marketing Magnified™

March 2006 Issue

In this month's offerings: Marty Galligan of MarketBridge reveals how channel remix can reel in SMBs; Stratfor exposes China's crafty yet rather illogical U.S. strategy; Gal Borenstein tells us why the proposed Bush budget will lift IT; and more.

Editor's Cut

Thank goodness spring, and spring training, is upon us. As major leaguers work their way into shape for the season, and baseball tries to figure out what to do about Barry Bonds (talk about a marketing challenge!), our regular season is well underway—bulked up by a bevy of programs and initiatives.

A number of CMO Council studies that began in Q1 are now going into the late innings. One of them is *Select & Connect: Strategies for Targeted Acquisition and Retention*. Just as marketers are beginning to come around regarding yield and accountability issues, *Select & Connect* results offer up a curveball: given all of the talk of "customer-centric" programs, marketers appear surprisingly detached from their customers.

Here's a couple of key findings to whet your appetites: On average, 40 percent of nearly 600 respondents rated their customer data systems as "weak" or "very weak" in critical areas; and nearly 75 percent had no customer advisory group of any kind, making direct contact difficult. The final *Select and Connect* report is scheduled for release in the coming weeks, and a Webcast is on deck for April 26. Check our Web site for upcoming details.

Another study I've been telling you about in previous editions, *Define & Align the CMO*, is headed towards home. If you haven't taken the survey, please do, it's available on the site. Meanwhile, we're crunching preliminary data, and will preview it April 17 at Red Herring's CMO 2006 conference in Carlsbad, Calif. Along with the *Define* findings, a great group of senior marketers from top companies will examine how the rapid transformation and consolidation in these sectors affects their marketing efforts. For registration information, go to: www.cmocouncil.org/registrations/rhcmo/register.asp?id=mm.

And speaking of events, our CMO Summit schedule is set, including away dates in London Nov. 15-16, and in Tokyo (date TBD). For the home date, the Council is returning to where the Summit started five years ago: San Francisco. This year's U.S. Summit harkens back to its roots in another way, examining the most fundamental principal of marketing: the importance of customer intimacy. I hope you'll join leading marketers from around the world on October 4-5 at San Francisco's Four Seasons Hotel to discuss and debate the new realities and requirements for effective customer engagement. To register, go to: www.cmosummit.org/register.asp?id=mm.

Finally, if you feel like you need some guidance or refreshing in the area of marketing performance measurement, now there's a solution: our Mastering MPM program. Registration is now open for spring and fall quarters. Check out www.mpmforum.org for curriculum and registration details.

Here's to a strong Q2 and let's all hit one out the park—in a marketing sort of way.

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You Can't Manage What You Don't Measure!

By Robert Danese

With more than 70 percent of businesses today relying on indirect sales channels to distribute their products and capture market share, there is an increasing need for accurate, useful and continuous channel information.

It's a key priority for channel sales, marketing, operations and financial management, but without streamlined processes in place, manufacturers lose many of the benefits of channel partnerships. This need not be the case. Gaining insight into channel sales activities and performance can often be as simple as "mining the gold" in your POS and inventory data through a consistent and sequential business process such as this:

Channel Partner Data	Internal or External Service	Deliver Accurate & Consistent Data	Decision Support
*Leads *Opportunities *Orders *Customers	*Collect *Validate *Process	*CRM/PRM *Data Warehouse *Business Intelligence Apps *ERP	*Sales *Marketing *Finance *Sales Operations

While this process may seem obvious, many vendors have not created a benchmark to measure the reliability of the data submitted by their channel partners at the onset. So while the vital data may be readily available, it often resides in disparate partners, formats, locations and IT systems.

This lack of quality and consistent data is often the root cause of a whole host of issues that directly affect the bottom line. One of the main issues is that a considerable amount of unproductive time is spent in manually consolidating and reconciling data. In discussions with vendors throughout North America, it's obvious that too many senior managers are spending too much time collecting, validating and processing data; leaving little time for analysis, planning, and implementation of support decisions.

Yet, it is on the basis of this data that decisions such as resource allocation, inventory management, production planning or marketing initiatives are made.

Information at its Best

Technology products and services exist today that streamline and automate data collection, validation, processing and reporting so management can evolve their role from processing to one of a higher value-add.

These solutions support large amounts of data, in various formats, from different channel partners through a systematic process to equip channel managers with key performance indicators. With a clearer picture, vendors can react faster to market changes, develop a deeper understanding of their existing channel structure, and better manage their channel relationships.

Accurate and timely channel sales, inventory and customer data is invaluable in planning marketing strategies and supporting channel programs, with direct impact on ROI by:

- Reducing inventory costs due to over-stocking the wrong products in the channel.
- Providing performance indicators to conduct channel reviews, and reward partners based on actual sell-through.
- Improving sales forecasting to lower logistical costs, smooth production processes, and reduce returns.

- Ensuring sufficient products are available to meet demand in a timely manner.
- Enabling allocation of market development funds that ultimately improve profit.
- Motivating the “right” channel partners through sales incentives, awards and rebates.
- Empowering marketing managers with the information and tools needed to create effective campaigns.

It’s an Executive Function

With channel partners contributing anywhere from 40 to 90 percent of total sales revenue, vendors must be able to measure channel sales activities and performance to effectively manage their programs and resource allocations. This is an executive function. Channel managers are tired of waiting for IT or finance departments to provide timely, accurate and quality sales; inventory and customer data that they need to manage programs and revenue attainment. Manufacturers are spending time manually reconciling data while decisions need to be made that directly impact ROI.

There are effective tools available today to turn raw channel data into powerful business intelligence. You can streamline the collection and processing of point-of-sale data from multiple resellers and distributors by territory, partner, and product for use in sales and marketing analysis, commission reporting, sales forecasting, and monitoring returns, promotions and rebates. When evaluating these solutions, look for secure, on-demand hosted applications that produce real-time, actionable information.

Start by taking the guesswork out of the channel information management process and continue to benefit from your existing channel structure, while aiming for maximum channel profitability.

Robert Danese, NASBA's executive director, is its public voice within the technology community. NASBA - the Association of Channel Resellers – serves as the channel advocate for the single largest IT sales channel in North America with over 14,000 member companies and more than 45 industry partners. Robert can be reached at 949-729-2259 x 225 or email Robert@nasba.com.

Fed Focus: Bush's FY07 Proposed Budget Could Bring a New Morning to America-From an IT Standpoint, at the Least
By Gal S. Borenstein

Regardless where you stand on the War on Terror, when it comes to information technology, George W. Bush's White House deserves a great deal of credit for introducing the first genuine strategic management approach that holds the power to reinvent our federal government's ability to deliver accountable public service to our nation.

President Bush deserves this credit because for the first time in the modern history of government, a new recognition has emerged in the public domain and halls of power: Information technology isn't just a tactical tool to improve short-term media perceptions or opinion polls about poor customer service. It holds the power to redefine and revolutionize the entire business process of managing government. Best of all, IT could save billions of dollars, make collaboration and security built-in applications, and bring about the visible accountability for a highly-complex disparate enterprise systems in real-time.

Sounds like pontification without representation? Maybe not. Allow me to be excited when I take a look at the President's proposed budget for FY 2007 for an investment of $64 billion in a new line-item budget category entitled "IT Infrastructure."Never before has the government considered IT as an investment that deserves its own line item. Spending money like crazy on patches? Yes. But investing in a long-term well-thought-out solution? No!

By "simply" adding the word "Infrastructure," President Bush has done justice to what most Fortune company captains have known for years: your ship can't run on "good will" and "warm and fuzzy" alone if there is no way to manage the data. It needs high-speed engines, the proper fuel and the right navigational maps to reach your destination.

Federal Computer Week just reported that, according to The Office of Management and Budget (the White House's planning arm), by taking a more coordinated approach to spending on IT infrastructure, the government could save between 16 percent and 27 percent annually on its IT infrastructure budget over 10 years, which would add up to between $18 billion and $29 billion.

Moreover, denotes *Federal Computer Week*, "IT infrastructure line of business will define specific common performance measures for service levels and costs, and it will identify best practices. It will also develop guidance for technology transitions, such as the move to IP Version 6. A coordinated approach to IT service levels will allow agencies to focus on fulfilling their core missions instead of managing services."

What does it mean to public sector service providers? It means a lot. It means you could now incorporate business process and ROI measurements into your solution planning. The government will now listen, because it is in the budget. Now, that's a reason to get excited about. Who knows, there still might be a new morning in America called "IT Infrastructure."

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Geopolitical Diary: China's Quixotic U.S. Strategy
From Stratfor

Chinese Premier Wen Jiabao will begin a four-day official visit to Australia on April 1, where he is expected to close a deal for Australia to begin exporting yellowcake uranium to China. Australia has been dallying on the deal over concerns that China's nuclear safeguards are inadequate. This is not the only uranium deal that Australia might have in the offing: Prime Minister John Howard recently indicated that he might be willing to reverse Canberra's refusal to sell uranium to India -- this after he was briefed on the U.S.-India nuclear deal by President George W. Bush -- though his position is still not precisely clear.

The question of sales to China apparently was resolved earlier this week, when a Chinese Foreign Ministry official, Liu Jieyi, indicated that nuclear safeguards had been agreed -- clearing the way for a uranium deal to be signed during Wen's visit. However, Beijing took advantage of the press surrounding the trip to make a point regarding India: "We have also taken note that Australia has said that it is going to observe the obligations under the Nonproliferation Treaty," Liu said.

While that statement ostensibly would seem designed to interfere with Australian plans to sell uranium to India -- a rival for energy sources -- it is in fact a subtle reaction to unpredictable behavior by the United States. Beijing isn't necessarily out to provoke a row between Washington and Canberra, but it is pointing out that Washington has flouted provisions of the Nuclear Nonproliferation Treaty (NPT) through its nuclear deal with India. In essence, China is hinting that the United States has grown so large it no longer sees the need to abide by decade-old international treaties.

China's strategy for dealing with U.S. hegemony is to corral Washington and limit its room to maneuver within the international system. Beijing uses many of the frameworks created by the United States -- for example, the United Nations, the International Atomic Energy Agency and the NPT -- in its attempts to restrain Washington's movements. By forcing Washington to adopt a multilateral approach, China reminds others of its own significance in the system and is better able to shape events in a way that meets its needs. But when Washington flouts those frameworks, as in the Indian nuclear deal, Beijing has an opening to point out the behavior to other powers -- which frequently resent the behavior themselves. Even in cases, like Australia's, where countries are closely allied with the United States, Washington's unpredictability can create unforeseen challenges.

China's plan is elegant. It is crafty. It is designed to slowly, incrementally turn the international system against the United States. And it is not entirely logical.

To put it simply, Washington's allies are not going to desert the United States en masse for policies that are inconsistent with international institutions. The United States is the most powerful country in a unipolar world, and it is that power -- not the institutions it creates -- to which others react. Realpolitik, not idealism, governs the policy of nations. And that means that for all its beauties, the Chinese strategy for dealing with the United States will not work, so long as other countries -- whether allies or foes -- have their own calculus in relations with Washington.

So, now that the United States -- or at least the Bush administration -- has signed off on India's nuclear program, Australia can and likely will sell all the uranium to New Delhi that it cares to. Indeed, from a business perspective, it would be foolish to do otherwise. By the same token, China too stands in need of uranium, and -- with nuclear safeguards in place -- Canberra likely sees more benefit than harm in signing a deal.

In the broader picture, China can be expected to continue with its quixotic quest to contain the United States through multilateral structures -- many of which are Washington's own creations. Little will come of its efforts.

Remix Your Sales and Marketing Channels for SMB Success

By Marty Galligan

Software firms today are under relentless attack from both larger and smaller competitors.

You know the big guys very well. The five market leaders account for more than 30 percent of the world's software sales: Microsoft, IBM, SAP, Oracle, and Computer Associates. Microsoft alone needs $4 billion in new revenues this year, and it likely has plans to pursue your "sweet spot." If this is not enough of a worry, more nimble smaller firms and startups selling software as a service (SaaS) are also after your customer base with a compelling value proposition that's difficult for some to resist.

The fact is, the market for large enterprise systems like ERP, CRM, and supply chain management is nearly tapped out, with new sales simply replacing aged systems. Too many vendors are chasing a dwindling pool of Fortune 500 enterprises that can't support everyone.

With competitors on all sides and the enterprise market well-supplied, how can any business software vendor continue to grow revenue while producing the results Wall Street financiers and shareholders demand?

The SMB Market: Open for Business

Many software firms are turning their attention to small and medium-size businesses (SMB). The SMB market presents a compelling opportunity, with 48 percent of all IT spending in the U.S. now flowing from this segment, according to Forrester Research, adding "the SMB market for information technologies and services has finally become too big to ignore." IDC echoes these findings, projecting SMB spending on IT to grow to $695 billion by 2008.

But how do you approach the SMB market? MarketBridge has observed many software vendors seeking to expand into SMB deploy similar strategies:

- Offer scaled-down versions of their enterprise solution
- Launch vertical-market offerings
- Switch to a SaaS model
- Recruit business partners with a SMB customer base

These are all good ideas, but everyone else is deploying them too. That means these strategies alone are not likely to yield any sustained competitive advantage. And each approach has inherent shortcomings.

Offering a scaled-down version requires deep pockets to re-architect an entire enterprise system, and it's risky to re-price offerings when competitors can easily claim to have the same features and pricing during deal negotiations.

Launching vertical-market offerings often requires acquiring industry expertise or partners with expertise in a vertical domain to develop these offerings; naturally these partners demand support and revenue-sharing. And it may be tough to dislodge the dominant suppliers from any vertical.

Switching to a SaaS model involves re-developing an existing application to run over the Web, and setting up the infrastructure to support it. This is also risky, and requires significant resources. Deferred revenues from monthly subscriptions must be explained to shareholders. Extensive training may be needed to re-orient employees to this new business model.5 And your existing user base must be supported, or else migrated to the new system.

Recruiting business partners with a SMB customer base involves setting up a partner program with appropriate territories, incentives, sales tools, and support. All this soaks up management time. And while many partners will clamor to sign up, only a handful will ever deliver any interesting results.

This touches on another critical issue to consider: **channel economics**. What are the cost-of-sales selling into SMB markets compared to the revenue yield? Will any of these strategies be profitable, given the lower revenue yields from smaller accounts?

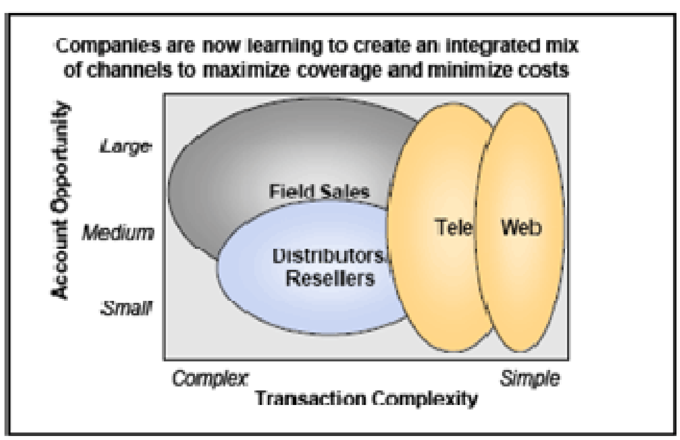
While each strategy has promise, none of these alone is enough to meet shareholder expectations for aggressive revenue growth. Software vendors need to reconsider something beyond simply your product offering—that is, **what** you bring to market—namely your mix of sales and marketing channels, or **how** and **where** you go-to-market.

Channel Remix Benefits
Reconsidering your channel mix can help you overcome the shortcomings of any single strategy mentioned above. What's more, it can help you achieve what you're really seeking: a more cost-effective way to increase your coverage in the SMB market.

This involves reassessing how well your current sales and marketing channels are matching the expectations and behavior of today's SMB buyers. With so many different channels available—direct sales, resellers, systems integrators, telesales, and the Web—which ones do SMB customers naturally prefer to use?

Remember, customers choose channels, channels don't choose customers. So finding the most effective mix is not intuitive; this can be a complex exercise. MarketBridge has helped several software vendors successfully design and deploy a channel remix with significant bottom-line results, including:

- Increased revenues and market share
- Lower expense to revenue (E/R) ratios
- Higher conversion rates



What's Involved in a Channel Remix?
A channel remix is not an alternative to any other strategies; in fact, it's almost a prerequisite for executing any other strategy effectively. And since it's much harder for any competitor to imitate, it is more likely to yield sustainable competitive advantage.

But how do you accomplish a channel remix? The process involves finding the answers to several key questions:

1. What do SMB customers want to buy, and how do they prefer to buy?
2. What is the optimum choice of channels to reach SMB customers?
3. What is the cost of these new coverage models for any mix of channels?
4. How can you effectively manage and integrate multiple channels?

Answering these questions is not easy, and may require help from an experienced multi-channel sales consultant. For example, not long ago, MarketBridge worked with senior management of a leading technology provider to evaluate the mix of channels driving traffic to their Web site. Although the site was already generating nearly one-third of the company's leads, senior executives thought it could be improved to appeal more to SMB visitors.

MarketBridge helped by researching and assessing the buying behaviors of the client’s SMB customers, and proposed and deployed several pilot programs to test. One pilot generated 400 percent more demand than the site's historical performance. Another pilot generated a 200 percent rise in Web site hits, and a 500 percent increase in leads. Today, with these programs in place, the site achieves a 5 percent conversion rate, much higher than the industry average of 1 to 2 percent.

How did they do it? MarketBridge worked with this company to build a multi-channel sales and marketing process designed to follow up Web-generated leads with telesales. This created a "hybrid" channel which helped transform the site into a more powerful revenue generating machine

Combining Channels to Form "Hybrids"
Market leaders have found traditional channels need not stand alone. It's possible to integrate several channels in new ways to drive leads and close sales in a more effective way. These new channels are called "hybrids." If a hybrid channel is built and managed properly, our experience shows it can be very powerful.

"Hybrid channel models deliver results—the kinds of tangible results which show up on income statements and affect stock prices," writes Tim Furey, CEO of MarketBridge. "A hybrid mix of channels working well together can reduce selling costs by 20 to 30 percent, and in some cases, cut them in half."

For example, it's a tough challenge to reduce your cost-of-sales at the same time as you find a way to sell to SMB buyers exactly how and where they prefer to buy. This challenge has prompted some technology vendors to deploy a hybrid strategy combining the telephone and the Web into a new channel called "TeleWeb."

The TeleWeb Channel Appeals to SMB
The TeleWeb appeals strongly to SMB customers, since it closely matches their buying behavior and gives them a feeling of control over the entire transaction. This hybrid channel can be a highly costeffective route to success in the SMB market.

SMB buyers routinely do their own research on the Web; but they often have questions, and want the reassurance of speaking to a real person before they submit an order. Then they often use the Web to follow up on the status of their order.

Let's look at how each part of the TeleWeb channel supports this behavior: **The telephone** offers access to knowledgeable experts, and supports broad, low-cost customer contacts. It enables a vendor to provide precise answers to questions, and to build personal trust. Yet the telephone alone cannot achieve its full potential in the SMB market, because many prospects are reluctant to speak to a sales rep until they are looking for answers to specific questions, or fairly committed to buy.

The Web offers broad, low-cost market reach and supports a self-guided customer buying experience. It's available 24/7 to capture customer information straight into a CRM system. But the Web alone cannot achieve its full potential in the SMB market, because many prospects want a personal contact with a human being before they complete their purchase.

Put them together, and the TeleWeb provides a new direct channel as powerful as a live sales call, for a fraction of the cost. It supports a low-cost, interactive buying experience completely under the prospect's control, with professional guidance available on-demand whenever the buyer requests it.

In this way, the TeleWeb channel can help turn SMB customer Web visits and telephone inquiries into revenue growth.

Conclusions

The benefits of remixing sales and marketing channels are profound. These include more sales, lower cost-of-sales, higher margins, improved customer satisfaction, and more profits. This makes it an ideal strategy for any software vendor eager to achieve profitable revenue growth in the SMB market.

What's more, this strategy can be rolled out quietly without alerting competitors; once underway, it is difficult for rivals to imitate. And it supports any other strategies a vendor chooses for attacking the SMB market, such as repackaging an enterprise offering, adding vertical-market features, or delivering solutions via SaaS.

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Building Subscriber Relationships

By Carey Ransom

Treat Each Subscriber as a True Individual

Traditional lead generation via marketing has always been a large numbers game. Find or build the biggest list possible, market to that list, and hope that a small percentage will respond. Rinse and repeat. Online and email marketing has taken a similar approach with the use of rented and in-house email lists. Most companies make it very easy for email recipients to subscribe, by asking the fewest possible questions to a prospective subscriber. The result: email subscriber lists become large, but unfortunately, little is known about subscribers.

The predicament created is that when you do not know enough about your email subscribers, you cannot be relevant enough to impress them, thus most of those who subscribe end up ignoring your generic messages.

Readers Will Answer More Questions, If There Is a Purpose

A tremendous opportunity still exists for electronic marketers who will use more detailed reader information. Not only do marketers desire to know more about their subscribers and participants, but the participants themselves want to give more information so they are treated more respectfully and individually. Below are six strategies for online and email marketers to consider for building better relationships with their subscribers:

1. Determine the 3-4 questions that create the greatest opportunity for personalization and individuality. Ask these few questions when the reader is subscribing, and immediately deliver information specifically relevant to the reader's answers. Differentiating attributes of readers vary widely, depending on the sending organization and the subscriber base. A few examples could be location, gender, and areas of interest or industry.

2. Clearly explain to a subscriber why you are asking questions and what the results of the answers they give will be. A visual example is very helpful, but this does not mean a generic version of your last e-newsletter. The more transparent the information is to the subscriber, the more potential trust that you can build with him/her. For example, if you are going to ask for someone's location, explain that you will be better able to provide them with relevant events, news or offers that are close to them.

3. Do not ask a question if you cannot do something valuable for the reader with the information. If you have multiple offices, and ask for a subscriber's zip code, make sure you relate the two pieces of information in their message. If you ask for a reader's gender or age, make sure they understand why they gave it to you. Nothing is more irritating to a reader than giving up personal information, only to be treated like one of the masses.

4. Start small with the questions you ask. Once you deliver on your promise and show the potential value of personalization to subscribers, you earn the right to ask additional questions, and your readers will answer them. Do not overwhelm your readers with a deluge of questions and data requests. You will not be able to use all of the information, and you will lose a majority of potential readers before they finish your process.

5. Let readers give you feedback about how you use their preference and profile data. Many times senders think their information and news is really important, but subscribers may think otherwise. Give them an opportunity to rate and respond to what you communicate. Our most recent survey showed only 25 percent of respondents satisfied with the interactivity options available to them as a subscriber. Email is an interactive medium and should be utilized as a window to customers and prospects, and as an efficient way for dialogue.

6. Provide an experience to subscribers that is worthy of keeping them engaged, involved and virally sharing with others. As a marketer you take great care to build a strong brand for your products and/or company. Make sure your online experiences work to increase your equity and not detract from it.

Make Them Want To Give Their Email Address
Subscribers today are hesitant to participate in future email subscriptions because of the poor experiences with their current subscriptions. They need a compelling reason to allow you to begin or continue filling their inbox. Readers are still actively looking for those compelling propositions, though, and the responsibility is yours to convince them to interact with you. Give subscribers more control, relevance and personalization, and your list will not only grow, but it will remain engaged.

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