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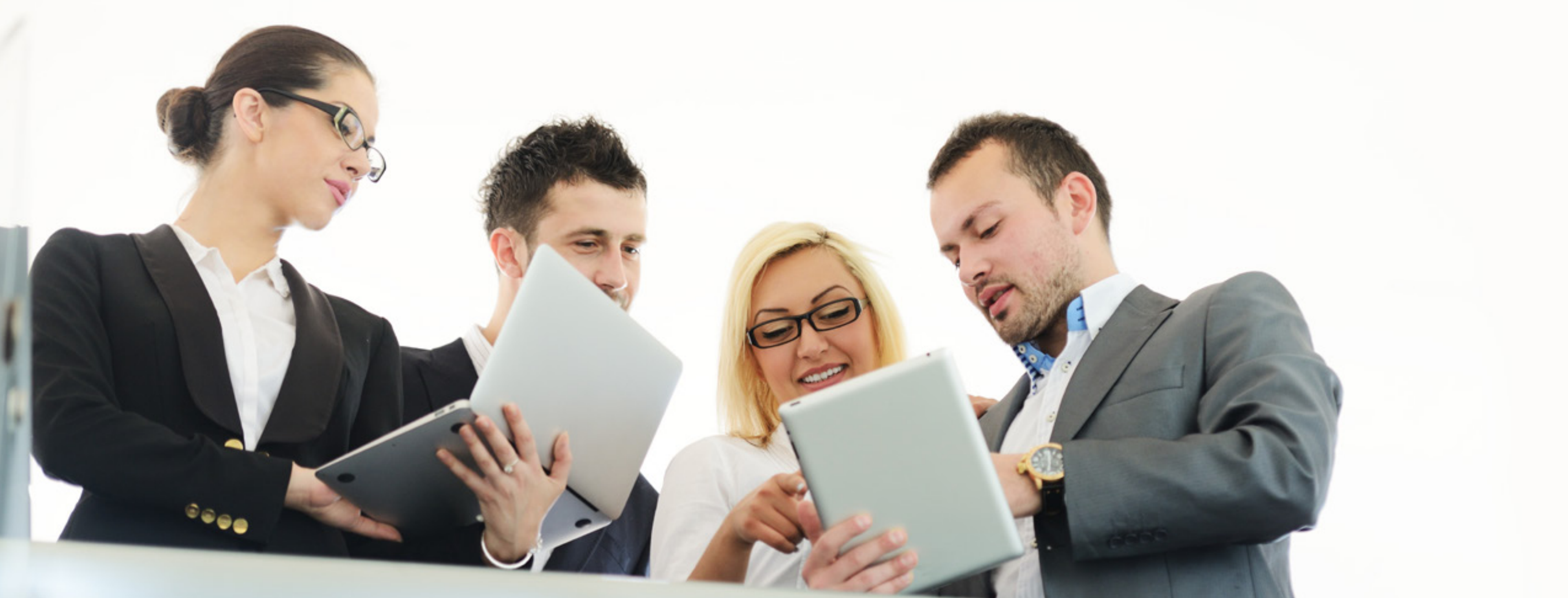
PRM or CRM? The Right Choice for the Indirect Sales Channel



Anatomy of a Distribution Strategy

When vendors market their products through an indirect sales channel using a network of resellers, the sales process from manufacturer to end customer usually consists of two (or more) distinctly different stages:

- **Stage one:** Between the vendor and its channel partners.
- **Stage two:** Between the channel partners and the end customers.

The channel map gets a bit more complicated when, as is often the case, the vendor has an established direct sales force or handles the largest accounts (the "key accounts") itself, selling directly to its most reliable and profitable customers. But, in any case, distribution strategies that rely, at least in part, on indirect sales require the management of two different kinds of relationships: those with end customers and those with resellers.

Sales organizations now use customer relationship management (CRM) systems to manage their interactions with customers and automate their sales process. But while CRM systems are almost universally accepted as the best tool for managing direct sales, *they were never intended to be a solution for managing channel partners.*

First, two definitions:

Customer relationship management (CRM) and **Partner Relationship Management (PRM)** are both terms that refer to strategies as well as software systems. A CRM platform is the system of record for managing customer information and is used to organize and automate sales, directing lead traffic among the various members of a sales team and tracking revenue opportunities from lead generation to a closed sale. After a sale, it is used to maintain a relationship with customers, assigning and managing requests for service and support. The PRM system is the system of record for reseller information and in contrast to CRM, is built to engage, manage, and develop a system of resellers, including the management of and tracking of leads and a pipeline of sales opportunities within the channel.

It's important to recognize the unique nature of the relationship between a vendor and its resellers. On the one hand, channel partners are customers. A vendor must market to channel partners and will profit from increased partner demand to sell its products. On the other hand, resellers are also a key sales force. For an efficient and profitable sales channel, they must be managed effectively to reduce conflict (competition among resellers or between the direct sales force and resellers) and optimize sales.

Channel managers often refer to reseller "mindshare," the limited amount of energy, time, and thought resellers have available to dedicate to the brands they sell. To increase reseller mindshare, vendors must increase the quality of their engagement with their partners, making it easier to for both sides of the relationship to do business together. Can this be done using customer relationship management software alone?

In this paper, we'll take a look at the challenges that arise when companies use CRM systems to manage their indirect sales process. We will then discuss how PRM, when deployed correctly, can be used to bridge the gap between manufacturers and their end customers by effectively managing partner relationships in that critical first stage of the distribution strategy.

How CRM Falls Short in the Channel

Customer relationship management systems have their place in the modern enterprise, but in the indirect sales channel, CRMs are not up to the task of maximizing profit and growing sales. Here are three reasons why:

1. CRM systems lack core functions for channel management

The leading CRM vendors such as the well-known providers SugarCRM, GoldMine, and Salesforce would most likely claim that their software is capable of handling channel partner relationships, and they would be right. Modern CRMs, particularly emerging new players such as Nutshell, Capsule, Highrise, and icomplete also offer an immense variety of functionalities critical to CRM. Functionality unique to partner relationship management—to a certain extent—could be considered among the features that these CRMs provide, especially when the various plugins and extensions are taken into account.

CRM systems, however, are not purpose-built for partner relationship management. While it can be used to manage certain aspects of the partner relationship, CRM software lags when it comes to the tasks necessary for truly making it easy for a sales partner to do business with the vendor. The easier a vendor can make for their partners to do business with them, the more mindshare they gain. More mindshare directly leads to more sales.

CRM systems, for example, are not inherently designed with the functions critical to making it easy to do business. These functions include providing relevant marketing and communication information by user role, managing training throughout a sales channel, measuring certifications, easily compiling the data necessary for intelligently managing and incenting proper sales behaviors including how market development funds (MDFs) and dispersed and controlled, and other channel-specific critical functions.

2. Unifying channel partners on the same CRM is cost prohibitive

Assuming a manufacturer can get all its channel partners to agree to use the same CRM system (see below for a discussion of the difficulties there), the price of implementing that system across the entire channel network could quickly get out of hand. The “Enterprise” option offered by Salesforce.com (which the site claims is its most popular option) costs $125 per user, per month. Multiplied across a growing sales channel and the cost is astronomical. Compounded with that price is the relatively low return on investment (ROI) for using CRM to manage channel partnerships. Because CRM systems lack many of the functions required for maintaining a smooth and profitable indirect sales channel, its use will lead to little improvement in channel sales.

3. Non-captive channel partners will make their own CRM choice

There are two models companies use to market their products through the indirect sales channel:

- **The captive channel:** In this model, a company’s channel partners represent only that brand. A captive channel has its management challenges; finding a way to quickly and easily make course corrections as new products are rolled out, for example. But, there are certain benefits. Among them, manufacturers have greater control over their captive channel partners’ business processes, like the choice of CRM. If a captive channel partner wants to do business with a manufacturer, it must ascent to that manufacturer's requirements. If not, it must switch brands and risk losing business.

- **The non-captive channel:** Non-captive channel partners represent a number of different brands and they naturally choose to focus their efforts on the brands that will give them the most sales success in return for the smallest amount of difficulty. Manufacturers must find ways to differentiate themselves from their competitors in the non-captive channel and they have less latitude for making demands.

Unfortunately, most manufacturers do not enjoy the luxury of working with captive channel partners. If a manufacturer were to demand its non-captive channel partners use a particular CRM, it would risk losing mindshare with those partners, driving their selling efforts toward competing brands.

When manufacturers and channel partners use different CRM systems—with no way to integrate them—the flow of valuable sales information between them is hindered, or non-existent.

Non-integrated CRMs cause channel conflict

The most significant deficiency when manufacturers and their partners work on different, non-integrated CRM systems is a system for lead registration and approval. Consider the following example:

A manufacturer of multifunction printers markets its products through a network of non-captive dealers. Two of those dealers happen to be located in the same town. One of those dealers makes a sales call to a local corporate office and receives strong interest in an order for several printers. Before that dealer can close the sale, however, the second dealer makes a sales call of its own and undercuts the first dealer on price, securing the business and leaving the first dealer with nothing for its sales efforts.

In the above example, both dealers most likely tracked the lead in their customer relationship management systems. How much information about the sale did the manufacturer receive? None, unless one or both of the partners took the time to register the lead with the vendor in its CRM. Because the manufacturer had no way of assigning the lead to one dealer or the other early in the sales process, the dealers competed with each other and the product was sold for a lower price than it could have been.

This is a classic case of **channel conflict**. Channel conflict is what happens when members of the same indirect sales channel compete with each other (or a manufacturer's internal sales team) for the same customers. It leads to reduced profits and lower morale within the channel. How many times would the first partner in the example attempt to sell for the vendor before losing interest in representing that vendor?

If there had been a system in place for the dealers to register and approve leads, and for the manufacturer to approve them, the conflict in this example would have been avoided and the printers would have been sold for more margin. Why is lead registration so important to a successful indirect sales channel?

- Channel partners want "credit" for the leads they generate and close. They don't want to be undercut by other dealers selling the same brands. They also want to compete on a level playing field, and they expect the vendor to provide that field.

- Manufacturers want to be able to monitor the sales pipeline as it grows and approve leads to manage channel conflict.

While customer relationship management software has the capability to manage leads for a direct sales force, it is not necessarily capable of doing it in the indirect sales channel. This is because different dealers often use different CRMs, and the manufacturer uses yet another CRM, and none of them communicate. A partner relationship management (PRM) system can be used to integrate differing CRMs, allowing sales and lead information to flow freely through the channel.

The Ideal Solution for Indirect Sales: PRM Integrated with CRM

Partner relationship management systems are built specifically for the indirect sales channel, and are priced accordingly. A key feature for any PRM implementation is the ability to integrate lead management workflows with its own CRM and the CRM systems in use by the resellers.

The best PRMs integrate with CRMs at these key points:

- **Lead registration and approval.** When a channel partner registers a lead in its CRM, the manufacturer will receive the information and can either approve it or reject it. This is extremely critical for avoiding channel conflict by allowing channel partners to "own" their leads and territories.
- **Lead distribution.** Where a vendor is aware of an opportunity and wishes to pass on as a lead to an appropriate reseller.
- **Market development funds (MDFs)/ incentives.** Many manufacturers distribute market development funds or incentives to their channel partners. They are useful tools for motivating sales or strategically growing the channel, but for maximum effectiveness, they must be distributed intelligently, based on good data. PRM systems collect sales and partner performance data from the various CRM systems of channel partners and direct it to manufacturers to be used in their decision-making processes.

PRM is the ideal solution for optimizing the indirect sales channel because it allows channel partners to choose their own CRM without depriving the manufacturer of valuable sales and lead information. Strong PRMs have more functionality than that, however. With a PRM system in place, manufacturers are in a better position to gain partner mindshare through the following four best practices of channel management:

1. **Collaboration:** A good PRM system empowers dealers to share what they've learned about selling a product through the channel, for the benefit of the entire channel. It also allows them to provide feedback to manufacturers about how customers are responding to their products and selling procedures and how they can be improved. Most leading CRMs have a collaboration feature. However, collaboration in the channel is different than facilitating collaboration in a direct sales force. In a direct sales force, all the users collaborating are on the same team. In a channel, most

that are collaborating aren't on the same team. Many of them compete with each other. So, collaboration needs to be carefully managed. PRM systems ensure that the right people are collaborating with the right experts and non-competitive peers.

2. **Marketing/Communication:** Getting the right message to the right people at the appropriate time, without overwhelming them, is crucial to success in the sales channel. PRM systems can differentiate among partners' roles in the channel and send them only the messages that are relevant to them. PRM systems also prevent the wrong information getting into the wrong hands. Many vendors need to wall off partners by product line, geography, and other reasons. CRMs, having been built and optimized for direct sales forces, typically don't put this ability to compartmentalize and control access to certain information in their systems.
3. **Training and certification:** This is something few CRMs even come close to doing well. Training and certifying partners is uniquely important in an indirect sales channel. Leading PRM systems provide sophisticated, SCORM-compliant learning management capability to provide relevant training resources and the ability to track the progress of channel partner employees and related attainment and maintenance of certifications. PRM systems can scale training and certification programs to the global level, and provide the ability for channel partners to manage their own training locally as well as allow the vendor to track training at a global level. CRMs simply aren't engineered for this level of sophistication because most direct sales forces have access to learning management systems in their organizations.
4. **Performance management:** This is the overall process of measurement and data-driven decision making. This core area allows for accurate tracking of which dealers are adhering to the manufacturer's sales process and requirements and which are not. The management of market development funds (MDF) and incentive strategies is critical in a channel environment, and less critical or non-existent in a direct sales force. PRM is optimized for MDF and sophisticated incentive programs; few CRMs are since they're build for direct sales forces.

In short, PRM not only gives manufacturers and their partners a way to share sales and lead information across different CRM systems, but it makes it easier for both sides of the partnership to do business together. Earlier PRM systems consisted of a portal overlying a series of legacy systems, each with their own design and logins. Modern PRMs are much more integrated. Partners gain access to everything they need from a manufacturer through a single web-based portal contextualized for their role in the channel with all functionality built directly into the core of the portal itself.

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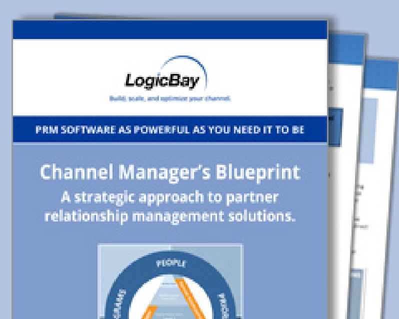

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