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Integrating Channel Sales with Direct – Infrastructure Issues

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Once a company chooses a two-tier distribution model to access potential or current resellers and VARs, a number of other decisions must be made. Everything the company does from this point on triggers key decisions on corporate infrastructure, receivables, channel relationships, internal politics, marketing budgets, sales compensation and other considerations. This article will briefly review some of these, including sales infrastructure, operations and finance.

Infrastructure: Before starting a two-tier plan, companies must decide how to manage their distributors. On the infrastructure level, the company can place account managers in charge of their respective distributors, or hire new people who already have relationships with the proposed distributors. These moves may entail decisions on hiring, staffing, support staffing and training prior to calling on one distributor. The company must also decide sales compensation issues in advance. Does it compensate out-of-territory sales reps for sales by the distributor into their geography? Does the company switch all compensation to “named accounts” models? These important decisions will determine the direction of the sales organization for a long time, possibly years.

Resolving disputes: When changes are introduced into a sales channel structure, they can quickly trigger conflicts with direct selling folks. Businesses should have a plan for adjudication of disputes regarding customer ownership (who gets to call on and manage specific customers). Senior management must also set clear rules of engagement on how leads are distributed, so the direct side of the house doesn't “cream” all the trade show and marketing leads. Protecting against turf wars is best accomplished in advance. I typically see a lot of lobbying by various direct and channel sales forces around this one, and it can create a lot of bad blood.

Operations: The shipping department may start working with pallets instead of single boxes. Possibly they used to send two or three items at a time, and now need to send box quantities only to a reseller. Sales and operations must discuss this advance. Otherwise, sales and marketing will build pricing policies and shipping policies together, and dump them on the desk of operations. Bad idea.

Accounting and finance: Adding a tier has a huge impact on aging of receivables. Many distributors have special payment terms with their resellers, and that affects net payments to vendors. Sales must negotiate in advance with the CFO or the finance department on payment schedules with distributors. They must gather support from the internal pricing committee and accounting/finance. Much of good channel management is simply educating internal stakeholders in advance about the channel. Channels will operate more smoothly if internal support is established. Channel folks who don't enlist and involve accounting and finance are the long-term losers.

Revenue recognition: Some folks walk into a contract negotiation with a potential distribution partner without knowing how their CFO feels about opening orders, volume commitments, volume incentive rebates and the like. That's one reason why deals blow up after the sales people leave the distributor's office: nobody on the channel side cleared policies in advance. In fact, you had better discuss revenue recognition and its impact post-Enron, no matter what side of the house you're on. If you are with a public company, you must be clear on how to treat orders, payments, stock rotations and especially returns. The best channel folks will circulate copies of proposed contracts in advance to legal, accounting, finance and executive management. It just makes things so much easier downstream.

Reseller/channel marketing: Are you slicing budget dollars away from other items, or creating a new line item called Channel Marketing? Sales and marketing management must look at this together. It's really tough when the channel sales department has to go to the well every single time they want to run a promotional campaign, small or large. Everybody needs to look out a couple quarters at least. You should have a good idea about when promotional programs will run. For example, if you plan some promotional activities prior to trade shows, plan way in advance. You already have trade shows on your annual schedule. This is easy. That way you have the budget issues behind you long before the event happens.

By understanding the channel environment, you can head off a lot of potential problems. Plan for it in advance, or it becomes a terrible problem. Good planning, open communication and enrolling the whole company in a two-tier program is the way to make it work.

About the author

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