



Creating a channel partner scorecard

NO DIFFERENT THAN ANY OTHER INVESTMENT

Successful channel partner relationships require substantial investments of energy, time, and money. And like any investment, they need active management to ensure maximum return.

Effective management requires answers to some basic questions:

- How profitable are my channel partner relationships?
- Which are my best and worst performers?
- Where should we focus our future management efforts?

How can you win if you don't keep score?

The Channel Partner Scorecard helps you collect and interpret the information needed to answer those questions. The information is used to calculate a return on investment (ROI) for each channel partner based on actual revenues and expenses. Scorecard results can be used to evaluate channel partners and determine future courses of action.

Anatomy of a scorecard

A Channel Partner Scorecard is typically an Excel spreadsheet with the following kinds of information:

- Partner profile (name, industry, contact information, length of relationship, and contract number)
- Revenues (forecasted and actual) by product
- Costs (including market development funds, marketing materials, training, and service)
- Return on investment (ROI)
- Notes regarding marketing campaign performance and service issues

REVENUES: FORECASTED AND ACTUAL

Measuring channel partner effectiveness begins with tracking revenues, both forecasted and actual. Revenues should be tracked at the product level to:

- Identify product (and product mix) trends
- Allow your production department to manage inventory levels and meet shipment requirements
- Help your finance department manage cash flows and make financial projections

Of course, actual product revenues are what really count. They are used to calculate ROIs and to improve the forecasting process.

COSTS: THE BIG FOUR

To strike a balance between simplicity and utility, the Scorecard tracks costs using four general categories:

- Market development funds
- Marketing material expenses
- Training costs
- Service costs

If your business would benefit from tracking additional or different categories of channel partner costs, by all means, do so.

Market development funds

Market development funds include money you give channel partners to conduct sales and marketing activities on your behalf. Activities might include digital marketing, point-of-purchase materials, trade shows, and advertising.

Your contract with the channel partner should specify how market development funds may be spent and which uses require your specific approval.

Marketing materials

Marketing materials—such as brochures, point-of-purchase displays, and advertising kits—are provided to channel partners to help them sell and market your products. While these materials are generally offered for free to channel partners, they have significant development costs which should be tracked and included in ROI calculations.

Training costs

Training channel partners about your products and how to best sell them can be crucial to getting the result you want. Training costs include labor, documentation, and web-based sessions. Track only *your* training costs, not those incurred by your channel partner.

Service costs

Always track the cost of the services you provide to your channel partner and their customers (including parts and labor). Again, track only *your* service costs, not those incurred by your channel partner.

Include service costs even if they aren't your channel partner's "fault", such as those caused by product defects. Awareness of unusual service cost patterns will accelerate their correction and minimize customer dissatisfaction. (Note significant service costs that are your "fault" so the channel partner's ROI isn't negatively distorted.)

CALCULATING ROI

Once you have documented the actual revenues and costs associated with a particular channel partner, calculating their ROI is relatively simple. The formula is:

$$[(\text{actual revenue less actual costs}) / \text{actual costs}] * 100$$

Thus, if actual revenue was \$100,000 and actual cost was \$80,000, then the ROI would be: $(100,000 - 80,000) / 80,000 = .25 * 100 = 25\%$.

EVALUATING ROI

So your ROI for a particular channel partner is 25%. Is that good? Well, it's positive, and that's important. But is 25% good enough? To answer that question you need something to compare it to. Relevant comparisons typically come from three sources:

- Industry averages
- Your other channel partners
- Your direct sales force

Industry averages

Sometimes average channel partner ROIs will be estimated and published by industry analysts. If that's not the case for your industry, you can estimate channel partner ROIs by

talking to friendly competitors or owners of similar-but-not-competitive businesses to get a sense of what they are experiencing.

Your other channel partners

If you have more than one channel partner, compare their ROIs. Lower performers may require additional management attention or a decision to disinvest.

Your direct sales force

ROIs for channel partners are typically greater than or equal to the ROI for your direct sales force because you don't have to bear all the operational overhead related to the channel partner.

So, given that ROIs are generally higher with channel partners, why should you bother operating a direct sales force at all? The answer is better long-term control over how you interact with customers, particularly important customers who are very often relationship-sensitive.

SHOULD I STAY OR SHOULD I GO?

The key question for all these ROIs is: should you stick with a particular channel partner? A negative or low ROI is certainly a cause for concern.

If there's a good explanation or there are some substantive steps that can be taken to address the low performance, then you may wish to continue the relationship. If, however, the low performance is a long term trend, perhaps the relationship should be discontinued.

Avoid misleading evaluations

Throughout the ROI evaluation process, stay alert for ROI's that are skewed downward by ongoing channel marketing programs that—for timing reasons—have been funded (i.e. expenses have been incurred) but have not yet yielded any or all of their results (i.e. revenues are only partially realized). Otherwise, returns can look misleadingly bad.

In these cases, estimated revenues should be included to offset actual expenditures until actual revenues become available.

ONE MORE THING WORTH TRACKING

A valuable strategy for improving channel partner performance is to calculate ROIs for individual marketing

campaigns, in addition to overall channel partner returns. Specifically, track the type of campaign conducted, the expected return, and the actual return. In this context, *return* could refer to leads or sales dollars.

This process will yield insights into what kinds of campaigns are most effective and thus allow you to improve the productivity of your market development spending.

TIPS TO THE WISE

Here are some pointers for getting the most from your Channel Partner Scorecards:

- Scorecards should be living documents that are updated regularly and used often (quarterly or monthly).
- Scorecards are a convenient vehicle for communicating channel partner program results with management teams.
- It may even be appropriate, in some cases, to share the Scorecards directly with channel partners as you discuss progress and plans.

MORE ABOUT ON THE MARK

On The Mark marketing consultants elevate your team's business impact by accelerating marketing program development and execution. Our hand-selected consortium of consultants is known for:

- **Envisioning possibilities:** Super-smart, competent marketing consultants
- **Raising the bar:** Experienced leaders that continuously deliver innovative yet meaningful business impact
- **Making it happen:** Driven, accountable marketing experts that are focused on results...not our egos

On The Mark's full-time and part-time consultants strategize, plan, and execute a wide range of business-to-business marketing programs. Our conscientious, can-do approach combined with our extensive marketing expertise make us smart and fast on our feet. Clients rave about our results and how easy and hassle-free it is to do business with us. If you'd like to learn more, please contact us at Connect@OTMmarketing.com.