

## Registria Best Practice Brief - Selling Channel Partners on Manufacturer Involvement in Service Sales



Within the information technology industry, the importance of services continues to grow rapidly. Analysts are increasingly looking to maintenance revenue as a key metric for valuation, given that it is a predictable revenue stream and indicates stronger pricing power and stickier renewal rates. According to Gartner, lagging US information technology companies could increase their support service rates by \$30 BN (15% greater than the existing base), if they simply used smarter techniques of marketing to customers such as product registration, notifications and integrated commerce to match the current market leaders.<sup>1</sup>

At the same time, according to Gartner, the indirect channel's importance continues to increase. Today, over 70% of all IT hardware, software and services is sold through indirect channels, with 8% growth annually for the next two years.

The implications are obvious. IT manufacturers realize the importance of service sales to their bottom line, but have a growing dependence on resellers. Despite the profit opportunities, too many manufacturers are worried about channel conflict and reseller ineffectiveness to build their customer information databases and service sales efforts, leaving it to their most forward-thinking resellers. As a result, manufacturers can't effectively make use of customer and product data, and tried and tested processes surrounding installed base customer management in order to maximize their service attach rates.

To win against the competition in this new environment, many companies will need to pursue strategies that leverage resellers as the valuable *partners* they are in the process of increasing service sales, while becoming more involved in the service sales process.

### **Communicate, communicate, communicate**

To be successful, manufacturers need to create an effective communication strategy that highlights the benefits for resellers, while mitigating concerns around channel conflict.

The key is to note the benefits that both parties will reap from a higher service attach rate: increased revenue, a better customer relationship, and higher customer satisfaction. For resellers, the benefits of increased manufacturer involvement in this process include better perspective for lifecycle marketing to consumers and greater payoff from a higher service attach rate. As a result, IT manufacturers need to position themselves as empowering dealers/value-added resellers, who are partners in the process to maximize customer value, rather than competitors to the services resellers sell.

Rather than use channel conflict as an excuse for inaction, leading IT manufacturers are using one of two strategies. One is that a portion of the information the manufacturer collects is used for the purposes of reseller marketing and sales. This allows the manufacturer to leverage its gathered information – for example, customer demographics and manufacturer warranty expiration date – to support the reseller in maximizing its service attach rate. Another strategy is to let the reseller reap some of the benefits from manufacturer service sales when they occur, incentivizing both companies to maximize the manufacturer's bottom line. For example, the manufacturer can keep track of the channel partner a customer bought through, and then give the reseller commission for each service offering that the customer directly purchases.

In some instances, manufacturers can also depend on their resellers as service providers, in the interest of maximizing the total pie, rather than directly competing with their resellers' service offerings. For example, manufacturers can sell reseller-provided services through their customer portal or through targeted mailings, allowing manufacturers to capture some of the service margin, while increasing the attach rate beyond what the reseller could achieve on its own.

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<sup>1</sup> Bova, Tiffani. "Vendor Survey Analysis: Improve Attach and Renewal Rates of Support Contracts to Increase Revenue," [Gartner](#) (2 Jun 2009).

When this value proposition is quantified and illustrated, it can mitigate perceived channel conflict, while vividly displaying the benefits for both parties.

### **Share the benefits from product/customer registration**

Customer-centric product registration is a key part of the process to increase service attach rates. Through registration, companies receive customer/product details and grow a channel through which they can reach out to customers. The leading IT manufacturers already use this approach to cross-sell accessories, upgrades and services, while reducing support costs through internal efforts such as warranty entitlement verification.

To maximize registration rates, manufacturers should allow resellers to register customers directly at point of sale. When this data is collected with the help of resellers, it should be shared jointly, allowing both parties to benefit. Where the manufacturer can add specific value, is when its marketing department provides unique insights about the customer that can be used for joint promotions with resellers. For example, that end customers with relatively high incomes or companies without an internal IT department are much more apt to buy service contracts at expiration.

To increase the benefits to resellers of registration, manufacturers need to increase the registration value proposition. Manufacturers can offer cash incentives for each registered customer, trumpet the reseller when purchased services are offered through the reseller, and in some cases, enable resellers to build targeted promotions that are sent to customers by the manufacturer. Resellers can also get access to a deeper level of customer information than they typically would be able to given the current relationship they have with their customers.

The benefit of registration also enables the manufacturer and reseller to break up parts of the value chain, while cutting costs. For example, manufacturers can leverage a third party warranty underwriter for their entire product mix, reducing costs and mitigating the product risk for service providers.

### **Segment resellers**

All resellers are not created equal. As a result, manufacturers need to segment them into groups based on how effectively they can support service contract attachment. Here we present a sample group that has been useful for many of Registra's customers.

One category is a group where channel partners already offer service contracts. This is likely to be the most difficult category to convince, given their current benefits and the anticipated risk from manufacturer involvement. Typical strategies in this group highlight the benefits of increasing service attach rates even further, long after the customer has left the store, which the manufacturer is often better positioned to do.

Another category of reseller has the ability to provide service contracts, but is not doing so. These are ideal partners for IT manufacturers, as they are more likely to be sold on the advantages of service attach and benefit from the manufacturer's support in initial build-out. A third category has very little ability to provide service contracts, now or in the near future. For this group, manufacturers often can sell service contracts directly, while providing a small commission to resellers. This increases reseller returns, while opening up a new segment of customers to service contracts.

However resellers are segmented, it is imperative that manufacturers identify the differences in incentives and capabilities across their channel.

### **Design custom reseller support services**

Once resellers have been segmented and sold on the value proposition of greater integration, manufacturers need to manage several processes and systems that increase service attach rates and revenue, while reducing pain points for resellers.

The first is building the marketing tools to maximize attach rates. This includes marketing collateral like brochures placed at resellers, direct promotional mailings, and e-mail follow-ups. As part of this, marketing departments also need to develop the analytics to most effectively learn about their customer and identify how to best target them.

Manufacturers also need to build support systems that can simplify the process of providing follow-up services. They can document basic troubleshooting information in a knowledgebase and provide a prioritized reseller help desk. They can also leverage the work done by their resellers by sharing observations on what is best practice. Any by hosting a simple end-to-end system that allows entitlement checking/tracking, both the reseller and manufacturer can keep track of service eligibility and maintain updated customer records.

### **Provide incentives**

Finally, manufacturers need to provide incentives to drive increased service attach rates from their resellers, and to convince the resellers that manufacturers can add substantial value.

To begin with, manufacturers can provide financial incentives and rewards for the information that can increase service attach rates, such as product registrations. Some companies provide reseller compensation on a per-registration basis, while others allow resellers to participate in the upside. Techniques like sales contests within resellers and across resellers also can work to increase interest and incentivize salespeople.

Second, manufacturers need to highlight the incremental revenue that is brought to the reseller through their involvement. When pre-registration is done and a promotional mailing is ultimately successful, this is newfound revenue that would not have been available without a partnership.

Breaking through channel conflict and building stronger channel partners is a difficult task, but ultimately one that can bring substantial value to the IT manufacturers that do it well.

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