The Spur Group

The 4 C’s of channel capacity planning

Table of contents

Introduction

Having a superior product is not enough in the modern business world.

Companies need the right channel partners to form healthy ecosystems with, and today these channel partners play a more critical role than ever in not just making sales but also providing additional support. Subsequently, managing this ecosystem of channel partners requires an insightful, deliberate, and data-driven approach to capacity planning.

The Spur Group's framework for capacity planning is centered around our stance that a channel capacity plan is more than a simple forecasting tool. Our channel capacity plan framework helps companies increase sales, improve ROI, and influence partner behaviors to act on the products and markets that currently matter the most.

How does the channel capacity plan framework work? It simply operates on the 4 C's: contribution, capability, coverage, and commitment.

Contribution

Contribution is function of the size, frequency, and number of transactions the partner completes each year. Each partner's sales velocity is a direct measure of their contribution.

Capability

Partners need to be knowledgeable in your company's offerings in order to sell and support these products, or else they will be ineffective in the market.

Coverage

How many partners are in each segment? A well-functioning partner ecosystem is influenced by the mix of partner types, number of partners in each segment, and partner attributes such as types of customers served, business models, and solutions offered.

Commitment

How committed is each partner? How many of their deals include your company's products? Most partners work with multiple vendors, and their loyalty to your company is a key determinant in channel revenue.

The 4 C's provide a measurable score to determine how much value each channel partner delivers, both in the big picture and for each of these components.

The partner score based on the 4 C's provides insights into territory, incentive, and partner-level business planning. With a few simple models, this information can help you make more informed decisions as to which strategies can best drive different business objectives.

Determining your most valuable channel partners

In the simplest terms, the 4 C's represent attributes to consider about each partner in capacity planning. Contribution measures sales velocity, capability is skill level, coverage determines market focus, and commitment is the partner's competitive alignment relative to the other vendors that they work with.

Not only will you be able to score each partner against these four attributes, but you will also be able to determine the health of your overall partner ecosystem based on the aggregate score. These scores can be placed into a framework that suggests specific strategies based on chosen market objectives.

Contribution

Contribution measures more than just how much revenue each partner generates: it accounts for sales velocity.

What drives sales velocity? Contribution-- what essentially is sales velocity-- is based on the standard FRY formula for frequency, reach, and yield.

- **Frequency:** How many transactions does each partner complete in a given time period? A partner that makes just one sale a year could be assumed to sell your products on an opportunistic basis while a partner that makes 10 sales is more likely to prioritize your company's offerings.
- **Reach:** How many customers are involved in these transactions? You need to prioritize identifying these customers, and in the event you cannot you should learn how many named accounts your channel partners are selling to.
- **Yield:** What is the average deal size each partner makes?

Identifying the biggest contributor

To calculate a partner's contribution score, first create a stack that ranks all your partners based strictly on each partner's sales frequency, with your best partners at the top.

Next, divide your entire partner ecosystem into quintiles, or five equal groups. (I.e. If you have 100 partners, each quintile has 20 partners.) Note which quintile partners fall into, and assign a score of 1 to 5 based on what quintile that partner falls in with 1 being high, 5 being low.

Then you need to perform the same stack ranking exercise for reach and yield respectively. A partner will likely receive different scores for each measure as demonstrated below. Depending on your overall business strategy and the importance of each measure as a result, you can weight the FRY components.

Why weight the FRY factors?

The 4 C scoring method can be adapted to your industry and overall channel strategy opposed to being a one size fits all efficacy solution.

A savvy channel manager who is in tune with their partner ecosystem will know if it is easier to increase the number of transactions or if the average size of a deal is the most mutable factor.

The harder it is to change a factor, the more important the top quintiles may be.

The goal is to weight the three FRY components of the contribution score based on how well you know your partner ecosystem. Keep those factors in mind as you weight capability, coverage, and commitment scores.

Capability

Capability measures a given partner's knowledge of your company's offerings in order to make sales and provide product support. A partner's capability to sell your products highly depends on their sales force readiness and relevant earned certifications.

Proving a partner's capability

Capability is determined with three components:

- **People:** How many certifications does the partner have? The more of their sales force that has technical and sales certifications, the more likely they are to rank high for capability.
- **Focus:** What products does your partner have certifications in? The type of product certifications the partner holds can tell you much about both their business focus and capability.
- **Productivity:** How effective is the partner's certified team? Productivity can be simply calculated by the total dollars in this partner's sales divided by the amount of certifications the partner has to account for quality over quantity.

Finding the most capable partner

Quantifying capability requires a more subjective touch than quantifying contribution, which directly correlates to sales. As a result, the criteria for scoring partners on capability is softer.

Start by identifying a good benchmark-level performance for the number of certifications. Then examine each partner and determine where they rank against that benchmark:

1. Partner's performance exceeds the benchmark
2. Performance meets the benchmark
3. Performance is below the benchmark.

This process then must be repeated with focus and productivity respectively. Average the three scores to tabulate an aggregate partner capability score.

Apply weights based on your channel strategy and knowledge of your partner channel for a more refined relative to your ecosystem.

Coverage

Coverage measures the impact of your partners in a given market. This metric can help determine the importance of any given market to your business, whether you are trying to gain more market share or maintain your foothold in that particular market.

Subsequently, coverage is relative. It is the only one of the 4 C's that incorporates peer partner performance in the formulation of a single partner's reach to account for market relevance. As a result, it is quantified very differently than both contribution and capability.

Evaluating market focus

Multiple factors impact and influence market focus. In order to score partners on coverage, evaluate which markets they do business in by breaking them down according to geographic territory, customer segmentation, or a combination of these two factors.

Determining the reach of a partner

To calculate a partner's reach score, first categorize the market by the estimated number of customers who have not been reached (shown as the Y axis in the above graphic), and the average revenue per account (the X axis).

Divide the resulting graph into four equal quadrants and assign each a numerical value:

- **1, Best:** High number of unreached customers and high average deal size for existing customers.
- **2, Better:** High average deal size but limited number of unreached customers.
- **3, Good:** High number of untapped customers but small average deal size.
- **4, Bad:** Low number of untapped customers and low average deal size.

As with the previous components, you can easily weight this formula to get a more accurate coverage score for each partner. The formula should be weighted based on your channel strategy, industry, and other relevant factors.

The example diagram prioritizes market size and applies a higher weight to emerging markets. However, your market strategy may focus on the maturity of a market or strength of your niche, so adjust the weighting accordingly. Note that your company's determination of a major versus emerging market may be very different from other companies.

Crafting an informed market strategy

When thinking about coverage, take the steps to understand the type of markets your partners are selling to. Any segment of the market with a high number of accounts that have not been sold to yet is obviously a high value segment, referred to as "whitespace."

The most robust market opportunities have a lot of whitespace customers and high average revenue per customer. Expanding into a growth opportunity market like this can have a major impact on revenue, and capitalizing on that opportunity requires careful consideration. There are three typical approaches you may take depending on the market opportunity:

- **Ramp-up coverage:** If a number of accounts yield low average revenue, you'll want to ensure that you have enough partners to cover it to increase revenue.
- **Stay put:** In markets with very few whitespace customers and above average revenue per account, consider it well covered as your partners are being effective.
- **Know when to walk away:** Markets with low customer counts and low average revenue equal a market that is not worth focusing on. This should be a low investment priority.

Commitment

Partners generally work with multiple vendors. In some respects, commitment is a measure of a partner's loyalty to your company. It is determined by the percentage of deals that include your company's offerings.

The measures of competitive alignment

Commitment is often overlooked in many partner capacity planning frameworks. However, you should not overlook a partner's loyalty to you compared to the other vendors that they work with.

There are five distinct measures you should examine in order to determine how committed they are:

- **Planning execution:** What is the partner's track record of execution against partner-level business planning?
- **Thru partner marketing:** How much does the partner participate in your marketing efforts, and how much of their own marketing resources have been leveraged for this exact purpose?
- **Deal tracking and closing:** How dedicated is the partner to tracking leads and closing probable deals?
- **Visibility into pipeline:** Does the partner share pipeline information through deal registration or other systems?
- **Branding partnership:** Is the partner actively promoting your products and brands on their websites? (The Spur Group can uniquely quantify this aspect for you.)

Determine exceptionally loyal partners

Quantifying commitment is subjective, similar to the capability measurement.

Just like with the capability measures, you first need to determine an individual benchmark for each of the five areas of commitment:

1. Partner's performance exceeds the benchmark
2. Performance meets the benchmark
3. Performance is below the benchmark.

As with contribution, capability, and coverage, set weights based on your channel strategy and intricacies of your partner ecosystem. Take that average to determine a partner's commitment score.

Applying the 4 C's

Now that you have learned about the four keys to effective channel capacity planning, you can score a partner's ability to execute within each area: contribution, capability, coverage, and commitment.

There are now four scores for each partner in your ecosystem which you can now use to assess and rank the value of each partner in relation to other partners. But while this data set will provide more insight in analyzing past performance, it does not provide a future plan to help you determine which partners you should prioritize your relationships with.

The 4 C's can be employed in a high-level application in a three-part planning framework:

- Territory planning
- Incentive planning
- Partner-level business planning

Territory planning

Territory planning entails goal-setting and allocating resources based on geographic boundaries.

By leveraging the set of 4 C scores with examining the specific partners within a given territory, you can determine whether territory performance issues are territory-specific or indicative of a systemic problem with your partner channel.

Analyzing the scores allows you to apply one of four common strategies within a given territory in order to improve partner contribution. Below is some guidance on when to deploy these four strategies in your territory planning given the following partner scoring scenarios:

- **Grow:** A territory shows a relatively low contribution score and partner sales velocity is underperforming. Focus on growing the partner's sales in that territory.
- **Develop:** A territory demonstrates low capability, so you need to build on the capabilities of your current partners.
- **Recruit:** Coverage scores poorly, which indicates that you need more partners. Recruit more partners to your existing channel or create a new one.
- **Prune:** Commitment level is low. Prune out the disloyal partners with low potential and focus your resources on the remaining partners.

With the 4 C's, you have measurable analytics that can help you formulate a broad strategy that will address issues at both the partner and territorial levels. However, you should also consider the following variables that are highly important before simply launching an array of programs and incentives meant to solve these problems:

- **Lead time:** The time it takes before results are seen.
- **Work effort:** The effort and investment it takes to implement the strategy.
- **Sales impact:** The impact a strategy has on sales when applied to a specific market.

Pruning disloyal partners can be done relatively quickly and without much effort, and also have minimal effects on your bottom line. Eliminating partners who are not very committed and not generating much sales as a result is a good practice to employ over time.

Recruiting new partners on the other hand takes far longer. It can be at least a year, if not a year and a half or longer, until you see significant traction with a new channel partner. However, it is a fairly low-cost effort to generate more sales. Finding new partners should be a perpetual strategy or the precursor to building on your strategy down the line, but in order for it to be truly effective you need to focus on the type and quality of the partners you want instead of simply recruiting as many partners as possible.

Conversely, growing existing partners can yield results very fast: as little as six months. Be prepared to focus significant resources on growing the ecosystem to deliver on ROI from these partners.

Developing partners can also be done quickly, where you need to be ready to invest resources in them. Development takes dedicated resources working closely with a select set of partners but the market impact may not be immediate. However, it can be a very important long term maneuver to building a set of trusted partners that will help expand your business.

Incentive planning

You have formulated data that points to potential risks and issues at both the partner and territory levels. You also have four basic strategies to address these risks. Now, you must ensure that your channel incentives are driving the right behaviors.

At The Spur Group, our golden rule regarding incentives is that they should only be used to drive behaviors that partners wouldn't engage in on their own. Your capacity planning model can help you direct incentive funds in this way.

Nearly all channel incentives fit into one of four primary groups:

- **Transaction proficiency:** These incentives reward partners based on the mechanics of a deal. Sales of a particular product, or winning a specific customer on a targeted account list, are incentivized.
- **Capacity development:** This type of incentive usually coincides with the launch a new product. These incentives aim to get a partner ready for a specific solution, such as including offsets for training or rebates for the first deals they make with the new product.
- **Demand generation:** These incentives reward partner leadership (specifically, finding and closing on opportunities.) Demand generation incentives often accompany a deal registration system and help offset a partner's cost of sales such as offering support to partners that run proof of concepts.
- **Performance attainment:** This type of incentive rewards partners for hitting specific, usually time-sensitive, targets such as growing by X percent or selling Y volume on a quarterly or annual basis.

The right channel capacity planning strategy can help you shape your mix of incentives. If one of the 4 C's scores poorly at a territory level, it means you need to stimulate that kind of behavior through richer incentives. Conversely, if a key area scores well, then save your money.

Partner-level business planning

You do not plan your partners' businesses, nor should you. But sharing important data and metrics you have developed with the 4 C's model can strengthen existing, mutually beneficial relationships and help forge more insightful decision-making.

Partners can be grouped into three tiers:

- **Long tail:** These partners sell your products opportunistically.
- **Loyal base:** These partners make your products a major part of their business. They collectively drive a significant portion of your revenue but are not necessarily individual major contributors.
- **Market leaders:** These partners individually drive significant revenue, even if you are a small piece of their business since these partners are almost always major corporations.

How you manage each tier matters, and will differ based on the individual performances of that set of partners, the markets they sell into, and the products they sell.

Play to your partner's strengths. Use scores resulting from the 4 C's to verify how a partner performs in any key area against its peers. Determining whether a key area is a weakness, strength, or on par will help you set appropriate goals by partner and territory.

- **Strengths:** Align big goals with big rewards.
- **On par:** Keep the partner motivated but do not focus on this area of the business plan.
- **Weaknesses:** Partners rarely hit moderate goals with moderate rewards in weak areas, so be sure to manage your risk properly.

Moving forward with your capacity plan

At The Spur Group, we believe a strong channel capacity plan is more than just a forecasting tool. With our proven framework, capacity plans help grow sales capacity, improve ROI and drive the right partner behaviors around the products and markets that matter.

This whitepaper has given you an approach and model that allows you to manage your partner ecosystem utilizing the 4 C's, and an understanding of how these scores will help you measure each partner's ability and then use these scores in territory, incentive, and partner-level business planning.

However, you should never allocate all of your resources to a single channel capacity planning strategy. Successful channel capacity planning is not about identifying a singular strategy. It is about finding the right mix of strategies and applying them to the right group of partners, and reevaluating this strategy over time.

If you need more information on how you can leverage effective channel capacity planning to improve the bottom line for your business, please visit The Spur Group at thespurgroup.com.

About us

The Spur Group enables clients to go-to-market more effectively and accelerate their revenue.

We provide a data-driven approach and industry expertise so clients can make better decisions faster. Our proven and adaptable IP enables client-tailored solutions that ensure the highest quality results.

Our rigorous project management structures and tested frameworks allow clients to scale and improve planning, execution, results, and communication. We save our clients time and make them the hero with disciplined support dedicated to enabling their teams, delivering exceptional quality, and making their ideas a reality.

The Spur Group has completed over 1,500 engagements for more than 500 happy clients, including Microsoft, Cisco, VMware, Intel, NetApp, Juniper Networks, and others.

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