

Salespeople sell more of what they know best because it is easier to sell. The better the indirect channels know product functions, competitive positioning and pricing, the easier it is to conduct business, and the more products and services will be sold. Training channel partners helps build loyalty and increase mindshare of products and services with partners. Additionally, training improves partners' commitment, increases collaboration between direct and indirect sales teams, inspires and motivates the sales teams and improves overall customer satisfaction.

While companies believe that training the indirect salesforce is important, only recently have companies started to implement formal training programs. An executive at *a leading investment management business* said, "We are beginning to implement training programs to ensure our brand name and message is carried all the way through to the end customer." An executive from a *leading global communications company* explained that his company used to train channel partners' salesforces with generic programs, but found the generic programs inadequate. The executive explained, "We are rebuilding our training program to include special training modules for both our selling partners and strategic alliances."

Harley-Davidson has a structured channel partner training program to help its dealers become and remain industry leaders in motorcycling expertise and customer service. Dealers are the company's primary route to customers – both for sales and repair service – and dealers should also be highly trained product experts. Harley-Davidson offers its dealers technician training and dealer certification through 1) regularly scheduled classes at regional training facilities, 2) annual dealer training events and seminars and 3) training through H-D University Online. The director of Harley-Davidson University explained the value of training: "Our dealers and service technicians don't just sell and repair motorcycles, they build customer relationships."[8]

Keeping a careful eye out for how these lessons learned can apply to improving partnerships can lead to more successful partnerships, especially during the partnership creation phase and ongoing modification of partnerships. Success in a partnership can translate into increased revenue, decreased costs, improved loyalty and trust, increased customer acquisition and retention, improved customer satisfaction and more.

The future — innovating with partners to reach customers in new ways

Today, one of the "hot buttons" for innovating in companies is around CRM and using customer behavior information to offer a level of personalization not previously possible to end customers. In the near future, sharing customer information between partners and using aggregate data from partnerships will place emphasis on another means of innovation – co-innovation – two or more companies openly sharing aggregate customer data and co-developing new products and services to serve multiple customer bases.

Some companies are already enjoying the benefits of co-innovating: Royal Philips Electronics and Nike are co-developing electronics products for sports minded people. The companies are partnering to develop innovative technology product solutions that create a richer, more motivating environment for exercise. It is a marriage of sports and electronics – Philips brings electronics expertise into the relationship and Nike brings athletics product knowledge and expertise, along with a customer base of sports minded people, to the relationship. Today's co-developed solutions include a range of portable radios, MP3 players and CD-MP3 players designed specifically to be worn on the body during athletic activity. The vision for the alliance in the future is to co-innovate products that go beyond MP3 players into a range of apparel that incorporates cutting-edge, new technology. Products could include things such as mobile phones that disappear into T-shirts and global positioning system (GPS) tracking systems that are fitted into children's running shoes. An executive at Nike explained the impact he hopes the partnership will have: "By partnering with Philips, we believe we can transform the sportswear, electronic and athletic industries."[9]

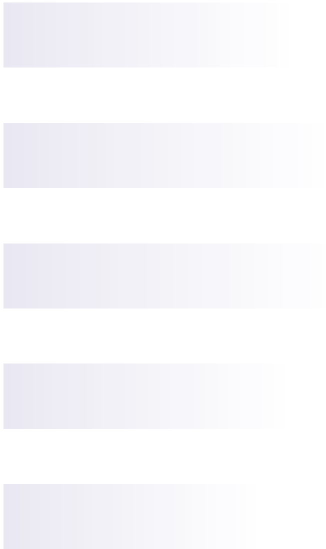
As companies get better and better at sharing, partnerships will begin to look more like value webs than value chains. The sequential flow of product and service delivery will be replaced by a network structure, allowing companies to plug into a network, rent specific capabilities as they need them and unplug from it when they are finished; specialists will emerge that focus on key areas.

How would this shift impact channel partner relationships? One can only guess, as several alternatives could emerge. It is likely that key strategic partnerships – those critical to core business – will remain intact, due to significant benefits derived from high collaboration and integration. Plug-and-use partners could be relied upon to supplement a company's partner portfolio, much like niche stocks in an investment portfolio, with portfolio managers moving frequently from partner to partner based on a very specific value offered that aligns with specific customer needs.

What about customer relationships? How will they differ? Who will own the customer with plug-and-use partners? Will ownership revert to the manufacturer?

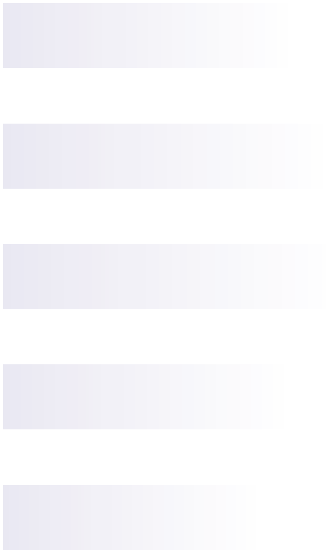
Further out, customers will be empowered as innovators, themselves becoming the drivers of networks of partners and self directing the creation of their own offerings. Imagine a scenario where customers collaborate with suppliers through service hubs that materialize in realtime. By logging onto a Web site, a small business owner, for example, could create a marketing brochure for his/her company, going partner by partner through the production process. The Web site would link him/her to relevant partners, from advertising agencies to help with brainstorming, to graphic artists for design, to printers for production. The site would even offer extra value-added services, such as special packaging and storage.[10]

Ultimately, the customer could fully direct product creation, through a single interface. This carries personalization to a whole new level!



Summary

Satisfying customers through partnerships opens new windows of opportunity along many fronts. The hardest lesson companies must learn is to share in order to make partnerships as successful as possible. By collaborating openly and often, new opportunities to serve the customer will increase in both number and scope. The fast changing economic environment will continue to require partnerships to be flexible and adaptive, to meet customers' ever-changing needs. In short, choose the right partners, then trust them.



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Addendum 1: Managing multiple salesforces

To optimize complex partner networks, companies should focus their attention on three areas of salesforce management.

1. Focusing the direct salesforce on high margin accounts optimizes their strengths

While partners are accounting for more and more of companies' total sales, the direct salesforce is here to stay. The direct salesforce's efforts should be concentrated on building and maintaining relationships with the most strategic, high margin accounts. The direct salesforce is positioned to know its company's offerings better than indirect salesforces and can quickly gain the approval necessary to meet large customers' demands. Companies should empower the direct salesforce to be effective and efficient in meeting and exceeding the needs of the company's most strategic accounts. The first step in empowering a direct salesforce is working with the salesforce to determine together where it can have the most impact and to create a clear strategy that focuses its efforts.

2. Leveraging an indirect salesforce improves your value proposition

Companies need more channels to reach customers and service their customers' expanding needs and wants. To fully meet expanded customer needs, companies need to leverage their partners and their salesforces to provide customers more offerings and increased access that the companies can't provide to customers themselves. There are four primary ways in which companies can help their channel partners succeed:

a) Reduce competition between partners: Assign specific brands, product lines and/or customer segments to different partners to help reduce competition among your channel partners.
b) Assign a channel partner manager: Designate a single point of contact for each partner to improve communication between the company and the partner and to facilitate collaboration between the direct and indirect salesforces.
c) Support your channel partners with training and education: Train partners to ensure that they know how to position and sell your offering to customers, build confidence in your products and increase your overall mindshare.
d) Invest in partner relationship management (PRM) technology: Consider investing in a PRM solution to empower the channel with sales tools that make selling your products easier and facilitate collaboration with your direct salesforce and other channel partners.

An example from the technology industry portrays the dramatic benefits of having strong relationships with partners and building mindshare about your products: The number one product of the channel gets 70 percent of sales in that product category, number two gets only 15 percent of sales, brands in the number three and four positions share the remaining 2 to 5 percent – companies are significantly advantaged if their products are at the top.[11]

3. Integrated and collaborative salesforces can produce more than both alone

Integrated, collaborative direct and indirect salesforces can produce more by working together than the combined efforts of both working alone. So, how can companies fully benefit from having multiple salesforces? Encourage and foster collaboration between the direct and indirect sales teams. The benefits of collaboration are numerous and include expanded market reach, broader offering sets, decreased time to market, faster resolution of customer issues, ability to offer more customized offerings and services and lower selling and support costs – all of which lead to improved customer satisfaction. One of the toughest steps to full collaboration among salesforces is overcoming cultural resistance. Why do salesforces resist collaboration with other salesforces? Primarily out of fear: fear of losing control of the customer relationship, fear of having to share customer information, fear of change and fear of competition. While it is not easy to overcome cultural resistance to collaboration, through training programs focused on collaboration best practices and by aligning incentive programs with collaboration goals, companies can realize success. An executive from *top tier networking and infrastructure company* highlighted the fact that it is not easy: "While we [top tier networking and infrastructure company] recognized years ago that we can't do everything alone our partners are really starting to recognize that now, and beginning to collaborate and pass leads and opportunities among partners."[12]

In summary, to succeed in today's competitive selling environment and optimize complex partner networks, companies need to empower their salesforces and encourage collaboration among them.

This addendum is from a related study entitled, "Managing Multiple Salesforces," Fall 2002, created by Jennifer McKinley, Melody Badgett, Whitney Connor and Hathaway Bowen. To learn more about this study and discuss the potential impact on your business, please contact Melody Badgett at *mbadgett@us.ibm.com* or Whitney Connor at *connorw@us.ibm.com*.

Addendum 2: Marketing

Showing your best face to the customer is a challenge every company faces, with or without partners in the picture – but with partners, there is an added level of complexity: marketing with partners requires not only that companies determine how to communicate the brand and how to promote the product or service, but also that partnerships must:

1) Decide on a name. What do we call the new joint entity? How do we communicate it to the customer in a way that is enticing but not confusing?

2) Determine how the end customer will interact with the partners. What will his/her experience be like?

3) Figure out who will take care of the newly acquired or newly serviced customers going forward. How will valuable customers know to whom to turn for help and additional services?

Key components of back-end decisions also have clear implications for front-end interfaces with the customers. Specifically, decisions that partners make around who owns the new customer data and how it is shared between the partners ultimately impacts innovation and also co-innovation – when partners innovate together. Co-innovation can result in new products and services based on information that partners share about customers' needs and preferences; it also can lead to new service opportunities that can broaden and strengthen customer relationships. The more the partnership knows about its customers, the better it can serve them going forward.

Thus, focusing on marketing as a component of partnerships early, in the up-front stages of partnership negotiations, helps ensure that partnerships show their best faces to end customers. The way a product or service is promoted, sold and supported influences how the end customers views and experiences the product or service – ultimately influencing end customer relationships. How partners manage their relationships with their end customers in partnerships influences whether customers come and stay, come and leave, or whether they come at all.

This addendum is from a related study entitled, "Collaborating with Partners to Show Your Best Face to the End Customer," Fall 2002, created by Jennifer McKinley, Melody Badgett, Whitney Connor and Hathaway Bowen. To learn more about this study and discuss the potential impact on your business, please contact Melody Badgett at *mbadgett@us.ibm.com* or Hathaway Bowen at *bowenh@us.ibm.com*. To access this study, link to IBM Institute for Business Value Web site at

ibm.com/services/iibv

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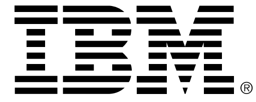

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Somers, NY 10589
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12-02
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G510-3253-03