

Building Partner Loyalty in the Information Technology Industry

An Executive White Paper by



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1 Executive Summary

1.1 Key Insights

Competition in the Information Technology (IT) industry is tougher than ever, for both vendors and their Channel partners. Front Line Solutions initiated a major research study in 1999 to determine a) the current status of Relationship Management tools in the IT Channel, and b) whether vendor investments could lead to more loyal partner relationships.

The main conclusion is that the IT Channel is not very well equipped to effectively manage customer and partner relationships, but is ready to invest in better tools to gain a competitive edge. Bottom line: IT vendors and their partners must find new ways to add value while running an efficient operation.

Partner Relationship Management (PRM) systems can improve the selling process and reduce the cost of channel operations, providing benefits for Vendors and Partners. However, increased Partner loyalty could be the biggest benefit of all. Of the Partners surveyed in this study, 24% said that more effective relationship management tools would be a *major* factor in Vendor selection. And 75% of Partner write-in comments backed up this statistic with specific examples.

Channel Partners have much to gain from using improved PRM tools, but also need to take better care of their own customers. Partners currently use rudimentary Customer Relationship Management (CRM) tools, with Microsoft Office one of the leading solutions. Channel-specific CRM tools are not yet widely used, and neither are full-function CRM application suites. That's hardly a formula for long-term success, because customers are demanding more personalized and responsive sales and service.

1.2 Purpose of Study

Although the multi-billion dollar CRM market is growing 50% per year, until recently solutions have been primarily client/server-based and focused on the needs of direct employees and customers. In mid-1998, CRM vendors began a rapid migration to Web-based solutions, which provided a more effective technology platform to support Partners.

In the IT industry, channel Partners handle over 50% of the total IT market. Furthermore, Dataquest predicts that indirect channels will capture more than 76% of the total market for IT products selling for under \$100,000. Despite these impressive numbers, CRM tools have not been widely adopted in the selling process from: (a) IT Vendors to Partners -- such as Value Added Resellers, systems integrators, etc.-- and (b) Partners to the ultimate end customers.

This study was initiated in 1999 to answer four key questions:

1. What is the current state of automation to support partner and customer relationships?
2. Is Relationship Management technology an important competitive weapon?
3. Which are the most important requirements for Vendors and Partners?
4. Will IT Channel businesses invest in improving relationship management tools?

1.3 Survey Methodology

Front Line Solutions designed a research project following an IT Strategy methodology. The main principle is that technology investments should be made only if they will deliver significant business benefits. In other words, automation is a means, not an end. Also, current satisfaction is important because it will influence whether business executives will be motivated to change. The greatest propensity for change will occur when satisfaction is low and perceived benefits of an improved IT solution are high.

A Web-based survey was developed as the primary data collection device. Questions focused on the following areas:

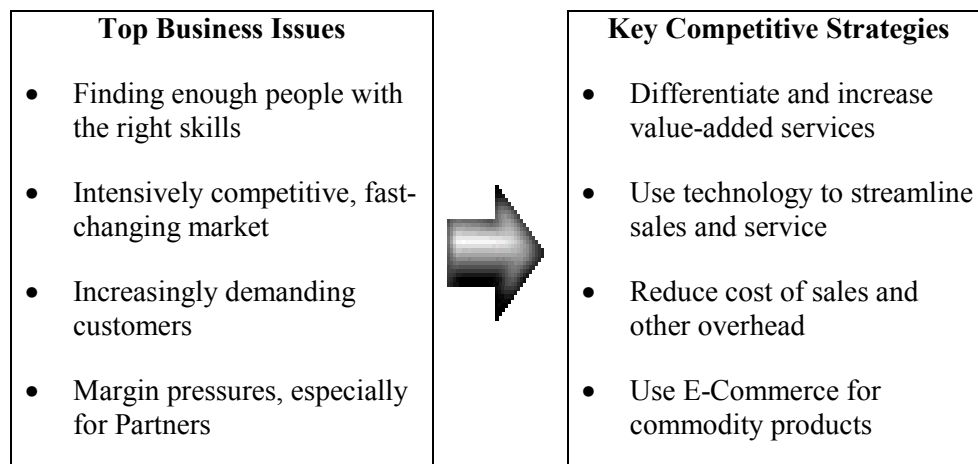
- the business environment and key strategies
- current automation tools in use, with satisfaction ratings
- the value of specific functions and features

Where possible, the same questions were presented to both Vendors and Partners to facilitate comparisons between the two groups.

Survey invitations were distributed widely throughout the IT industry, to get a representative sample of individuals in sales and marketing positions. Result: 499 qualified survey responses were secured from IT Vendors and Partners of all sizes and types.

1.4 Competitive Environment

As the diagram below shows, the top issues are about finding enough people with the right skills, and dealing with a rapidly changing, competitive environment where customers are tough to satisfy. Partners also continue to struggle with declining margins and bottom-line profitability. Key competitive strategies include building value through services and specialization, plus streamlining operations to reduce costs.



Most IT Vendors and Partners share the opinion that the rapid pace of technology change coupled with ever-higher customer expectations creates a most challenging business environment. Given the hype over E-Commerce, it is surprising that respondents considered it neither a major threat nor one of the very top strategies.

1.5 Current Satisfaction Levels

Is the IT Channel happy with the current state of CRM and PRM tools? Absolutely not -- 70% to 80% of all respondents did not give a satisfactory rating to tools used for marketing, sales, service, and E-commerce.

Partners typically use lower-level applications such as Microsoft Office or contact management software. Major reasons cited for dissatisfaction included poor ease of use, limited functionality, no solutions available, or insufficient business benefits.



Partners also use Web sites provided by Vendors and distributors, and while the picture is slightly brighter, 40% to 60% are still not satisfied. A few very large Vendors are lauded for effective channel Web sites, but many are criticized for ease of use problems and difficulty finding information. In fact, Partners say they waste an average of 6 hours per week on Channel Web sites!

Vendors also have serious concerns. Although some Vendors are using major CRM applications, most have deployed custom solutions. In general, these Channel Web sites don't enable Vendors to effectively manage and measure Partner relationships.

1.6 Major Requirements

As you can see from the requirements summary below, Vendors clearly want more channel management and measurement functions. Partners are focused on tactical issues needed to close deals and solve problems.

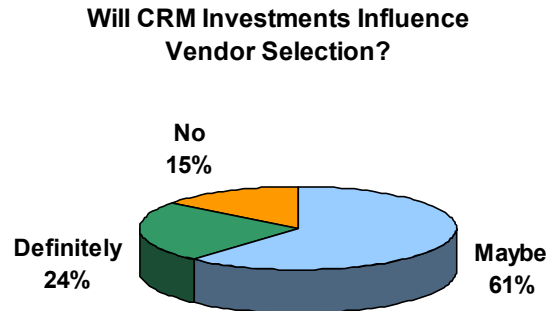
Vendors	Partners
<ul style="list-style-type: none"> • Opportunity management and forecasting • Market intelligence • Lead management • Marketing campaign management • Post-sales vendor support • Product information 	<ul style="list-style-type: none"> • Price and availability information • Post-sales vendor support • Training and certification • Configuration and quoting tools • Program and promotions information • Vendor pre-sales support

Vendors and Partners also have different opinions about how information should be distributed. Partners prefer email to the Web for information delivery by a 2:1 margin, while Vendors rate these approaches about equal. Partners also want better integration of information from multiple vendors and distributors into the Partners' quoting systems.

1.7 Impact of Relationship Management Tools

Nearly 40% of Vendors estimated CRM budgets of at least \$100,000. If invested to provide better automation tools to Partners, will it affect buying patterns? About one in four Partners said "definitely." The bottom line is that better service can lead to increased loyalty and market share. As one VAR stated in a write-in comment:

"It is mostly about time. When a customer is waiting to hear back, a clock starts ticking in my head. I try to get the information back as soon as possible...If a vendor has that information in an electronic form, that simplifies things for me. The end result is that vendor will get more business from me."



1.8 Keys to Success

To be successful, IT Channel businesses must first focus on key business opportunities and problems, and determine how Relationship Management tools will contribute. In other words, business strategy must drive IT strategy.

PRM solutions offer new hope that vendors can manage and measure the contributions of their partners. However, vendors must be careful not to focus too much attention on management control, which could have a negative effect on partner relations and in fact reduce partner loyalty.



Vendors should implement PRM solutions in phases, where the initial rollout is focused on adding value to partners and making the business relationship work more smoothly. Then, more rigorous management and forecasting processes can be deployed, which will improve the life of Channel managers. Earn loyalty first, then ask for something in return!

Vendors also should keep partners actively involved in the development of the PRM solution from the very beginning. Implement a continuous improvement approach and don't expect to have the perfect PRM solution in the first release, no matter what software package is used. Consider how your partners will use information from the PRM system and develop ways to integrate that information into the partners' internal systems.

Partners need to take more responsibility for their own destiny, and not depend solely on vendors for automation tools. Full-function CRM applications and Channel-specific tools are becoming more affordable, so partners should take full advantage of these solutions. General office software and contact managers will not be enough to help partners survive and prosper in the new Channel of the 21st Century.

2 Survey Demographics

2.1 Major Findings

This study was conducted via a comprehensive Web-based survey during March and April 1999. Over 50,000 survey invitations were distributed to IT industry contacts via direct mail, fax, and email. After removing invalid responses, 499 completed surveys were obtained from executives, managers, and professionals in the IT industry.

The majority of the 499 survey responses (54%) came from Partners, followed by Vendors at 42% and Distributors at 4%. Distributor responses will be included in the Vendor category due to a low number of responses. Like Vendors, Distributors sell to Partners who sell to the ultimate end customer, so this is an appropriate way to group responses.

The survey population reflects an excellent distribution of responses from IT vendors and channel Partners of all sizes and types, primarily with sales and marketing job functions.

2.2 Definition of Terms

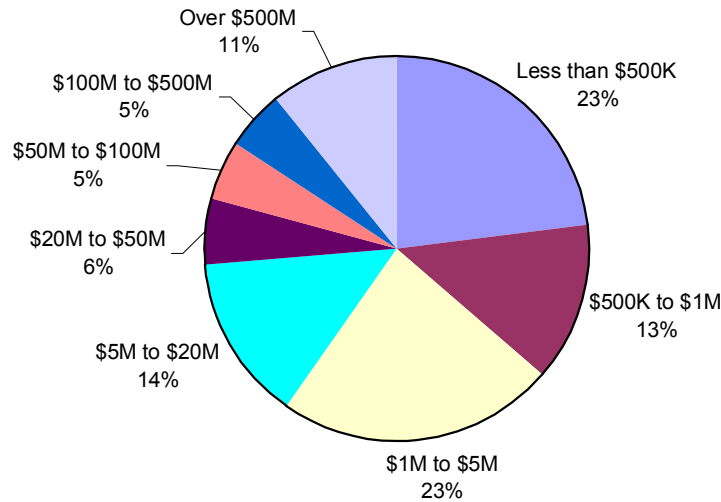
In this report, the following capitalized terms have specific meanings:

- **IT Channel** refers to the selling chain from technology vendors to distributors to resellers, integrators, etc.
- **Vendor** means the producer of IT products and services, which are then sold either direct to end customers or through Partners. For this study a distributor is also considered a Vendor because distributors generally do not sell to the end customer.
- **Partner** means an IT Channel business that takes computer goods or services from a Vendor and provides a solution to the ultimate end customer.

2.3 Partner Business Profile

Partners included VARs, dealers, integrators, and consultants. Since Partners are usually small- to medium-sized businesses, it's not surprising that 59% of the responses came from companies with \$5 million or less in annual gross sales. Still, 29 responses were received from Partners with gross sales exceeding \$500 million.

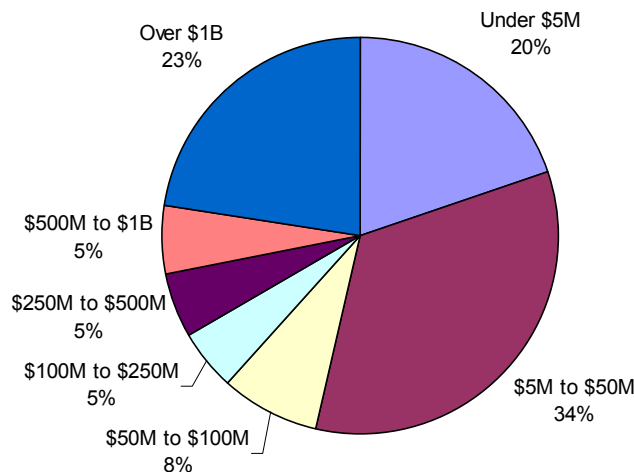
Percentage of Partner Responses by Gross Sales



2.4 Vendor Business Profile

Vendors included full-line computer systems companies, independent hardware manufacturers, software developers, and distributors. Although larger in absolute terms than Partners, Vendors also showed a concentration in smaller businesses. Over 50% of the responses were from Vendors with \$50 million in gross sales or less, including most of the independent software vendors. However, a healthy 23% of responses came from very large companies with over \$1 billion in gross sales. The largest computer manufacturers and most of the distributors populated this segment.

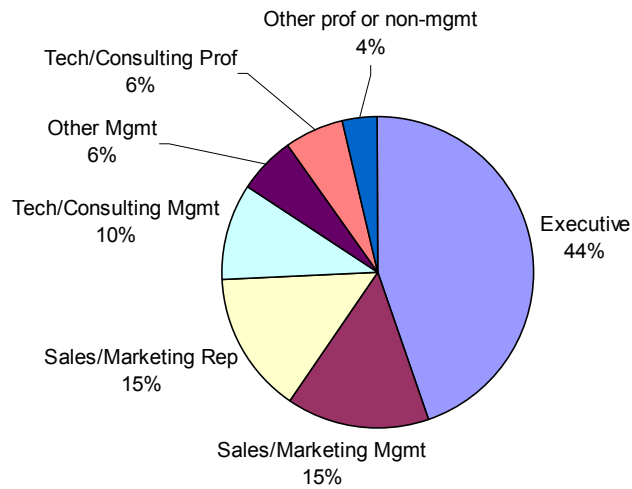
Percentage of Vendor Responses by Gross Sales



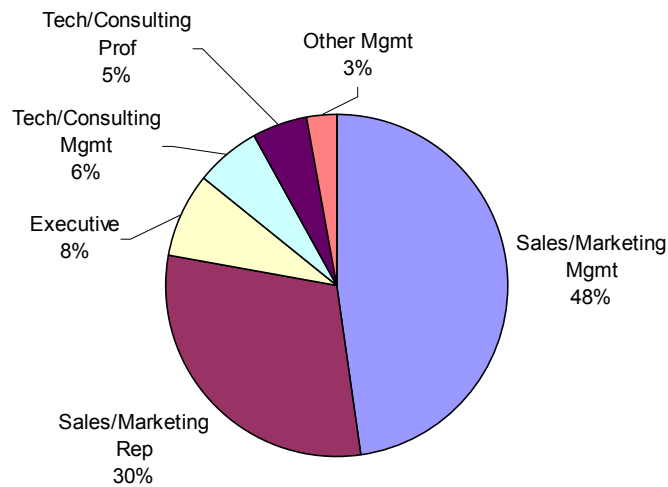
2.5 Job Function Profile

The majority of Partner and Vendor responses came from Executive and Sales/Marketing Management, reflecting the targeted audience of this study. Sales/Marketing Representatives also comprised a significant portion of the responses. Compared to Vendors, Partners had a higher concentration of Executive responses, and fewer Rep responses, which follows from the size differences of these businesses.

Percentage of Partner Responses by Job Function



Percentage of Vendor Responses by Job Function



2.6 Partners' Use of Vendors and Distributors

Most Partners represent a substantial number of Vendors. However, about 75% of Partner respondents picked just five brands as their primary and secondary hardware vendors, led by the house brand or "white box," Compaq, HP, IBM, and Acer. In software, Microsoft and Novell dominated the picture. For those Partners that buy from distributors, Ingram Micro, Tech Data, and Merisel were mentioned by 60% the respondents as either a primary or secondary distributor.

2.7 Vendor Sales Channels

Vendor respondents report that the primary sales channel is split fairly evenly between *direct to customer* and *indirect via Partners*. Partners are a strong focus for the secondary sales channel. The number of Partners used by Vendors varies widely, from less than 10 to more than 500. About 75% of Vendors have up to 500 Partners.

<i>Sales Channel</i>	<i>Definition</i>
Direct to Customer	Sells to customer via direct sales force, E-Commerce, catalogs, etc.
Distributor	Sells to business that resells to a Value Added Reseller. Does not sell directly to end customer.
VAR, Systems Integrator, or Manufacturers Rep	Sells hardware or software solutions to end customer. May purchase from vendors or distributors.
Dealer	Sells hardware and shrink-wrapped software in a retail environment.

3 Business Issues and Strategies

3.1 Major Findings

Partners and Vendors agree on most of the top business issues in the IT Channel:

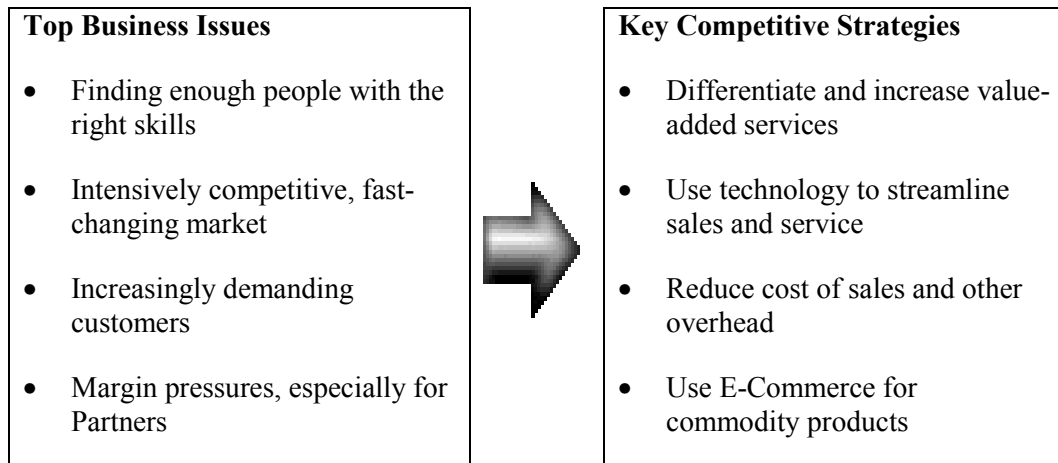
- Finding enough of the right people with the right skills
- Fierce competition, driven by fast-changing technology and increasingly demanding customers

Declining gross margins and bottom line profitability are top issues for Partners. Vendors are primarily concerned about competition from other Vendors, while Partners see competition everywhere -- from Vendors, Distributors, and other Partners.

Partners and Vendors also share a common view of the two main business strategies necessary to successfully compete:

- Differentiation by increasing value-added services, or by specializing on markets or technologies
- Streamlining operations by using technology in sales and service, or by reducing overhead

Vendors rated E-Commerce more highly as a competitive strategy than Partners. However neither group rated E-Commerce as a major threat or as a primary business strategy.

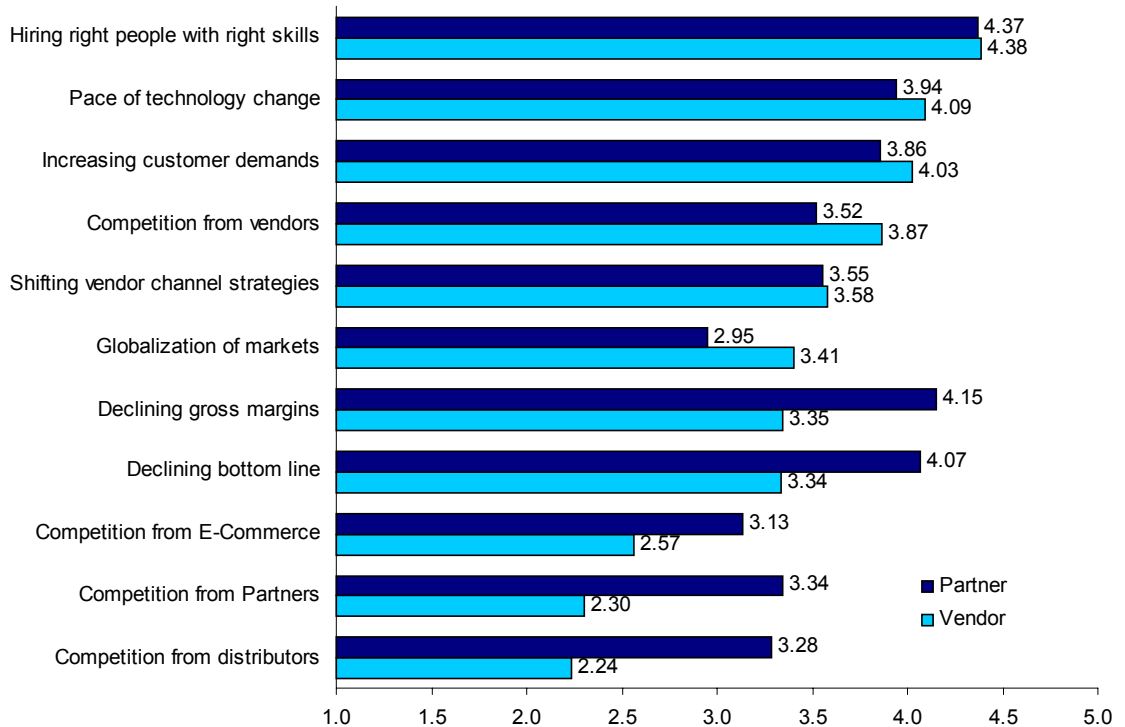


3.2 Business Issues -- Ratings and Ranking

Hiring the right people with the right skills is the #1 issue by a wide margin, with an almost identical score for Partners and Vendors. Other top issues shared by both groups include the pace of technology change and increasing customer demands. Partners are clearly more concerned about making money, reflected in the high scores on gross margin and bottom line issues. Vendors, on the other hand, see competition from Vendors as more important than Partners do.

<i>Business Issue</i>	<i>Overall Score</i>	<i>Overall Rank</i>	<i>Partner Score</i>	<i>Partner Rank</i>	<i>Vendor Score</i>	<i>Vendor Rank</i>
Hiring right people with right skills	4.38	1	4.37	1	4.38	1
Pace of technology change	4.02	2	3.94	4	4.09	2
Increasing customer demands	3.94	3	3.86	5	4.03	3
Declining gross margins	3.75	4	4.15	2	3.35	7
Declining bottom line	3.70	5	4.07	3	3.34	8
Competition from vendors	3.70	6	3.52	7	3.87	4
Shifting vendor channel strategies	3.57	7	3.55	6	3.58	5
Globalization of markets	3.18	8	2.95	11	3.41	6
Competition from E-Commerce	2.85	9	3.13	10	2.57	9
Competition from Partners	2.82	10	3.34	8	2.30	10
Competition from distributors	2.76	11	3.28	9	2.24	11

Business Issues

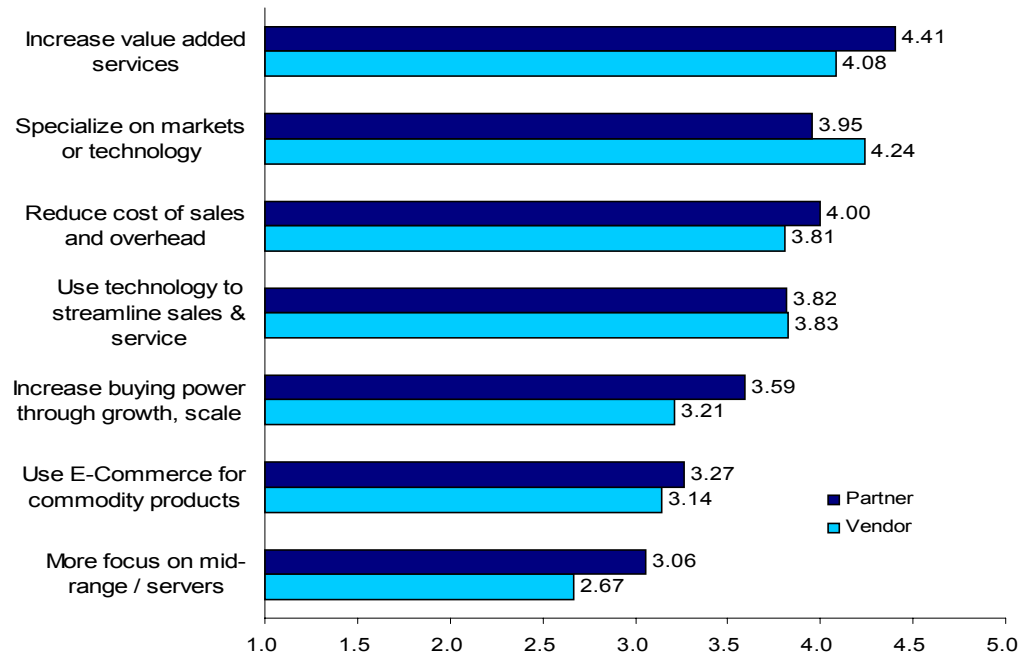


3.3 Business Strategies -- Ratings and Ranking

The top four business strategies showed that the IT Channel's primary focus was first on differentiation and then on streamlining and cost efficiency. The top two strategies are to increase value-added services and specialize in markets or technologies. Following closely behind in the third and fourth positions are reduce costs and use technology to streamline sales and service (i.e. CRM). Strategies of moderate importance are increasing buying power through growth and using E-Commerce for commodity products. The respondents did not rate more focus on mid-range or server products as an important strategy.

<i>Business Strategy</i>	<i>Overall Score</i>	<i>Overall Rank</i>	<i>Partner Score</i>	<i>Partner Rank</i>	<i>Vendor Score</i>	<i>Vendor Rank</i>
Increase value added services	4.25	1	4.41	1	4.08	2
Specialize on markets or technology	4.10	2	3.95	3	4.24	1
Reduce cost of sales and overhead	3.90	3	4.00	2	3.81	4
Use technology to streamline sales & service	3.82	4	3.82	4	3.83	3
Increase buying power through growth, scale	3.24	5	3.59	5	3.21	5
Use E-Commerce for commodity products	3.20	6	3.27	6	3.14	6
More focus on mid-range / servers	2.86	7	3.06	7	2.67	7

**Business Strategies
Ranked by Overall Score**



4 Automation Profile and Satisfaction

4.1 Major Findings

At best, IT Vendors and Partners have only partially implemented automation for marketing, sales, and service. Partners lag behind Vendors in E-Commerce, but neither has made extensive use of this technology yet.

The vast majority of Partners are using Microsoft Office for automation, while Vendors tend to use custom applications. Many Partners and Vendors also use contact managers. Full-function CRM applications are used more often by Vendors than Partners. Approximately 40% of Partners have E-Commerce in production or pilot status, usually with custom or in-house developed systems.

Overall satisfaction ratings are low. Only 20% to 30% of all respondents gave a satisfactory rating ("4" or "5") for automation tools. Clearly there is much room for improvement in the tools that the IT Channel uses for marketing, sales, and service automation, and E-Commerce.

4.2 Current Automation Tools and Infrastructure

Nearly 70% of Partners report using Microsoft Office for CRM purposes. Contact managers and groupware applications are also popular. Specialized applications for computer resellers are not widely used by Partners, and neither are full-function CRM applications. Only 28% of Partner respondents report E-Commerce in production.

Most Vendors, on the other hand, are using custom applications. CRM application suites, contact managers, and Web-based solutions are also notable.

Partners generally have Web sites that were developed in-house. Dial-up remains an important way to connect to the Internet, with over one-third of Partner respondents connecting at 56K BPS or less.

Vendors' Web sites also tend to be developed in-house, and are more likely to include database-driven pages than Partners' web sites. Vendors enjoy faster Internet connections; only 17% of users connect at 56K BPS or less.

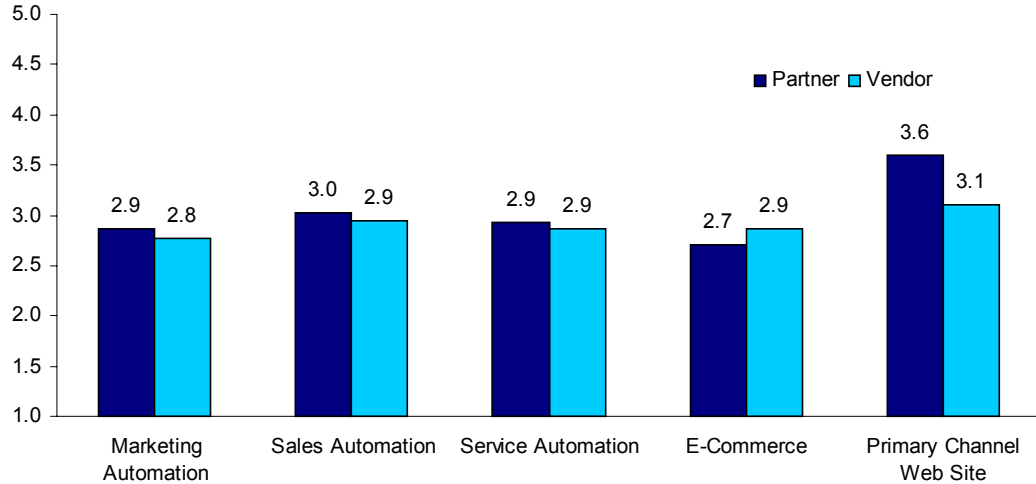
4.3 Satisfaction Ratings

Both Partners and Vendors gave low satisfaction ratings to marketing, sales, and service automation, with average scores ranging from 2.8 to 3.0. E-Commerce was rated at this level by Vendors and slightly lower by Partners. For these four areas, 70% to 80% of the respondents failed to award a satisfactory rating. The primary channel Web site was given a better average rating by Partners. Vendors rated their channel Partner Web site much the same as other forms of automation. An analysis of write-in responses revealed some common issues:

- Sales and Service Automation: implementation issues was the #1 problem, along with limited functionality and ease-of-use problems.
- Marketing Automation and E-Commerce: no solution available was the top complaint, followed by the same issues mentioned above.

- Channel Web Site: Vendors are dissatisfied with partner management functions, and Partners feel many channel Web sites are hard to navigate and waste an average of six hours per week.

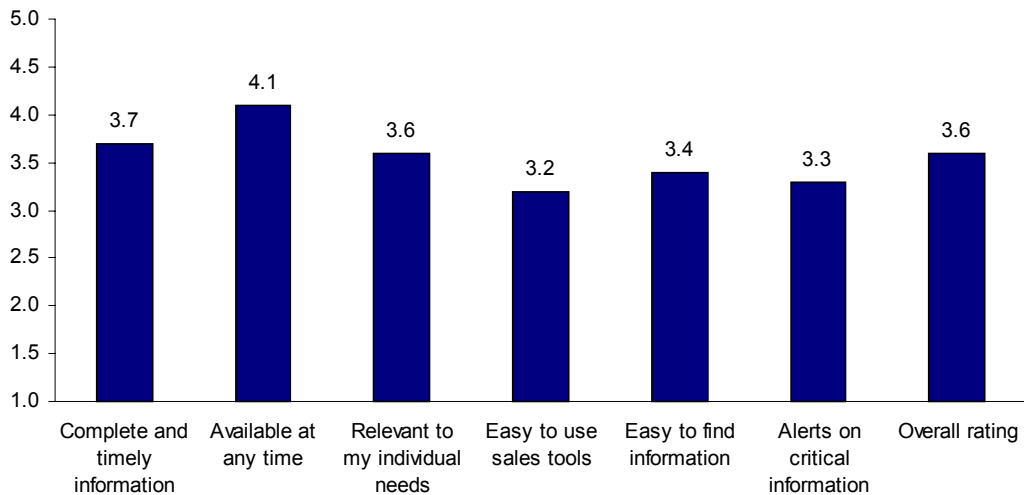
Average Satisfaction Ratings



4.4 Channel Web Sites

Partners rated their primary channel Web site on several characteristics, and gave the top ratings to "available at any time" and "complete and timely information." Ease of use and communicating critical information via alerts could stand some improvement. Partners made positive comments about Cisco Systems, Ingram Micro, and Tech Data. Compaq, Merisel, HP, and Microsoft got mixed reviews. Partners claim they waste an average of 6 hours per week doing excessive surfing on channel Web sites.

Partner Rating of Primary Vendor Website



5 Requirements

5.1 Major Findings

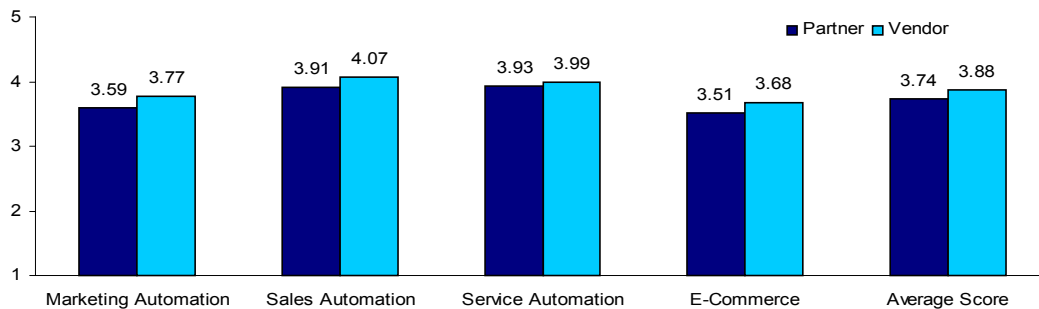
CRM tools were given high importance ratings by the respondents, averaging nearly a "4" on the scale of 1 to 5, where 5 means "Extremely Important." Vendor ratings tended to be slightly higher for sales and service automation, and E-Commerce. The top two ratings ("4" or "5") were given to CRM tools by 50% to 70% of the respondents.

The gap or difference between importance and current satisfaction is significant. If you recall from Section 4, average satisfaction levels are about a "3" on a scale of 1 to 5, with only 20% to 30% of the respondents giving a satisfactory rating to CRM tools ("4" or "5"). A gap of this size indicates a high-priority opportunity. The biggest opportunities are with sales automation for both groups, and with marketing and service automation for Vendors.

What then are the top requirements for improving customer and partner relationships in the IT Channel? In general, Partners want tactical support and proactive communications to help close more business and service customers. Partners also want information from Vendors and distributors to be better integrated into Partners' quoting and sales automation systems. Vendors are looking for better tools for Channel management, such as lead and opportunity management, forecasting, and campaign management. Major requirements and ratings are summarized below.

Vendors	Partners
<ul style="list-style-type: none"> • Opportunity management and forecasting • Market intelligence • Lead management • Marketing campaign management • Post-sales vendor support • Product information 	<ul style="list-style-type: none"> • Price and availability information • Post-sales vendor support • Training and certification • Configuration and quoting tools • Program and promotions information • Vendor pre-sales support

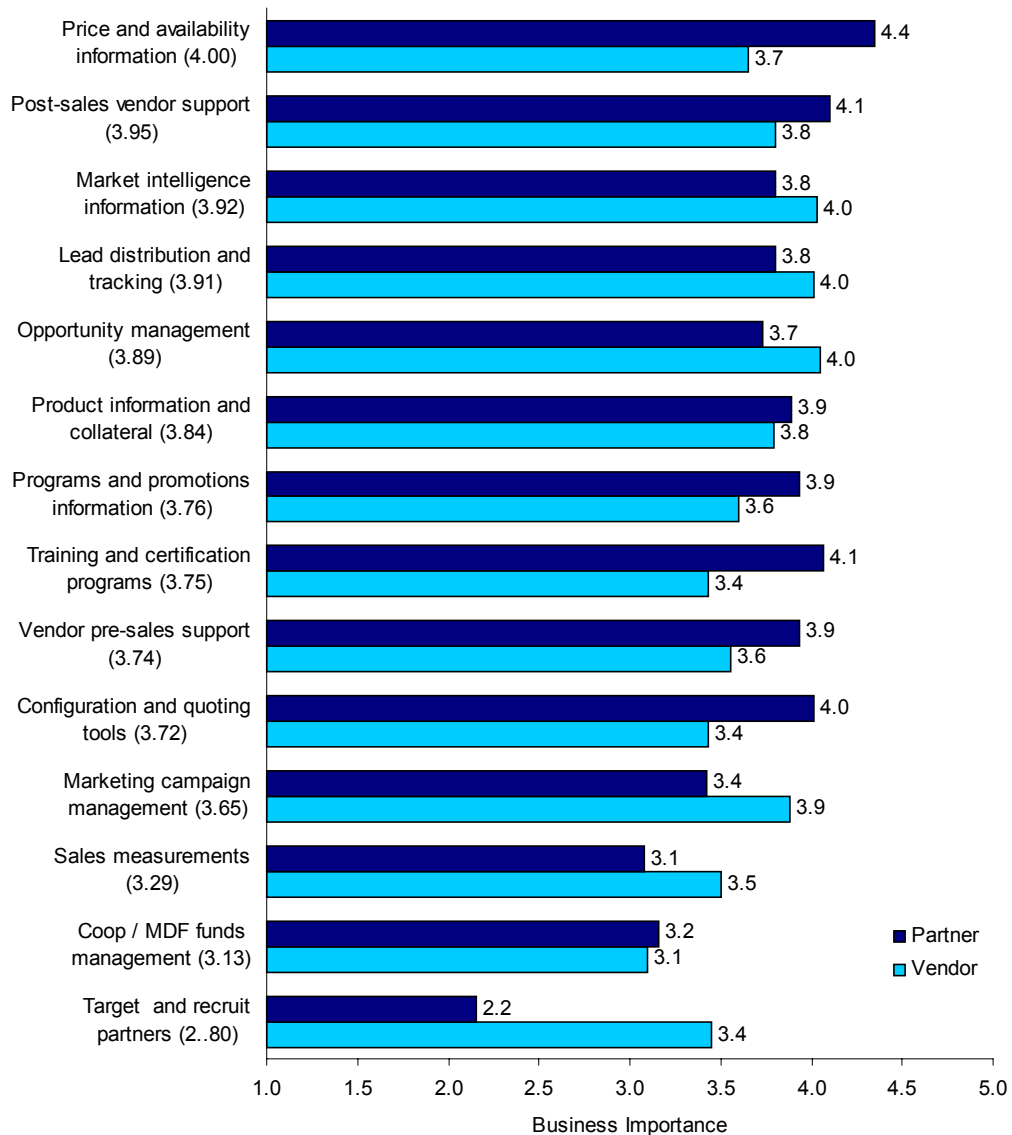
Average Importance Ratings by Function



5.2 Requirements Ratings and Rankings

Partners and Vendor rated a list of 14 requirements on a scale of 1 to 5. This chart shows a comparison of Partner and Vendor ratings of 14 different requirements. The order is based on an overall rating determined by equal weighting of Partner and Vendor scores. The general tendency is for Partners to give higher ratings to tactical support and information needed to close business or service customers. Vendors, on the other hand, value management and measurement functions more highly than Partners.

Functions Ranked by Overall Importance to Business



6 CRM and Channel Partner Relationships

6.1 Major Findings

The IT Channel is ready, willing, and able to invest in better tools for Relationship Management. The major findings in this section are:

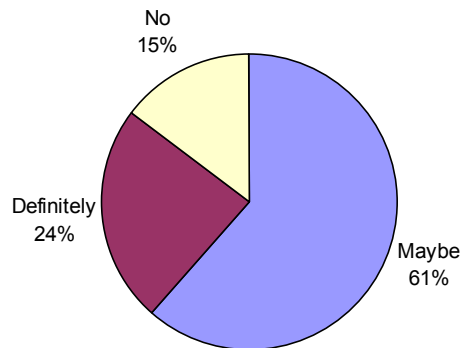
- Vendors that invest wisely in Relationship Management can have a major influence on Partner relationships. Nearly 1 in 4 Partners responded that "significantly better" automation tools would "definitely" influence Vendor selection. Write-in comments strongly support that sentiment.
- Both Partners and Vendors plan to spend money on CRM automation. Approximately 50% of Partners have annual budgets exceeding \$20,000, and 55% of Vendors have budgets over \$50,000 per year.
- Vendors currently have a preference to build Channel Web sites using in-house resources, but appear open to consider other alternatives such as packaged solutions or outsourcing to a service provider.
- Partners feel that Vendors and Distributors should make a strong contribution to funding automation programs.

6.2 Influence of CRM Investments on Vendor Selection

Partners were asked the following question: *"Would your company shift business to a vendor or distributor that provided significantly better CRM tools than its competitors?"*

Nearly one in four responded "Definitely -- major factor in our company's vendor or distributor selection." Another 61% responded "Maybe -- minor factor in our company's vendor or distributor selection." Only 15% said "No -- little or no effect in our company's vendor or distributor selection." About 75% of Partner write-in comments said that better automation tools makes Partners more loyal to Vendors.

**Will CRM Investments Affect Vendor Selection?
Partners' View**



7 About Front Line Solutions

7.1 Bob Thompson Biography



Front Line Solutions is a Silicon Valley-based independent consulting firm specializing in Partner Relationship Management (PRM). Services include PRM consulting and cutting-edge research, such as the landmark studies on *Relationship Management in the Information Technology Channel* and *ePartner2000 Best Practices*.

As the industry's leading consultant and evangelist for PRM, Bob is frequently quoted in industry publications such as *InformationWeek*, *ComputerWorld*, *Computer Reseller News*, *Sales & Marketing Automation*, and *Sm@rt Reseller*. He also speaks regularly at industry conferences and writes extensively for channel- and CRM-related publications. Bob is the editor and publisher of the popular PRM newsletter *ePartner Insights*, and is the founder of *CRMGuru.com*, which has over 8,000 members worldwide as of March 2000.

Bob is a Board member of the Northern California Chapter of the CRM Association and is an associate member of CompTIA, a computer industry association. He earned a Bachelor's degree and an MBA from the University of California, Irvine.

7.2 How to Get the Full Report

This white paper contains highlights from Front Line Solutions' landmark *1999 Research Study on Relationship Management Tools in the IT Channel*. A license to distribute this white paper has been granted to OnDemand Inc. Reproduction and/or distribution by other parties is not authorized.

The complete report details the study's findings and conclusions in 75 pages and over 100 charts and tables. Major sections include: executive summary, demographics of survey participants, business issues and strategies, satisfaction ratings of current automation tools, requirements analysis, and impact of relationship management tools on partner loyalty. For more information, visit the Front Line Solutions' web site at www.frontlinehq.com or contact Bob Thompson at bob@frontlinehq.com or (650) 343-8529.