



GO-TO-MARKET

# GUIDE TO CHANNEL SALES & MARKETING

Tips & tricks to building  
powerful partnerships

OPENVIEW

Success is never a solitary achievement, particularly in the software industry. From design and development to deployment and distribution, software companies tap into a wide spectrum of skill sets and networks in order to bring their visions to life by putting their products into the hands of end users.



Traditional software companies use many different channel marketing tactics to expand their reach and reduce acquisition costs. They create market leverage through sales-focused channels like affiliates and dedicated resellers as well as technical channel partners like system integrators. But, for two reasons, these kinds of partnerships are not usually a good fit for today's business-to-business SaaS software company:

SaaS solutions don't generally require an intermediary.



They are typically easy to find (online accessibility), deploy (no installation or integration required), and use.

The SaaS licensing model isn't designed to deliver substantial up-front revenue to the channel partner.



By their nature, SaaS products aren't front-loaded to deliver quick financial gain. With a SaaS product, resellers have to either settle for a fraction of the revenue they would receive from a perpetual license vendor, or get a cut of subsequent annual SaaS subscription fees. The first option is not appealing to the channel partner, and the second isn't smart business for the SaaS vendor.

Value-added resellers (VARs) are channel partners who deliver the business process and services your end customers need to successfully implement your software solution.

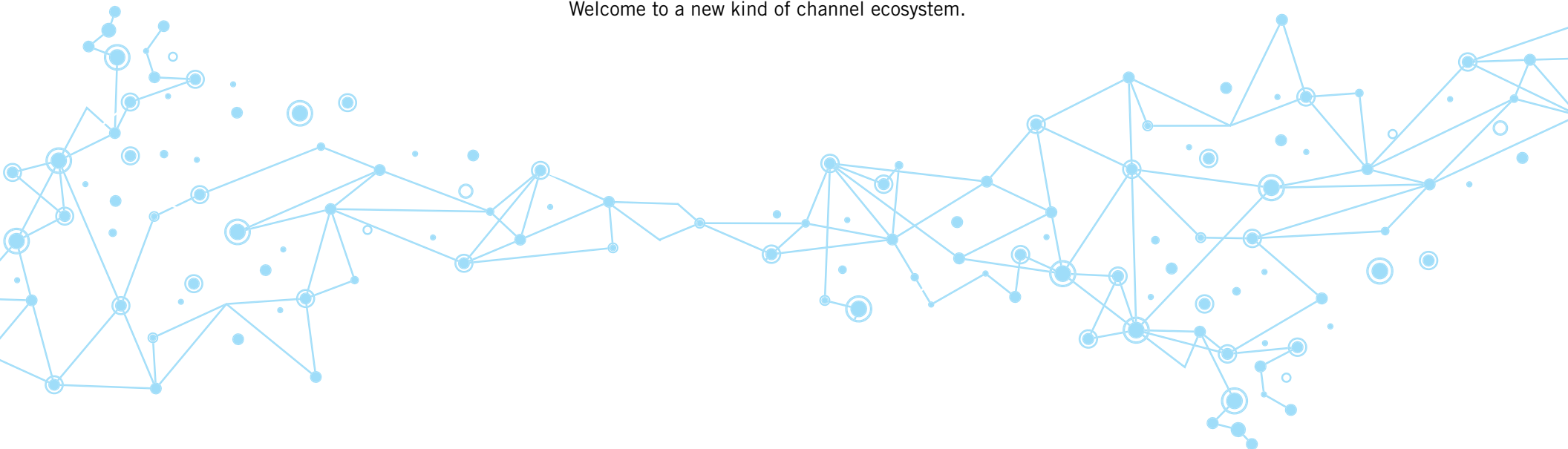


The service provider, or VAR, derives the lion's share of their revenue not from a sales commission, but from the related services they bill directly to the customer.

While still technically a channel strategy, this kind of partnership requires an entirely different mindset and tactical approach. It is a long-term play, not a quick fix. Success requires a fair amount of due diligence as well as a healthy serving of startup agility. Champions of the channel must be able to inspire a company-wide paradigm shift that considers the channel as an integral part of the organization instead of an expendable third-party.

It's not an easy road, but SaaS companies that are getting it right are reaping benefits beyond what was possible with the old channel model. Through more deeply collaborative partnerships, smart business-to-business SaaS companies are gaining a market advantage with stronger acquisition and retention. In addition, the VAR channel provides critical insights that positively influence everything from product development to positioning.

Welcome to a new kind of channel ecosystem.





# Table of Contents

<b>About This Guide.....</b>	<b>1</b>
<b>Chapter 1: The Channel Mindset - Everything Starts Here.....</b>	<b>2</b>
Misconceptions: Common (and Dangerous) Assumptions about Channel Marketing.....	4
5 Steps to Developing the Right Mindset .....	7
The Channel Mindset: Quick Recap.....	12
<b>Chapter 2: Crafting Your Channel Strategy.....</b>	<b>13</b>
Will Channel Sales Work for Your SaaS Company?.....	14
Bootstrapping vs. Detailed Planning — Which Is Better? .....	16
The Process: 4 Phases of Defining Your Channel Strategy.....	20
Important Questions, Elements, and Challenges to Consider .....	24
Goal Setting.....	25
Company Infrastructure.....	27
Program Structure & Assets.....	28
Channel Compensation and Sales Conflict .....	30
Crafting Your Channel Strategy: Quick Recap .....	32



<b>Chapter 3: Building Your Channel Team .....</b>	<b>33</b>
3 Characteristics of Successful Channel Teams .....	34
Example Team Scenarios.....	37
<b>Chapter 4: Executing Your Plan .....</b>	<b>39</b>
Research: Finding the Right Partners .....	40
Recruitment: Getting Partners Onboard .....	42
HubSpot's 4 Steps to Recruiting Channel Partners .....	42
Enablement: Helping Partners Succeed .....	44
Measuring and Optimizing Channel Performance .....	45
<b>Conclusion .....</b>	<b>50</b>
<b>Appendix .....</b>	<b>51</b>
About the Experts.....	51
Sample SaaS VAR Channel Programs .....	52

# About This Guide

We produced this guide to help expansion-stage business-to-business SaaS companies better understand their channel marketing opportunities. Whether you're just starting to think about a channel strategy or looking for ways to optimize your existing program, this guide was designed to provide clarity around the big hurdles often encountered when developing a channel strategy:

- » Can channel partnerships work for SaaS?
- » Is it right for my SaaS company?
- » How do I develop the right mindset and strategy to make channel partnerships successful?
- » What's involved in building a successful program?
- » How do I know if my program is working?

We have tapped into seven industry experts, people who are in the trenches running their own SaaS channel programs as well as advisors and thought leaders, who bring a broad perspective to the conversation.

Based on our own experience and the real world insights gleaned from our conversations with these experts, we're going to walk you through the high-level concepts that will help you succeed in SaaS channel marketing:

- » Cultivating the Right Mindset for Channel Success
- » Crafting Your Channel Strategy
- » Building Your Team
- » Executing Your Plan
- » Measuring and Optimizing Your Program

Building a stable and profitable SaaS channel program is a complex undertaking that requires patience, vision, and expert coordination of resources and leadership. But we hope that by the time you've finished this guide you will be excited by the potential of growing your business through smart partnerships with value-added resellers and equipped to develop your own channel program.



## Chapter 1:

# The Channel Mindset - Everything Starts Here

We hear the word “ecosystem” thrown around a lot in business circles, but what does it really mean?

Traditional channel marketing often refers to an “ecosystem” as the more-or-less one-sided relationship that exists between large, established technology behemoths like Microsoft, IBM, and Apple and their network of “partners.” The problem with this scenario is that the vendor sitting at the center of this supposed ecosystem holds almost all the influence and can effectively hold its partners hostage. This imbalance of power is not the hallmark of a true ecosystem.

In nature, an ecosystem is a collection of organisms functioning together within a specific environment. A stable ecosystem is one in which these organisms engage in symbiotic relationships that promote mutual sustainability and growth. It's less all-for-one, more all-for-all.

A SaaS ecosystem takes a similar, collaborative approach to survival in the marketplace.

## You have to start with the right company culture.

Developing your channel strategy and partnerships is not about you. You can't design a successful ecosystem around the needs of only one party. Instead, you need to embrace a philosophy of asking what you can do for others — for your partners and, ultimately, for the customers you both serve.

This is a philosophy that you need to adopt across your entire organization, top to bottom and across all functions.

## Your channel program will have substantial influence on your entire go-to-market and growth strategy.

Channel marketing is not an isolated effort. At least, not when it's successful. Done right, your channel program will not only provide opportunities to reach new and expanded audiences, it will provide you with valuable insights about your customer's actual needs. The visibility your partners provide into day-to-day usage will inform your product development roadmap and open up avenues for additional collaborations.

In the following pages, we're going to look at five steps that will help you cultivate the right mindset within your organization:

- » Be Clear and Honest About Your “Why”
- » (Really) Understand Your Partners
- » Establish Shared Goals
- » Educate All Your Audiences
- » Commit 100% to Eliminating Conflict

But first, let's dispel some common misconceptions that can sabotage your channel marketing plans.



## Misconceptions: Common (and Dangerous) Assumptions about Channel Marketing

Sometimes, what you don't know can hurt you. And almost always, assumptions come back to bite you. To help you avoid embarrassing (and potentially costly) channel missteps, here are five of the most commonly held misconceptions about channel marketing.

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### Your sales pitch can be one-size-fits-all.

“The notion that you can message to a partner the same way you would an end customer is flawed,” says startup consultant Alex Nasson. In fact, the buyer's journey for partnership is often different. Although the basic value proposition will certainly apply, the level of diligence and investigation performed by a potential business partner when evaluating a vendor is much deeper than that of a typical customer. “In addition to being assured that you have great customers and products, channel partners must also feel confident you truly understand their business,” explains Nasson. “Plan to offer program types that accommodate different engagement models (Refer, Resell, OEM, Tech, etc.) to ensure proper business alignment as well as to support future business growth.”

In short, to earn the interest of prospective partners, you have to adapt your pitch to match their perspective. How does your solution fit into their world? How does it make their lives and their customers' lives easier?

### You can turn the channel on with a flip of the switch.

Nasson also cautions against assuming that a channel program offers an “instant on” for additional customer opportunities and revenues. “People often assume the channel will be up, running, and producing revenue within six months,” he says. “You may see early deals and market traction, but twelve to eighteen months is a more realistic expectation to achieve real channel performance. This can be influenced by many factors including target markets, complexity of offering, and business partner alignment.”



12-18 months is a realistic expectation to start achieving real channel results.

Nasson recommends developing what he calls an “institutional patience” at the executive level around defining the time-to-value for a new channel initiative. “This is not just executing a simple transaction or closing a deal,” he says. “This is building both a competency and a solutions practice inside an existing business that has competing goals and priorities.”

On a related note, software companies often assume that it’s easier and less expensive to sell through the channel than to sell direct. [N]Squared Advisory founder Firas Raouf explains why it’s so challenging for early stage software companies to build indirect sales channels, “Imagine how hard it is to build your own, dedicated sales team. Now imagine getting someone else’s sales team to sell your product just as well.”

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Firas Raouf, [N]Squared Advisory founder



## You and your channel partners have the same priorities.

Matrix Partners General Partner David Skok agrees that channel sales usually take a long time to get off the ground. The reason for this is that a reseller has a different set of priorities than you. As a startup, you have a great sense of urgency and total focus. They are usually focused on other products and deals that are paying the bills. It usually takes a lot to convince them that they will get a good return on time invested in your product.”

It’s imperative that you look at your partnership as much from your partner’s perspective as from your own. Remember that the relationship has to be mutually beneficial to work.

## Your partners will create additional demand.

Skok is adamant about dispelling the myth that channel partners create automatic demand. “They usually prefer to sell products for which demand already exists,” he explains. “This means you should expect to continue creating demand using your own marketing efforts. Ideally you should be in a position to feed your partners leads, or — better still — deals that are close to done in the early days.”

Even while you are tapping into a channel strategy to grow your own business, you need to keep in mind that part of your job as the vendor is to help your partners grow their businesses.

## You can set it and forget it, and channel will still work.

On a related note, Skok often needs to remind software companies about the level of on-going support and program maintenance required to ensure a strong and successful channel relationship. “You need to continuously educate your partners about how to sell, handle objections, and differentiate your product from the competition,” he says. “This requires work by your channel sales team, but it also requires backup support from a channel marketing team who will create the appropriate training materials, programs, tests, etc.”

Keeping your channel partners engaged and helping to ensure their success (and, by extension, your success) requires a perpetual process of education, communication, and general support.

“You need to continuously educate your partners about how to sell, handle objections, and differentiate your product from the competition.”

David Skok, Matrix Partners General Partner



The themes running through these words of caution are ones the experts return to again and again: Channel marketing is not a quick fix, it can't focus solely on your needs, the word “partner” is one you have to stand by in action as well as word. Creating a successful channel marketing program relies as much, if not more, on your relationship skills as it does on your product's features and benefits. This is the crux of the mindset you must develop.

## 5 Steps to Developing the Right Mindset

### 1. Be Clear and Honest About Your Motivations

Whether you are pitching a channel program to your internal team, or engaging in initial conversations with a potential partner, clarity and transparency are a must. “People will be patient if you are direct, forthcoming and honest. Be as clear and as detailed as possible about your intentions, strategy, program status, expectations, and goals,” says Alex Nasson. “Even if things are not fully baked, people will listen if you can show that your true intent is to build something meaningful together.”



Optimizely Director of Partnerships Dan Glazer agrees, “The most important thing we’ve learned is that it’s critical to be very transparent about everything we’re doing and why. It pays to be vocal about what’s working, and what’s not.”

Defining and sharing the “why” behind your initiative is the first step in cultivating the right mindset for channel marketing. This is the foundation upon which your entire channel program will be built. If you cannot identify and understand the context and motivations driving your pursuit of the channel, you will not be able to articulate your larger vision to internal stakeholders or external partners.

Unfortunately, in advising many companies who are beginning to develop a channel program, Nasson often comes up against a fundamental lack of communication, understanding, and internal clarity about the specific reasons a company wants to develop a channel. To overcome this ambiguity, Nasson recommends a series of frank and in-depth conversations with all the relevant parties. “This is how you discover the real drivers and motivations,” he explains. “You might hear from a person with a higher-level perspective that channel is a defensive land grab strategy. Someone else might tell you that marketing is struggling and they need the channel to generate more awareness. And, someone else might say that the primary expectation is that channel will drive more leads into the funnel. Fast. These are all nuances of a larger conversation that needs to be aligned before proceeding.”

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The process of clearly defining your motivations and expectations forces you to ask some hard questions, or, as one of Nasson's Texas-based clients put it, "throw the snake on the table." Even if the conversations become uncomfortable, it is crucial to push forward, reach clarity, and commit to a plan. Otherwise, you not only jeopardize your initial efforts and investment, but also your potential partnerships and growth through the channel.

## 2. Understand and Respect Your Partners

"On the spectrum between employee and customer, you should really think of your partners more like employees," says HubSpot VP Sales Peter Caputa. "They may not have an ID badge, but you should be sharing information with them, looking out for their best interests, and being continually invested in helping them develop and grow. Most channel programs miss this. Most channel programs seem to ask their partners, 'What have you done for me lately?'"

Caputa's words capture one of the top themes echoed over and over by the experts: Don't treat your partners like second-class citizens.

Firas Raouf emphasizes the importance of not only understanding your partners' business model, but also their motivations, "You need to understand how their business model influences their affinity to be part of your program so you can articulate what's in it for them." When you're able to clearly convey a program value that makes sense in the context of your partner's real-world business model, they will instinctively know that you "get" them and are "on their side." This is important.

Many SaaS companies forget there is a vast difference between their business circumstances and their channel partners' circumstances. Alex Nasson refers to this as "a tale of two companies." The gist of this story is that while the SaaS company is typically a VC-backed startup that is focused on technology, the

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Peter Caputa, HubSpot VP Sales



partner is often a self-funded small business that derives most of its revenue from professional services. “It’s the difference between spending your own money and spending someone else’s money,” Nasson points out. “There’s a big difference in terms of risk. If the partnership fails, the VC-backed startup will likely live on without much concern; but the small business will feel a much bigger impact if things go wrong, potentially souring valuable and long-held client relationships.”

Nasson also points out the importance of acknowledging and respecting a VAR’s relationship with clients. “The average lifespan of a vendor software rep is about twelve to eighteen months,” Nasson says. “According to IPED, an independent channel research and consulting firm, the typical VAR has a tenured client relationship of six to nine years. They have much more skin in the game.” With this in mind, it’s easier to understand the importance of being able to prove to prospective partners that you are looking to build a long-term business relationship with them. One with a clear plan and business opportunity along with shared risks and upsides — a true partnership.

The average tenure of a vendor software rep is 12-18 months. The typical value-added reseller (VAR) has a tenured client relationship of 6-9 years.

### 3. Align Your Goals

For any partnership to work, both parties must be working toward the same end. The software vendor/VAR relationship is no exception.

Peter Caputa explains how HubSpot’s channel program focuses on the business goals of the VAR partners as a means of meeting HubSpot’s goals, “A channel program is usually designed to generate incremental sales. The SaaS company typically sees the partner simply as a source of additional clients and creates partner materials focused on how a partner can position and sell the SaaS product. A better approach is to think about what you, as the SaaS company, can build into your program to help your partners grow and succeed in their businesses.” In HubSpot’s case, this means providing partners and potential partners with hundreds of hours of sales training materials that have nothing to do with selling Hubspot’s platform and everything to do with how partners can sell their own services to customers.



Alex Nasson agrees that a focus on common goals is a core component of any successful channel program. When he’s working with a SaaS company, his ultimate goal is to help stakeholders realize that their true focus shouldn’t be an internally-defined goal like a land grab or demand generation. Instead, they need to focus on delivering “long-term value and customer success.” In the context of a channel marketing initiative, this means your strategy must include not only your software product and value

proposition, but also the critical role value-added resellers play in helping your mutual customers attain success and experience business value through the continued use of that software.

Caputa goes so far as to say that if a potential partner is unable to keep the customer front-and-center, it may be an indicator that the partnership will fail. “When prospective partners ask about commissions, lead sharing, or white labeling in the first conversation, it’s a pretty good sign that the relationship isn’t going to work,” Caputa says. “All of these things are benefits for partners, not customers.” HubSpot’s program is actually designed to reward partners specifically for helping customers succeed with HubSpot’s software. “We’re all rewarded when our mutual customers are successful,” Caputa says.

#### 4. Educate Your Allies and Your Skeptics

“The first time I presented the idea of a channel program, I got a lot of really basic questions from people inside the company who didn’t fully understand the concept or the implications,” says Dan Glazer. Glazer is not alone in his experience. SaaS are often ill informed about the true nature of channel partnerships in the context of a SaaS business. Even if they have a general sense of how the channel model works, they may be less familiar with the particular approach that makes sense for SaaS companies.



“A lot of people just don’t ‘get’ why you have a channel,” Glazer says. Educating your audience — internal teammates and stakeholders as well as external partner prospects — is critical to the success of your channel program. Along with being honest about your motivations and aligning your goals, you have to be able to help people — allies and skeptics alike — understand exactly how the channel model will work for everyone involved. Clear and consistent communication is key.

Educating the extended team helps you gain access to the human and other resources you need to implement an initiative as complex as channel marketing. You need to work hard to engage the skeptics, educating them about the process and the potential so that they eventually become supporters.

The same rules apply to your potential partners. They may be even less familiar with basic channel concepts and how that model is best adapted for SaaS companies. They may have many unspoken questions about the logistics of partnering with you and the pros and cons of a recurring revenue model. People aren’t always quick to point out what they don’t know or understand. It’s your job, as a champion of channel marketing, to help them get their heads around how a channel program will fit into and benefit their business.

By educating people about the mechanics and mindset of a successful SaaS channel program you can eliminate roadblocks, increase confidence, and improve the chances of having people invest — philosophically and literally — in your channel program.

## 5. Commit 100% to Eliminating Channel Conflict

One of the most common points of failure for channel programs is unanticipated and unmitigated channel conflict. Channel conflict arises when the SaaS vendor competes directly with their channel partners for the same business.

“Channel conflict is the most important thing to avoid, and one of the easiest traps to fall into,” says David Skok. “At worst, it’s the result of greed within the vendor company. Though they say they want to work with the channel, when they run across a juicy deal, they don’t want to give it to the partners.” Unfortunately, when a partner gets burnt by this kind of deal stealing, their motivation to put effort into their own deals is greatly diminished. Why should they work hard for a deal that their so-called partner might steal through price undercutting or some other unfair tactic?

Skok recommends that SaaS companies only adopt a channel sales model if they are willing to commit 100% by either avoiding direct orders all together, or establishing some very clear rules about how potential conflicts are handled. “You have to define very clear rules of the road so people know how to behave when a conflict arises,” Skok says.

HubSpot, like many other SaaS companies with channel programs, uses a lead registration system to help ensure that there is only one sales process for each lead. “Currently, partners can register up to 500 active leads,” explains Peter Caputa. “Registration lasts for twelve months, and they can re-register a lead if it’s still active after that period.”

Whether you use a lead registration system, regulated pricing, split territories, or some other mechanism to reduce and manage channel conflict, Skok reminds SaaS companies to take a long view when it comes to balancing direct and indirect sales, “You can use one deal to get a partner excited about your product, and then — hopefully — they will go back to their customer database and bring you two or three or more additional customers. Think of that first deal as an investment in creating a strong channel relationship that will deliver exponentially more value in the long run.”

“You have to define very clear rules of the road so people know how to behave when a conflict arises.”

David Skok, Matrix Partners General Partner



Quick  
Recap

## The Channel Mindset

### Be Clear and Honest About Your Motivations

Make sure that everyone — internal and external — is open and transparent about what's at stake and what's expected of each player. This process can be challenging. It might open up some bigger questions. But getting clarity at this stage is crucial to creating the sense of trust that supports a successful channel program.

### Understand and Respect Your Partners

Never, ever think of or treat your partners as second-class citizens. You should consider them more as teammates than as hybrid customers or an expendable, third-party resource. Always keep their perspective and priorities (which are very different from yours) in mind when making decisions that affect their success.

### Align Your Goals

Build your channel program around your mutual customer's success. That should be the driving force behind everything you do. Think about what you can do for your channel partners. What kind of resources and support can you provide to help them succeed so that they can help your end customers succeed?

### Educate Your Allies and Your Skeptics

Don't assume that either the people inside your company or potential partners outside your company already have a strong grasp of the ideas associated with a SaaS/VAR channel program. Know that you may need to provide examples, clarify concepts, explain strategies, and dispel myths. Be a channel champion, but also be a teacher.

### Commit 100% to Eliminating Channel Conflict

Show your partners that you mean what you say. Demonstrate your commitment to their success by providing support that exceeds their expectations and by ensuring that they are never at risk of losing a deal to your direct sales team. Earn their trust.



## Chapter 2:

# Crafting Your Channel Strategy

There's no question — even the simplest channel program has a lot of moving parts. Designing a strategy that encompasses and coordinates all these elements is no small task, but with the right framework in place you can ensure that your plan is as solid as possible.

In this chapter, we're going to look at some key questions and provide an overview of a four-part process for developing a successful strategy. Keep in mind that, since a winning strategy must sit on a strong foundation, everything we're going to cover should be couched in cultivating the right mindset and building a strong, cross-functional team.


The following section addresses:


- » Whether the channel is a good fit for your particular situation
- » The comparative values of bootstrapping channel vs. doing in-depth planning
- » The four phases of crafting a strong channel strategy
- » The key questions you need to ask in order to define your strategy
- » An overview of compensation and channel conflict


## Will Channel Sales Work for Your SaaS Company?


The first question to be addressed is how to determine whether or not a channel program makes sense for your particular SaaS company. While each scenario must be assessed individually and not all criteria must be met in each situation, there are certain cases when a channel sales model or mixed sales model are a more natural fit.



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**Your product requires a lot of training, installation, and support.**  
Once trained, channel partners can help get customers up and running, freeing your internal resources to focus on additional sales or other, big picture tasks.
- 

**Your sales process is fairly straightforward.**  
Resellers will not usually be able to sell your product quite as well as you do, so complicated sales will typically be less effective via an indirect sales process.
- 

**Your product is in a stable state.**  
Frequent changes to your software, whether related to adding features or fixing bugs, necessitate expensive and time-consuming partner training. It's best to hold off on engaging partners until your product is stable enough to minimize these kinds of updates.
- 

**Your software supports a function that your customers outsource.**  
As we've established, the VAR channel model is the most appropriate for SaaS companies. Many of the most successful SaaS channel programs are built on partnerships with service providers who already fill a functional role supported by your software.



### You have a solid sales model.

David Skok stresses the importance of figuring out your sales model internally before trying to teach channel partners how to replicate that model. Making your first sales directly (or possibly in association with a partner), he says, will help you better understand important nuances about messaging, the market, and the sales process.



### Your company has built at least \$20 million in revenue.

Firas Raouf sets this revenue benchmark as a good indicator that an expansion-stage software company has built up enough brand equity and scale to effectively drive revenue for a partner channel.

In addition to these product and company attributes, Skok emphasizes the benefit of finding a ready-made channel rather than thinking you can create a new channel to meet your needs. “You will have a significant uphill slog to create a channel from scratch,” he says. “Larger, more established companies have the time and funding needed to pull it off, but if you’re a startup, it’s a deal breaker.” This is another reason why Skok, along with other SaaS experts, recommend the VAR approach to channel. He cites Hubspot, Xero, and Namely as examples of SaaS companies who have developed successful niche partnerships specific to their product’s business function.



## Bootstrapping vs. Detailed Planning — Which Is Better?

This is something of a trick question. The truth is, your SaaS channel program will probably employ equal parts in-depth research and design plus on-the-fly maneuvers to adapt to whatever curve balls reality throws your way. However your channel program develops, the process will likely demonstrate the value of certain attributes and capabilities.



### The Value of Listening

“Build your program around reality,” says Pantheon Business Development Manager Halid Ibrahimovic, “not preconceived notions.” While he encourages SaaS companies to develop a hypothesis about what they think will work best in the channel, he warns against putting too much stock in your initial assumptions.

Peter Caputa echoes the suggestion to go direct to the source. “Talk to people,” he says. “Find out what they are struggling with and how you can help them.” He recommends interviewing your customers and potential partners in order to get a clear idea of what would help them build their respective businesses.

While it’s always important to listen to your audience, Alex Nasson points out that your most intense listening and learning will take place during program development. “There’s a big difference between channel development and channel execution,” he explains. “During development, you have to focus on listening and confirming in order to fully understand audience needs and wants. When you execute, you are using what you have learned to provide clear, aligned solutions that scale with greater velocity than your competition’s.”

## The Value of Due Diligence

“I have never been ill-served by doing in-depth research prior to launching a channel program. The goal is to be as crisp, polished, professional and aligned as possible when you go to market,” says Nasson. “You also need to be prepared to put serious time into checking up on your potential partners. You can trust that anyone serious about building a business with you will also be evaluating you with a critical eye. The scrutiny goes both ways. If they aren’t impressed with what they see, they may never tell you exactly why. Often you just won’t hear back from them. Using research to learn about your partner prospects and their business needs upfront will help you best understand how to approach and overcome potential objections and manage overall partnership risks.”

While your initial channel program doesn’t need to have all the bells and whistles, there are some core elements that you should nail down up front. “There are some basics you need to have in place before you can have real conversations with partners,” Ibrahimovic explains. “At the minimum, you need a stable product, formal outline of the program, and an initial contractual framework.”

Caputa notes that the depth of due diligence required is in part related to the maturity of your business. “If you’re doing \$50 million in revenue, there are a lot of things you can break,” he says. Caputa has seen some of HubSpot’s competitors launch substandard channel programs with disastrous effect. “One competitor took a very old-school, least-common-denominator approach with a product that wasn’t quite there yet,” he explains. “Their partners are now coming over to HubSpot.”

Dan Glazer offers the reminder to think through the big questions early in the process. “As soon as you start to see wins, you should make the push for additional due diligence and resources,” he says. “Otherwise you run the risk of missing the opportunity if you have people in the field making it up as they go along. If you haven’t stayed on top of things, the program might scale more quickly than you expected, and then your infrastructure breaks.”

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Alex Nasson, startup consultant

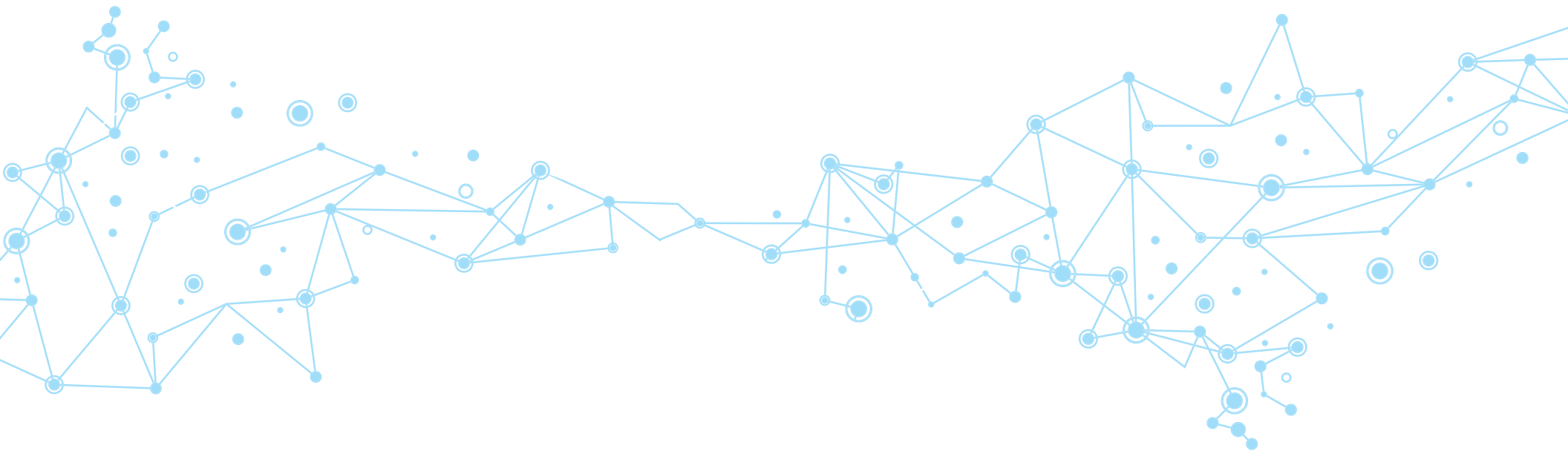


## The Value of Agility

While being prepared and doing your homework is key, at the other end of the spectrum, the ability to adapt quickly is always a critical skill for any startup. While he advocates for having the basics in place, Ibrahimovic also believes in retaining agility. “Don’t over-engineer your program or over-invest in the infrastructure,” he says. “Create as you go along so you can build based on your partners’ actual needs. You won’t really know what those are until you start working with them.”

Nasson agrees, but with a caveat. “The market changes constantly and you must evolve with it or risk becoming less relevant to your partner,” he says. “However, you’ve got to have some clarity at the executive and program levels before you send out two reps and a PowerPoint deck.” It’s important to establish and maintain an effective balance between the foundational support required to sustain your program and the agility required to grow it.

Many successful SaaS channel programs launch with just one person behind the wheel. That was Glazer’s experience at Optimizely. “We started out with just my time and a goal to hit a certain quota,” he says. “To begin with, we didn’t have anything formal. We launched with a MVP (minimum viable product) that was focused on a really clear and concise statement of value for our partners and our customers.”



## The Value of Experimentation

Finally, in true startup entrepreneurial spirit, experts agree that trial and error plays an important role in defining and optimizing any channel program. “In the early days, it requires experimentation to figure out what’s going on,” says David Skok. “Pick a small number of partners and commit to seeing if you can make them successful and learn what’s required to get them off the ground.”

“The channel engagement process is in a constant state of iteration,” says Nasson. “The partner lifecycle is ongoing: strategy, planning, execution; recruitment, enablement, marketing, sales; feedback, adjustment and implementation.” Experimentation is a natural part of the process — making changes based on key learnings so that you’re continually improving the program and its value to business partners.

Real world experience has taught the experts we spoke with that while it’s never a bad idea to invest some time in upfront research and planning, it’s equally valuable to get out there and start doing some actual tests with initial partners. In other words, craft your best-laid plans, but don’t treat them as though they are written in stone. Like most everything else in a startup, success depends on combining best first efforts with flexibility and a company-wide capacity for smart iteration.



## The Process: 4 Phases of Defining Your Channel Strategy

When crafting your channel strategy, it's a good idea to consider the end-to-end process. Because channel programs have so many moving parts and involve so many additional players, thinking things all the way through (to the best of your ability based on the information at hand) is especially important.

The basic process for defining a solid channel strategy includes four phases:



Foundational  
Discovery



Operational  
Alignment



Executional  
Excellence



Collaborative  
Evolution

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As with any endeavor, investing time and effort in some upfront exploration and fact-finding will help you put your best plan forward and minimize missteps and resource waste. Although developing a channel program is part smart planning and part agile bootstrapping, it's to your advantage to take the time to ask the important questions, engage the right people, and test as much as you can prior to a full-scale launch. Unlike internal initiatives, a channel program involves exposure to external partners who may not be as forgiving as you'd like if things don't go as planned. While some bumps are to be expected, it's better to have at least considered the various issues beforehand so that you're able to address them more quickly and capably if they should arise once you've jumped out of the gate.

## 1. Foundational Discovery

At the highest level of strategy, you need to address the big picture questions and concepts related to your organization's overall vision for and mindset around channel marketing:

- » What are your end goals?
- » What's the definition of success?
- » Who are your best potential partners and how can you support them?
- » Who has to be engaged internally and externally to take things to the next level?

It's in these initial conversations with your internal team that you will start to uncover your expectations and motivations as well as any potential roadblocks or potential complications.

For this part of the process to be effective, you need to ensure that all the right stakeholders are fully engaged and have weighed in. As Alex Nasson puts it, "This is not a spectator sport. These are real and critical strategy initiatives." Nasson also stresses that, if it's done properly, this phase of strategy development will often raise some eyebrows and ruffle some executive feathers as ideas are challenged and perspectives refined. "There's a vulnerability and openness that's needed to achieve true alignment and interlock across an executive team," he explains.

Dan Glazer cautions against overlooking details at this stage. "You really need to think about the consequences," he says. "Everything about the channel happens at scale which will compound any mistakes. It's imperative that everyone is clear about who's bringing what to the table, understands the associated value, and has clear expectations about their respective roles."

Nasson agrees that a big part of this phase of the process is getting to the truth about what people really expect and to build a sense of cohesion and trust within the planning team. "You need to frontload the process. Be explicit and detailed, not implicit and general in your discussions. If you can't get clarity and buy-in to create a supportive mindset and realistic expectations within the leadership team, it's not worth the risk of pursuing channel development."

"If you can't get clarity and buy-in to create a supportive mindset and realistic expectations within the leadership team, it's not worth the risk of pursuing channel development."

Alex Nasson, startup consultant



## 2. Operational Alignment

Once you have consensus around the big picture concepts and ideals associated with your vision, it's time to get down to brass tacks about what it's going to take to bring that vision to life — resources, skill sets, organizational adjustments.

“You need to carefully consider the cross-functional alignment and operational-readiness of each team supporting the channel,” says Alex Nasson. You need to be sure they really get what's required to achieve the defined goal. This upfront reconnaissance needs to involve every department within your organization — product development, sales, marketing, legal, finance, professional services, etc. — any group that will affect or be affected by the addition of channel partners to your ecosystem.

Pete Caputa relates taking a similar approach with the HubSpot channel program. “To be successful long-term, we also needed to develop strategies that addressed the challenges of onboarding, training, coaching, and incentivizing our resellers.” While he further admits that it wasn't always the smoothest experience, there's no question that being proactive about working through all these operational considerations saved Caputa and his team many headaches and missteps.

At the same time you're assessing your internal capability to support a channel program, you should also start to assess your potential partners' ability to engage at a level that will make the program a success. Operational alignment needs to be in place not just within your organization, but also across your entire channel ecosystem. Though you will not have control over external factors, it's smart to know which questions to ask.

## 3. Tactical Excellence

Though tactical execution comes after you've put your strategic plan into action, it makes sense to think proactively during strategy development about how you can ensure smooth delivery of your channel program. While things may change after launch, there's no harm in planning ahead and trying to anticipate as many of the potential pitfalls as possible.

Your review of operational alignment will uncover, to a certain degree, whether your organization is prepared to integrate the channel from a structural and resource standpoint, but you may need to dig a little deeper to gain confidence in your team's actual ability to execute.



For instance, establishing operational alignment provides high-level, cross-functional buy-in, but you'll need to get more tactical to establish the specific process protocols that will guard against miscommunications and oversights. Alex Nasson recounted a situation where a head-of business-development proudly announced sealing a big deal with a top-tier client turned reseller only to learn, too late, that his efforts created major channel conflict casting the company in a very bad light with their existing channel partners.

You need to be prepared for all possible contingencies. Taking the time to walk through all the foreseeable scenarios helps you develop the detailed communication and engagement protocols that will make sure everyone who needs to be looped in is looped in and there is absolute clarity about both overarching goals and individual roles in the pursuit of those goals.

In addition to facilitating an effective channel strategy, part of developing executional excellence has to do with helping your team adopt a culture of accountability. "It's so important to establish trust and to be accountable to your channel partners," Nasson says. "It means extending the idea of 'know-like-trust' across the entire experience — the pitch, the sale, and the after sale. It's about acknowledging the partners so they feel less alone, not leaving them out on a limb or blaming them for a faulty implementation."

When Nasson talks about executional excellence, it's not just about what's getting done, but how it gets done. "When a partner is questioning the expertise or value of a vendor, it's critically important to be clear about exactly how you are driving partner success," he says. "It's not always possible for you to promise that your company will be the market leader in every aspect, but you can always commit to being an excellent business partner — someone who is highly accountable, keeps promises, and is committed to service even when it's not exactly convenient (like on nights and weekends when there's a critical customer situation)."

#### 4. Collaborative Evolution

Finally, after defining the broad brushstrokes of your plan, confirming operational alignment, and establishing best practices for executional excellence, only one planning phase remains: acknowledging that the channel is a living, breathing ecosystem that is in a constant state of transformation.

Though you will have hypotheses, you can't predict exactly how the channel will evolve. Once your program is up and running, you may feel like you've finally crossed the finish line, but in truth you're really just getting into position at the starting line. You have to be constantly tuned into how relationships and processes are changing and influencing your business.

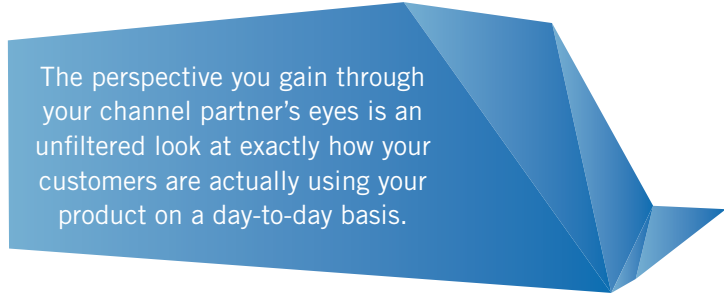




Institute feedback loops and data capture systems that help you monitor relationships, activities, and key performance metrics. As soon as your partners become active participants in your program, you have access to valuable customer and market intelligence that you can't get anywhere else. Nasson cites one instance where a select group of high-impact individuals from channel partner companies were invited to be part of a "SWAT" team that spoke at industry conferences and events on behalf of the vendor. "They raised our awareness and credibility within the industry. They made connectivity to the market as close to instant as you could hope to get," he says. "The experience and feedback shared helped us consistently predict trends that positively influenced the direction of the product and focus of the development teams."

Though your sales reps will have some access to high-level, anecdotal information, your channel partners are typically much closer to the end user and have a much more intimate sense of exactly what's working and what needs improvement.

In some respects, you'll find that this fourth phase of the strategy development process brings you full circle and provides a chance for additional discovery. This time, with your partners as contributors, you will have a much more accurate sense of what you're looking for and where you're going next.



The perspective you gain through your channel partner's eyes is an unfiltered look at exactly how your customers are actually using your product on a day-to-day basis.

## Important Questions, Elements, and Challenges to Consider

Though your particular program strategy may borrow from others, ultimately the exact structure and approach you choose will be custom tailored to your business, your product, your resources, and your potential partners. There are a lot of variables.

Despite the almost endless array of possible outcomes to the process, everyone starts, more or less, with the same set of questions. Though the following list is not exhaustive, it provides a good starting point to help you make sure your strategy conversation covers all the important bases.

In the following section, we're going to look at the key questions associated with:

- » Goal Setting
- » Company Infrastructure
- » Program Structure
- » Channel Compensation and Sales Conflict

## Goal Setting

### Think both short- and long-term

The channel is not a machine that you can turn on for immediate returns. It is an ecosystem that will develop and grow over time. Though your C-suite may have ideas about the ultimate outcome they're after, it's best to establish some interim goals that will demonstrate progress along the way.

Before considering goal-related questions, get into the right mindset by reviewing these best practices.

### Manage expectations

As the channel champion, it will be your job to educate teammates across all departments and within your organization's leadership team so that they don't make unreasonable assumptions about program performance. You can help your teammates maintain a realistic outlook by sharing stories about similar programs.

### Be willing to adapt

While it would be nice to set your goal and be done, the complexity of the channel tends to create moving targets. You may find that you need to adjust your sights once the program is underway. That's okay. It's preferable to be fully aware of how your situation is changing and have the flexibility to accommodate shifts on the fly.

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Encouraging your entire team, including the cross-functional team within your organization and your partners, to adopt this mindset will help keep everyone on the same page.

With this foundation in place, you will be better equipped to establish specific, tactical goals that make practical sense for your particular program. Although your ultimate endgame will be to generate revenue, your channel goal-setting should encompass not only the sales objectives, but also the recruitment and enablement objectives that support and drive the revenue. Together, this suite of goals will help you better assess your program's effectiveness and stability at all stages.

## Partner Recruitment Goals

Typically your recruitment goal will be based on hitting a predefined quota. In addition, you may have goals associated with recruiting a particular kind of partner, either within a specific vertical or tier. Your definition of recruitment success might also include measurement of the cost (in time and resources) to recruit a new partner.

- » How effective is your partner pitch?
- » Are there any opportunities to test different recruitment offers?
- » Are you making best use of opportunities to educate and support potential partners?
- » How are individual recruitment campaigns performing against their specific metrics?
- » Are you keeping the barriers to entry low?
- » Are you able to utilize and rank different methods of recruitment?
- » What is the typical turn-around time on signing a new partner?
- » What is your resource usage around recruiting a new partner?
- » How efficient is your on boarding process?

The following questions will get you thinking about how to set appropriate benchmarks across each stage.

## Enablement & Partner Adoption Goals

Once you have partners working with you, it's important to measure their level of engagement with your product, organization, and — specifically — sales and marketing materials. How frequently and deeply they interact with your support materials and staff is a good indicator of how invested they are in the program and how likely they are to generate revenue.

- » Are you able to clearly define the enablement materials your partner's need/want most? By topic? By format?
- » Are you able to produce and distribute these materials consistently?
- » Do you have an effective communication strategy in place for your partners?
- » Do you have an effective communication strategy in place for your internal channel team?
- » Are you utilizing the most effective communication channels (including social if appropriate)?
- » Are your partners downloading your enablement materials?
- » Are your partners engaging with you about your enablement materials?
- » Are your partners participating in your training and/or certification events and programs?
- » Are your enablement materials and support making it possible for partners to help customers?
- » Are holes in your enablement process creating partner/customer bottlenecks?

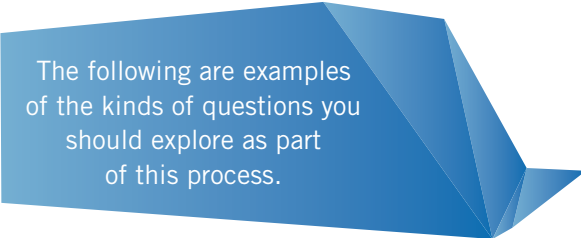
## Sales & Revenue Goals

While there are many ways to quantify channel contributions to your overall business objectives, the bottom line is always about generating revenue. Measuring sales and revenue is pretty straightforward and involves looking at the number of leads/opportunities/qualified sales, annual contracts, subscriptions, etc. Whatever your particular metric set is, you will likely also want to look at some of the more nuanced elements in order to better understand overall performance.

- » How does the cost to acquire a new customer (CAC) compare for direct vs. channel sales?
- » How does the channel influence retention and affect the overall lifetime value (LTV) of a customer?
- » How does the channel influence upselling and cross-selling activities with customers?

## Company Infrastructure

During phase two of strategy development a large part of your focus will be on assessing your organization's ability to integrate and maintain a channel program. This means taking a hard look at the people, processes, and systems that underlie the work you do in order to determine if they will be able to support your vision for implementing channel sales and marketing.



The following are examples of the kinds of questions you should explore as part of this process.

## People: Organizational Structure

- » How are functional roles defined within your organization?
- » What role does each functional group play in direct sales activities?
- » What are the big picture and day-to-day priorities of each group?
- » What role will each play in channel sales activities?
- » How well versed is each group about the channel concept, mindset, and logistics?
- » What is the reporting structure and how will the integration of channel complement or change it?
- » How can you best engage company leadership in your channel initiative?
- » How can you promote the inclusion of channel leadership in company-wide planning?

## Processes: Protocols and Standards

- » Where and when do key cross-functional interactions take place?
- » What are the primary methods of inter-company communication?
- » What are the most effective methods of inter-company communication?
- » What is your current, direct sales process? Who is involved? Where are their bottlenecks? What kinds of conflicts arise?
- » How agile is your organization around making and implementing decisions? What is the process for presenting and facilitating those kinds of conversations?

## Systems: Tools and Technology

- » What tools and technology are currently in use for direct sales?
- » How can those systems be adapted for channel sales?
- » What types of systems do you see in place in comparable channel programs for competitors or collaborators?
- » What additional systems do you want/need in place for channel (a partner portal, for instance, or specific solutions to help you manage partner relationships, training, lead registration, incentives, etc.)?
- » What integration/interoperability issues can you anticipate within internal systems and/or with partner systems?

## Program Structure & Assets

Whether you start out bootstrapping with a skeleton crew, or choose to ramp up with a full staff and a lot of up-front planning, there is a wide variety of considerations related to program structure. You won't necessarily be able to (or need to) define all of these before you launch your initial program, but it's a good idea to familiarize yourself with them in the beginning so that you have a sense of what types of conversations and decisions you'll need to address as your program grows and evolves.

Your program structure will, by necessity, be defined in great part by the constraints of your company infrastructure. Developing a program with management and support needs that exceed your available resources will only set you up for failure. Better to reverse engineer the best program you can based on the people and tools available, and then use your wins with this prototype to justify adding resources and supporting technology.

## Partner Recruitment and Engagement

- » Recruitment Pitch (Including value proposition for partners)
- » Deal/Lead Registration Requirements
- » Qualification Requirements
- » Program Marketing Materials
- » Reseller Agreement
- » Reseller Screening Document
- » Reseller Policies
- » Training Requirements
- » Certification

Here are some elements and assets to consider for your program structure.

## Enablement

- » Partner Portal
- » Partner Community
- » Partner FAQ
- » Product Marketing Collateral and Support
- » Product Related Content Assets (Email Templates, White Papers, Ebooks, Case Studies, Videos, Brand Guidelines, etc.)
- » Product Sales Collateral and Support
- » Market Analysis
- » Sales Assets (Sales Presentations, etc.)
- » Direct Sales Support (Presence on Calls, etc.)
- » Reseller Locator
- » Spec Sheets
- » Technical Collateral and Support
- » Technical Documentation
- » Virtual Training
- » Implementation Assistance
- » Maintenance
- » Partner Funds (Co-op Funds, Market Development Funds, etc.)
- » General Partner Communications
- » Primary Point of Partner Contact
- » Partner Resources on Non-Product Topics (Content, Training, Support)

## Sales and Reporting

- » Sales Quotas
- » Margins
- » Levels/Tiers and Associated Requirements
- » Lead Registration
- » Conflict Identification and Resolution

# Channel Compensation and Sales Conflict

## Choosing the Long View Over the Quick Hit

With a value-added reseller channel model, though incentives (commissions) do play a role, they are not typically the primary focus of the compensation conversation. “Traditional compensation is an important motivator, but it isn’t the only one,” says Alex Nasson, adding, “The money is just table stakes.”

In a traditional software reseller scenario, the reseller makes its money upfront on a one-time, big-ticket sale. In a SaaS VAR reseller model, the primary value to the partner lies in the vendor’s ability to help grow the partner’s business through the sale of additional services. “Because we focus on helping partners grow their business and enable them to sell ten dollars of services for every dollar of software,” Peter Caputa explains, “they don’t need to build their business on commissions.” Although the HubSpot commission is quite generous, the bigger value partners see is gaining the ability to package services in a way they couldn’t before. Partnering with HubSpot enables them to expand and scale their services, which is the core of their business and where they already focus their efforts.



## Defining Where the Value Lies

As with any conversation about who gets which piece of the pie, VAR channel compensation discussions can turn into a debate about where the value lies for the customer. Nasson posits that in many cases the lion’s share of the value lies with the VAR reseller who is developing and deploying the end user solution. “True business value isn’t realized by the joint client until the software is up and running and the specific solution is delivered via the reseller providing the necessary related services and training.”

Though the vendor sees value upon purchase, the customer won’t gain any return on that investment without the support of the VAR reseller.

On the other hand, Dan Glazer warns against undervaluing your product. “If you have a successful direct sales business, there’s a reason people buy from you,” he says. “Though partners do add value to the equation, their contribution is usually about complementary services. Don’t underestimate your technology, and always be clear about the value each party brings.”

## Proving the Economics Works

Whatever compensation model you choose, you have to be able to prove that the economics of the model work — for your company and for your partners. “After hiring channel account managers and validating that our customer economics worked at scale, we established support across the company, including sales, services, marketing, ops, training, and development,” says Peter Caputa. “We no longer question the economics of the program; it’s woven into the fabric of the company.”

Most of the experts we spoke with cautioned against trying to jumpstart your channel program with aggressively reduced rates. While this may seem like a viable way to attain early critical mass, it’s an almost guaranteed way to create channel conflict and also has potential long-term consequences over the lifetime of a customer. Dan Glazer saw a scenario in which special partner pricing prompted some existing direct customers to request switching to the partner model. In other cases, SaaS companies undercut their resellers, effectively stealing deals from the partners. This type of activity destroys any trust you’ve built up and, in the worst case, incentivizes your so-called partners to look for alternate solutions and even facilitate a coup in cooperation with a competitor.

Ultimately, the model you design has to be fair and equitable for all parties involved.

## Avoiding Channel Conflict

As mentioned, the biggest land mine in the channel landscape is the potential for sales conflicts.

There are many ways to proactively avoid channel conflicts depending on the kinds of situations you anticipate. For instance, if you are worried about direct sales reps undercutting the channel, your pricing structure might include channel-specific discounts and a fixed price point for direct sales. You may choose to compensate your internal sales so that it doesn’t make any difference to their commissions whether the sale goes through the channel or direct. You may offer your direct reps an additional incentive for channel sales.



Other methods that can help reduce channel conflict include segmenting products by seller type, making certain geographical or vertical territories exclusive to certain sellers, rotating promotions, providing MDF and co-op funds to resellers, etc. In addition, implementing a lead registration process and system can be very helpful in eliminating the risk of having direct and channel in pursuit of the same business.

## Helping Your Sales Team Keep the Big Picture In Mind

In the same way that you need to help your partners take the long view by understanding the value you deliver helps them grow their business over the long-term, you and your sales organization need to keep your eye on the big picture and the ultimate goal of building a channel ecosystem that will provide substantial, long-term revenue to your company.

When explaining why it's sometimes to your advantage to make less money on an initial sale in order to process that sale through the channel, Skok says, "Why would you intentionally reduce your initial profit by handing the deal off to a partner? Simple. Because it's an investment in creating a channel relationship that will deliver more value in the long run."

It's helpful to keep the success of the customer in mind. Glazer notes that Optimizely's partners add value for customers by providing support services that his in-house team does not. "Sometimes we find that a direct sale needs more support than we provide," he explains. "We'll pull a channel partner into the deal to ensure that the customer succeeds. We routinely pass a lot of deals back and forth like this. It makes our partners very motivated to work with us and creates a mutually beneficial relationship that helps grow both our businesses."



Quick  
Recap

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## Crafting Your Channel Strategy

Researching and building a strong channel strategy is a big undertaking. There are many moving parts and personalities involved. You have to do a lot of proactive work to uncover the truth about motivations, expectations, and feasibility. But, despite the inherent challenges, the potential benefits still usually outweigh the effort required. Done right, a well-thought-out strategy becomes a stable foundation upon which you can build a successful channel ecosystem, even though you may not know at the start exactly how that ecosystem will develop and evolve.



## Chapter 3:

# Building Your Channel Team

Whether you're working with one person or one hundred people, there are some universal best practices to consider when it comes to structuring and managing a channel marketing team. To maximize their chances of success, top performing channel teams typically share three common characteristics.

## 3 Characteristics of Successful Channel Teams

### 1. They're Cross-Functional

Though a channel program may start out small, perhaps as an extension of your sales operation, it's best to take a cross-functional approach from the start. This is the only way to ensure not only program survival, but also scalability.

Speaking frankly about the initial development of the channel team for Optimizely, Dan Glazer says, "At first, we overlooked the fact that channel affects every part of the organization. We started out working solely with sales, but soon realized that we needed to involve finance, marketing, and even our product team." As Glazer points out, channel touches every aspects of your business, even to the point of influencing product development based on channel partner feedback on features and usability.

Based on his experience, Glazer recommends meeting with the various functional leaders within your organization as part of your due diligence. "You need to have the resource conversation up front," he says. One way to approach this is to quantify the percentage of revenue you expect to generate via the channel and then use that figure to help resource owners understand your need to tap into their tech/training/marketing/etc. personnel and other assets. "It's the difference between night and day when you have connections and support within those cross-functional teams," Glazer says.

Once you've established those contacts, Glazer recommends showing them how channel can help solve their problems, "You need to figure out the ways in which each cross-functional team can win with channel," he says. "The executive teams mostly get it, but the extended teams may need further education."

In his business development role at Pantheon, Halid Ibrahimovic considers himself an internal advocate for channel, "I work closely with partner marketing, product, support, and our direct sales team to make sure we're strategically aligned over the next quarter in terms of campaigns we're going to launch and any other details." In this way, Ibrahimovic ensures that all the functional leads are kept in the loop on what's happening with channel, so there are no developmental surprises or unexpected resource demands.

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**Bottom Line:** Understand that what you do with the channel has far-reaching implications that will affect all the teams within your organization. Don't keep them in the dark. Give them the opportunity to engage early and help you build a channel program that has cross-functional support.

## 2. They Have Company-Wide Buy-in and Support

Given the typical resource constraints of expansion-stage SaaS companies, the efforts to develop a channel program tend to come in fits and starts. Without a comprehensive strategy and systematic approach that delivers company-wide visibility, you will find it difficult to garner the support you need to build and maintain a successful channel program.

“Organizationally, the head of channel should report to the CEO or be on an executive committee,” says Peter Caputa. “This level of access and influence is important because every decision company leadership makes will impact the partners.” Caputa also advocates for having a channel representative involved in annual planning. “In terms of growth, the important channel considerations aren’t necessarily intuitive for people not directly involved in that aspect of the business.”

Dan Glazer agrees that it’s important to engage each team within the context of the whole organization. “Each team has its own initiatives,” he explains, “But even though they work towards it in different ways, they are all aligned with one company goal.”



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**Bottom Line:** As much as possible, you want to have company-wide top-down and bottom-up support for your efforts. You want everyone in your organization thinking about the channel as much as they think about direct sales.

### 3. They Are Somewhat Specialized

Although you don't need to build or engage a specialized team right out of the gate, there are a few mindset and tactical considerations to keep in mind when putting your channel team together.

For example, David Skok warns against expecting that your inside sales reps will transition easily to channel sales. "There's a different mindset involved in committing to the long-term effort of building a channel," he explains. "Sales people used to direct sales prefer more control and the faster results that come from doing things directly with the customer." In contrast, channel sales people know that their patience will be rewarded. "They know that the channel will help them get greater leverage than doing things themselves."

In addition to sales reps, Skok is adamant that the head of sales should be very committed to the channel program. "You need a leader who is willing to see the program through the bumpy phases of the early days," he says. "For example, you may hand off a lead to a channel partner, and they might bungle it. Sticking with it through those rough patches requires someone who has seen the model work before and is willing to commit to the long-term vision." With your head of sales bought into the channel, you can rely on his or her leadership skills to manage the rest of the sales organization and provide the appropriate training.

Firas Raouf points out that you may also need to specialize a little based on the unique nature of your business and your partners. For instance, in his work with a SaaS company that sells marketing tools, he deals with a range of partner types — some use the software internally while others manage the software on behalf of their clients to a varying degree of detail. For this type of situation, Raouf recommends assigning support based on the partner role (marketing, sales, services, etc.). "Each situation varies," he says, "But by honing in on the type or partner, you can more easily determine who within the SaaS company should own the relationship."

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**Bottom Line:** While you don't need to insist that every member of your channel team be solely dedicated to channel, it is a good idea to make sure they are fully versed in and committed to your channel philosophy.

## Example Team Scenarios

While each channel team's structure and personnel will vary based on the unique resource availability of the SaaS company and support needs of the partners, it can be helpful to look at how other companies have built out their teams.



### Roles at Hubspot

#### Channel Account Manager

Helps partners with sales opportunities (including co-running sales calls and being available to field integration questions, etc.) and, depending on the stage of a partner relationship, provides relationship-building support such as providing specific resources.

#### Channel Consultant

Leads implementation of software and inbound methodology for both the channel partner and the partner's clients.

#### Sales Training

Provides recorded, group training.

#### Channel Marketing Team

Creates sales and marketing materials for the channel partners.

#### Communications Lead

Manages creation and distribution of a weekly partner newsletter along with supplement, targeted communications tailored to specific partner segments, also manages webinar series that covers both product-related and inbound best practices topics.

#### VP Channel Programs

Works with IT and operations teams to ensure systems and interfaces include features and workflows required for partner engagement.

## Roles at Pantheon

### Partner Marketing Lead

Fills top of funnel with potential partners, assists partners with co-marketing (including joint events, email campaigns, webinars, case studies, etc.).

### Recruitment Lead

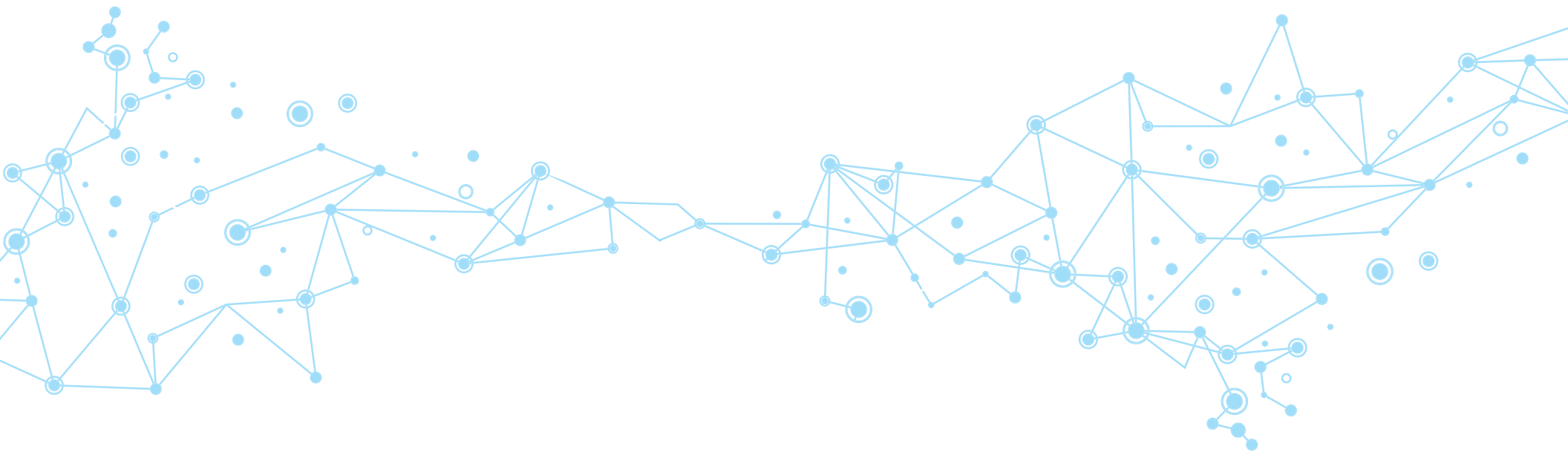
Manages initial engagement and handles some on-boarding.

### Business Development Manager

Handles on-boarding and relationship management for strategic partners, advocates internally for the channel program, works with partners to identify opportunities to increase adoption, provides support on upper-tier sales calls.

### Training Lead

Provides training support for all groups, including channel partners.





## Chapter 4:

# Executing Your Plan

With the heavy lifting of strategy research and development behind you, you're ready to get down to implementing your plan. The following section covers the three phases associated with launching your channel program:

- » Research: Finding the Right Partners
- » Recruitment: Getting Partners Onboard
- » Enablement: Helping Partners Succeed

As with many other aspects of developing a channel program, there are many variables that will come into play in each phase. Which tactics make sense for you will depend on your product, your market, and your potential partners. The following section will, however, give you a high-level overview of the kinds of things you need to think about when you are ready to put your strategy to the test.



## Research: Finding the Right Partners

The choices you make about who to partner with can make or break your channel program. At a high level, you need to be sure that you've chosen the right category of partners. As you drill down to individual partners, you need to ensure that each partner is a good fit philosophically, operationally, and in terms of ability to perform.

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### Begin with the End Customer

Everything comes back to the customer, so it makes sense to start your search by looking at their needs. When thinking about how to identify channel partners, look at how your customers buy and use your product. Where are there gaps in their experience that could be filled by a channel partner? What types of additional support and facilitation do they need to make the best use of your product? You are looking for opportunities to help them succeed at the highest level with your product.

As much as possible, talk directly with the people who are in the trenches. Customer interviews can be very helpful, but don't overlook the value of talking with internal resources like your customer service and technical support teams. These people will be able to provide you with a real-world sense of exactly where customers need more help or are suggesting complementary products and services that might be best delivered by a partner channel.

### Identify Potential Partner Roles

Once you have a sense of customer needs in the context of your product, you can begin to research the different functional roles that help customers meet these needs. Who is already working with your customers, providing guidance and support on matters related to your product? These are likely the organizations you want to partner with.



In addition to looking at the different functional roles partners play, you also want to consider potential partner types in terms of the value you can bring to their business. How can you help each potential partner type grow their business by expanding or scaling services? What types of related support can you deliver that will help them succeed against their own business objectives?

## Define Your Ideal Partner

Once you've narrowed your search down to a particular partner type, you can start to get more specific about how to define your ideal partner. You may use criteria such as location, audience scope, service offering, or niche focus to help you further define which potential partners will be the best fit for you. You may prioritize your partners by sales performance, breadth of reach, skill level, sales capability, or technological assets — whichever criteria make the most sense in the context of your channel objectives.

Armed with these kinds of details, you'll be better equipped to begin a strong recruitment effort.

## Recruitment: Getting Partners Onboard

“We approach partner recruitment like a sale,” says Halid Ibrahimovic. “We pitch prospective partners on the value of becoming a partner.” This is the case for most SaaS vendors at the expansion stage. You don’t yet have the market cache to command instant interest, so you need to think about attracting partners similar to the way you attract customers, though with entirely different messaging.

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Even HubSpot, which recruits about ninety-five percent of its partners via the web, looks at each partner relationship as a two-way street. “We spend quite a bit of time helping potential partners evaluate our program,” Peter Caputa says.

In the course of developing and growing HubSpot’s channel program, Caputa has identified four steps that have been particularly instrumental in the program’s recruitment efforts:

### HubSpot’s 4 Steps to Recruiting Channel Partners

#### 1. Think Marketing (Not Sales)

“From day one, we started hosting a lot of educational webinars that were directed specifically at our potential partners — marketing agencies and consultants,” Caputa explains. “When they were over, I just sat back and watched the interest in our program fly in. I never had to call anyone who didn’t contact us first. In short, we used inbound marketing to bring the market to us instead of relying on old-school sales tactics (hounding, begging, and bribing) to build our program.”

#### 2. Solve Your Resellers’ Challenges First

HubSpot has built its VAR channel around helping resellers solve their own marketing challenges. “While resellers must believe your software will help their clients,” Caputa says, “they must first believe that you can help them.” After watching HubSpot salespeople spin their wheels giving demos to marketing consultants who had little intention or ability to sell the HubSpot product

to their clients, Caputa began routing those kinds of inquiries to their webinars. “As it turned out, most small and mid-sized marketing agencies and consultants need training on how to run their own businesses,” Caputa explains. “So, we began offering that training to our prospective partners, and by doing that we’ve helped thousands of agencies increase recurring revenue, lower cost of delivery, and improve client retention.” As a “side effect,” they’ve also managed to grow one of the most successful SaaS channel programs in the industry.

### 3. Don’t Sell a Product — Sell a Platform

If it’s a viable option for you, explore ways to expand your mission (and software offering) to provide a more complete solution for your partners, and — ultimately — your mutual customers. This is a strategy that HubSpot has used to great effect via expanded features (email marketing, automation, CRM, analytics, etc.) and APIs that support custom solutions. “Our expanded offerings enable agencies to offer additional services to their clients more efficiently, and ultimately deliver more value to clients at a lower cost,” Caputa says. “The breadth of our platform is a compelling reason to not just resell our product, but to standardize on our platform.”

### 4. Keep the Barriers to Entry Low

Most traditional resellers require partners to invest a significant amount of time and money up front. The HubSpot team took a different approach. “We require no additional investment beyond what a standard customer would pay,” Caputa says. “Keeping the entry price low has allowed us to recruit one-person marketing consultants and small agencies as resellers. And, while it’s true that each of those individual resellers won’t bring in a lot of new business on their own, collectively they have an enormous impact.”

Your approach may be based on your product and business model, but the idea is to make it easy for partners to say “yes” to your pitch. Reduce friction in order to land that initial engagement and then move into a strong enablement program to help them realize the value of the partnership.

#### More Recruitment Tactics

While HubSpot obviously utilizes an inbound-heavy approach, there are many traditional outbound recruitment tactics you can utilize, as well. For a list of ideas, visit: <http://www.chanimal.com/resources/channel-marketing/recruit-resellers/>

# Enablement: Helping Partners Succeed

## 1. Teach Them to Fish

“Paying for the product isn’t as big a hurdle as learning the product,” says Peter Caputa. This is why his team has invested so much in the training and certification elements of their channel program. “We’ve created what’s almost like a mini MBA for our agency partners,” he says. And the results have been stellar.

David Skok experienced this success of this approach with SolidWorks’ VAR channel program, “[SolidWorks] chose to address the problem in a far more innovative way by looking at their existing VAR channel as an unoptimized resource, and figuring out what steps would need to be taken to further develop the business skills of that channel. The result was something extraordinary: a program where SolidWorks provided their VARs with a full education on every aspect of running a business, equivalent to a mini-MBA program. [SolidWorks] became business mentors to the VARs, educating them on all aspects of how to run a great company. This included not only sales and marketing, but also finance, HR, recruiting, business planning, etc. Their efforts paid back in spades, as SolidWorks quadrupled sales and grew their profit margins to double the industry norms.”

Figuring out what your partners need to succeed and how you can help fill those needs is the linchpin of many of the most successful SaaS VAR channel programs. The exact tactics you use will vary, but the end goal is to empower your partners in their own business. Once they have achieved a greater level of competence and independence, they will be better equipped to sell your product to their end customers.

## 2. Communicate Effectively

As in any collaboration, consistent and clear communication is key. Once you’ve recruited a partner, you want to establish and maintain an on-going dialog to promote continued engagement. The trick is in getting the communication methods, content, and frequency right.

In her work helping IT vendors communicate with and enable their partners, Heather K. Margolis of Channel Maven Consulting focuses on reaching partners without “bombarding” them. “Partners often work with eight to fifteen IT vendors. That means they are getting exponentially more emails than just the ones you are sending,” she explains. “They don’t usually have time to process all the information coming in via email.” Margolis recommends that, based on their upfront research about partner

preferences, SaaS companies experiment with alternative methods of communication including social media, mobile apps, and email nurture campaigns. “The key,” she says, “is to avoid overwhelm without losing traction and focus on alerting them to resources and programs that will help them sell your solutions

You also want to be sure that you make good use of two-way communication channels like blogs and message boards. Although you may feel like you are driving the program, you have a lot to gain by listening closely to your partners. As much as possible, make it easy for partners to provide feedback, give suggestions, and lead the conversation about how your program should grow.

### 3. Provide Partners the Right Marketing and Sales Tools

On a tactical level, channel enablement has a lot to do with getting the right materials and tools into your partners' hands. The materials you choose to create and distribute for your channel will vary, but you can refer back to the starter list in [Chapter 2](#) for assets and collateral that might help them do a better job marketing and selling your product.

## Measuring and Optimizing Channel Performance

### Part 1: Understanding What Drives SaaS Success

The best channel strategies are built around serving the needs of your customers and helping your partners grow their business, but that doesn't mean that your channel work is altruistic. When all is said and done, you must be able to quantify the value channel delivers to your business and show how helping others ultimately helps your company.

David Skok identifies the three keys to successful growth in SaaS:

1. Acquiring Customers
2. Retaining Customers
3. Monetizing Customers

If you can master these three elements of your business, you can be pretty certain that you're doing things right. Interestingly, in the right situations, a value-added reseller can provide an important advantage in each of these areas.

Skok establishes two guidelines that are very useful in determining the viability of any SaaS business. While traditional software licenses require a substantial upfront investment, the SaaS business model is built around the concept of recurring revenue. Because your return is delivered over an extended period of time, the two figures you need to manage are the cost of acquiring a new customer (CAC) and the lifetime value of a customer (LTV).

Skok's guidelines, which he has validated with many SaaS businesses, state that to be successful:

- » The LTV of your customer must be at least three times higher than your CAC.
- » The time required to recoup your CAC must be less than twelve months.

### Using the VAR Channel to Reduce CAC

Based on these guidelines, keeping your CAC as low as possible is clearly critical. In the right cases, VAR channel resellers can be an extremely effective way to reduce your CAC. David Skok points out how HubSpot recognized they had a more favorable LTV:CAC ratio selling to the VSB (very small business) market through VARs than selling direct. So they adjusted their focus and personnel accordingly.

It will take some time to get to a point where you have enough experience and data to demonstrate specific trends, but once you've identified those trends you will be able to also identify opportunities to optimize your channel efforts.

### Using the VAR Channel to Improve Retention

The second of Skok's keys to success — retaining customers — is one that he believes should take top priority. “The second item should be first on your list of things to get right,” he says. “If you can't keep your customers happy, and keep them using the service, there is no point in worrying acquiring more of them. You will simply be filling a leaky bucket.”

Reducing churn is another area where a VAR channel can provide critical support. Skok identifies the primary causes of customer turnover that can be at least partially addressed by VAR channel partners as follows:

**You are not meeting your customers' expectations.**

If the product is not providing enough perceived value, the customer will discontinue use. VAR channel partners can help customers get the most out of your software so that they can realize the full benefit of using it.

**You are unable to increase adoption.**

SaaS software can be especially susceptible to low adoption because the amortized cost makes the overall expense seem lower, so there is less urgency for the customer to recoup costs. VAR channel partners can help ensure adoption through hands-on management of the software on behalf of customers, or by integrating your software into their standard workflows.

**Your sales team has oversold the product or sold it to the wrong customer.**

While direct sales reps may be tempted to hype particular features or move forward with a sale even when they know your product isn't exactly the right fit, a VAR channel partner (who has a working relationship with the customer) will always make sure that the customer knows exactly what he is buying.

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By definition, VAR channel partners can, and often do, take on a lot of the heavy lifting associated with helping customers integrate, adopt, and use your product. They are one step closer to your customer and therefore better able to ensure customer happiness on a case-by-case, day-by-day basis.



## Using the VAR Channel to Increase Upsell/Cross Sell Opportunities

The VAR partner's close proximity to the customer can also work to your advantage by providing your product team with an up-close-and-personal, real-world look at what customers actually want.

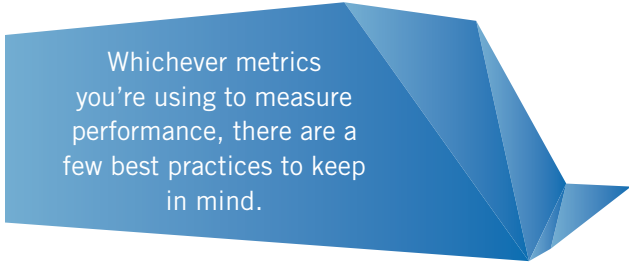
Since, in many cases, your channel partners will be either managing your software on behalf of your mutual customers, or will at least be working hand-in-hand with them, they will have direct access to real-time feedback on what's working and what's not, which features customers are really using, and which features are on the customer wish list. Customers are also more likely to be frank in their feedback when talking with a channel partner than when talking with someone inside your organization, meaning that — in some cases — the channel may be your best way to get at the truth quickly.

Overall, whether it is just part of your sales strategy, or the focus of your entire go-to-market plan, using the VAR channel can help improve your performance across all three of Skok's keys to SaaS success.

## Part 2: Following General Measurement Best Practices

### Be clear about your goals.

Review what you learned during the discovery phase of your strategy development. What goals and expectations did you establish? How did you define success? You can't measure accurately against a vague idea. You need to know exactly what you're trying to accomplish and how you'll know you've accomplished it before you can figure out a process for assessing your progress.



Whichever metrics you're using to measure performance, there are a few best practices to keep in mind.

### Track progress regularly.

Once you've determined the metrics that matter most, be intentional about establishing a consistent review schedule. Check in frequently with your team. Keep people updated on how things are going and solicit their feedback on how things look from their perspective. Remember that it's important to remain agile and open to experimentation.

These regular check-ins with your internal team and external partners will help you keep your finger on the pulse of your program so you can nurture what's working and course correct where things seem to have gone awry.

But, again, give it time.

By now you know that channel marketing is not a campaign. It is not a quick fix. While it's important to stay tuned into your team's progress, it's equally important to manage everyone's expectations (including yours) about when you'll start to see a return on your investment. Because channel efforts do not make immediate contributions to the bottom line, these programs are often written off prematurely. Remember that channel is a long-term play.

### Look carefully at channel vs. direct performance.

Benchmarking channel sales performance against direct sales performance is critical to uncovering your most effective, efficient, and profitable approach to both acquisition and retention. You may find that you are best served by a one hundred percent channel play, or that your product is better suited to a hybrid approach where direct and channel sales each fulfill the needs of particular customer audience segments. Whichever approach works best for you, comparing and contrasting channel vs. direct sales will help you better understand exactly how your customers want to buy from you and what keeps them engaged.

### Use what you learn.

Finally, make sure that you put your measurement and analysis efforts to good use by basing future channel decisions on what you've learned. As Brad Coffey's anecdote about switching from a direct to partner sales strategy illustrates, it can be highly profitable to pay close attention to what's working and why so that you can shift your focus and approach to better serve your overall business objectives.





# Conclusion

Though they come from all different walks of life and work across a wide spectrum of industries, the people behind SaaS companies all have one thing in common — they are all problem solvers. Whether you are a company leader, product developer, marketing lead, or sales person, the product you're bringing to market is inspired by a desire to help increase efficiency, productivity, and performance through smart, powerful software. In short, your company is on a mission to deliver a solution that helps other people do a better job.

Your channel marketing program should be driven and defined by that same mission.

Successful SaaS channel marketing strategies focus not on how others can help you achieve your goals, but on how your organization can empower its partners in their role serving your mutual customers. Aligning your company with the right VAR partners gives you the opportunity to become the architect of a thriving business ecosystem that supports the growth of everyone involved: your customers, your partners, and — ultimately — your own company.

To do this right, you need to orient everything you do and everyone on your team around supporting and empowering your partners.

Developing and growing a strong SaaS channel program takes vision, patience, and collaboration. The relationships between you and your partners must be built on transparency, respect, and alignment around a mutual desire to solve a problem for your shared customers. The process, with all its moving parts and variables, can be complex, but a combination of proactive planning and startup-style agility will give you a strong advantage. Ask a lot of questions. Test a lot of theories. And learn from both your wins and your mistakes. As other companies have experienced first hand, when you find the right channel solution, the rewards will far outweigh the initial investment.

Good luck!

# Appendix

## About the Experts



**Dan Glazer, Director of Partnerships, Optimizely:** Giving businesses a platform that helps them easily conceive and run optimization experiments that inform better, data-driven decisions.



**Firas Raouf, Founding Member of OpenView and Founder, [N]Squared Advisory:** Helping non-US, early-stage B2B software companies become high value ventures by developing and executing their US market entry and growth strategies.



**Halid Ibrahimovic, Business Development Manager, Pantheon:** Providing top developers, marketers, and IT pros with a professional platform on which to build, launch, and run all their WordPress and Drupal websites.



**Peter Caputa, VP Sales, Hubspot:** Helping companies attract visitors, convert leads, and close customers via inbound marketing.



**Alex Nasson, Advisor & Management Consultant:** Guiding early and mid-stage startups through critical growth stages with a focus on creating effective partner strategies, developing high performing partner programs, and building world class alliances and channel partnerships.



**David Skok, General Partner, Matrix Partners:** Providing entrepreneurs with guidance and support via his VC initiatives and his extensive personal experience, particularly in the area of helping SaaS companies build a successful sales and marketing machine.



**Heather K. Margolis, Founder and President, Channel Maven:** Providing strategic channel and marketing consulting to IT channel organizations of all sizes.

## Sample SaaS VAR Channel Programs

If you're considering launching a SaaS VAR channel program, you might want to take a look at some of the successful programs that are already working for other B2B SaaS brand in the market. Sometimes, taking inspiration from someone else's example is the shortest route to finding your own path to success. Here are a handful of examples to consider.

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### HubSpot

The HubSpot VAR channel program, probably one of the best known and most often cited in the B2B SaaS industry, is a great example of many of the best practices outlined in this guide. In fact, you can also learn a great deal about Hubspot's approach and commitment to the VAR channel model just by visiting the partner area of their website.

**The Product:** All-in-one inbound marketing platform. From the site: "... attract, engage, and delight customers by delivering inbound experiences that are relevant, helpful, and personalized."

**The Partners:** Marketing Agencies

**The Program:** HubSpot's program serves a variety of agency types from one-person operations to larger, full-service agencies. Program tiers are defined by the dollar value of MRR (monthly recurring revenue) plus "Client Success," a focus that belies HubSpot's dedication to ensuring that resellers use the HubSpot product to help their own customers grow their businesses.

Even a quick visit to the partner pages on the HubSpot website make it clear that the SaaS company is passionate about helping their channel partners succeed. All the content and messaging is built around this singular objective, leading with the simple yet strong headline, "Become a Better Agency."

The "pitch" for the program talks about how HubSpot helps its agency partners solve their most pressing problems: generating new business, proving ROI, and building a more stable and sustainable business through retainer contracts. The pitch continues by outlining all the resources and support available to HubSpot partners. None of these materials are about how to sell HubSpot to their customers. There are no spec sheets or features and benefits lists. Instead, the page highlights all the ways in which HubSpot helps its partners improve their own business through extensive training, consulting, and collaboration.

**The Success:** In his OpenView blog post, [7 Steps HubSpot Used to Scale Its Channel Program](#), HubSpot VP of Sales, Peter Caputa, shares that for the first quarter of 2014, the VAR channel program has produced approximately 42% of the company's customers and 33% of revenue.

## SolidWorks

**The Product:** SolidWorks is a solid modeling CAD (computer-aided design) software used by engineers and designers in both professional and educational settings.

**The Partners:** Providers of complementary software and services that help SolidWorks users bring their products to market more efficiently and cost-effectively. These certified VARs provide product training, startup services, and on-going support.

**The Program:** According to Skok's article, ["SolidWorks: The Best VAR Management Program in the World?"](#) the SolidWorks VAR program rolled out in the three phases. The first phase focused on clearly defining what VAR partners wanted and needed. This phase was led by then SolidWorks CEO Vic Leventhal, who had previously been the CEO of a CAD reseller. His first-hand experience being mistreated at the hands of a vendor provided critical guidance for the SolidWorks team as they set out to earn the trust and loyalty of future partners.

During the second phase of program development, the team at SolidWorks focused on systematically driving performance based on two key metrics: the number of effective VARs and their individual productivity. Taking a data-driven approach to optimizing the program around these two KPIs, SolidWorks was able to reach \$100 million in revenues.

The most innovative and effective phase of program development evolved out of the company's need to address slowing growth that was due to reduced VAR productivity. At this crucial stage, SolidWorks might have chosen to take a more traditional route by adding new VARs to existing territories, starting to sell direct, or relying on motivating via sales incentives. But, they realized that these approaches would only weaken their relationships with their current VAR partners and put profitability at risk. Instead, they chose to look at their VAR partners not as an outside third party, but as an un-optimized company resource. Looking at the challenge from this perspective, they were able to focus on figuring out how to improve and optimize the skills of the channel to ensure better performance.

The result was the development of a mentoring-type program that enabled SolidWorks to educate and support its VAR partners in all areas of business development. Reaching far beyond basic sales and marketing, the SolidWorks team took on the role of advisor for every aspect of their VAR's business growth - finance, HR, recruiting, business planning, etc. They began providing, in essence, a mini-MBA to help their VARs succeed at every level and across every area of their operation.

**The Success:** Though Skok cautions that this type of program may not be feasible for smaller startups, he believes it provides great inspiration by illustrating the value and power of putting partners' needs and success first. SolidWorks eventually grew to \$400 million in revenues, the bulk of that growth occurring during the third phase of the VAR program development. In addition, Skok notes that the company's profit margin "would be the envy of the software industry if it were publicized."

## Xero

Rather than relying solely on their ability to sell direct, Xero tapped into the existing relationships small business owners have with people they already trust, in Xero's case their accountants and financial advisors.

**The Product:** "Beautiful accounting software" for small businesses and their advisors

**The Partners:** CPA and accounting firms

**The Program:** Xero was very intentional about aligning their program structure with the needs of their partners. Rather than focusing on the traditional model of providing value through commissions, they focused on delivering value to their partners by helping them do a better job at their core business. Xero has developed and integrated a suite of features and tools that give CPAs and accountants more capabilities, insight, and visibility into their end customers' financial matters including the ability to look at specific activities, key data, and operational indicators. These features (and the associated business benefits they bring to the VARs) are far more valuable to Xero's partners than any one-time spiff.

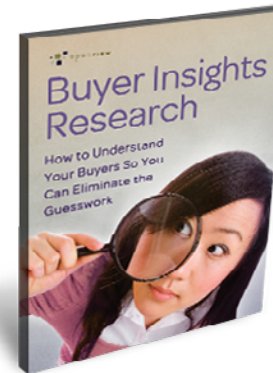
Xero's program is a great example of how the channel can still be a good fit for a SaaS product that doesn't require any complex integration or implementation. Their success proves that as long as you can find the right partners - people and companies who serve the same end user and, optimally, already have a strong relationship with that mutual customer - there are all kinds of ways you can work together to ensure the growth of all parties involved.

**The Success:** Xero generates approximately 50% of its business through the VAR channel.



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