The New Enterprise Applications: Channel Management

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Executive Summary

Indirect sales channels have been growing in importance and complexity for enterprises in a number of industries. Yet due to limited automation, the management of indirect channels has not kept pace with that growth—leading to significant loss of revenue and profit. This report looks at how a new generation of channel management software is enabling firms to get a better handle on the portion of their business sold through indirect distribution channels.

Among the findings are the following:

- **New channel management solutions** are typically SaaS-based, transactional systems that incorporate channel sales data and specialized, application-specific analytics.
- **Channel management impacts** sales, finance, marketing, HR, and operations departments, and a key role for the solution is to provide a single and consistent set of channel data across these functional areas of the enterprise—as well as out to external channel partners.
- **The new channel solutions** thus typically augment and/or integrate with existing ERP and sales or CRM applications and data. They provide another piece in the mosaic of the more readily deployed and updated cloud applications that are gradually surrounding and superseding the massive and monolithic, on-premises, legacy ERP systems.
- **Often they replace piecemeal**, spreadsheet-based analyses of less timely channel sales data painstakingly produced by separate staffers across multiple departments. Large organizations may also have implemented a slow and costly business analytics/data warehousing approach in-house, while smaller companies may have simply gone without a baseline aggregation of this fundamental business data.
- **Line of business executives** typically initiate and drive the acquisition of channel management solutions. But like the blind men and the elephant, individual business executives may see and consider only their departments' use of channel data—not realizing how critical it is that the same, current, and consistent data circulates through all the functional organs of the enterprise animal.
- **With the right vendor and system evaluation**, companies can increasingly find quick-to-implement channel solutions that conform to the new enterprise applications architecture—and minimize the vendor lock-in of legacy systems.

Introduction

RISING COMPLEXITY

Globalization, coupled with the availability of new technology, has led enterprises to build an array of indirect sales channels. Product companies, especially, have established intricate, multi-tiered, distribution channels. Their channel partners can include manufacturer's reps, distributors, dealers, and resellers in geographies that overlap both domestically and globally. These product companies have also created a dizzying array of sales incentives, and their discounts and pricing have grown ever more complex. Actual product sales must be carefully tallied before the company can know the net effective price, discount and profit. Financial reporting and other compliance rules also increasingly require this level of inventory, revenue, and customer data tracking.

CHANNEL MANAGEMENT SYSTEMS HAVE LAGGED

However, management of the indirect sales channel has lagged. This has been due in large part to limits in data collection, reconciliation, and analysis throughout the organization. While companies have invested heavily in supply chain automation, they have likely invested less significantly in distribution channel automation. (CRM and sales automation have better addressed direct sales channels.)

MOVING BEYOND THE ERP LEGACY

Few large organizations are yet ripping out and replacing their core enterprise technology root and branch. But they have found high-value areas in which to augment and improve upon the functionality of their legacy systems with new cloud-based technology. Salient examples of these new enterprise applications include Salesforce in sales and CRM, and Workday in human resources (HR). For a growing number of companies, channel management is becoming another such area.

THE TECHNOLOGY SECTOR IS AN EARLY ADOPTER

With total global consumer electronics sales estimated over a trillion dollars[1], and total worldwide enterprise IT sales at approximately $3.2 trillion[2], well over a trillion dollars of tech are sold through channels each year (the remainder are direct sales).

[1] "CES 2015: Tepid Growth Expected in Tech Spending," by Troy Wolverston; San Jose Mercury News, 1/4/15

[2] "Gartner Says Worldwide IT Spending on Pace to Grow 2.4 Percent in 2015," Gartner.com; 1/12/15

Given the value and complexity of their products, it is not surprising that tech manufacturers—including semiconductor, component, and configured systems providers — have been early adopters of new solutions.

IMPLICATIONS FOR THE OTHER INDUSTRIES

Channel management technology can be expected to spread to more vertical-market sectors.

This will likely occur through a combination of:

- Early enterprise partnerships that are with specialized channel management vendors,
- The development of off-the-shelf solutions that are optimized for different industries,
- Integration of solutions through industry-specific VAR channels and The development and/or acquisition of new channel management technology by the leading incumbent enterprise technology vendors.

Business and IT executives in all industries, however, can look at channel management as an example of how an advanced solutions architecture can minimize and transcend internal IT burdens. It can obviate the need for further investment in rigid legacy systems, and further the implementation of a modular, “post-ERP”, enterprise systems architecture.

Channel Ineffiencies

Channel inefficiencies primarily arise from two sources of failure:

1. Late, incomplete, inaccurate, and inconsistent channel data

2. Late, incomplete, inaccurate, and inconsistent analysis of channel data.

The impact of these failures is pervasive through the enterprise, as well as in communications with channel partners. Typical inefficiencies include:

- Over or under supply of inventory within the channel;
  Errant payouts on channel incentives related to product sales;
- Suboptimal pricing, incentive offers, market forecasts, and product planning;
- Vulnerabilities in financial reporting and other compliance requirements;
- Poor channel and channel sales relationships from slow payments and otherwise unresponsive support.

OVER AND UNDER SUPPLY OF INVENTORY IN THE CHANNEL

Suboptimal inventory levels through the channel can significantly impact revenue and profitability:

- Too much inventory creates unnecessary costs, degradation of pricing, and more product that is likely to be returned unsold.
- Too little inventory causes the direct loss of sales when product is out of stock, as well as reduced perception and reliance on brand—from distributor to dealer and end customer.

ERRANT PAYOUTS ON CHANNEL INCENTIVES

Error and overpayment on various incentives and commissions arise when sales are incorrectly booked. Losses may come from incomplete and inaccurate data, accidental or fraudulent bookings, channel partner to channel partner inventory transfers, or multiple bookings of sales. Estimates of 10-15% in overpayments[3] of channel incentives are common, resulting in millions of dollars in pure margin erosion each year for large tech vendors.

[3] "Improving the ROI of Indirect Channel Incentives," Accenture; 2014

SUBOPTIMAL PRICING, INCENTIVE OFFERS, MARKET FORECASTS AND SALES PRODUCT PLANNING

Lack of visibility into sales, inventory, and pricing information undermines the ability to optimally price and incentivize sales. Limited visibility also makes it difficult to devise the most advantageous marketing focus and efforts, and leads to poor sales forecasting and planning—which leads to problems up the production line.

FINANCIAL REPORTING AND OTHER COMPLIANCE VULNERABLITIES

Different industries have different compliance requirements. Technology firms, for example, face stringent constraints on certain countries and companies that they cannot legally sell to—including through their channel partners. All publicly-held firms have increasingly challenging revenue recognition requirements (Sell-through vs. Sell-in, GAAP vs. IFRS, etc.). And many industries have strict audit and recall tracking rules.

Fines and other penalties make the meeting of compliance laws an absolute, rather than optional, cost of doing business.

DELAYS IN PAYMENT AND RESPONSIVENESS TO CHANNEL PARTNERS

Manufacturers are in perpetual competition with their rivals to sustain the goodwill, focus and sales attention of their channel partners. Companies that better keep optimal inventory in the channel, make quicker payouts, and have more useful collaborative tech systems have the advantage. Likewise, firms that make quick and accurate commission payouts to their channel sales reps are better positioned to retain their internal sales talent.

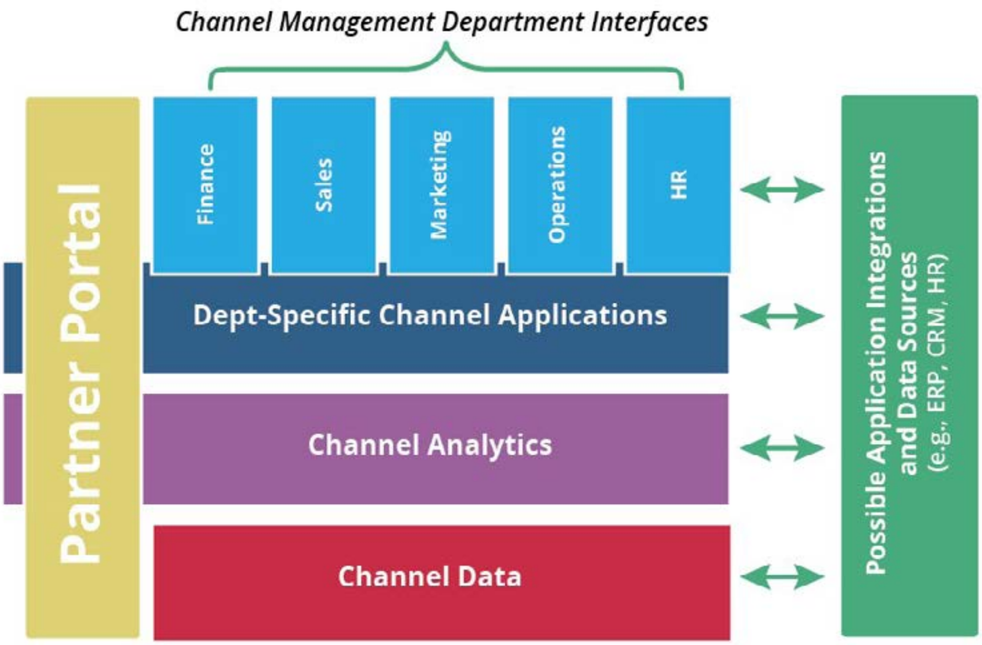
New Channel Management Solutions

The new generation of solutions makes use of cloud/SaaS design. Complete solutions offer specialized sales, marketing, financial and operational functionality that can be accessed via a choice of partner and departmental interfaces. Integration options are available for potential ERP, CRM and other application data interchange.

Figure 1 depicts the data-through-interface technology 'stack' for channel management. The layer of channel analytics between the basic channel data and ultimate departmental applications is critical. It applies spiff, commission, inventory, and other information to the underlying data so a consistent, value-added data set feeds into department-specific applications further up the stack.

Figure 1

Channel Management Technology Stack



Source: Independent Industry Research

Key functional elements of this flow include the following:

1. **Receipt of timely, automated data (POS, inventory, claims, etc.) from distribution partners.** This can come from automated EDI feeds, email updates, or other forms of partner data, with a process for looped-back error correction.

2. **Data cleansing and reconciliation within the channel data component of the system.** This includes cross-checking the data from multiple distribution tiers (e.g., distributors and resellers), tracking of components that have been assembled for value-added sales, reconciliation with known customers and distributor and reseller locations and often global geographic territories, and tagged attribution for compensation and incentive programs such as sales commissions and rebates.

3. **Additional enterprise application data.** Product and customer-specific data from ERP, CRM, HR or other enterprise applications may also be added into the channel data and analytics portions of the solution in order to determine profitability, availability, market demand and other factors.

4. **Additional computation of channel data.** Further calculations range from the independent determination of inventory and validating ship and debit eligibility all the way through calculating commission splits, credits for MDF funds, staff commission payments, validating claims and sales forecasting and planning models. These applications and analytics are often two-tiered: first involving the full manipulation of the general data set, and then splitting off into additional function- and department-specific calculations and analyses (e.g., human resources processing on commissions).

5. **Collaboration with Partners.** Critical to distribution partners is the portal or interface for their access to relevant results of the channel analytics, such as computed commissions or MDF credits. This includes front-end approvals of various channel incentive and opportunity registrations. At the back-end, it includes workflows to make claims and resolve disputes.

6. **Department-specific access to applications analytics.** This can come directly from a channel management solution portal or dashboard, integration through another application for analysis within that application platform interface for access and manipulation through that interface (e.g., Salesforce within the sales department).

7. **Closing the loop with ERP Systems.** Appropriate information e.g. credit memos, sales attainment records and journal entries are fed back to the ERP system to close the loop on various financial workflows.

With this architecture, higher levels of channel data and analytics can be maintained and managed within a discrete channel management stack—only to be integrated with other applications and enterprise access points as required and at the lowest stack level required. This design is vital to the enterprise for both business and technology purposes.

BUSINESS ADVANTAGES TO THE NEW CHANNEL MANAGEMENT ARCHITECTURE

For business purposes, this architecture offers several advantages. Access to channel partner data can be carefully controlled within the organization, given only to those employees that need access, at the level of specificity needed.

For example:

- Sales needs precise pricing and commission information;
- Marketing needs appropriated aggregated sales data for sales forecasting and product plans;
- HR needs commission payment information;
- Finance needs credit memos, debit memos, reserves, journal entries, and auditable global accounting.

By contractual agreement, partner sales data may be proprietary to that partner alone. In these situations, the enterprise must guard the specific end-customer data from reaching its own direct sales force, which could exploit it unfairly. For example, market data may only be provided to marketing in an aggregated form that meets the department's forecasting and planning needs.

A layered and integrated channel management solution assures that all departments are working from a consistent and accurate set of core data. But only that data which is required and permitted is made available to any particular department in the organization.

Because of SaaS delivery, line-of-business executives can choose theirown solutions. After implementation, they can request specific changes of the vendor directly. The IT department is involved for compliance, security, and other checks—but seldom needs to add change requests to its backlog of projects.

TECHNOLOGY ADVANTAGES TO THE NEW CHANNEL MANAGEMENT ARCHITECTURE

For technology purposes, this SaaS-based delivery model enables data quality and consistency that leverages third-party efficiencies and economies. Also, inter-application integrations can be both minimized and implemented at the highest feasible level of processed data.

For larger firms, there is a minimization of the ongoing data warehousing and analytics overload within the typical IT department and the elimination of slow and resource-intensive application development in-house. The requirement for expensive and hard-to-recruit data specialists is minimized by the use of modular channel analytics from the external vendor. With SaaS delivery, this capability can augment current, on-premises ERP systems, rather than requiring further investments in dated and expensive legacy systems.

Implications for the Enterprise

Not only tech manufacturers, but also other manufacturers with a similar reliance on channel distribution should examine the potential for increasing revenue and reducing costs as well as liability with an advanced channel management solution.

APPLICATION ACROSS DEPARTMENTAL AND FUNCTIONAL AREAS

By addressing common channel inefficiencies, a fully deployed solution may have significant impact across finance, sales, marketing, operations, international offices, and even HR departments. But implementation is likely to start within the sales and finance departments, with a gradual rollout to other areas.

Beyond revenue and other profit gains, a full channel management solution will likely lead to employee cost savings. Many organizations have employees manually tracking and crunching channel data within each department. These positions may be eliminated or redeployed within the company to perform higher-level functions. In some cases, immediate staff savings may more than offset the SaaS subscription costs.

Consistency of data used across departments can also lessen interdepartmental haggling and improve working relationships within an enterprise or between an enterprise and its distribution partners.

NOT FOR EVERYONE

New channel management solutions are not for everyone. Some large enterprises may have in-house developed, ERP customization, special-purpose business intelligence (BI), or other relevant applications already deployed. This could lessen the short-term imperative to bring in a new solution. Other companies may be using industry-specific distribution software or services that already meet at least some of their channel management needs. Smaller, privately held, domestic-only or primarily direct-sales companies may have less incentive to implement a channel management solution.

Market Options

An effective solution requires integration from the channel data and analytics layers through to department-specific applications. Vendors in the market may primarily provide channel data, departmental applications—or a combination of the complete stack:

- Pure channel data vendors focus primarily on data collection and cleansing;
- Specialized channel management vendors combine channel data with varying degrees of integrated channel analytics and departmental channel applications further up the stack; and,
- Traditional ERP vendors may have some departmental application modules as an option within their larger systems, but they do not tend to have specialized, channel data and analytics—or purpose-built departmental applications which fully leverage these feeds.

On its own, a traditional ERP component is likely closer to a partner marketing management capability, commonly called partner relationship management (PRM), which provides an important but different function. Some traditional vendors may patch in feeds from pure channel data vendors for something of a combined channel stack, but the lack of integrated applications can be limiting.

CHANNEL DATA VENDORS

Pure channel data vendors provide simple data aggregation and cleansing. They provide either no, or only very limited, channel analytics. ParsePort and Budde Marketing Systems are two such firms. Because these firms address only the lower layer of the channel management solution stack, companies are still left to cobble their own solutions together for the specialized channel analytics, department-specific applications, and full partner collaboration.

SPECIALIZED CHANNEL MANAGEMENT VENDORS

Specialized channel management vendors tend to be SaaS providers. Examples of these firms include ChannelInsight, Entomo, Zyme, and Model N. Among the broader class of enterprise SaaS challengers, these firms are relatively well established, with each having more than a decade of history. They are relatively small and mostly privately held. This group of firms has typically built its business by selling into mid-sized or large technology companies.

These vendors may be differentiated by their level of service and responsiveness to their enterprise customers and/or by the level of channel analytics and department-specific applications that they have layered onto the channel data capabilities:

- They may have differing service delivery models, with more or less centralized service models, and higher or lesser skilled staff at initial point of client contact.
- Some of these channel management vendors are still primarily focused on the channel data and base-layer channel analytics, while others also incorporate a full suite of additional channel applications.
- Additionally, these vendors may have differing capability levels for handling complex workflows such as design or deal registration.

These vendors are likely to offer options for their own, as well as Salesforce interface integrations. At this point there may still be something of a tradeoff between full analytics access with the vendor's own interface, and a more refined, intuitive, and widely installed interface via Salesforce. Over time, there will likely be less difference between the options, as Salesforce-like interfaces become more common.

TRADITIONAL ERP VENDORS

SAP and Oracle, for example, have some channel management capabilities as add-ons to their ERP offerings. A large enterprise is likely to have legacy SAP and/or Oracle ERP systems on site, and a mid-sized company is likely to have an SAP, Oracle or other ERP system installed.

These traditional vendors typically have some capability to integrate external channel data feeds. However, these systems generally do not yet include what would be considered a modern channel data or full channel management solution. Often a time-consuming and costly customization is required to implement full channel management. This implementation may well take months to years, rather than the weeks to months required of a full SaaS solution.

Many mid-sized to large enterprises additionally have developed spreadsheet (and perhaps some ad hoc database) solutions within various departments. There, analysts typically perform rudimentary, requisite, channel analytics functions slowly and by hand. As a result, disparate data sets are often developed within each department. A large firm may also have developed a BI and/or data warehouse solution.

As the traditional ERP vendors build out their next-generation SaaS solutions—and to some degree update their traditional products—they are likely to develop or acquire full, modern solutions. The timing of such acquisitions and rollouts is, however, uncertain. (Salesforce.com could also develop a complete offering, although the company's current systems are not as optimized for heavy transaction processing.)

Vendor Evaluation and Selection

Among the considerations in evaluating a channel management vendor are:

- What solution best meets the needs of my enterprise?
- What are the key attributes of the channel management vendor?
- Does the solution satisfy my company's architecture and directional lock-in concerns?
- What best practice and other process improvements come with the solution?
- Is the solution SSAE 16 SOC 1 Type 2 compliant and does it otherwise meet compliance needs?
- Does the product satisfy needs for scalability, ease of integration, services and support?
- How agile is the vendor's solution in terms of meeting evolving channel needs?

NEEDS OF THE ENTERPRISE

A channel management solution should serve all the departments that use channel data and analysis. Comparative evaluation of vendor offerings begins with the listed product capabilities and claims of those vendors. As with any enterprise technology selection, a vendor that appears to meet the requirements should be asked to demostrate its capabilities with a demo or a pilot using real enterprise data. This is especially important for an enterprise with complex configured products or other complicated processes.

KEY ATTRIBUTES OF A CHANNEL MANAGEMENT VENDOR

Whether an enterprise looks to a specialized channel management or traditional ERP vendor, and whether implementing a single- or multi-vendor solution, the choice of provider is often as important as the choice of product. Among the considerations:

- How much of a priority is vendor responsiveness?
- What kind of flexibility do I need?
- How easy is the vendor to work with?

These attributes may affect how well the system will work, what future capabilities can be added, and how many in-house resources are required to work with them.

More scattered, lower level, and less responsive service can cost an enterprise significant time in vendor management, as well as significant costs from suboptimal operations or from the impact of inconveniencing and irritating channel partners. Midsized companies may be more pained by the staffing costs and larger companies by the poor operation of the system in the field, but vendor service performance is critical for all SaaS channel solutions. Also, a company that is difficult to work with may make it difficult to move away from once an initial three-to-five-year SaaS contract is up. A vendor should be able to provide a clear path and processes to assure the smooth transfer of data to a new supplier, should that time come.

It is therefore important during the vendor evaluation process to get a clear and detailed picture of where and how what service contacts, with what levels of expertise, will be directly working with the enterprise account for every foreseen purpose—from partner support to system failures and the rollout of new capabilities.

One critical step is to check case studies and get introduced to reference accounts. Vendors should be asked not only for current reference accounts, but also for customers that have opted not to continue with that vendor. Such due diligence can provide a more complete picture of actual product viability and service levels.

ARCHITECTURE AND DIRECTIONAL LOCK-IN

Few enterprises have an interest in needlessly multiplying the number of IT vendors or systems which they need to interact with and support. Thus, most enterprises will assess the capability of the providers of their related ERP, CRM, sales, HR and BI applications, perhaps among others, to provide portions of the functionality required.

Even incumbent vendors should be asked to demonstrate via pilot that they can handle the data, analysis and performance parameters required for channel management. This may involve a multi-vendor solution, such as an outsourced channel data option teamed with one or more channel analysis module. A key part of any such demonstration should be how the vendor handles auditability of transaction processing and any manual adjustments or modifications—such as reconciliations, payouts or journal entries. A “black box” data feed approach is not sufficient.

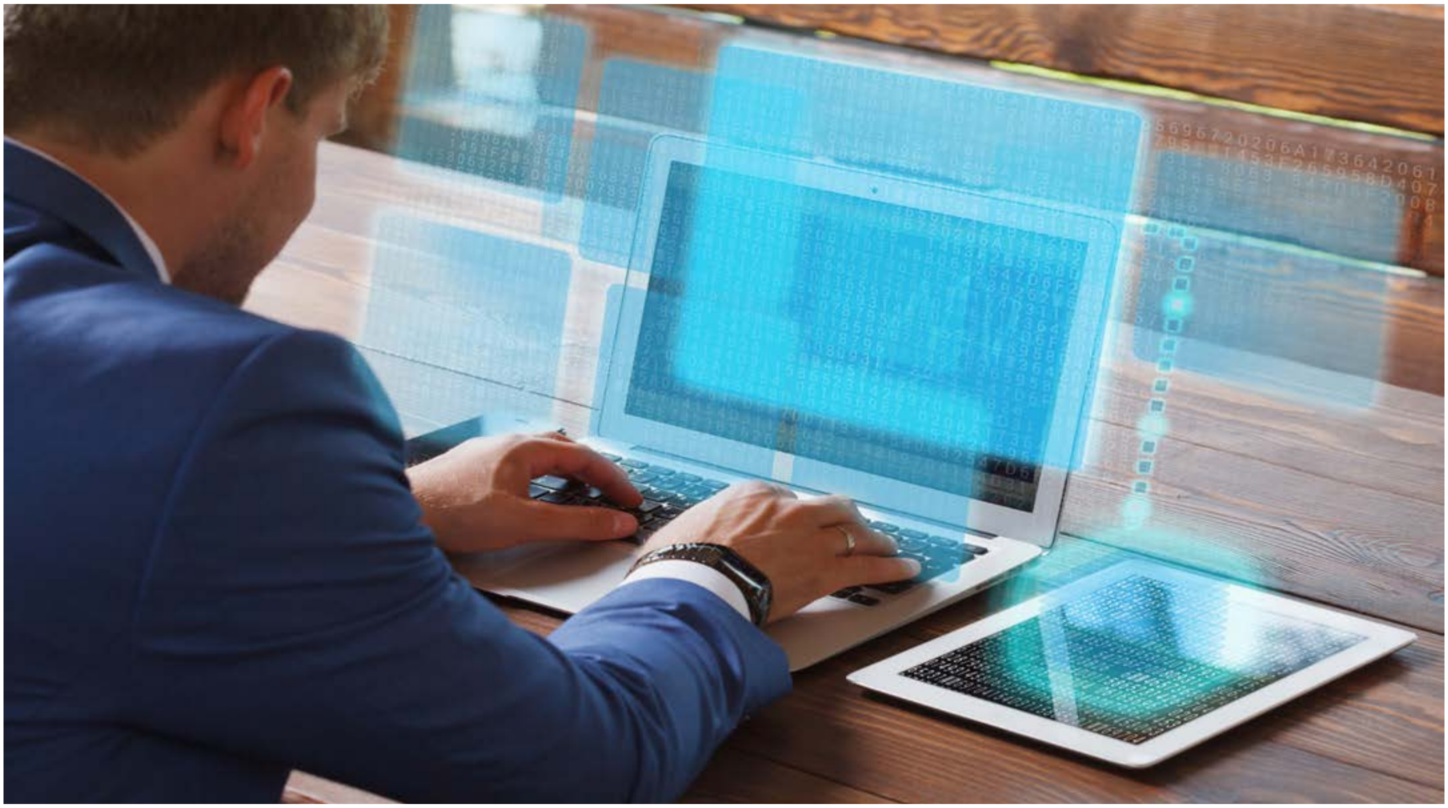
Regardless of whether a traditional or a specialized channel management vendor is selected, few enterprises want to further entrench the omnibus, on-premises ERP solutions they may have installed currently. Thus, the benefits of mix-and-match, more readily upgradable or replaced, SaaS solutions may appeal to an enterprise looking to cap its dependence on legacy systems.

ADDITIONAL ORGANIZATIONAL CONSIDERATIONS AND INVOLVEMENT

An executive or manager within a single department (e.g., sales, finance or marketing) may first recognize the need for better channel management, and will likely lead the evaluation and acquisition of a solution. Yet, the consideration and informal or formal involvement of representatives of additional departments that could gain from such a solution may lead to a better choice of products for the enterprise—as well as the leveraged advantage that comes from broader adoption within a company.

There tends to be a pattern by which solutions are implemented within a firm, starting with the basics of getting access to POS data that is both more timely and accurate than what has been available previously, as well as a basic layer of channel analytics. Then, depending upon the needs of the enterprise and what alternative solutions may have already been developed within a BI system, the enterprise will likely adopt more department-specifics analytics and applications over time.

Because of this broad enterprise nature, the initial decision-maker and department driving the vendor and product selection would do well to consider not only inter-departmental needs, but also the higher-level analytics that different departments will require over time. Even with one department, though, savings and gains may justify the solution before other departments are prepared to get involved. Given compliance and reporting requirements, as well as the potential savings from revenue leakage, the finance department should be involved in any new channel management decision, as well as IT.



Future Developments

The following are some likely directions for the future development of channel management systems. Such considerations may help an enterprise planning a channel management solutions roadmap:

- The technology will be more widely used as more firms determine that the combination of improved short-term management and ROI gains justify adoption, and that the advantages of SaaS delivery provide insurance against technology and vendor lock-in.

- Channel Management will expand beyond its current technology sector base, though in some sectors it will be enhanced, privately labeled, adapted for the vertical, and incorporated within larger solutions such that its use will not be as transparent.

- While compliance drives some implementations today, compliance requirements will continue to rise—and drive more use--as the technology becomes more widespread.

- Channel partners will adopt front-end solutions that minimize their need to log in to different systems for different suppliers. Such systems will help to similarly manage products from smaller suppliers that have not incorporated their own solutions.

- Additional analytics and applications will continue to add increasing value across the enterprise. More, and more refined, analyses will be added to channel management solutions as the economies of software-as-a-service enable providers to develop new capabilities.

- Enterprises that currently implement channel management as 'table stakes' for working with channel partners will start to seek differentiation with those partners by offering additional services and capabilities through their systems.

- In keeping with the direction of the market, some traditional ERP and CRM vendors will look to incorporate complete, SaaS-based products. These vendors may build, private label, and/or acquire SaaS solutions and companies in order to expand their offerings.

- The efficiencies of narrowly focused, SaaS-based, channel data and analytics will be replicated in more applications, as enterprise IT evolves beyond its legacy ERP systems.

- As with other technology providers, channel management vendors will be differentiated—and eventually win out—according to the breadth, quality and responsiveness of their service, as well as by the specific capabilities of their software.

About Laura Stuart

Laura Stuart is a principal analyst providing **Independent Industry Research** reports and consulting to technology vendors and to IT industry research and online media companies. She covers a broad range of enterprise technology areas, including executive strategy, technology-driven business change, IT and business alignment, and various enterprise application and services areas. She looks at new cloud, data and mobile technology in ERP, CRM, security, social media, and other applications and services.

She has previously worked as an analyst with International Data Corporation, in roles from senior analyst to director of computer and communications research and the international offices for The Yankee Group, as CEO for Stuart Research, and with numerous firms on a consulting basis, including Gartner Group, Meta Group and GigaOm Research. She holds a bachelor degree in English and History from the University of New Hampshire and an MFA in Creative Writing from Emerson College in Boston, where she also studied at the Berklee College of Music and which launched her on her side interest of writing and composing for musical theater.

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