

Managing Customer Expectations: The Channel Partner and Software Vendor Challenge

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Introduction

Traditionally, enterprise software projects were all about up-front licenses and follow-on maintenance fees. For a software vendor or channel partner, success was to get the job done, get out, and get paid. Little importance was placed on building a good long-term working relationship with the customer. But, as software vendors move to the cloud and to subscription-based pricing models, this traditional approach does not work so well. Success with subscription-based pricing requires a good long-term relationship with the customer. Software vendors and channel partners alike are aware of the changes but have at times been slow to respond or adapt to the new reality.

This change is triggering what one industry luminary recently described to me as “transition anxiety.” Software vendors are doing everything they can to provide the best technology possible for this changed environment, and they are

working equally hard to ensure ongoing customer loyalty. While this is effort well spent, first impressions are the most important (like it or not), and a subscription customer’s first impression of a technology vendor is likely via a third-party channel partner such as a digital agency or systems integrator.

Digital Clarity Group’s most recent research, based on 25 interviews with IT customers at large organizations, tells us that software vendors need to look much more closely at this critical element of the customer relationship. In most scenarios, the channel partner is the face of the technology vendor’s product throughout the planning, development, and deployment stages, and many are leaving a less-than-stellar impression. The quality of the channel partner’s relationship with the subscriber and the impression it leaves will be a legacy for the software vendor to manage as it works to convert new customers into loyal subscribers in the years to come.

Key Findings: Vendors and Channel Partners Need Better Coordination

Digital Clarity Group conducted a series of 25 interviews with IT customers at enterprise organizations (including Fortune 500 companies) in the U.S. and Europe that are in the midst of, or have recently completed, a major software implementation project. The data and associated analysis in this report are drawn from those interviews. Our key findings include the following points:

- Software vendors and channel partners are not working well together to engage with customers.
- The move to the cloud has led to overselling and oversimplification of enterprise software complexities.
- Subscription licensing demands long-term client relationships built on high client satisfaction rates, yet many customer relationships today start off poorly.

Research Overview: Technology Customers Are Dissatisfied with Channel Partners

In our research we identified a disconnect between how technology vendors and channel partners fare in meeting customer expectations. Whereas almost all the customers we spoke with were satisfied to some degree with the software that they invested in, that was not their assessment of the channel partner they had engaged with. Interestingly, the channel partner was most frequently introduced to the customer by the associated technology vendor.

The dissatisfaction is evident in quotes from our interviews:

“They (the channel partner) only do what they have to do...”

IT Director – North American Government Department

“Poor quality team and poor quality work”

Executive Sponsor – Global 100 firm

“More focused on selling us more services than completing the work”

Business Director – Major European CPG Firm

“Constantly changing the team and the project managers without notice”

Executive Sponsor – Major Publishing Firm

In fact, a full 25% of the firms we spoke with were disappointed by the quality of the channel partner's work. The story gets even worse if we look at the Net Promoter Scores: only 32% of interviewees were promoters of the channel partners they had

worked with, 32% were passive and, most worrying of all, 36% were detractors. In other words, only one third of customers would actively recommend the channel partner that they worked with to another customer, and another one-third-plus would actually discourage another firm from engaging with that channel partner. Our research also shows that just 36% of projects are delivered on time and only 46% on budget.

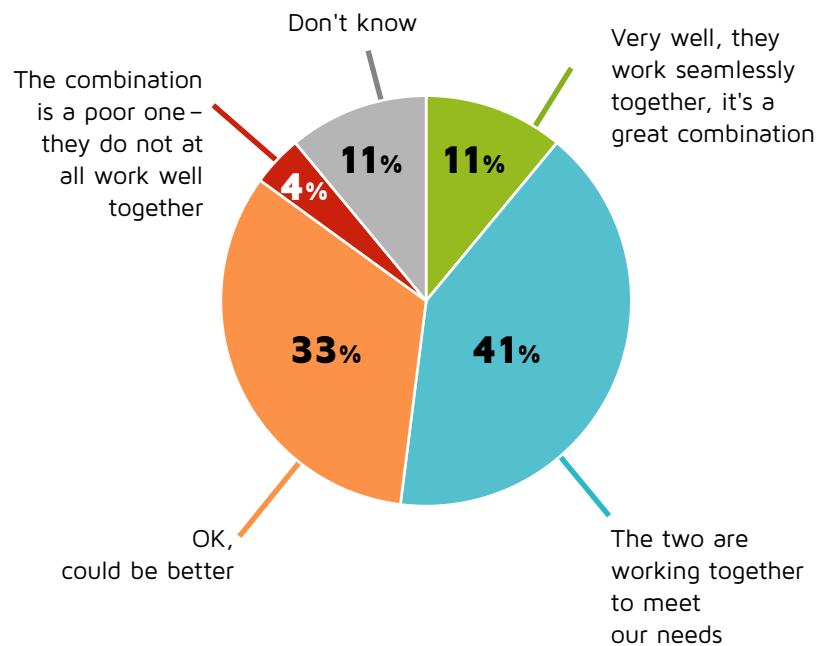
However, of all the insights we gained, possibly the most concerning is disconnection between partners and vendors when it comes to working with customers (see Figure 1).

When asked about the working relationship between the channel partner and software vendor (i.e., how well they combined forces on a customer project), a full 33% said that the two did not always work well together. Four percent went so far as to say they did not work well together at all and that the relationship was a poor one. That is not a situation to inspire confidence and trust in either the partner or the software vendor.

Under-delivering has long-term consequences

From the customer's perspective, channel partners represent the technology vendor. This is particularly true when they are introduced as "trusted partners" by the vendor's sales representative. The partner may be Gold, Platinum, Premium Certified, or any other rank and tier represented in the software vendor's channel hierarchy, but whatever badges they are given, they are, for all intents and purposes, recommended by the software vendor as trusted partners.

Figure 1
Service Provider & Technology Vendor Working Relationships
How effectively did the partner and technology vendor work together?



The move to cloud has pushed some software vendors with a history of overpromising, overselling, and then subsequently under-delivering on their products to oversimplify the work involved. Cloud-based software demos can make a product seem deceptively simple to use and deploy. As a result, the sales process masks the enormity of real work that lies ahead for the customer. Once the software is sold, it is the channel partner who has to deal with the reality of the deployment and manage a frustrated customer.

To illustrate this, we asked customers about the difficulty of implementing technology, its ease of use, and the challenge of gaining user adoption. As Figure 2 shows, all is not well.

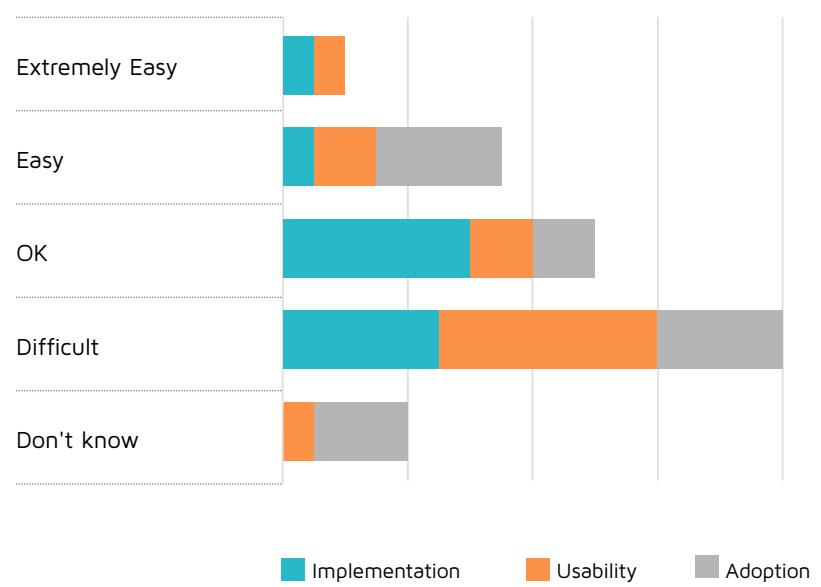
The oversimplification of enterprise software at the sales stage is a real problem, and many channel partners tell us it is compounded by the fact that software vendors often provide poor training and support to the channel as the technology evolves.

A move to subscription pricing demands low customer churn rates (ideally under 5%) and, by default, long-term relationships. Revenue growth is slower in the early years and it takes longer to break even, let alone turn a profit. However, channel partners are rarely incentivized by or rewarded for the in-perpetuity subscription license the software vendor will receive. The channel compensation model is the same as it has always been – the partner's involvement and revenue from the customer ends once the software is up and running. This is a major bone of contention for many channel partners that have already lost much of the early implementation and build work because of the move to the cloud. Nevertheless, vendor managers drive the channel on short-term sales goals, ignoring the new reality of long-term subscription-based relationships.

Recommendations: How Vendors Can Improve Channel Relationships

Vendors need to realign channel relationships to new business model realities. So if this report serves one purpose, it is to provide direction on

Figure 2
Technology Challenges



the impending changes to the channel relationship and to herald the need for action.

Today, a channel partner has different motivations and drivers than a software vendor, whereas they were once aligned. Channel partners have short-term goals: do the job, get paid, and move on to the next project. That model once worked well for software vendors too, but subscription-based licensing means a new approach is needed. The end result is a poor and often damaged start to what was supposed to be a long and fruitful relationship, and this could seriously damage the long-term strategic goals of the software vendor.

As software vendors make this long transition from on-premise traditional licensing to cloud-

based subscriptions, the channel that supported the former may not be the channel to support the latter. Things will have to change. Yet this seems to be something that few software vendors have seriously considered, as most of their efforts so far have gone into moving and improving the product and marketing those results.

Our recommendations to software vendors are as follows:

- Software vendors need much more visibility into the channel than they have today.
- Channel partners need more support and empathy for the difficult work they do on behalf of the vendors.
- Some partners cannot make the change and will need to be removed from the channel.
- Rising (often mid-tier) channel stars need to be encouraged and identified.
- A traditional reliance on a few major consulting firms to drive a channel may need to be rethought, in favor of moving to a broader yet more engaged network of partners.
- Software vendors may want to consider incenting partners to focus on relationships and high-quality handovers rather than just technology implementations.

As for the channel partners themselves, the pivot to the cloud is enormous, but many are finding out it is not quite the death knell to their services that many predicted. We now know that there will always be a big need for customization, development, integration, and migration in large projects. Even when a business solution is totally in the cloud, there is tremendous work lacing together “software A” with the existing “software B,C,D, and F” that the customer already uses.

Yet, customers are moving from a technology-focused procurement process to a solution-focused process. In other words, customers want partners to come and solve a business problem with technology. As a result, we see digital agencies once focused solely on creative work try to become “solution integrators,” and similarly we see system integrators buying creative agencies in a bid to offer more end-to-end “solution” services.

The competitive landscape is shifting, and many channel partners are looking for a new edge. Some will focus less on existing software vendor relationships, while others will have to seek out new software vendor relationships. All the market turbulence provides “transition anxiety” aplenty for the channel, just as the move to the cloud has done for software vendors.

It's time now to consider the true impact that these shifts are having on the channel and how we can ensure that new customers start their hopefully long-term subscription relationship in the best possible manner.

About Digital Clarity Group



Digital Clarity Group is a research-based advisory firm focused on the content, technologies, and practices that drive world-class customer experience. Global organizations depend on our insight, reports, and consulting services to help them turn digital disruption into digital advantage. As analysts, we cover the customer experience management (CEM) footprint – those organizational capabilities and competencies that impact the experience delivered to customers and prospects. In our view, the CEM footprint overlays content management, marketing automation, e-commerce, social media management, collaboration, customer relationship management, localization, and search. As consultants, we believe that education and advice leading to successful CEM is only possible by actively engaging with all participants in the CEM solutions ecosystem. In keeping with this philosophy, we work with enterprise adopters of CEM solutions, technology vendors that develop and market CEM systems and tools, and service providers who implement solutions, including systems integrators and digital agencies.

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