

## How **Best-in-Class Companies** are Transitioning to Solutions-Based Sales with the Assistance of Their Channel Partners

### Introduction

Companies that once defined themselves by the products they sold have begun to look outside of their traditional offerings and target markets, knowing that they must make a fundamental change to their business model if they wish to remain competitive. Though the catalysts of this change vary by industry and company, several are ubiquitous. Real-time Internet pricing and information dissemination has led to price transparency across many industries. As a result, profit margins have been greatly driven down, and companies find the need to sell higher-margin services with their product offerings. Globalization has also affected profit margins. In a global market, a greater number of products become “commoditized” as new global competitors offer significant pricing advantages to customers. And, in nearly every industry, market saturation is forcing companies to consider reaching out to customer segments that were never before on their radar.

To remain competitive, differentiate themselves, and increase their sales margins, many product-based companies are greatly expanding their managed services and solutions portfolio since they are less vulnerable to commodification. In the enterprise hardware market, for example, companies are offering managed services, bundled software, and integrated technology for their hardware products. Industrial distributors are offering their customers value-added services, such as supply chain management. A large number of these organizations are leveraging one of their greatest resources, their channel partners, for support in making the transformation from product to solutions-based sales. By employing their partners, companies can expand their market reach faster and at a lower cost than if they relied solely on their internal sales force and service infrastructure. By leveraging the unique capabilities that partners can offer, companies find that they can provide end-customers with a differentiated value proposition.

For the channel partners, solutions offerings are often necessary to remain competitive in an aggressive market that puts a premium on value-added services. The relationship between the company and channel partner is symbiotic: both benefit from the partner’s participation in developing and providing solutions.

There are three major partnership models which have been successful for some of the greatest companies of this era as they make the transition from a product vendor to a solutions provider. The model each company chooses to adopt is based on its established business environment; each fits well with the company’s business practices and current partner program. There is no single model that can be implemented effectively by all companies. Organizations must look to their own practices and programs when determining which model to use.

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### Synopsis

As product-based companies look for ways to maintain or increase revenue growth, they face escalating market challenges due to product commoditization, lower product margins, price transparency, and converging technologies. Increasingly, product-based companies are adding services and solutions to their product portfolio to boost revenue and differentiate themselves from their competition. For many successful organizations, the indirect channel is the key to their evolution from a product vendor to a solutions provider.

This article will discuss how companies are successfully transitioning to solutions-based sales with the assistance of their channel partners. In addition, it will examine three distinct channel partner models that best-in-class companies are employing as they expand their solution offerings. Each model should not be seen as an exact blueprint for success, but as an example that may be adapted to fit the specific strategies and goals of any company that wishes to leverage channel partners to offer solutions and reach new customers.

## Partner-Centric Model

### Leveraging the Existing Core Competencies of Partners

*For companies with a small and "captive" partner network.*

#### Case Study: Caterpillar Inc.

Caterpillar Inc., a leading manufacturer of construction and mining equipment, has traditionally had an extremely strong dealer network. With only 220 dealers worldwide, Caterpillar relies heavily on its dealers to act as the local presence for Caterpillar, a critical role for a company dealing in the construction and mining industry, where local zoning, laws and cultural understanding can determine whether a contract is won or lost. Dealers, in return, make a significant resource investment in Caterpillar. They undergo thorough training in Caterpillar's products and maintenance services and co-brand much of their marketing materials. Though they are independent enterprises, Caterpillar dealerships do not sell competing OEM products and act as the face of Caterpillar to the customer.

Caterpillar's business had traditionally been focused on the sales of equipment and maintenance services. Recently, though, customers have begun to request industry-based solutions rather than single units of equipment. Instead of developing these solutions independently, and then turning over sales and maintenance to their partner channel, Caterpillar has taken an innovative approach: they rely on the core competencies of their dealers to help determine which solution sets to develop. By moving into solutions related to their core business and capitalizing on existing dealer expertise, Caterpillar minimizes its risk while reducing the time it takes to bring new solutions to market.

For example, in 2005 Caterpillar founded Caterpillar Global Pipeline, a new division focused exclusively on providing equipment, services and solutions for pipeline

#### Caterpillar Inc.

##### Headquarters:

Peoria, IL, United States

##### 2006 Revenue (mil.):

\$41,517

##### Description:

Caterpillar Inc. is a leading manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines. The company provides products and services to the mining, forestry, energy, marine and manufacturing industries through a worldwide independent dealer network.

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projects. As the need for oil and natural gas continued to accelerate worldwide, Caterpillar saw an opportunity to provide focused solutions to the global pipeline construction industry. Previously, pipeline projects were served by individual Caterpillar dealers with specialized pipeline knowledge.

Rather than planning and launching a pipeline division from scratch using internal resources, Caterpillar reached out to its dealers with pipeline experience to form Pipeline Machinery International (PMI), a global dealership. These four dealers have worked on some of the largest pipeline projects in the world. By leveraging their combined expertise and knowledge, Caterpillar was able to quickly move into an industry where technical knowledge and customer relationships take years to build.

For both the end customers and Caterpillar dealers, the partnership arrangement offers unique benefits. Pipeline projects are increasingly being undertaken by global companies with investments all over the world. The opportunity to work with one trusted vendor, who can provide a consistent product and a single point of contact for multiple projects, is a great advantage for customers used to managing multiple vendors. Customers working on numerous pipeline projects can contract with Caterpillar for bundled services, and can take advantage of Caterpillar's pool of knowledge. ▲

## The Evolution Model

### Providing the Means for Partners to Evolve from Product to Solutions Selling

*For companies with a large partner network, traditional hardware sales, and a non-exclusive relationship with partners.*

#### Case Study: International Business Machines Corporation (IBM)

IBM had established its first formal partner program in the mid 1980s. In the last twenty years, IBM's business partner program has developed from a small marketing assistance program to PartnerWorld, a comprehensive partner program providing ISVs (independent software vendors), resellers, consultants, and systems integrators access to IBM resources. IBM spends millions of dollars each year on channel support for its 100,000+ partners. With such an extensive network of partners, any change to IBM's business model brings with it the risk of channel disruption, including unanticipated channel conflict, business partner uncertainty and lost channel revenue.

Since 1991, IBM has sold its PC unit, hard drive disk business, and printing division. The divestment of three hardware units was a crucial step in the company's transition from hardware products to solutions-based sales. This transformation would not have been possible without the cooperation of IBM's channel partners, who have enabled IBM to redefine its objectives.

The partners' successful migration was the result of several key initiatives IBM put into place. First, IBM restructured its partner program so that there was a clear focus on solutions-based sales, with corresponding incentives. Partners who implemented their own software solutions with IBM hardware found it much easier to become an advanced partner (with additional benefits and IBM support) than those that relied solely on the sale of IBM products.

#### International Business Machines Corporation (IBM)

##### Headquarters:

Armonk, NY, United States

##### 2006 Revenue (mil.):

\$91,424

##### Description:

IBM is one of the world's largest information technology services and consulting services provider. The company manufactures and sells hardware, software, and services to organizations, governments and companies representing every major industry and endeavor. IBM's global services arm is the largest in the world, accounting for more than half of the company's 2006 revenue.

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Second, IBM provides significant support for partners developing or testing solutions. Partners have access to equipment, prototyping labs, architect consultations, and workshops so that solutions development can be as efficient as possible. In addition, business partner resource managers and architectural consultants provide individual guidance to business partners through all stages of solution development. A “Virtual Loaner” program even provides partners with free access to IBM hardware. Any member of PartnerWorld can receive access to this program.

Third, IBM also created specific initiatives to target the mid-market customer segment, which offers great growth opportunity, but could not be sufficiently targeted through IBM’s direct sales efforts. In 2002, IBM began formally focusing on the mid-market customer segment, and the corresponding ISVs and other business partners needed to support these customers. To assist their partners in simplifying often complex sales, IBM began the process of “productizing” service packages. Bundled service packages are in-demand by mid-market clients, who do not need customized solutions from IBM. For IBM’s partners, selling “productized” services is a means to enter the services and solutions arena with a familiar, product-based sales approach. Partners familiar with selling IBM PCs and lower level hardware can quickly make the transition from hardware to service and solutions selling with packaged service offerings. IBM’s focus on the small and medium-sized companies has produced results. In 2006, the vice president of IBM’s global distribution channel announced that the SMB market was now IBM’s second largest sector. ▲

## Cisco

Like IBM, Cisco has championed the Evolution Model. Both IBM and Cisco have a similar business partner model that includes a large network of partners, a historical emphasis on hardware sales, and nonexclusive partner relationships. For both IBM and Cisco, their potential success in selling solutions and services is dependent upon their existing business partners to transition from hardware to solutions selling.

Cisco has restructured its business partner program with an emphasis on technical specialization, so that each partner will have in-depth knowledge in an individual area. This new channel initiative, called the Enhanced Channel Partner Program, was implemented in 2007, with a full transition by all partners to the new program by 2008.

Unlike IBM's PartnerWorld program, Cisco's new partner programs are not explicitly centered upon solutions selling. Rather, the focus is on breadth and depth: developing integrated technology and networking skills (breadth) with deeper technology expertise in a single area (depth). For Cisco resellers of routers and switches, the Enhanced Channel Partner Program is designed to assist partners in developing the skill sets required to sell more complex products and solutions. Cisco has a full two-year transition program in place so that current partners have the necessary time to participate in training, determine areas of specialization, and fulfill partner requirements.

Cisco has a significant support system for partners as they make the transition to the Enhanced Channel Partner Program. In addition to sales training and online resources, partners are encouraged to work with their Channel Account Manager (CAM) or Inside Channel Account Manager (ICAM) for assistance in determining an area or areas of specialization. Cisco's CAMs are a main source of support for the partner channel. All certified partners, regardless of size or expertise, have access to a dedicated channel account manager for assistance with pre-sales support, tools, and training.

### Cisco Systems, Inc.

#### Headquarters:

San Jose, CA, United States

#### 2006 Revenue (mil.):

\$28,484

#### Description:

Cisco Systems is a world leader in Internet networking and communications solutions. The company's hardware, software, and service offerings are sold worldwide to organizations ranging from small businesses to large enterprises and telecommunications service providers.

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Cisco's transition to technical specialization should be considered by companies with a complex array of products, a large number of partners, and sales into multiple industry verticals. For companies considering a major modification to their partner programs, a transition schedule similar to Cisco's assists partners in making significant changes with minimal disruption.

For both Cisco and IBM, the focus on solutions and services helps to develop partner loyalty. Though their partners often sell competing OEM products, opportunities for increased revenue and higher margins through solutions selling can be an effective method for companies hoping to increase partner loyalty. ▲

## The Acquisition Model

### Developing Solution Partners Through Acquisitions

*For companies with an immature partner network, historical reliance on direct sales force, and distrust between the company and partners*

#### Case Study: EMC

Unlike Caterpillar, IBM and Cisco, EMC has traditionally been known as a direct sales organization. With the exception of Asia and parts of Europe, where local partners were necessary to make deals, sales of EMC storage products moved primarily through a strong direct sales force. EMC direct sales representatives were known to sell directly to a customer even if a partner had generated the sales lead. As a result, EMC's partner channel was undeveloped, and partners that did choose to work with EMC often had strained relationships with the company due to EMC's "ownership" of the final sale.

This model has shifted since EMC has changed its focus from high-end storage hardware sales to implementation of information management solutions, which integrate networked storage technologies, storage systems, software, and services. With falling hardware margins and growing competition, EMC realized that the future of the storage industry was not in multi-million dollar hardware storage products, but in storage management, which is as important to Small-Medium Sized Businesses (SMB) as it is to the top-tier enterprise market.

To move into the solutions market, EMC acquired numerous companies with well-developed information management products and channel relationships. Recent purchases include RSA Security (identity and access management), Legato Systems (storage backup, recovery, and storage management), and Captiva (data capture software).

To successfully integrate solutions offerings into its existing product group, EMC recognized that it could not rely solely on its direct sales force, for several reasons.

#### EMC Corporation

**Headquarters:**  
Hopkinton, MA

**2006 Revenue (mil.):**  
\$11,155

**Description:**  
EMC Corporation is one of the world's largest providers of products, services, and solutions for information management and storage. The company sells to companies of all sizes worldwide through more than 100 sales offices and distribution partners in more than 50 countries. EMC has the world's largest storage-dedicated direct sales and service force.

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First, the type of sales had changed. Full solutions selling, with integrated software or management products, is more complicated than enterprise hardware sales. Training the sales force on each new product would require a significant financial and time investment by EMC. Second, information management products are in-demand by not just the top-tier enterprise market, but mid-tier companies and SMBs. EMC's direct sales force is not large enough to target the enterprise and SMB markets simultaneously. Third, EMC did not have the service support staff to provide maintenance and recurring services for its new solutions.

EMC looked to its new acquisitions to provide a much-needed partner channel. Many of the companies EMC purchased already had a mature business partner channel in place. With the purchase of Documentum, a document management company, EMC received both the Documentum stable of products, and the distribution channel that sold them. Documentum had 550 channel partners when they were acquired by EMC. Similarly, Legato Systems, which provides storage management solutions, had 400 partners when acquired by EMC. Each company's channel program was initially run independently; however, integration of channel partner programs occurred when EMC began its first multi-tier partner program, called the EMC Velocity Partner Program, in 2003.

Under the Velocity Partner Program, Documentum and Legato's channel partners were integrated into a unified channel partner program with EMC's current channel partners. EMC's acquisition of products and their corresponding business partner channels provided a strong base on which to build a more comprehensive partner program. Since the launch in 2003, the Velocity Channel Program has developed from a legacy channel unification initiative to a program that develops current channel partners and recruits and integrates new partners. All partners, whether new or established, receive considerable incentives for sales of bundled hardware and solutions.

For the new channel program to be successful, however, EMC had to rebrand itself as a channel-supportive company, and determine how to integrate its partners with its direct sales force. In the last few years, EMC has worked to build trust and cooperation between its partners and sales force. It did this through a restructuring of the sales incentive programs that helped reduce channel conflict. In the past, all partner leads were passed onto the direct sales team, who were ultimately responsible for determining how these leads would be pursued. EMC changed the lead system so that an independent partner support center would receive and process leads from the channel, removing the enterprise sale team from the initial lead capture.

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In addition to minimizing channel conflict, channel partners and the EMC direct sales force representatives receive incentives to collaborate on a sale. EMC has changed its compensation plans to remove incentives for direct sales into the SMB market, unless the ultimate sale is led primarily through a channel partner. EMC will even penalize its direct sales team for cutting a channel partner out of a deal. As reported in CRN, if a partner initiates a deal, and EMC takes the product directly to the customer, the sales representative loses his or her commission, and the channel partner receives a 12% finder's fee . Through these efforts, EMC has been rewarded by greater channel loyalty and an increase in channel sales.

For EMC, as for many companies with a small product catalog, an entrenched direct sales force, and a limited partner network, growth into the solutions market requires acquisitions. The acquisition of solutions companies and their corresponding partner channels proved to be a quick and effective way for EMC to "inorganically" build a channel program. For companies considering acquiring a particular company and its channel partners, a detailed integration plan is required. Companies must consider how they will support their channel partners, how sales incentive programs will be affected, and how the new business partners can be migrated from sales of a single solution to a larger catalog of products. Most importantly, companies need to determine how the new channel partners will be integrated into the existing channel partner network to support a unified channel strategy. ▲

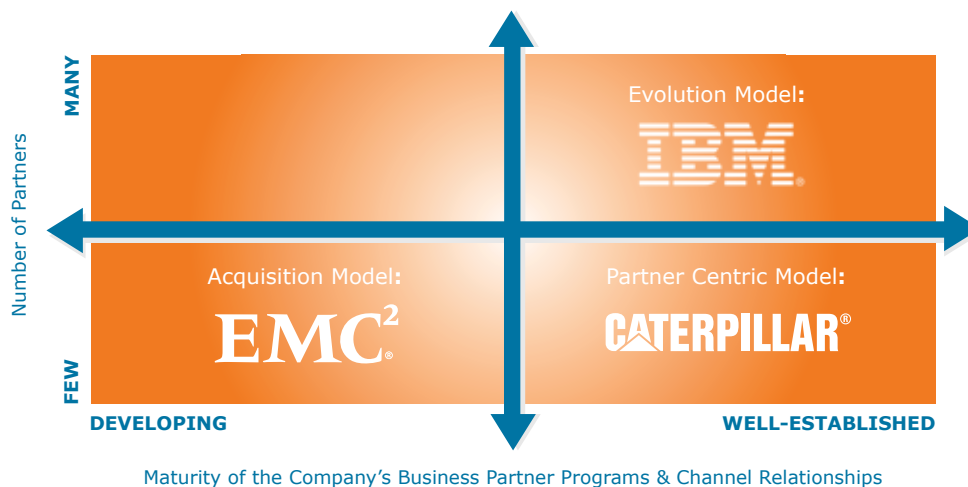
## Conclusion

The Partner-Centric Model, the Evolution Model, and the Acquisition Model provide a few examples of the paths companies can take to successfully transition from product to solutions sales with the assistance of the indirect channel. These are simplified views, as companies often rely on multiple initiatives to guarantee the success of its partner channels. Cisco, for example, in addition to exemplifying the Evolution Model also acquires companies with complementing technology solutions and partner channels.

What the models do provide are ideas for companies looking to make the transition, with the indirect channel, from a product-based to a solutions-centric environment. Companies with a strong, small network of dealers can engage their partners for ideas about where to focus. They may find, as Caterpillar did, that current partners often have the knowledge and expertise to enter into a particular market quickly and fairly straightforwardly. Companies with large, established networks of partners can focus on evolving their indirect channel, so that both the company and the partners not only survive, but flourish. IBM and Cisco both stressed incentives and structured support. And, companies with an underdeveloped channel partner program that wish to increase speed to market may want to consider acquisitions to increase the sales of solutions through an indirect channel. Companies acquiring business partner channels will need to determine how best to integrate these channels into their existing business model. For EMC, this required the development of a more robust partner program and the elimination of channel conflict between business partners and the direct sales force.

Whether you are evaluating the effectiveness of your current partner program, or mapping out a transition from product to solutions selling, an examination of “best-in-class” companies’ initiatives can assist you in realizing maximum gain while avoiding common pitfalls. ▲

### Best-in-Class Partner Models: Transitioning from Product to Solutions-Based Sales



### About the Author

**Moira Koch** is a senior consultant at **Maia Strategy Group**, where she is responsible for leading projects that support clients in developing their channel strategy and managed services. Prior to joining Maia Strategy Group, she was the head of Quality Assurance for Guru.com, and a strategy consultant at MarketBridge (formerly Oxford Associates). Ms. Koch holds a BA in English Literature from the University of Virginia and an MA in English Literature from the University of Pennsylvania.

### About Maia Strategy Group

Maia Strategy Group is a boutique strategy consultancy that specializes in conducting customized market research and analysis to support organizations with their mission-critical decisions. Maia supports clients by filling in their gaps of knowledge through its study of critical external market environment – competitors, customers, partners and suppliers.

Maia Strategy Group is located in New York City’s Financial District and works with a select group of clients, including Fortune 500 organizations and Government agencies.