Optimizing Channel Partner Relationships

By Stephen M. Dent

Channel partners—those companies that help you bring your company's products and services to market—are critical for business success. They can help you open the door to new business opportunities faster, at lower cost, and with lower risk than a merger or acquisition. At Partnership Continuum, clients are asking us how they can understand which of their channel partners can best help increase profitability and how they can assess which channel partners have the most potential for a closer, more strategic relationship.

These questions are worldwide challenges. In India, for example, I recently presented Channel Partner Relationship seminars in Mumbai and Delhi. Leaders at the most prominent and best-known Indian companies attended the two-day seminar. They wanted to learn techniques for growing channel partner relationships and moving them from transactional to strategic partners.

What's the difference? Transactional partners are indirect partners. They provide a distribution outlet for your products. These are usually transaction-based relationships that provide little loyalty to you or your products and do not focus on differentiating your products and brand in the marketplace. As soon as the transaction is no longer attractive to them, they move to other suppliers or vendors. Examples of transactional partners include such distribution businesses as retail stores, service providers, and e-commerce sites.

Strategic partners are long-term business alliances where the companies rely on each other to position their products, services, and brand in the marketplace. Examples of strategic alliances include code-sharing arrangements between airlines, as well as arrangements between telephony service providers and handset manufacturers such as Apple and AT&T or Boeing Company and G.E. Aviation.

A third category of channel partner is tactical partners, those that are associated with your internal business processes. Examples of tactical partners might include mobile phone service providers that use indirect retail outlets to sell and activate their handsets and service, a manufacturer that produces a component for a product developed and assembled by others, or a healthcare service that uses a specific healthcare provider.

Outsourcing service providers and managed services providers can be either transactional or strategic partners, depending on which business processes are outsourced and how the deal is structured.

Typically, companies have fewer tactical partners than transactional or strategic partners. In fact, 85-90 percent of channel partners are transactional partnerships.

The Truth about Transactional Partners

Channel managers ask me, “How do we get more from our transactional partners?” They are shocked when I respond: “You don’t.”

If transactional partners make up the highest percentage of your channel partners, you probably do not have the time or resources to develop and grow all of them. More importantly, it’s not even something you should want to do.

Transactional partners act as commodity brokers. They take your product or service and act as your agent and sell it for you. It’s a pretty clear-cut business transaction. A transaction is just that—a transaction. As soon as the commission you offer gets one-upped by another company or the transaction looks more attractive elsewhere for other reasons, you will play second fiddle or the relationship will end.

Yet many organizations spend an inordinate amount of time cultivating and trying to grow transactional partners, only to find they are on the losing end of the value proposition. Partner managers waste valuable time, energy, and resources on these relationships only to discover that as soon as the transaction looks better with a different vendor, the so-called channel “partner” flees. This is as true for our Indian delegates as it is with our clients on Main Street or High Street.

Growing a Channel Partner Relationship

Define and Assess the Partner. In growing a relationship with a channel partner, it is important to first define the type of partner it is: transactional, tactical, or strategic. Assess the partner’s potential capability or capacity and cull out the ones that cannot meet your value and relational expectations.

Growing a channel partner from a transactional to a strategic relationship is a complex process that has two components:

- Business component (the transaction or task)
- Relational component

For successful outcomes, you must pay attention to both components.

When you spend time up front to qualify the right channel partner, it should not be a problem to accomplish the activities in the transactional component. It is more difficult to achieve the desired outcomes in the relational component.

The following table displays factors that enable or hinder successful outcomes in both the transactional and relationship components. Note that basic fairness as well as business and partnering competencies rise to the top.

Factors that Enable Successful Outcomes	Factors that Hinder Successful Outcomes
Transactional Activities	**Transactional Activities**
▪ Value-added information sharing ▪ Loyalty programs ▪ Timely pay-outs ▪ New products ▪ Strong, reliable business processes ▪ Common/aligned interests ▪ Future orientation ▪ Service driven ▪ Performance ▪ Viability-oriented business model	▪ Price wars between partners ▪ Lack of sales or product support ▪ Failure to qualify the right partners ▪ Lack of knowledge transfer ▪ Not taking ownership ▪ Conflicts between channels and business needs ▪ Lack of capacity for growth ▪ Cannibalization of smaller partners ▪ Brand dilution ▪ Lack of professionalism ▪ Expectations beyond capability
Relational Activities	**Relational Activities**
▪ Human touch ▪ Stakeholder involvement ▪ Value the opinions of your partner ▪ Long-term perspective ▪ Trust ▪ Clear vision for working together ▪ Open, honest, proactive communications	▪ Win/lose situations ▪ Mistrust ▪ Resistance to change ▪ Profile mismatch ▪ Inability to retain talent

Vet Your Partners. The next step in growing channel partners is to vet them. Which partners perform as expected or above expectations? Which partners under-perform or do not perform at all? Which ones do you trust? Which ones don’t you trust? With which partners do you have good mutual communication? Which partners help you mange change in the business environment?

Develop a criteria list and determine which ones have the most potential and then start to enhance the working relationship with those partners. Determine if there is a bigger future than simply conducting transactions.

Date Them for a While. In your personal life, you would never run off and marry the first potential partner who comes along. So why would you do that in your business life? Get to know a partner from both a business (transactional or task activities) perspective as well as a relational perspective. For instance, how does the partner manage its business? How does it treat its employees and customers? How does it react to changing marketplace environments? From a relational aspect, does the partner communicate openly and directly, or does it always seem to be keeping secrets? Does the partner create winning outcomes? Do you feel you can trust the partner?

Once you get to know your potential partners better, you are in a position to determine if they are companies and people with whom you would like to move forward and develop a deeper, long-term business relationship.

Determine if the Interest is Mutual. To help you determine if your partner is interested in taking the relationship to a different level, both companies should develop a separate Strategic Framework. The key is making sure each company develops its framework separately from the other. The Strategic Framework would include a vision statement of what you want your company to become in a partnership, a mission statement defining how you want to achieve your vision and strategic objectives, and the specific areas of opportunity you want to explore with a partner.

Then get together with your partner and compare your Strategic Frameworks. If the interest and compatibility is there, spend some time together and build a joint Strategic Framework and joint agreement on how to grow the business relationship into something more than a transactional relationship.

In the process of sharing meaningful information with each other to build the joint agreement, you will have greater insight and visibility into how both companies do business. And both companies will have provided and reacted to feedback. Thus, in addition to having built a joint agreement, you will have also built trust and ownership into the newly revitalized relationship that will pay benefits over the long haul.

Establishing a Revitalized Relationship is Not Easy

As in personal relationships, business relationships only thrive when we give attention to them. Since most of our business partnerships are transactional in nature, we do not spend much time with these partners. Remember, you need to give time and energy if you want to grow a relationship.

Most companies find out that, when it comes to the relational component of growing a partnering relationship, the real challenge is finding people in the company who are capable of building winning relationships. That’s where your partnering intelligence is important.

A high partnering intelligence is the ability to develop trusting relationships while accomplishing mutually beneficial tasks with your partner. Your Partnering Quotient (PQ) is the measure of your partnering intelligence. There is no secret formula to ensure success in every partnership, but low measures of PQ characteristics indicate your partnering effort is doomed to fail.

At Partnership Continuum, we help companies assess potential partners, develop and evaluate Strategic Frameworks, and assess and increase their PQ and partnering intelligence. We have a proven methodology for transitioning channel partners to a deeper relationship level that can help you capture opportunities to accelerate growth, increase global presence, increase revenue, and improve profitability.

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