`

Measuring Partner Ecosystem Health

Managing for Sustainability and Productivity in the Channel

ABSTRACT

Health of the partner ecosystem is more than a rollup of individual partner scorecards, although, there is definitely a relationship between how your program enables individual partners and the cumulative outcome. Ecosystem health is dependent upon many factors that can be captured in a balanced scorecard model. Metrics should inform you how to make meaningful changes to your ecosystem to optimize the health, sustainability, and profitability of your partners.

Norma Watenpaugh

Measuring Partner Ecosystem Health

Measuring Partner Ecosystem Health

Managing for Sustainability and Productivity in the Channel

First, What is an Ecosystem?

I recall the first time I spoke about a *"partner ecosystem"* in 1999 to my boss, a long time direct sales manager. He looked at me like I was a tree hugger. Today, we all talk about our partners collectively as an ecosystem; yet there are many ways to interpret what this means. To some it means a defined set of partners who comprise a specific solution, such as a solution stack for cloud computing or Internet of Things (IOT). Others refer to the larger community of partners and partner types that provide services (SIs and MSPs), technology innovation (ISVs), or transactional support (Distys, VARs, and Affiliates) to a company's suite of products, or all of the above.

Each ecosystem will be as unique in terms of 'health' as they are unique in terms of what value they bring to your customer value proposition. That is where you start to define what is meant by health: how effective is the partner ecosystem in delivering value to your customer aligned with the strategic objectives of the ecosystem i.e. the reason you invested in partnering to begin with.

For purposes of this article, we focus on the channel ecosystem, although many of the principles here can be extended to other partner ecosystems. The diagram at right depicts the alignment of your corporate and channel strategy with the design and execution of your channel program. Metrics should be actionable and reflect whether you are achieving the objectives set out by the strategy as well as the performance of each individual partner. Health of the ecosystem is more than a rollup of individual partner scorecards, although, there is definitely a-relationship between how your program enables individual partners and the cumulative outcome. And of course there should be a feedback loop. Metrics should inform you how to make meaningful changes to your program and channel strategy to achieve your goals.

To understand the health of your channel ecosystem, you should answer the following questions:

- Is the channel achieving the strategic objectives of your company?
- Is the customer experience improved through the partners?
- Is the channel sustainable and driving the expected ROI?
- Are the channel partners profitable and experiencing strong growth?
- Are partners satisfied with their relationship with your company or are they looking for alternatives?

Let's address these questions through a proven and time-tested discipline used by many companies in evaluating performance: the balanced scorecard model. The balanced scorecard looks at performance through both outcomes and leading indicators. Strategic Health and Financial Health are outcomes of healthy Channel Operations and Relationships, which are leading indicators.

Strategic Health Metrics

What strategic objectives you are trying to achieve through your channel? Here are frequent objectives behind the channel strategy for many companies:

Access to geographic markets. It is often faster and more cost efficient to leverage a partner network to access new geographic markets than trying to build your own network of direct sales operations worldwide. Many companies will recruit the local heroes in a geography. They are familiar with the local business conditions and regulations and they have existing relationships with a customer base.

Vertical specializations or expertise. Partners can also bring vertical expertise to the table. Again they bring existing relationships and often deep expertise in the industry business processes and challenges. They are able to position your products and services in the language of the vertical industry and add value unique to the needs of the specific industry.

Small & Medium Business (SMB) coverage. It is difficult and expensive to reach the SMB segment through any way besides the channel. The SMB market requires vertical specialization and local relationships and it is widely dispersed. SMBs also want a trusted advisor that can bring turnkey solutions to their business.

Trusted advisor to customer requirements. Many businesses don't have and don't want to build out technical expertise; they want to focus on their business. They want a partner to advise them on the turnkey solutions that will add value to their business. They want the partner to keep them aware of emerging technology especially those that may prove disruptive to their business.

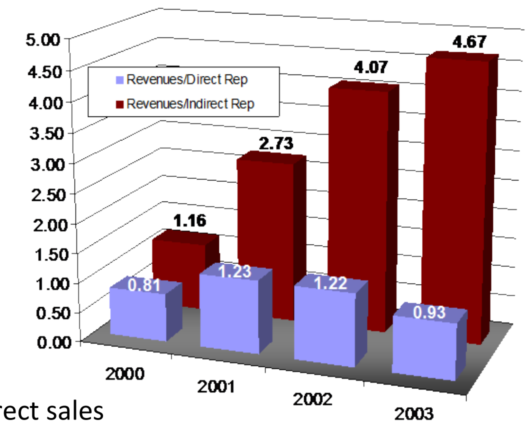
Support and professional services. Channel partners provide critical pre-sale services in customer requirements, scoping and bidding solutions and post-sales service related to configuring, installing, provisioning, training and change management. Many offer managed services to offload customer's workloads.

Migrating to the cloud. Many companies are confronting the challenges of moving their business to the cloud and a recurring cost/revenue model. Channel partners can assist these customers through the journey. And vendors are assisting their channel partners in making the transformation as well.

Depending on how you define your channel strategy, you should choose metrics that will give you insight on how you are achieving these goals. How are you making an impact on the business? Financials are of course a key indicator of channel success. While you will no doubt be measuring your revenue by sales territory, also look at how you are generating revenue against your strategic goals. If a key objective is penetrating the SMB market, then you should be tracking how your revenue in this segment is growing. If you are trying to penetrate a vertical market, then you should be tracking that. The composition of the revenue is key.

Financial Health Metrics

Most organizations have a robust revenue reporting model that slices and dices revenue by geography, by territory, by sales rep, by partner. They will also have the operational metrics behind revenue production well rationalized. While a healthy channel will generate revenue and revenue growth, it is also important to look at the financial metrics that indicate financial health. Are you profitable through your channel? Are you achieving a sufficient ROI? Are your partners profitable? Do they consider the ROI on investing in your company to be acceptable compared to your competitors?



Channel Efficiency. Companies often build channel ecosystems because they are more logistically efficient and cost effective than a direct sales force. An analysis of revenue productivity at one software company measured revenue per direct sales representative against revenue per channel representative. See diagram at right. At the onset, revenue per rep was around $1M for both direct and indirect. At the end of four years, the direct sales organization was still producing about $1M in sales per representative. But the indirect reps were producing over $4.5M per rep.

Profitability. While a healthy ecosystem will be producing and growing revenue, it must also be profitable for you and your partners. Another large software vendor spent a considerable amount of money on a partner satisfaction survey to discover that the happiest partners were the most profitable. Go figure. But a healthy, sustainable ecosystem does generate profitable partners. It is imperative to understand the economic model of your partners, how they make money from your product or services, and if they are achieving an ROI on your business that will keep them loyal to you and selling productively.

Partner profitability is bigger than just the margin equation and varies by partner. It includes the financial impact of your partner incentive discounts and back end rebates, but could also include MDF/Co-op. All these can have a material impact on your partners' profits and yours. Also look at other revenue streams related to your product and services. For many vendors, especially for cloud services, VARs build revenue streams from managed service, consulting and API extensions. Service attach rate is often a key metric in determining whether VARS are operating a profitable business around your offer.

Growth. If you are operating in a fast growth market, be sure to do a sanity check on your rate of revenue growth versus the rate of market growth in your product and service space. You may be growing revenue at a rapid rate, but you would be deceiving yourself with respect to your real growth if your sales are growing at a lesser pace than the market overall.

Revenue Concentration. Don't overlook revenue per partner as an indicator of how productive your ecosystem is. What is the concentration of revenue in the top producing partners? Most channel programs follow an 80/20 Pareto rule. The top 20% of the channel produces 80% of the revenue. In fact, it is not uncommon to see that the top 10% produce 90% of the revenue. That would imply a lot of untapped capacity in your channel. How much more revenue could you drive if you could better engage the next 10% or 20%. How much more effectively could you achieve your strategic objectives with more partners engaged?

Operational Health Metrics

Operational metrics are the levers and knobs that you can manipulate to impact the strategic and financial outcomes. These are sometimes known as Key Performance Indicators (KPIs). These metrics give you the insight on how to optimize performance to your objectives and are often structured around the partner lifecycle experience. Managing the partner's experience from end to end will enable you to understand how partners engage with you and where you can make a difference in supporting them from first contact to productive revenue generation and growth.

Relayware, a leading Partner Relationship Management provider, cites that "partners who are well nurtured during the first 6 months stay with the vendors who actively engage and nurture the relationship, and these partners go on to deliver higher performance for longer periods.

Onboarding. One of the leading best practices is to gamify the onboarding and enablement process, so that positive feedback (tangible or intangible) is provided at each step and a call to action to keep the partner's attention through the process. Doing so accelerates their ramp to revenue Managing this process takes a good understanding of how to measure progress through this process, such as:

How many existing partners have completed the onboarding process?
How many did not? Where did they drop out?
How many completed training? Certifications? Specializations?
How long does it take to complete the onboarding/enabling process?
What is the average time to 'first deal'?
Are some incentives and feedback mechanisms more effective than others?
What do your top 20% of performers do differently through this process?

Program Effectiveness. Once a partner has been onboarded, what other activities engage them and keep them active in promoting your products and services? How are you measuring and managing those activities to achieve your objectives?
Typical programs include MDF/Co-op and associated marketing campaigns, deal registration, joint business planning, and an array of rebates and incentives. Each of these should be looked at in terms of:

How many partners are using each of them – not just authorized for them?
What is the business impact of these programs? For example, are partners proactively generating more leads and more business through the marketing campaigns?
Are the MDF dollars generating leads? Are they good leads? Do they result in sales? Is the cost for every sale valuable, when you think of how much you spent on MDF and the final sale?
Can you show an ROI on each program?
Are the programs serving your partners as well?

Partner locators that actually generate leads are a great relationship builder and they can be leveraged in a way to keep partner contacts fresh. Run incentives to encourage partners to update their customer facing page, which includes updating their company information. Track:

How many leads are generated and distributed to partners through the locator?
What are the most frequent searches made by customers?
Can you report back to partners how many times customers are searching the locator and how many time they have shown up in a search to keep their interest in maintaining their profile?
How frequently have partners updated their company information?
How many contacts have they registered in the database?

Partner Engagement. Level of engagement is indicated in program usage as described previously, but also in how attentive they are to your communications. Engagement can be measured operationally and optimized by understanding the response. Look at metrics such as:

How many visits to your portal? How many partners and unique visitors do they represent?
What pages do they visit and for how long will tell you what information is of most value to them.
Do they open, click-through on your newsletter or respond to alerts?
Do they respond to missions by completing tasks like downloading a white paper or clicking on a video?

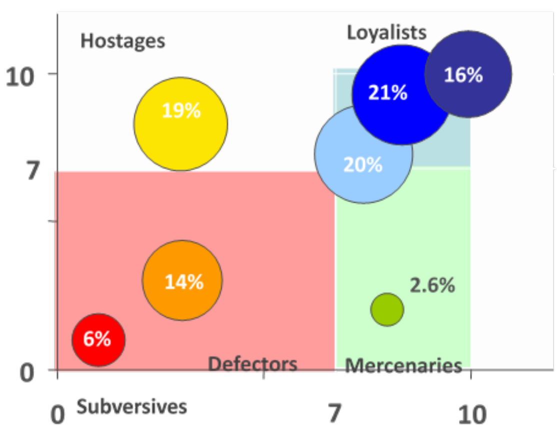
Engagement is key to building loyalty with your partners and will reflect in relationship health. These are building blocks to driving revenue. Ultimately, you will want to show the relationship between increased engagement and increased revenue.

Relationship Health Metrics

Strong partner relationships are key to *your* success. A solid relationship underlies how partners engage and subsequently invest in your business. Many businesses do a partner satisfaction survey. We recommend a more sophisticated form of partner health survey, called the Apostle model to gauge loyalty, because it is more actionable.

In the Apostle model you map partner health on the X-axis as indicated by partners on a scale of 1-10. On the Y-axis you map loyalty.
Health is the response to the question "How healthy is your relationship with Company ABC?
Loyalty is the response to the question "How likely are you to continue to do business with Company ABC?

You will see in this example that respondents fall into four quadrants. Loyalists rise to the top right quadrant. These partners are more likely to continue to do business with you and view that they have a healthy relationship. These true-blue partners are further segmented into different states of loyalty. The upper most bubble is the most important. These are the Apostles. The partners you can count on to be highly productive and actively promoting and selling you in the marketplace. The other loyalist segments are those that are low hanging fruit, where by just a little more TLC is likely to yield high gains.



In the lower right quadrant, you will note the Mercenaries. They believe they have a good relationship but are not very loyal. As the term Mercenary label connotes, they may be very price sensitive and likely to move to a competitor if they perceive an immediate advantage. Do not be lulled into a false sense of comfort, if you have only a few mercenaries. Keep in mind that even the most loyal of partners need to be competitive and profitable.

In the lower left quadrant, "here be dragons": Defectors and Subversives. You may never be able to move everyone in this quadrant. Worst case, they are vocal in the community and can spread their disaffection, so it is important to understand their perspective so that you can address them.

Hostages are those partners who will continue to do business with you even though they are not very happy: it's a forced loyalty. Often this quadrant can reveal key differentiators in the business. In one survey we conducted, we found through a correlation study that hostages remained with the vendor because the vendor had the best solution for multi-currency transactions, but they were unhappy with integration support. By understanding the underlying reasons, the vendor was able to address the problem and in the next year increased the overall partner loyalty by 13% and decrease the Hostage population to less than 10%.

Instrumenting the Channel

Once you define the right set of metrics to determine the health of your ecosystem, you need to baseline where you are today and measure incremental changes as you enhance and improve your channel operations. One of the challenges facing many partner organizations, is that they lack the tools for gathering data, analyzing it to understand what drives ecosystem health and monitoring incremental impact of changes to optimize channel performance.

For example, one channel organization found that partners who completed training were growing at a faster rate than their peers. They also found that the number one benefit channel partners sought was qualified leads. By tying lead distribution to training, they created a virtuous cycle of rewarding partners who made the training investments and drove revenue production by giving those partners the best leads.

Big data is becoming a staple of understanding the customer experience and it also evolving to be critical in understanding the partner experience. If you have not yet made this investment, you will soon find that your competitors have. They will be able attract the best partners through a superior partner experience, better support the partner business model and profitability, and deliver stronger value proposition to the customer.

Summary

One number doesn't tell it all. If you are gauging the health of your ecosystem, through revenue only, then you are trying to manage performance using a rearview mirror. Revenue is a lagging indicator and won't provide insight into whether you are achieving strategic objectives or what are the 'levers and knobs' that enable you to make meaningful changes to optimize ecosystem health, profitability, and sustainability. Rely on the proven balanced scorecard model to be sure you are measuring all inputs to the health equation: Strategy, Financials, Operations, and Relationship.

Metrics must drive action. Metrics are just numbers until you take action. Don't get lost in generating metrics that don't inform you of what are the best actions to take. Be sure you can baseline your starting point and can measure incremental improvement as you optimize your operations.

Invest in infrastructure. Are you still using spreadsheets to collect data and analyze your performance? That's so last century! A modern channel ecosystem requires a modern approach. Invest in the channel management systems that enable you collect meaningful data and invest in the analytics that help you understand the trends and impact of your decisions.

Call to Action

Can you answer the questions posed early in this article?

Is the channel achieving the strategic objectives of your company?

Is the customer experience improved through the partners?

Is the channel sustainable and driving the expected ROI?

Are the channel partners profitable and experiencing strong growth?

Are partners satisfied with their relationship with your company or are they looking for alternatives?

If you have this level of clarity, CONGRATULATIONS! You are among the very few that have a good handle on managing the health of your ecosystem. If you struggle with answering them, give us a call. We would be happy to discuss your challenges and guide you through a journey to a more sustainable and profitable partner ecosystem.

About Phoenix Consulting Group

Founded in 2002, Phoenix Consulting Group LLC (www.phoenixcg.com) is a management consulting firm focused on best practices in collaborative business models. We have served many Fortune 500 companies as well as start-ups to grow their business through collaborative business relationships. Prominent clients include Amazon.com, Adobe Systems, Century Link, Cisco Systems, Dupont, Intel, Lilly, Microsoft, Nationwide Insurance, PayPal, SAP, and UPS.

Phoenix Consulting Group is recognized as the premier consulting organization for strategic partnering in the Silicon Valley region. We stay on the forefront through active leadership in advancing standards in collaborative business practices and professional certification. Phoenix Consulting Group has been invited to deliver Alliance Skills Mastery and Best Practices Workshops on five continents: Europe, Asia, Africa, North America, and Australia as companies worldwide realize the importance of collaboration in today's global economy.

Our consulting associates combine strategic perspective with practical professional experience. We have been in your shoes, leading partner organizations and accountable for results. We can offer actionable recommendations that have real world impact.

About the Author

Norma Watenpaugh, principal of PhoenixCG, is an acknowledged industry expert in partnering best practices and has had extensive experience in partnering, alliances and channel development.
She has built bootstrap partner programs in startup environments and has scaled those programs to handle the needs of large enterprises with thousands of partners, leveraging hundreds of millions of revenues. Her corporate experience includes executive positions at Sun Microsystems, Amdahl Corp. and BEA Systems, where she launched the acclaimed Star Partner Program.

She is a Global Board Member of the Association of Strategic Alliance Professionals and former chair of the association's Best Practices Committee. She currently leads the US Delegation to the ISO 11000 Collaborative Business Relationship Standard and was named a Top Woman of Influence in Silicon Valley in 2015. She is a frequently requested speaker at industry conferences and workshops. Norma has a B.S. in Physical Sciences from the University of Nebraska, Regent's Scholar and an M.B.A. from Santa Clara University.

Norma Watenpaugh, CSAP | Phoenix Consulting Group, LLC | CEO & Founding Principal
Phone: 1-888-848-9514 | **Direct:** 1- 408-848-9514 | **Mobile:** 1-408-888-4511
Email: normaw@phoenixcg.com | **Site:** www.phoenixcg.com | Phoenix Rising **Blog**

Silicon Valley Woman of Influence – Business Jounal
Board Member - Association of Strategic Alliance Professionals
US Delegation Leader - ISO-11000 Collaborative Business Relationship Mangement Standard