



***Are you and your software ready for indirect sales channels?
Take our Channels Readiness Quiz (parts 1 & 2)***

by Bruce Hadley, Founder SoftwareCEO

It's one of the top 10 themes in the SoftwareCEO Discussion Forums: Where can I find resellers for my software? What should I pay them? How do I organize them? And etc. and etc.

The undercurrent here, among far too many software entrepreneurs and smaller ISVs, is the sense — the optimism or prayer — that as soon as they sign up some resellers, their sales will take off.

In fact, many of our forums posts begin something like this: "We've completed the engineering, we have a great product, and our two non-paying beta customers are happy. How do we get signed up with systems integrators/software distributors/the top VARs/Wal-Mart?"

Our response: Slow down, Sparky.

First of all, what makes you think the indirect sales channel will be interested in you? And, more importantly, what makes you think the indirect sales channel is where you ought to be?

We talked about this quandary with our favorite channels guru, Ken Beam, who also happens to be one of our senior discussion forums moderators.

Beam's company, The VAR-City, builds upon Beam's 25 years of IT industry experience, all of it dedicated to channels. He managed indirect sales channels for a number of heavy-hitters, including Baan, GE Access, Intergraph, Oracle, and Sun Microsystems.

We posed the question to Beam: How does a software company know when it's ready to go indirect? Our new "Channels Readiness Quiz" is the result of several hours of conversation and tons of excellent guidance from Beam.

This week, we'll give you the first part of the quiz. Next week, we'll finish up with the remaining questions and a guide to scoring. From this exercise, you should have a pretty good handle on your software company's suitability for indirect sales.

OK, on with the quiz. We'll pose each question with a scoring block off to the right, then follow with the answers and explanations. So, read the question, score yourself, then go on to each answer. No cheating, boys and girls.

Question #1: Familiarity with partner designations

The term "reseller" is a catch-all phrase for all the inhabitants of the channel community. Give yourself 1 point each for clear definition of these 7 terms: Agent; Reseller (Retail); Distributor; VAR; SI; Sales Influencer; and ISV (OEM). Give yourself a bonus of 2 points for knowing how to deploy each of their unique skill sets.

Minimum	Maximum	Your score
0	9	?

Answer/analysis:

"An agent is somebody who is involved in some other field of endeavor," Beam says. "For example, a CPA. They discover there's an opportunity for ABC software vendor. The vendor comes in and completes the deal; the agent has very little to do with it.

"The agent is typically going to get about 10 percent of the license dollars, not the total invoice. They are what I call passive resellers; it's a good way to introduce someone to your company. I think of agents as being on the tip of the funnel: They haven't quite tipped in.

"It doesn't hurt to have a bunch of them out there, because you're not dedicating any resource or marketing dollars to them. They're not carrying your logo; it's more a matter of, they know someone who can help out the end-user, often their client.

"At some point, they're going to say, 'Ten percent is nice, but we'd like more' — and that's when you roll out your channel manual and show them what's required."

The term Reseller used to apply only to those channel partners who actually had brick-and-mortar storefronts, but it's gone upside down, Beam says. "Today, they are typically order takers. They're not adding any value, they're filling orders.

"Examples are Software House International (SHI), Amazon, CDW — though CDW takes it a slight notch up, in that they do supply some support and hand-holding."

Resellers have morphed into a retailer configuration and can usually buy software for around 30 percent off the vendor's MSRP, but then sell to end-users for a discount off list — it can be 5 to 30 percent off, depending on the competition, Beam says.

"They're working off volume. They may make only 5 percent on a deal, but they'll only spend 10 minutes on the phone, and if they do enough of those it's going to make sense."

A value-added reseller, or VAR, should live up to the implication of the acronym: They add some particular value to the transaction, and can recommend a product to match a need.

"If the customer says, 'I need this kind of package,' the VAR can make a recommendation and can support it," Beam says. VAR discounts are typically the same as those given resellers.

SI is shorthand for "systems integrator." "An SI is a VAR on steroids," Beam says. "They can bring many, many applications together into one tightly-bundled solution.

"They're the ones that are out there banging the drum, and they're making money on the product and on all aspects of the services components: training, installation, and product support.

Another variation on this is the Sales Influencer. "They don't care if they ever make a nickel on the product," Beam says. "In fact, they don't even want to be involved.

"They want to bring the vendor in, close the business, and then get the vendor out of there, because now the Sales Influencer is going to provide everything else.

"A lot of resellers are going to this model now: They're going to act in every way as if they're making money on the deal, but in fact they make no money on the license — though in some case money is tossed over the fence.

"The Sales Influencer's attitude is, 'I just want to make sure that the customer chooses this software vendor, because I know that it's a six-month engagement for me, and I'm not carrying the receivable of the software license.

"Cisco and HP, among others, are recognizing that resellers don't want to take possession. They are building a reseller channel that really consists of extremely high-powered agents.

At this highest level of end-user control, the software company may be shut out of services, but also enjoys a huge reduction in support costs. "Instead of getting 1,000 calls from 1,000 end users, Oracle gets one call from one SI or sales influencer, because there's something beyond his skill level," Beam says.

In exchange, the reseller may get up to 30 percent of the maintenance contract revenues — but we'll come back to that later.

ISV stands for independent software vendor; when they come looking for an OEM deal, they represent another type of channel opportunity.

The acronym OEM comes from "original equipment manufacturer," and can refer to any relationship under which Company A sells Company B's product. It used to be that the product would always be re-labeled under Company A's brand name, but in the software industry that's no longer a given.

"At the lowest level, an OEM deal is a CD insert — a small product that's separate from but complementary to the vendor's products," Beam says. "This helps the vendor fill a niche. At the highest level, the two software companies get together and commingle their code."

"Every one of these deals is negotiable; I've never seen any two of these that are alike. But they're nearly always based on license revenues, and usually look at the sales quarterly."

Because OEM negotiations are significant, they're often handled by the direct sales organization rather than the channels manager, Beam says. "What you have when you're done is a revenue stream that's a little more predictable than other reseller types."

Why spend so much time on word play? Because it isn't play, Beam says. "This is one of the toughest decisions you'll make — deciding which type of partner is consistent with your product, your market, and your culture."

"Knowing which type of partner you should have is a giant first step in figuring out your channel strategy. You can have a blend, or course, as long as you're smart about it."

A note about exceptions outside the U.S.

One final note on the subject of definitions: Our primary focus in this quiz is on U.S.-based reseller channels; the rules change somewhat when you go overseas.

"In the U.S. , you have vendors, distributors, and a whole family of resellers," Beam says. "Those distributors do not sell to end-users; the resellers would kill them."

"Overseas, you have a different model: distributors and resellers can be one and the same; it depends on the country and your product. In some cases, the distributors actually own the resellers."

In addition, the percentages and compensation amounts quoted here are for North America. Because reseller relationships and levels of service vary so widely, you'd be wise to run comparables for each region you want to enter.

Having said that, however, the principles for selling through indirect channels are consistent worldwide, whether your resellers are in Idaho or Israel. The terms — verbal and financial — may differ, but management issues will not.

Question #2: Competitive channel research

The more you agree with the following statement, the higher your score: "We're confident we have a competitive channel value proposition, and it's based on thorough, objective knowledge of our competitors' partner program offering."

Minimum	Maximum	Your score
0	5	?

Answer/analysis:

Your direct sales organization will likely know a great deal about your competitors' software and services, and that's part of the issue here. But the second part of the equation does know how your competitors work with reseller channels, and your direct reps may not know much about that.

"After you identify primary competitors, you need to understand what differentiators allowed them to win, and in cases where you won, what gave you the edge," Beam says. "I'd also look at pricing, though I hate using pricing as a differentiator."

"If you're consistently losing against Brand X, and Brand X owns a big chunk of the industry, that indicates you're probably not ready for channels."

What constitutes a "big chunk"? It depends on the market, Beam says. "If you have 5 percent of the security software market, you're doing really well. If you've got 5 percent of infrastructure management, you might not be doing so well."

But all of that is end-user perspective. What the reseller really wants to know is how your offering will stand apart from the competition. If you're distinguishing feature is "great service," that may appeal to the end-user, but the reseller doesn't care.

"I like to see a feature-function comparative matrix," Beam says. "Show me your competition, show me where you match up, and put an X in the matrix where your product is differentiated. Don't stack the deck and leave out key areas; the reseller will see through that."

The important focus here is the reseller's point of view: They're looking for a differentiator for themselves. "They want to reach into their bag and pull out a club that fits the hole," Beam says.

"If they look at your matrix and say, 'You know, we've already got this feature covered with this product, and that function covered with that product,' you should move on to the next reseller."

"This has everything to do with what the reseller needs, and nothing to do with what the end-user needs. An enlightened owner of a VAR company is going to be looking at your product and your channels program as it relate to their profitability."

"They're going to assume that you've got a good product during the initial conversation. But if the conversation is going to progress, they'll want to know why they should add your product to the mix they sell — which could mean they'll drop someone else's."

"They want to know what your business plan is, and how your reseller program shapes up. What it is it about your program and product that makes this worth their investment? That's where you have to have your business proposition clearly defined."

Give yourself five points here only if a) you know your products' strengths, b) you've done your research on competitors' products, c) you know how the competition uses channels, and d) you know you can offer your resellers more.

Question #3: Product viability / Channel appeal

Is your product packaged and priced to attract resellers?

Minimum	Maximum	Your score
0	5	?

Answer/analysis:

"Resellers love bundles and they love SKUs," Beam says. "They want something they can put down on a proposal — something by part number that they can identify for ordering purposes."

Do you need a pretty box? A year ago, the answer was yes, says Beam; today, no, thanks to the Internet: Everything is done digitally. But resellers do need to be able to relate your software to a SKU.

"Even with the Internet, eventually the product is sold by a human. If that human has to go through a huge bloodletting project to configure a product — well, the reseller is always going to gravitate to the easiest product to sell."

One fix: Come up with an if/then order form. If the customer has this operating system, then you need this SKU; if the customer wants the reports module, then you need this SKU; and so on. Ideally, after they get all the answers from the end-user, they push a button and can say, "OK, here's what you need."

You may think your product lineup makes sense, but, chances are, you've been living awfully close to it for many years. The product names and configuration that are common sense to you may well be gibberish to a reseller.

Beam suggests this test: Put your product lineup in front of an outsider who knows the industry but not your product. If they can understand your product hierarchy in five minutes, fine — but if they can't, you've got a problem.

Also, a note here about naming: As you move into the indirect channel, product names become more important. "The name of the product needs to allude to what its function is," Beam says. "There has to be something that clearly differentiates its function. The reseller doesn't have a lot of time for interpretation and translation."

Give yourself the maximum five points if you are confident your products are packaged for optimum reseller ease and attraction. Score zero for "don't know" answers.

Question #4: Average transaction size, per sale, pre services

Score 1 point if your average sale — software plus maintenance but not services — is less than \$20,000

Score 2 points if your average sale is between \$20,000 and \$30,000

Score 3 points if your average sale is between \$31,000 and 50,000

Score 4 points if your average sale is greater than \$50,000

Minimum	Maximum	Your score
1	4	?

Answer/analysis:

This one's pretty obvious: The bigger the ticket, the more opportunity there is for the resellers to make money. True, there are some resellers who can make it up on volume — the retail resellers like SHI and Wal-Mart and Office Depot — but as we explained in Question #1, they're order-takers.

Unless you've already got a huge funnel of demand built up, you'll find it very difficult to attract them. That isn't to say it isn't possible, but this quiz is all about readiness. In that light, the higher your product price, the easier it will be to attract resellers.

Question #5: Product branding / Industry awards

Give yourself 5 or 6 points if you got a "Best Of" award from a major publication such as Infoworld or PC Magazine or a top analyst group like Gartner within the past two years.

Score 3 or 4 points if you have a recent award from a vertical industry publication or niche analyst group, or an award that's more than two years old from a major publication.

Score 1 or 2 points if you only have customer case studies.

Score zero if you have none of the above.

Minimum	Maximum	Your score
0	6	?

Answer/analysis:

"Imagine the reseller is in front of the purchasing agent, he comes in with a new product, and he needs to get it approved," Beam says. "If the recognition for the product does not exist, the reseller is at a disadvantage.

"Endorsements from leading industry publications and analysts are necessary. You need to have been evaluated and reviewed and picked the 'best of' within the past year or two. If all you've got is customer stories, that's worth the low end of the scale."

There is a way to earn bonus points here, however: If one or more of your customer case studies includes a partner component, give yourself an extra point or two.

For example, if the case study with your end-user Company X describes how Acme Systems Integrators installed the software, got everyone trained, and made everything hum, the resellers will love you.

These kinds of stories don't necessarily make it any easier for resellers to sell your software, but it will make it easier for you to attract resellers.

Question #6: Potential for channel conflict

Score 1 point if you sell your product on the Internet

Score 2 points if your direct sales reps and channel partners have no boundaries on their sales territories or their target customers

Score 3 points if you have clearly defined boundaries for direct and indirect sales and/or sales incentives that increase relationship harmony

Score 4 points if you sell through indirect channels only

Minimum	Maximum	Your score
1	4	?

Answer/analysis:

Zero conflict is the best you can do, and that gives you the maximum four points in our quiz.

"Having a channel program that permits conflict to occur is the dumbest thing you can do," Beam says, "especially because it can be avoided from the beginning. If conflict happens, it means you didn't plan very well from the beginning. And, there are a lot of hidden costs to that conflict.

"If you have direct sales reps already, you need to establish boundaries for territories: If direct people are playing here, then channel people are not allowed there, and vice versa.

"You can establish that demarcation by product, by industry, by geography, by end-user revenue. Using industry splits, by the way, is a good way to develop incremental revenue: You bring on channel partners who have expertise in an industry where you don't.

"Geography is not one of my favorite ways to do it, because of corporate overlap and the diminishing need for physical presence. But most of those deals are one-off, so it's possible to put the lion and the lamb in the cage together — still, someone is going to have to make a decision as to how revenues are shared.

"Companies that use territories defined by end-user revenue often do so because direct sales people are darned expensive. Direct sales people should be chasing the big deals,

the million-dollar deals, not the \$100K deals; put your channel to it. Use the reseller channel to pick up the scraps that fell off the table.

"The only reason a reseller is in the Fortune 500 company is that the direct sales guy or gal has invited them in. This is one of my favorite methods, because it's fairly easy to define, and it goes to the reason for channels.

"Sure, it can get fuzzy. A direct rep might say, 'These people aren't in the Fortune 500 this year, but I've seen their financials, and they will be next year' — because he doesn't want the reseller to go after it. Someone still has to police it."

Question #7: Organizational buy-in

Which of the following statements most closely matches the situation at your company?

- a) "Our direct sales team is not happy with the decision to add a channel organization." Give yourself *negative* 1 point.
- b) "We know it's something we should be doing, but the overall attitude is guarded." Give yourself 1 point.
- c) "Shouldn't be a problem." Give yourself 2 points.
- d) "Compensation is already in place to embrace channels - we're ready!" Give yourself 3 points.

Minimum	Maximum	Your score
-1	3	?

Answer/analysis:

"Even when all the best channels practices and principals are properly in place, a lack of full buy-in and corporate support can deliver diminished returns," Beam says.

That's a nice way of saying: If you don't have everyone on board, don't let this ship leave the dock, because you'll find yourself swimming.

Buy-in from your direct sales force is especially crucial. They may never learn to love the reseller channel — after all, they're competing for some of the same dollars — but they must at least respect your company's business reasons for setting it up.

Question #8: Channel team infrastructure

Give yourself 10 points if you have an experienced, full-time channel manager *and* a dedicated technical specialist to support channel pre- and post-sales activities.

Note that we're talking about two separate people here, both of them dedicated wholly to the channel program. If you have a technician on loan from your direct sales organization, your maximum score here is 5 points.

Minimum	Maximum	Your score
1	10	?

Answer/analysis:

This one's worth a lot of points — 10 percent of the total in our quiz — so Beam offers additional scoring examples.

"You can earn 1 to 3 points here if you've got a slim budget, and you're dipping your toes in the channel," he says. "For example, you've got someone on staff who, among their other functions, is trying to determine if it makes sense to invest in channels. Your company has nodded toward the channel but not made the commitment.

"Give yourself 4 to 6 points if you have a req open or you have someone on board with channels experience, but that person is operating solo, and must gather resources wherever he can. In other words, you've got a jack of all trades, because you're hoping to offset the lack of having an SE.

"You get 8 to 10 points if you have both a channel manager and an SE, and that SE is dedicated to the channel — he has no dotted-line connection to the direct sales organization. It's the kiss of death is to tell the channels group, 'You can have this person when he has time' — it never works. Never."

That's part of the reason we only allow you 5 points total here if your SE is shared with the direct sales group. The second reason, Beam says, is justified paranoia.

"The reseller is scared to death of an engineer on loan from the direct sales organization. That SE is taking information back to the direct sales group, which is, quite literally, a direct competitor to the resellers.

"They're afraid the direct reps will then swoop down and take their business away. It's called poaching, and it means that that shared SE will always be viewed as a spy."

Question #9: Channel manager compensation

Score from 1 to 5 points according to how accurately the following statement reflects your company's reality:

¿Our channel manager compensation package falls within the industry norms, and we have an aggressive MBO incentive to rapidly move new partners through the sales training and technical certification process.

Minimum	Maximum	Your score
1	5	?

Answer/analysis:

You should expect to pay your channel manager a base salary of \$65,000 to \$85,000, says Beam. He or she will also get a percent of channel revenue, usually based on incentives; the typical range is 10 to 15 percent, but can go to 20 percent.

Of course, if your channels program is new, there will be no revenues to pay commissions on; in these cases, Beam suggests you factor in incentives based on management by objectives (MBOs).

For example, the channel manager might earn a \$1,500 bonus for each new reseller signed up, and another bonus for working with them through their first successful sale.

It's important that your channel manager come from the IT industry, Beam says. More specifically, if you're in the software business, your channel manager should have a software background.

"There are so many issues that are specific to software — like returned merchandise," he says. "However, it is *not* important that the channel manger come from your particular vertical or technical niche.

"The only time that comes into play is when you know that your channel is always going to be small, and you're never going to be able to hire a dedicated SE. In those cases, you need to have a hybrid channels manager with technical skills."

End of Part I

Next week, we'll give you another 12 questions and the scoring key for the entire quiz. Plus, we'll tell our Site Members how they can download a PDF of the complete test for later reference.

Last week, in part 1 of this article, we gave you the first nine questions in our Channels Readiness Quiz. This week we'll finish up with the 12 remaining questions and the scoring key. If you'd like to get a PDF of the complete test in tabular form, it's available in the Sales and Distribution section of our Downloads Library.

Question #10: Resource segregation for channel programs

Give yourself up to 5 points if you can honestly say the following for your company:

We have taken great care to align our company's resources and personnel to strategically and tactically support our resellers in all aspects of the sales cycle.

Minimum	Maximum	Your score
1	5	?

Answer/analysis:

Ken Beam, who heads up software sales partnership firm The VAR-City, says successful segregation will show up in three primary areas: training, marketing and executive management of the channels program.

"You shouldn't give yourself high points here unless there's a clearly defined training process for resellers," he says. "There's a schedule, and there's a course specifically designed for resellers, containing both sales and technical certification components. If you can't say exactly what your reseller training program looks like, you don't score."

The same goes for marketing, Beam says: You have to be prepared to show the reseller exactly how you're going to help him market his company. While most software vendors dream about VARs who give what Beam calls the perfect response — "We don't need no stinkin' leads" — most resellers expect your help in filling the funnel.

It could be that you'll provide materials with the reseller's name on it, maybe you'll offer trade show support, or perhaps there's a co-branded product — whatever marketing support you offer must be already in place before you'll have much success recruiting resellers.

To make this marketing segregation work, you need someone in your marketing department who's worked with channels before. "Without this person, and without the right attitude, your marketing group will always view the VARs as a nuisance," Beam says.

Finally, and probably most importantly, the executive in charge of your channels program must be segregated from your direct sales force. Beam doesn't think you should get 5 points here if you plan to have your VP of sales run it.

"VARs are afraid of the VP of sales," Beam says. "Nine out of 10 of those VPs come from a direct sales background, and the VARs know they'll be treated like a redheaded orphan."

"What really matters to VARs is that they have a dedicated and experienced channel manager, someone that they can touch everyday. If you go into this thinking that VARs are like end-users, you're wrong; you're going to need someone who can handle their hot buttons, their whines.

"If your person has a VP Channels title, your resellers will throw a party for him, but if he has a VP Sales title, they'll assume he's a monster."

By the way, vertical industry and/or technical experience doesn't make a great channels manager, Beam says; channels management experience does.

"It takes years to develop a good channels manager; it takes a few weeks to develop technology expertise," says Beam. "It's the VAR that needs to be an expert on the product, not the channels manager."

Your channels manager must tackle a huge, multi-headed monster in setting up reseller channels. To illustrate the complexity and sheer work involved, Beam shared with us a document he uses to explain the ChannelBuilder Elite program — the process he employs to create software sales channels for his clients.

Built upon phases he calls "Research," "Optimize," and "Initiate," the document shows an organizational timeline for the detailed tasks and process that must be addressed during the first 90 days, regardless of whether you're outsourcing or doing it yourself.

Question #11: Channel budget, administration & operations

Which of the following sounds most like your company?

- a) We'll just take what we need from the sales budget. Give yourself 1 point.
- b) We've set some dollars aside to seriously evaluate a channel model; it's at least a six-month experiment. Score 2 points.
- c) We're committed to building a channel organization and have allocated funds accordingly. Score 3 points.

Minimum	Maximum	Your score
1	3	?

Answer/analysis:

"These three answers, as simple as they sound, represent 80 percent of all the answers I've gotten in more than 20 years of doing this," Beam says.

"Generally speaking, your costs will be 25 to 30 percent of the revenue you want — but that's on top of what you're paying your channels manager. In fact, that ballpark assumes that you have all the necessary pieces in place. In other words, the channels revenue isn't going to arrive just because you have a budget."

With that in mind, Beam suggests you work backwards from your revenue goals to arrive at your costs. How much revenue do you need to generate in the first year of you channel to consider it a success?

"If they say a million dollars, then we've put a stake in the ground," Beam says. "Now you know you have to sell X number of licenses to achieve that million dollars, so it's a matter of working backwards to figure out if the numbers actually fit."

"How many resellers will you need, each selling how many licenses, to get to that million dollars? Assuming your price point is enough to encourage resellers to bite, you can then figure out how many resellers you'll need.

"From that point, you've got the beginning of your admin and ops budget. To support 10 resellers will be a very different proposition than supporting 100."

Question #12: Channel budget - sales & marketing

Consider co-op, MDF, proof of concept, NFR software, co-branded marketing material, and trade show support, then choose one of the following as the best match for your company:

- a) We can do the brochures, but what's MDF? Give yourself 1 point.
- b) We're willing to provide some additional marketing dollars if it's case-justified. Score 2 points.
- c) We plan to allocate a percent of invoiced sales, or some other pre-determined amount, to support and/or offset our partner's marketing and training costs. Score 3 points.

Minimum	Maximum	Your score
1	3	?

Answer/analysis:

Maximum points here are earned both for your familiarity with the way channel programs are supported with marketing and sales dollars, as well as your willingness to do so.

MDF is an acronym for "market development funds," a subset of co-op; in short, the software vendor provides funds to promote the product.

"It's typically 2 to 3 percent of the revenue the reseller generates, but can be offset by free product," Beam says, "and it's based on invoice, not list.

"There are two ways to apply it: pre-approved use of MDF — for example, a market mailing campaign — and authorization required. In the second case, the reseller might call the manufacturer to get an OK for a wine and cheese party or a golf outing the reseller wants to host for his prospects."

MDF is not a lot of money in percentage terms, but it's important money because it can be applied directly to the reseller's bottom line — it's pure profit.

"You need to have the awareness that you will have to ante up some money," Beam says.

"You have to be willing to put dollars on the table. Normally, it's a percentage of revenue generated — it's not money that's automatically set aside. Look at it as commission, and don't begrudge writing the checks.

"One really clever way to do it is to grant X number of licenses when the reseller reaches a certain point of revenue. These can either be outright licenses that the reseller can sell,

or NFR licenses: 'not for resale' licenses the reseller can use for demo and internal training purposes."

You'll most commonly hear NFR used to refer to software, while "eval" or "demo" (or "demo unit") typically refers to hardware or a combination of the two, says Beam.

The phrase "proof of concept" comes into play when there's an end-user who is willing to issue an open invoice, but only after the software has been proven to work in an actual implementation. "In these situations, the ISV may have to provide time and talent to the reseller to get it set up," Beam says. "Are you willing to commit the resources?"

Question #13: Channel profitability expectations

This is another statement-matching exercise; which of the following sounds most like you?

- a) If we can't show a profit in the first six months we're out of the game. Score zero points.
- b) "We'd like to see profits in first six months, but incremental revenue growth will justify a one-year commitment. Give yourself 1 point.
- c) We have a target revenue number for the first year, and will measure our success against that at the end of the year. Score 2 points.

Minimum	Maximum	Your score
0	2	?

Answer/analysis:

"This once again goes to an evaluation of your commitment to channels," Beam says. "Channels take a long time. Realistically, you're looking at one year before you're confident that you've got a solid channel.

"You need to know that there are costs involved before you're going to see a return. To establish stake in the ground, it gets back to the second question of this quiz: Competitive channel research.

"If you're just starting out, it may be fuzzy, but you need to put the stake in the ground somewhere. This is where you do if-then scenarios. Figure out what your resellers are going to sell, and how much it's going to bring you."

Remember, as we said in our discussion in part 1 of this article, profit considerations for resellers outside the U.S. are different than for those within; financially, it's often a whole different model.

Question #14: Amount of reseller discount, off MSRP

Score 1 point if the reseller discount is less than 15%.

Score 2 points if it's 16 percent to 20 percent.

Score 3 points if it's 21 percent to 28 percent.

Score 4 points if it's 29 percent to 35 percent.

Score 5 points if it's 36 percent to 40 percent.

Score 6 points if it's more than 40 percent.

Plus: Give yourself 1 bonus point if the discount schedule is linked to the reseller's certification level, and 1 more bonus point if it's linked to the reseller's annual revenue.

Minimum	Maximum	Your score
1	8	?

Answer/analysis:

"The more margin there is, the more appealing it's going to be to resellers," Beam says.

"I like to see the discount based on commitment and their attainment of goals. The more they sell, the greater the discount they get.

"Sometimes, these margins can be held back and paid retroactively — so the resellers know that if they get to the end of the quarter, they can be bumped into a better margin tier."

Question #15: Partner revenue opportunity

Do your resellers provide services? Score 1 point if they provide training, another point if they do implementation work, and another point if they provide first-level tech support. If you only want them to sell software, you get zero points.

Minimum	Maximum	Your score
0	3	?

Answer/analysis:

"Channel partners will align with vendors that give them the majority of pre- and post-sale services," Beam says. "It's as simple as that.

"Your relationship is more appealing to them if they can provide more. If you let the resellers do these things, they'll find your offer more appealing. If you shut them out, you'll find it hard to make friends in the channels."

Question #16: Maintenance contracts

Do your resellers receive a percentage of first-year and future maintenance contract sales? If yes, and they handle tier 1 support calls only, give yourself 1 point. If they handle all but critical support issues, score 2. If you keep all maintenance revenues to yourself, score zero.

Minimum	Maximum	Your score
0	2	?

Answer/analysis:

"The amount that resellers can earn on maintenance contracts depends on the amount of their involvement in providing support," Beam says.

"If they only take the first call, to make sure everything is plugged in, they'll probably get around 10 percent of the maintenance fee. If they are handling just about everything but the most critical issues, then they can get up to 30 percent.

"You're paying them for the amount of effort they're taking away from you. There's a real danger here that if your channel is too successful, you'll bury your internal technical resources."

The bottom line on maintenance revenues: If you aren't willing to share, the resellers won't want to play.

Question #17: Partner profile and prospecting criteria

Score 1 point if you don't know where to start.

Score 2 points if you know that your ideal resellers will have expertise in a vertical industry only (e.g., legal, healthcare, banking, etc.).

Score 3 points if you know that your ideal resellers will have a particular technology expertise only (e.g., wireless, storage, security, etc.).

Score 4 points if you'd like your resellers to have a combination of industry and technology expertise.

Minimum	Maximum	Your score
1	4	?

Answer/analysis:

"This really gets to your own ability to recognize what you need, to profile the perfect

reseller partner," Beam says. "What does the best reseller look like? What would they be selling? What is their in-house talent?

"If you're targeting a particular industry, and you're therefore looking for resellers in that industry — let's say it's hospitals — well, at least you've thought it out that you need to leverage the VAR channel in that direction.

"However, the reseller herd has been culled to the point that you're not going to find people who just do hospitals anymore. If there was a VAR just doing hospitals, they're out of business today.

"To get the maximum 3 points, you've thought about applying other technologies to your vertical. For example, 'We've been strong in storage for hospitals, but we'd like to find people who understand document management, because there's a natural affinity between the two.'

"That's a better way to go, because it provides more opportunities for everyone to win. You get an expanded market, the reseller gets the differentiation of his skill combined with your product, and the end-user gets a specialized but integrated solution."

Question #18: Training & certification

Rate your formal sales and technical training process. If you don't have an existing reseller/partner certification process, you're not allowed to give yourself the full 5 points here.

Minimum	Maximum	Your score
1	5	?

Answer/analysis:

There are a number of signs that indicate you're worthy of maximum points on this question, Beam says:

"During the recruiting process — which can be a fairly intimate dance — you as the vendor need to clearly state that on the day the contract is signed, you want to have the reseller's sales and technical people scheduled for training: dates, locations, and so on.

"The software vendor must make a commitment to immediate training; the reseller is looking for direction. You should have a channel manager assigned to that account, with MBOs attached to show that the reseller is meeting their objectives, on a timeline. Put your channel manager at the point of the spear on that one.

"You need to have a one-day sales training course that provides the reseller with access to the marketing material and competitive information, on CD or extranet or both.

"It's really very easy to adapt whatever training you're using now for your direct people, with one exception: You'll need to add some reseller training on the rules of engagement — clearly defined boundaries regarding channel conflict.

"You also need to have a technical or certification track; usually you'll modify your admin training course. This may include implementation training, and resellers may have to take some script courses, driver courses — whatever the product requires for them to walk out of there and implement the product. The nature of your software will dictate how complicated this is.

"At the conclusion, you should have something to give them — a plaque or certificate they can put on the wall and their Web site that indicates a higher level of commitment. If they're competing against other resellers, this gives them a higher level of differentiation."

You can earn top points on this question if you have a partner's manual already in place. Not only does this help with training, it's invaluable with ongoing channel management, Beam says.

"The partner manual contains all the materials, marketing and sales and technical; it's the reseller's reference book. Later, when the reseller calls in with a question, the channel manager says, 'Go to page 26 of your partner manual, look at the bottom of the page, there's your answer.' In time, some resellers learn to check the manual before they call.

"The partner manual is not just a matter of how you sell the product; it's everything," Beam says. The partner manual can also help with follow-on hires — i.e., new employees at the reseller's company who've not been through the training course at your headquarters. However, Beam says he wouldn't rely on the manual and "home schooling" alone.

"Online certification is becoming more and more popular, and I'm inclined to endorse it," he says. "These can take the form of an open-book test; you're really testing their ability to apply your solution.

"One of the best resources I've found is to go to your own tech support people, and ask them to independently write the 20 most common questions they're asked by your end-users. That consensus becomes the test that your resellers should take."

Question #19: Partner access to sales/marketing tools

Do your partners have access to all necessary resources — brochures, presentations, price lists, standardized RFP responses, quote forms, tech docs and FAQs, etc. — via a 24x7 Partner Portal"?

Minimum	Maximum	Your score
0	5	?

Answer/analysis:

"Customers and sales have been lost to poor response time," Beam says. "If you don't give resellers everything they need, when they need it, your sales and theirs are at risk."

"If I have to get a proposal out Monday morning, I want to know that I can get everything I need to put a reasonable and intelligent proposal together in time."

Should you allow your resellers to customize your sales and marketing tools? "Changes should be OK, as long as you have the ability to review," Beam says.

"The point here is that you need to give them access to the library of existing scripts and tools that they can use in their implementation.

"Of course, you hope that they will then add their work to the library that's available to other resellers. You might want to pay them royalties on that, or give them recognition, but sometimes just an announcement that we have a script that does so-and-so is enough."

Question #20: Partner levels (tiers)

Most successful channel programs employ partner tiering: e.g., Platinum, Gold, Silver, based on quantifiable sales factors. Rate your understanding of the purpose and value of such an identifier scale.

Unless your channel manager aggressively works to matriculate your partners to the next level, you should not give yourself the maximum 6 points here.

Minimum	Maximum	Your score
0	6	?

Answer/analysis:

"Tiers are important because it's an indicator of the resource you're willing to apply," Beam says. "At the platinum level, you've probably got your own phone number into headquarters, you have a single designated channels manager, and so on.

"The resellers want to know that if they do everything they're supposed to do, that they can move themselves up the ladder. They don't want to make the full commitment at the outset, but they want to know that the path exists."

Also, keep in mind that the designation you provide to resellers can be an important sales differentiator for them. End-users are inclined to believe that your platinum reseller has experience and skills that the resellers in less-shiny, or pewter tiers don't possess.

Question #21: Reporting & measurement

Which of the following is most likely to be uttered by your management team?

- a) "Report what? Measure what?" Score zero points.
- b) "Nothing formal, but we'll certainly track revenue performance." Give yourself 1 point.
- c) "Resellers are required to write a business plan and we'll monitor their progress accordingly." Score 2 points.
- d) "Our channel managers visit each reseller partner quarterly to review their compliance with training, use and distribution of marketing dollars, and revenue goals." Score 3 points.

Minimum	Maximum	Your score
0	3	?

Answer/analysis:

"Each channel manager should be given the opportunity to evaluate the resellers on a quarterly basis," Beam says. "This should be a formal report, in which the channel manager and the reseller sit down and go over the details: 'Let's go over last quarter's MDF, last quarter's sales,' and so on.

"The report should review and set down in writing what will be done next quarter. If they're not meeting their obligation, then that could very well impact their discount level, the number of leads you send them, or change their level from platinum to gold — any number of negative things."

Do these report sessions really need to be conducted in person? Yes, Beam says, they do. "If you're not doing it, your competition is," he says, "and it's all a mindshare game. You need to be firm, fair, and fully engaged. To do all that, you need to be in front of them. "

Beam shared another document with us that offers a great example of what your channel manager's quarterly report might look like. It's his Channel Managers' Reseller Business Plan, and it includes some sample data to show you how it might be filled out.

That concludes our quiz...let's see how you faired...

Total possible score, questions 1 through 21:

Minimum	Maximum	Your score
9	100	?

SCORING

If you scored less than 27 points:

This quiz may well have been the best investment in reseller channels you could make — especially if it guides you away from further time and energy in pursuit of a reseller program.

Based on your score, it's a good bet that you have been entertaining the thought of creating a reseller program, but hadn't anticipated the grueling requirements and complexities in establishing and maintaining a partner channel.

Our suggestion: Watch and wait. Build up your knowledge, through learning opportunities such as the SoftwareCEO Discussion Forums.

If your score is 27 to 43 points:

If you scored in this range, you're off to a good start. You understand that there's more to creating an effective reseller program than hiring somebody with marketable channel skills, yet your score suggests that you're still on the light side of making the financial or resource commitments to the program.

With more research, you should be able to improve your score and prepare your team for a successful effort in the future. Review your responses to (F) Potential for channel conflict and (G) Organizational buy-in; if your combined score on those two was 3 points or less, concentrate on what you need to do to improve those scores.

Although they're not the highest-value questions in our quiz, failure to achieve high scores in those areas will prove counter-productive to your goals throughout your channels program.

If your score is 44 to 84 points:

OK, you're on the cusp of a winning channel concept. If your score is on the high side of this range, there are just a few things that you may need to rethink.

Look at those questions where you scored below the mid-way point, and ask yourself: Are there changes you'd be willing to make?

If you scored on the low side of this range, take a few extra moments to see which questions zapped you. If they fall into the pricing or packaging categories, don't despair — those aren't deal breakers.

Deal-breakers would be a tentative commitment to a long-term channels program, and/or the potential for direct sales and indirect sales conflict.

If you scored 85 points or higher:

Congratulations! Your organization is channel-ready.

You have a clear understanding of the marketplace, how your product(s) and channel program stack up against the competition, and you've made the necessary commitment to a properly aligned infrastructure.

Keep in mind, however, that without a sharp and constant focus on daily administration, your competition, and uncompromising execution, even the best-conceived channels program is still likely to struggle.

**** UPDATE: August 2011:**

In the 7-years following the original interview in 2004, and publishing of "The Channels Readiness Quiz", our industry has witnessed some of the most powerful game changers since email and the internet.

The rise of SaaS as an alternative to big-iron/big-ticket enterprise software implementations has changed end-user buying habits and modified VAR and System Integrator business models.

ISV's scrambled to adapt and reseller executives struggled to adjust compensation plans to follow the money.

These influences change the scoring weight to be more favorable to SaaS ISV developers than the original scoring method presented and if your organization falls into that category add 3 bonus points to your score.

The other most influential factor is the dramatic impact of social media in the enterprise. For a great read on this subject look for "Enterprise 2.0" by Andrew McAfee who coined the term "Enterprise 2.0".

This is the most significant reseller and partner game changer I've witnessed in 30 years of Channel management; and is the primary topic of discussion at my LinkedIn Group – "Channel Society". All are welcome – join us!

If your organization has a "social media" strategy score 1 bonus point

If your organization has implemented two or more social media components (Blogs, Twitter, LinkedIn or Facebook business account) score 2 bonus points

If your organization is aware of Enterprise 2.0 strategies and you have invested personnel and cash resources in building an E2.0 site, score 5 bonus points.

I'm always happy to discuss your Channel vision and goals and encourage you to give me a call to discuss your score. Don't forget to download the .xls spreadsheet so we can analyze your results together.

Warm regards,

Ken Beam – The VAR-City