



Best Practices for Selling Service Contracts through Channel Partners

By Chip Overstreet, CEO, Encover

Two key industry trends are shaping the way manufacturers think about service contracts and their channel partners. First is the growing importance of the indirect channel to IT hardware and software manufacturers. According to Gartner, manufacturers have increased their reliance on resellers by an average of 8% year-over-year for the last six years, and this growth rate is expected to continue through 2011. By 2009, over 70% of all IT hardware, software and services will be sold through indirect channels.

The second trend is the channel's increasing reliance on services for profitability. With end customers getting more savvy, resellers face continued downward pressure on margins for hardware and software (services is where they're making their money). In its annual VAR Report Card published in October 2006, VARBusiness reported that over 60% of all profits for channel partners came from services – just 16% of profits came from hardware, and 24% from software.

Put simply – manufacturers are becoming more reliant on the channel, and the channel is becoming more reliant on services. Given this, why aren't more manufacturers leveraging their channel partners for the sale of service contracts?

The primary reason is an age-old belief that resellers cannot be effective in service contract sales. Historically, they're right. But companies like SonicWALL and Cisco are demonstrating that, by leveraging best practices, they are not only increasing overall revenues from service contracts, but also deepening loyalty from channel partners. Not surprisingly, these two manufacturers were named #1 and #2, respectively, in channel loyalty by VARBusiness in 2006.

Breaking Down the Issues

Attach and renewal rates on service contracts through the channel have historically been low. The reasons for this are varied, ranging from lack of training, lack of systems and tools, insufficient resources, improper

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incentives, and lack of visibility into service sales opportunities.

But fundamentally, the issues can all be traced back to one simple question – is the amount of work required to make the sale commensurate with the amount of margin the reseller expects to earn?

For most, the answer is no. Not because the margin isn't attractive, but because the work required to complete the sale is far too complex and time consuming. A standard service sales process includes everything from tracking contracts, aggregating assets, addressing data issues, merging contracts, generating and iterating quotes, co-termination, entitlement, billing & collections, and of course, problem resolution at every step in the process. Each of these steps takes time, and all too often, the amount of time does not justify the rewards, and service revenue opportunities are left on the table.

When this occurs, not only do manufacturers and resellers lose out on high margin revenue, but customer satisfaction is also negatively impacted, often resulting in service entitlement surprises at the worst possible time – when the customer truly needs service.

So, what's a manufacturer to do? Below are some of the best practices we have learned through our experience working with manufacturers, and more importantly, their channel partners:

Segment your resellers appropriately. There are many ways to segment, but we've found it most useful to divide resellers into three groups. First, those who want to sell service contracts, and have shown consistent ability to be effective. Second, those who want to sell, but for one or more of the reasons outlined above, have not been effective. And third, those who have no interest in selling service contracts, or are simply not effective at the practice.

For practical purposes, segment 1 and 2 are initially part of the same group – they both want to sell contracts and believe that they can be successful, but until a manufacturer has data to show their results, it is difficult to establish appropriate programs and incentives to drive their behavior. For these two segments of resellers, follow the best practices outlined below.

For the third segment, the key to success is simple. Establish a program whereby you can sell on their behalf. For cooperating and assisting in the sale where it is necessary, consider offering them a smaller – yet meaningful – portion of the services revenue.

Provide appropriate sales tools. The single biggest impact you can have on reseller success is providing your resellers with tools to simplify the process. Today, 90% of their effort is spent on contract administration, and 10% on selling – to be successful, you must invert those numbers (10% admin, 90% selling) by taking all of the

administrative burden off their plates, so they can do what they do best – sell.

Tools can include pipeline management systems; access to pre-generated quotes; real-time pricing systems for all service programs; auto-renewal systems; and web-based purchasing and customer self-service programs. Providing resellers with capabilities for managing quotes in real-time will help ensure that they capitalize on opportunities when the customer is expressing interest in the purchase.

Provide a web of support. In addition to tools, make sure you provide a strong support system to keep the reseller focused on selling. This includes training programs around the value of your service contracts; collateral to help frame the services value proposition for your end customers; a help desk for real-time problem resolution; and a well-defined and efficient set of processes for non-standard deals.

Get control over your data. Many manufacturers do not have good visibility into who their end customers are, making it difficult to identify and pursue opportunities. To get control over your data, start by establishing processes for getting customers or their resellers to register each product sold directly with the manufacturer. Provide strong incentives, such as warranty activation for customers, and an additional percentage point discount for resellers. Once you have data, you'll be able to work more effectively with your resellers to make sure that each service contract sales opportunity is pursued appropriately.

Provide compelling incentives. Put simply, make it worthwhile for your resellers to sell service contracts. Make sure you're providing appropriate discounts so they can make a real return on their efforts. Highlight how much money they can make (e.g., a \$500 margin on a service contract is actually worth \$1,500 over three years). Share stories of other resellers' success. That said, also recognize that there is a threshold below which resellers cannot sell profitably. For low dollar contracts, examine programs whereby you can sell on their behalf, leveraging economies of scale, while still compensating resellers on the back end.

By implementing best practices such as those above, manufacturers can significantly improve service contract sales through the channel – and to their business overall. Given the traditional high margins of service contracts, such results can materially impact your top and bottom line. Moreover, they can materially impact your reseller's top and bottom line, and the better job you do of making your resellers happy, the more likely they'll continue pushing your products and services – over those of your competitors.

About Chip Overstreet.....

Chip brings over 20 years of high tech experience to Encover, where he serves as president and CEO. Prior to Encover, Chip served as vice

president of marketing & business development at Blue Martini Software, where he drove the company into key vertical segments and built strategic partnerships with independent software vendors and platform partners. Previously, he served as president and CEO of RTIME, a provider of collaborative networking software, which he sold to Sony Corporation. Prior to Sony, he held vice president of marketing and alliances roles at Open Horizon and Ochre Development, and product consulting and sales engineering roles at Oracle Corporation. Chip received a BA in economics from Stanford University.

Encover is the market leader in helping high tech manufacturers to manage, market and sell service contracts through the channel. For more information on Encover, please visit their web site at www.encover.com.

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