



TAMPERE UNIVERSITY OF TECHNOLOGY

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## SOFTWARE COMPANY'S INTERNATIONALIZATION THROUGH MARKETING CHANNEL

Choosing and Managing Data Management Product Resellers in  
Europe

Master's Thesis

Examiner: Professor Olavi Uusitalo  
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## ABSTRACT

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Internationalization provides various benefits for growing companies. Especially software companies with close-to-zero replication and logistics costs benefit from global markets. Because having a sales organization in all target markets is neither economical nor feasible, companies prefer to use marketing channels to market and distribute their products. The purpose of this study is to find effective ways how a software company can successfully choose and manage resellers.

This study analyzes results of various researches about marketing channel. These results are combined with unique features of software products and business to create a theoretical framework for choosing and managing software resellers.

This study contains an empirical research. The used research method, semi structured interview, revealed many interesting factors about software marketing channel and provided insights for managing it.

The results of the study provide a practical guide for software companies to choose and manage their resellers effectively. A step by step process includes all the phases from locating a reseller to possible termination of the partnership. The study revealed the importance of passive search, which provides software companies potential and interested reseller prospects with small amount of effort. Also the importance of detailed technical documentation was discovered. Detailed technical documentation can provide more channel revenue and release technical support resources if well implemented.

Results of the study raised many interesting topics for further research. Comparing European resellers to other continents' resellers would provide information about the generalizability of the results. Analyzing channels, their products and features would reveal if one channel could also be used with other vertical software products.

Software companies can use the results of this study to improve their channel performance. The findings of the study can provide a valuable insight for both companies just starting their internationalization process and for companies who are already global.

## PREFACE

The topic of this thesis was chosen together with my employer M-Files. I am personally interested of international business and I completed my master's degree in an international program. M-Files is interested of growing its marketing channel significantly and managing it more efficiently. When these two desires were combined, we found the current topic.

The thesis process started in October. Performing the research while studying and working at the same time was challenging. Well proceeding research gave motivation and enthusiasm to invest time for the research and the goal was reached within the personal deadline, end of February.

I want to thank Professor Olavi Uusitalo who has provided his support and guidance through the whole process. Especially I want to thank Miika Mäkitalo, the CEO of M-Files. Even though he is responsible of leading a software company with revenue of nearly ten million euros and growth rate of 50 per cent per year, he always answered yes to my frequent question "Do you have a little bit time". It was a pleasure to work with Miika and Olavi and I learned a lot from both of them.

Tampere 17.2.2013

ARTTU HUJANEN

## CONTENTS

List of Figures and Tables.....	1
List of Abbreviations.....	2
1 Introduction.....	3
1.1 Introduction to Literature.....	4
1.2 The Case Company M-Files.....	5
1.3 The Goals of the Study and the Empirical Study Problem .....	6
1.4 The Scope of the Study .....	6
1.5 The Structure of the Study .....	7
2 Theoretical Background.....	8
2.1 Marketing Channel.....	8
2.2 Choosing Resellers.....	13
2.3 Managing Resellers.....	23
2.3.1 Supporting Resellers.....	24
2.3.2 Evaluating Resellers .....	29
2.3.3 Motivating Resellers.....	35
2.4 Software Products and Reselling Them .....	43
2.5 Choosing and Managing Software Product Resellers.....	44
3 Research Methods.....	50
3.1 Research Approach .....	50
3.2 Used Research Method .....	51
3.3 Performing the Research.....	52

4	Results .....	55
4.1	Choosing Resellers .....	55
4.2	Managing Resellers .....	58
4.2.1	Supporting and Motivating Resellers .....	58
4.2.2	Evaluating resellers' performance .....	62
5	Discussion and Conclusions.....	65
5.1	Summary of Results and Discussion.....	65
5.1.1	Choosing resellers.....	65
5.1.2	Supporting and motivating resellers .....	67
5.1.3	Evaluating resellers.....	70
5.1.4	Choosing and Managing Software Product Resellers.....	71
5.2	Research Contribution and Implications.....	73
5.2.1	Managerial Implications .....	74
5.2.2	Recommendations for M-Files .....	77
5.2.3	Theoretical Implications .....	78
5.3	Evaluation of the Research.....	81
5.4	Topics for Further Research.....	82
5.5	Conclusions .....	82
	References .....	83
	Appendix 1: Questions of semi structured interview .....	I
	Appendix 2: List of interviewees .....	II

## LIST OF FIGURES AND TABLES

Figure 1	The relationship between fixed costs and revenue
Figure 2	The structure of the study
Figure 3	Typical distribution systems
Figure 4	The key dimensions of channel design and management
Figure 5	Partner evaluation checklist
Figure 6	Possible terms and policies for the reseller agreement
Figure 7	The value-adds versus costs of different channels
Figure 8	An example of a channel survey
Figure 9	Channel portfolios
Figure 10	Matrix of vertical and horizontal portfolios of channel structures and members
Figure 11	Choosing and managing software resellers
Figure 12	Research approaches used in management sciences
Figure 13	The modified framework for choosing and managing software resellers
Figure 14	A screenshot from Google search results
Table 1	Reasons to internationalize
Table 2	Date, time and duration of the interviews
Table 3	List of interviewees

## LIST OF ABBREVIATIONS

ABC	Activity-Based Costing
CLM	Contract Lifecycle Management
DMS	Document Management System
DPA	Distribution Portfolio Analysis
E/R	Expense-to-Revenue Ratio
EAM	Enterprise Asset Management
ECM	Enterprise Content Management
EMEA	Europe, the Middle East and Africa
HR	Human Resources
OEM	Original Equipment Manufacturer
SCM	Supply Chain Management
SSN	Software Supply Network
TCE	Total Customer Experience
QMS	Quality Management System
VAR	Value Added Reseller

# 1 INTRODUCTION

In small countries like Finland most of the growing companies have to enter the international market. International markets are lucrative for software companies which can deliver and replicate their products close-to-zero costs globally and instant. According to Czinkota et al. (2011, p. 257) reason for internationalization can be divided to proactive and reactive reasons:

*Table 1: Reasons to internationalize (Czinkota et al. (2011, p. 257)*

<i>Proactive:</i>	<i>Reactive:</i>
1. Profit advantage	1. Competitive pressures
2. Unique products	2. Overproduction
3. Technological advantage	3. Declining domestic sales
4. Exclusive information	4. Proximity to customers and ports
5. Economies of scale	5. Excess sales
6. Market size	6. Saturated domestic markets

In addition, Kotler & Keller (2006, p. 669) mention that companies want to reduce dependency on any one market. Internationalizing customers requiring international service can also be a reason to internationalize. If a global firm attacks company's domestic market, the company can counterattack in competitor's home markets.

The growing companies are facing a situation, where they have to decide how they will sell their products. According to Kotler & Keller (2006, p. 477) companies can choose from a wide variety of channels for reaching the customers: sales forces, agents, distributors, dealers, direct mail, telemarketing, Internet etc. Each of these channels has unique strengths and weaknesses.

According to Dent (2011) routes to market restrict access and without right routes to market a company cannot reach the target market. But companies cannot be presence in all of their target markets without major resource investments. For most companies having a sales office in every target market is not profitable or strategically wise due to high fixed costs and fixed capital. According to Kotler & Keller (2006, p. 472) many producers lack the financial resources to carry out direct marketing. Therefore most of the companies want to focus on their core competence and use distribution channels to generate revenue without high fixed costs (Figure 1). Kotler & Keller continue that suppliers who have channels can often earn greater return by increasing their main business.



For example, if a company earns a 20 percent rate of return on manufacturing and a 10 percent return on retailing, it should focus on manufacturing.

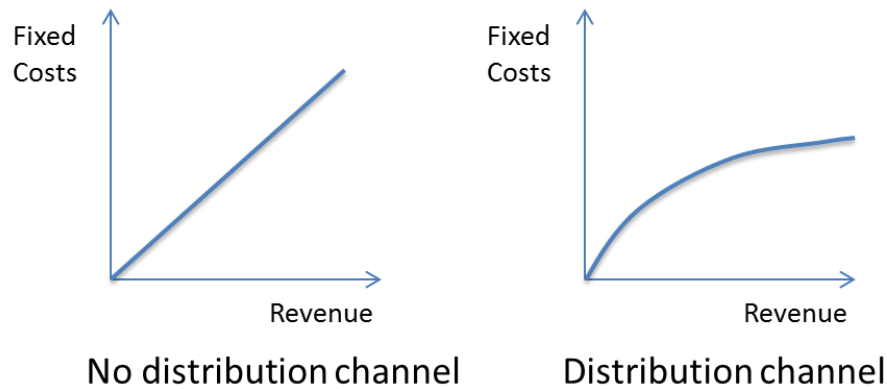


Figure 1. The relationship between fixed costs and revenue.

Individual businesses do not anymore compete as single entities but as supply chains (Lambert & Cooper, 2002). According to Ghezzi & Picco (2002) the software industry is in the same situation and software are produced and sold by different organizations. Because many software products are complemented and supported by services, resellers are widely used channel in software business. But using a marketing channel is not an easy task neither for global enterprises nor small, just internationalizing, companies. Finding and selecting the right resellers is crucial for success and the whole brand of the company can depend on its resellers. But to enable resellers' success they have to be supported properly. Wrong kind of support just consumes resources but doesn't help resellers to sell more. To be profitable, channel has to generate more sales or provide more value than it costs. Therefore supplier has to be able to evaluate channel costs and performance of resellers and terminate partnerships generating only losses. To motivate resellers to invest resources for supplier's product, a supplier has to know the right ways to motivate the resellers. Without proper recognition of resellers' needs and problems motivating tactics can do more harm than good.

This chapter provides first an introduction to literature and then presents the case company. After that the goals of the study and the empirical study problem are defined. The fourth section defines the scope of the study. The fifth section describes the structure of the study.

## 1.1 Introduction to Literature

Marketing channel has been and is still very popular research topic. Many researchers have written about choosing resellers and how to support, evaluate and motivate them (for example Brendel, 1951; Cavusgil et al., 1995; Yeoh & Calantone, 1995; Mallen, 1996; Friedman & Furey, 1999; Czinkota & Ronkainen, 2004; Kotler & Keller, 2006; Anderson et al., 2009; Dent, 2011; Rosenbloom, 2012). Researchers have also written

about software business (for example Messerschmitt & Szyperski, 2003; Mäkelä & Mutanen, 2005; Kittlaus & Clough, 2009). Some researchers have even studied how to model software supply networks (for example Weill & Vitale, 2001; Messerschmitt, 2003; Jansen et al., 2007). But there is marginally literature about software marketing channel. So the literature is lacking studies of how to choose and manage software resellers.

## **1.2 The Case Company M-Files**

M-Files Corporation is a 1989 established software company which consists of M-Files Oy and subsidiary M-Files Inc. The company has offices in Finland and USA. The company has steadily increased its revenue with approximately 50 per cent per year since 2005. Deloitte has listed M-Files to Deloitte Technology Fast 500 EMEA and 50 Finland –lists in 2010-2012. The revenue in 2012 was 9 million euros.

M-Files has over 2000 customers in more than hundred countries from all industries. The company has resellers in more than 50 countries. Approximately ten OEM-partners provide M-Files solutions as a part of their own products.

M-Files' business model is a combination of software products and services. The main product is M-Files Enterprise Content Management (ECM) system. Services cover consultation, training and different kinds of software projects. M-Files ECM is an agile document and information management solution which increases the efficiency and productivity of organizations. The solution is suitable for all industries and companies of all sizes. The most widely used M-Files software is M-Files Document Management System (DMS). Other M-Files software are Quality Management System (QMS), Human Resource (HR), Contract Lifecycle Management (CLM), Enterprise Asset Management (EAM) and different kinds of customized solutions. M-Files was listed to Gartner Magic Quadrant for the Enterprise Content Management 2012. KMWorld nominated M-Files as "Trend-setting Product of 2012". The M-Files technology won Ruban d'Honneur –award 2011, was a finalist in three categories in Document Manager Awards 2011 and a finalist in Red Herring Global 100 in 2010.

The M-Files resellers are generally regarded as value added resellers (VAR). In addition to selling licenses and renewing subscriptions the VARs can provide professional services like installation, configuration, customization, extension and training. M-Files has three levels for VARs: Authorized Reseller, Solution Provider and Premium Solution Provider. The benefits and requirements both increase while moving from Authorized Reseller to Premium Solution Provider.

### 1.3 The Goals of the Study and the Empirical Study Problem

Like noticed in the previous sections, software suppliers are using resellers in increasing rates but literature doesn't offer enough information about choosing and managing them. This study aims to provide software companies practical and effective ways to internationalize through marketing channel. The goal of the study is to

*Find ways how M-Files can successfully internationalize through marketing channel.*

To achieve the goal, the study problem has been defined to provide a solid basis for the study. This study problem is

*How M-Files succeed to internationalize through marketing channel?*

To answer to the study problem several sub problems have to be answered, such as

*How to choose resellers for software products?  
How to evaluate software resellers' performance?  
What kind of support software resellers need?  
How to motivate software resellers?*

### 1.4 The Scope of the Study

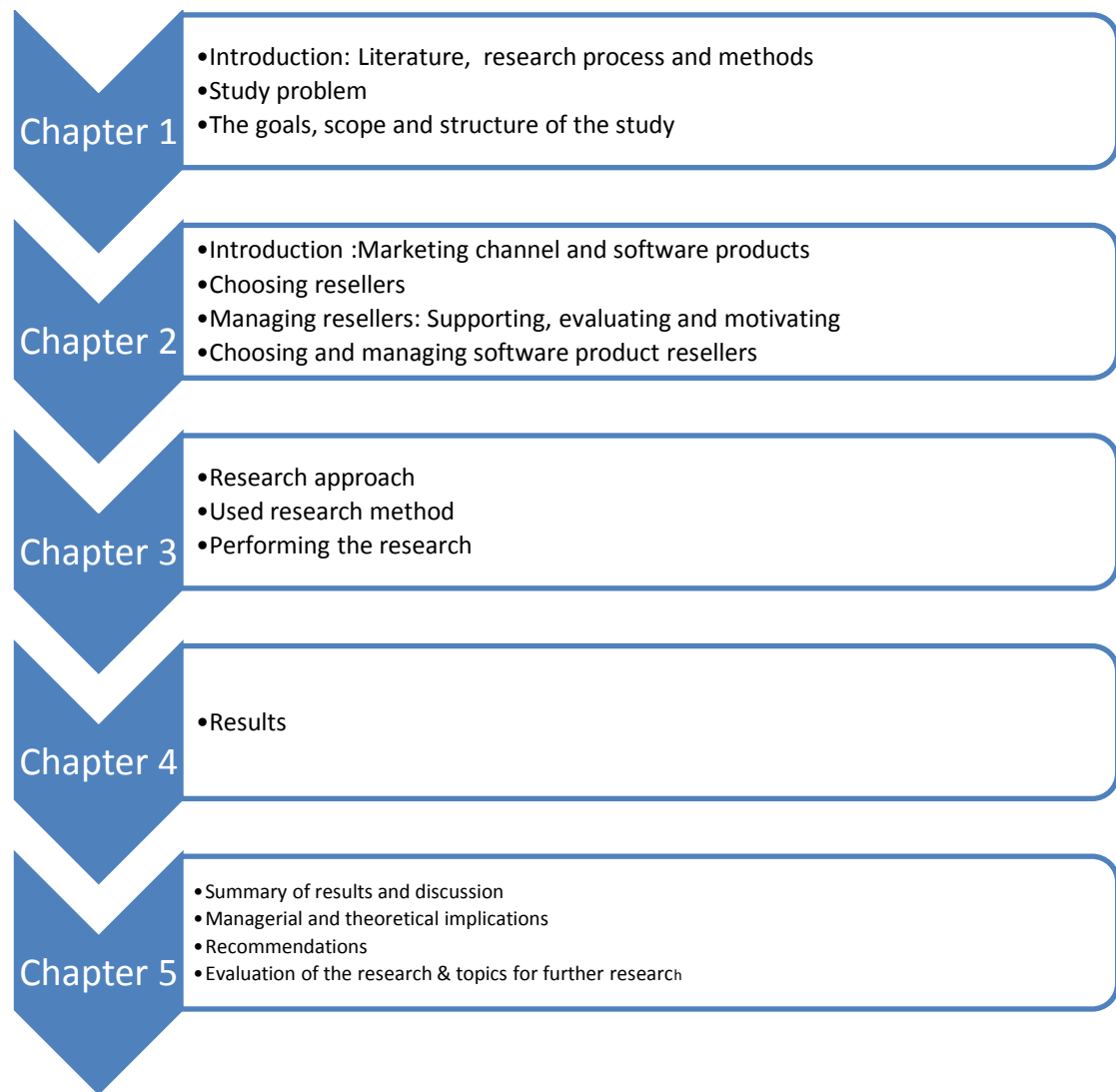
This study will focus on software resellers. The geographical scope is limited to Europe to narrow down the possibility for cultural differences causing bias in the empirical research. This study focuses on choosing, managing, supporting and motivating software resellers.

List of used terms:

Cost-to-serve goal:	The total expenditures required to deliver the intended total customer experience to targeted segments and customers (Anderson, 2009, p. 283)
Distribution channel:	See marketing channel
Marketing Channel:	A set of interdependent organizations involved in the process of making a product or service available for use or consumption (Coughlin et al., 2006, p. 2)
Sales channel:	See marketing channel
Total Customer Experience (TCE):	All aspects of a customer firm's encounter with a supplier firm (Anderson, 2009, p. 281)

## 1.5 The Structure of the Study

Figure 2 describes the structure of the study



*Figure 2. The structure of the study*

Chapter one is the introduction and introduces the study problem and existing literature about the topic. The goals, scope and structure of the study are also defined. Chapter two is the theoretical background of the study. It introduces marketing channel as a concept and unique features of software products. Choosing resellers is discussed in this chapter and also managing resellers, which contains supporting, evaluating and motivating aspects. A theoretical framework is formed in the chapter two. Chapter three introduces different kinds of research methods and defines the used ones. Also the way research was conducted is explained in this chapter. Chapter four presents the results of the empirical study. Chapter five is conclusions and discussion and contains summary of results, managerial and theoretical implications, recommendations for the case company, evaluation of the research and topics for further research.

## 2 THEORETICAL BACKGROUND

This chapter contains the theoretical background of the study. The theoretical background is formed on the basis of literature review. The first section introduces marketing channel as a concept, benefits of it and parts of it. The second section discusses about choosing resellers: The choosing process, useful criteria and convincing a reseller. The third section is about managing resellers. It contains three parts: Supporting, evaluating and motivating resellers. Supporting section describes the three most important areas of support – training, technical support and marketing support. Evaluating section explains how a supplier can estimate the costs of the channel and evaluate performance of resellers. Motivating section describes the motivating process, where supplier should recognize problems and needs of resellers and then support them. The fourth section is about unique features of software products and software business. The fifth section summarizes sections from one to three from the software viewpoint and forms a theoretical framework for choosing and managing software resellers.

### 2.1 Marketing Channel

Coughlin et al. (2006, p. 2) define marketing channel as “a set of interdependent organizations involved in the process of making a product or service available for use or consumption.” Rosenbloom (2012, p. 10) defines marketing channel as “the external contactual organization that management operates to achieve its distribution objectives.” Distribution channel can be used to create demand for products and services and also to fulfill demand (Dent, 2011). According to Kotler & Keller (2006, p. 468) one of the main roles of marketing channel is to convert potential buyers into profitable orders. Therefore marketing channels must not just serve markets but they also have to make markets. According to Anderson et al. (2009, p. 279) channels can augment organization’s market offering through the creation of total customer experience (TCE). Kotler & Keller (2006, p.473) list some other channel functions:

- Gather information about potential and current customers, competitors and other actors and forces in the marketing environment
- Develop and disseminate persuasive communications to stimulate purchasing
- Reach agreements on price and other terms so that transfer of ownership or possession can be effected
- Place orders with manufacturers
- Acquire the funds to finance inventories at different levels in the marketing channel
- Assume risks connected with carrying out channel work
- Provide for the successive storage and movement of physical products

- Provide for buyers' payment of their bills through banks and other financial institutions
- Oversee actual transfer of ownership from one organization or person to another

Researchers have identified reasons why suppliers use distributors:

- **Selling and promoting** (Kotler & Keller, 2006; Dhotre, 2010)
- **Bulk breaking** (Kotler & Keller, 2006; Dhotre, 2010)
- **Warehousing** (Kotler & Keller, 2006; Dhotre, 2010)

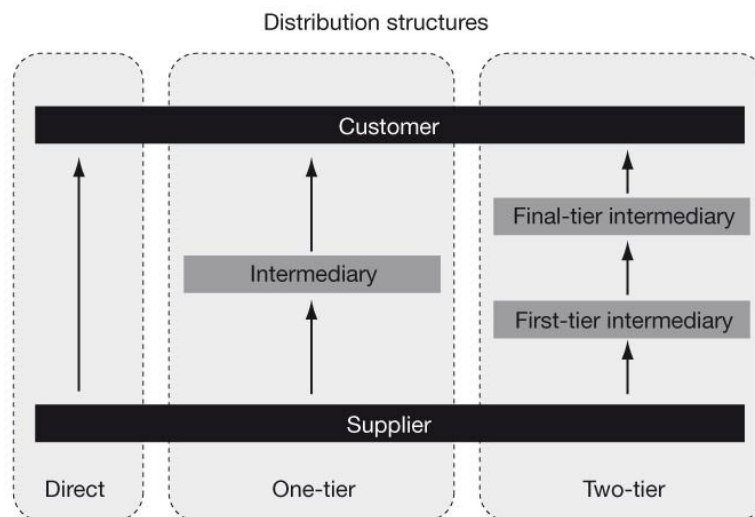
Distributor's sales force can help suppliers to reach many small business customers at a relatively low cost. Distributors have more contacts and often buyers trust distributor more than a distant manufacturer. (Kotler & Keller, 2006, pp. 520-521.) According to Dhotre (2010) intermediaries bring the buyers and sellers together, simplify and facilitate the transactions. For small suppliers having very limited budget for the promotion it is quite difficult to create the awareness, interest and desire to buy the products among the customers. Intermediaries are closer to the customers and have direct and regular interaction with them. Therefore intermediaries can effectively promote and sell the products.

Many producers lack the financial resources and expertise to carry out direct marketing. Dhotre (2010) reminds that intermediaries can do selling activities more profitably compared to the supplier through their contacts in the market, experience, specialization, infrastructure, relations and rapport with customers. According to Kotler & Keller (2006, pp. 520-521) distributors achieve savings for their customers by buying in large quantities and selling in smaller units. According to Dhotre (2010) intermediaries play important role in bridging the gap between the customers' quality, quantity and variety expectations and producers' offerings. According to Kotler & Keller (2006, pp. 520-521) distributors hold inventories and thereby reduce the inventory costs and risks to suppliers and customers. According to Dhotre (2010) intermediaries create time, place, form and possession utilities for the customers by making the products/services available at the convenient place, time and in convenient form.

Distributors are able to select items and build the assortments their customers need, saving the customers considerable work. Distributors can also provide quicker delivery to buyers because they are close to the buyers. Distributors finance customers by granting credit and finance suppliers by ordering early and paying bills on time. In addition, distributors absorb some risk by taking title and bearing the cost of theft, damage, spoilage and obsolescence. Distributors also supply information to suppliers and customers regarding competitors' activities, new products, price development and so on. Distributors can help retailers to improve their operations or help industrial customers by offering training and technical services. (Kotler & Keller, 2006, pp. 520-521.)

According to Dhotre (2010) intermediaries are independent business organizations. They are private and professional institutions with the objective of profit making. Hence, it is easier and more economical to work through their extensive and established networks. Suppliers have a reason to use intermediaries every time they cannot deal directly with the end customer especially when the consumers are scattered over a wide geographical area. Also, if suppliers can delegate distribution activities to intermediaries, they can increase their investment and focus more on their main business activities. The last reason Dhotre mentions is that intermediaries reduce the number of transactions and thereby reduce the efforts and costs.

There are three basic structures for a distribution system (Figure 3) and in addition to those two modifications of basic structures (Dent, 2011). There are also many other ways to illustrate channel structure (for example Kotler & Keller, 2006; Rosenbloom, 2012). The Dent's model is chosen for this paper because of its clarity and newness.



*Figure 3. Typical distribution systems (Dent, 2011)*

In the direct structure a supplier owns and manages all the resources through the value chain to the customer. Some companies using this model are Dell, easyJet, Charles Schwab and Lands End. These companies aim to increase customer convenience or reduce costs, or both, with the direct model. Companies using this model have valuable customer insight because of the direct interaction and they are able to adjust prices and promotional offers instantly to respond to demand and supply issues. (Dent, 2011.) According to Anderson et al. (2009, p. 292) the supplier performs all the required business functions, maintains contact with the customer, owns the customer relationship and all profits in direct structure.

One-tier distribution includes one set of intermediaries between the company and its customers. Intermediaries are used to increase reach (for instance overseas agents), pro-

vide special services to complete the customer offer (for example installation) or position the product within established channels for customer (such as retailers). The benefits of this model include easy and usually immediately access to well-defined customer segments or leveraging investments made by the intermediaries, such as overseas agents, warehouses and established sales forces. There are also disadvantages in this model. The most significant ones are the need to grant an acceptable trading margin to the intermediary and a lack of focus because the intermediary sells usually many brands including competitors' ones. Also the distance to the customer increases and can be a major disadvantage, depending on what information the intermediary share with the supplier. (Dent, 2011.)

In two-tier model there is an intermediary buying from the supplier and supplying to other intermediaries. This model is used for instance in the computer and telecom industries where there are thousands of local dealers serving small and medium-sized businesses. This model is used when thousands of intermediaries are needed to reach the potential customers and monthly sales are small. The advantages of this model are leverage and cost effectiveness which enable the supplier to reach a wide mass market with low volume. (Dent, 2011.) The main disadvantage is increased distance to the customer and to markets (Kotler & Keller, 2006, p. 474; Dent, 2011). Kotler & Keller (2006, p. 472) continue that exercising control becomes more and more difficult for the supplier as the number of channel levels increases. According to Anderson et al. (2009, p. 292) in indirect structure (one- and two-tier models) business functions are allocated among the supplier and reseller. Both work as partners and share profits through various discounts, commissions and allowances. A reseller often manages the contact with the customer and may even claim the ownership of the customer relationship. In some cases the supplier may not even know who the end customer is or how they use the product.

In addition to the three models described in Figure 3 there are two modifications: Multiple-tiered distribution and Original equipment manufacturer channel. Multiple-tiered distribution is similar to two-tier model but includes additional tiers required to reach the end-customer. This model is common in challenging markets, challenge caused by factors such as complex geography or economic conditions. One example could be a cigarette vendor in some developing country who sells a single cigarette at a time and buys a packet from a local shop. Original equipment manufacturer (OEM) channel refers to a situation when OEM makes a product that is embedded inside another, for instance a chip inside a computer. Because the chip is not a complete product by itself the route to market is first into OEM channel, which would be computer manufacturer, and then as a part of completed product into the channels described in the previous chapters. (Dent, 2011)

Channel strategy is consisted from two elements; Channel design and channel management (Figure 4). Designing channel requires answering certain questions like which



channel options to choose, how many partners to include at each level, how they should be governed etc. So channel design is concentrated into structural aspects whereas channel management involves the formal or informal rules that govern the day-to-day behavior of the channel members. These two elements should go hand in hand. One cannot govern the channel and set sales targets without understanding the channel costs and margins and other operating features. On the other hand design issues cannot be solved without understanding distribution policies and practices. (Rangan, 2006.) According to Kim (1998) distribution channel structures are not only difficult to change but wrong decisions may lead to poor results.

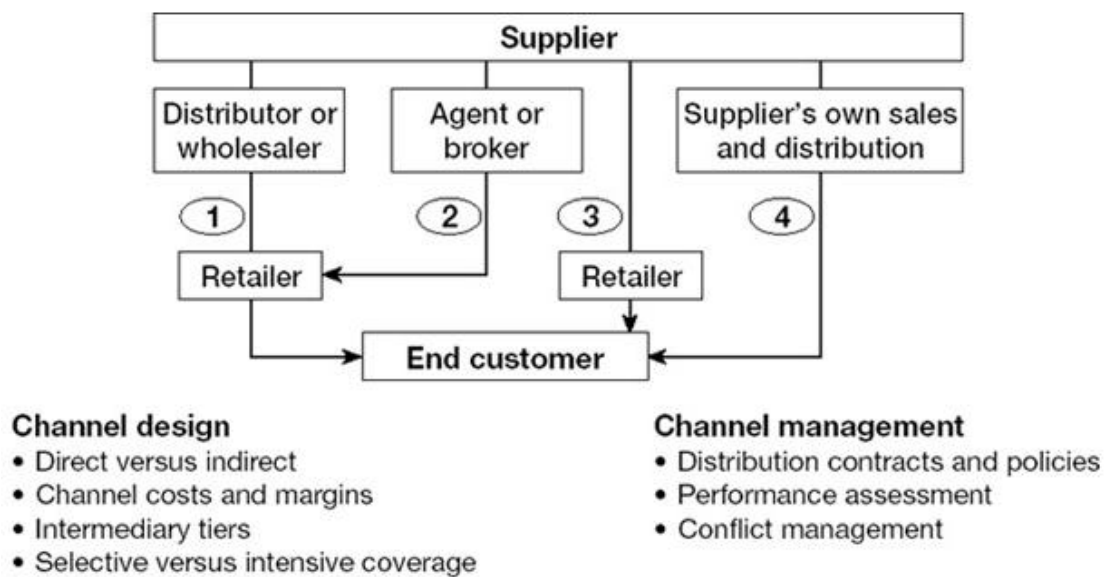


Figure 4. The key dimensions of channel design and management (Rangan, 2006)

Channel management efforts can be useless if the structure is not suitable. The environment changes can make the channel structure ineffective or even obsolete if the channel design is not adapted to fit the new situation. One example of channel design failures was IBM's and Compaq's attempt to create same kind of built-to-order channel for PC sales like Dell had. The error was that they tried to use their existing distributor networks. Dell used centralized factory while IBM and Compaq used decentralized. Centralized factory provided Dell significant supply chain cost advantages and allowed it to generate profit in built-to-order business while IBM and Compaq made losses, because their production lines were too small to smooth out uneven order flows. IBM and Compaq tried to solve the problem with special pricing and margin arrangements but because there was a flaw in the channel structure channel management actions were not enough and the companies withdrew from built-to-order business. (Rangan, 2006.)

Bucklin (1966) highlights the importance of targeted service output levels. According to them a channel institution should arrange its functional tasks to minimize total channel

costs and still provide desired level of service output. According to Kotler & Keller (2006, p. 477) the company planning the channel structure can identify several market segments that want different service levels. Channel design should be related to product characteristics. Perishable products require direct marketing while bulky products minimized shipping distance and amount of handling. Usually nonstandard products and high-unit-value products are sold directly through the company's sales force while products requiring services can be sold also through franchised dealers.

According to Kotler & Keller (2006, p. 480) and Fein & Anderson (1997) companies have to decide the number of intermediaries at each channel level. According to Mallen (1996) there are three approaches: Intensive, selective and exclusive distribution. Intensive distribution aims to have as many distributors as possible. In exclusive distribution the policy is to have only one distributor in a given geographical area. Selective distribution is something between these two extremes. But the amount of distributors affects also to the quality of the distributors. It is important that the distributors suit for the company's strategy and the brand. According to Dent (2011) routes to market control the brand, so the attributes important for brand (e.g. quality) have to be presence also in the distribution channel. Therefore choosing the right distributors is a crucial task for suppliers. The next chapter discusses about choosing resellers.

## 2.2 Choosing Resellers

The choice and the performance of the selected partners are the main determinants to the success and failure of a marketing channel (Stern, 1992). According to Rosenbloom (2012, p. 215) success in marketplace requires strong channel members who can efficiently perform the distribution tasks necessary to implement the channel strategy. There are several reasons why partner selection is important to the channel development:

- Good channel partners indicate the establishing of channel commitment: Good channel partners will invest to the channel to achieve the mutual goals and objectives and to establish the long term commitment (Coughlin et al, 2006)
- Good channel partners will recommend the supplier's products to the customers: According to Johnson (1994) and Keough (2005) channel partners affect strongly to the customer's choice – more than 80% of industrial customers in US select the products according to the recommendations of the distributor. Gartner Group's research (1997) revealed that customers go to dealers for assistance. 77 per cent of customers were not prebranded, meaning they did not have a specific brand in mind. Of those customers 90 per cent purchased a brand recommended by reseller and even 53 per cent of customers who had a specific brand in their mind changed it because of reseller's recommendation. According to Kiatwisanchai (2007) the good channel partners will try to support and promote supplier's products.
- Business transactions are smooth with good channel partners: Good channel partners can be relied on payments and deliveries (Kiatwisanchai, 2007).
- Good channel partners have a wide distribution network: According to Kotler & Keller (2006) good channel partners usually belong to a wide distribution network,

because they are experienced, skillful and able to use their existing network to distribute the supplier's product widely.

Holmval (1995) highlights the importance to choose the right resellers and to put enough effort and consideration into selection process. Donaldson (2007, p. 162) states, that more than half of export marketing fails because the wrong distributor was selected – usually because distributor had not the technical experience claimed, had exaggerated its influence with buyers, was poorly located or was not prepared to commit itself to the suppliers products. Root (1998) states that if a supplier decides to use an intermediary it must initiate a selection process in order to select high-quality intermediaries. According to Andersen (1992) companies try to identify and select resellers which can best perform the channel functions required to meet market access, value-added service, cost-to-serve goals and to provide the intended total customer experience. This process requires considerable amounts of attention and effort. Root (1994) suggests selection process with four phases:

1. Drawing up the intermediary profile
2. Locating intermediary prospects
3. Evaluating intermediary prospects
4. Choosing the intermediary

### **Forming the profile**

Drawing up the intermediary profile means that the supplier lists all criteria a reseller should have. This can be done for example by listing first wanted channel capabilities (Andersen, 1992). According to Rosenbloom (2012, p. 220) a supplier can use generalized lists developed by channel analysts. Then potential resellers are compared and contrasted against chosen criteria (Czinkota & Ronkainen, 2004). Czinkota & Ronkainen (2004) stress that those criteria have to be updated to adapt to changes in the environment and supplier's own situation. Rosenbloom (2012, p. 220) also states that no list of criteria is adequate for a company under all conditions. According to Czinkota & Ronkainen (2004) some criterion/criteria can be characterized as determinant, which can be used in preliminary screening. This list should also correspond closely to the supplier's own determinants of success: the things that have to be done better than the competitors. According to Peers & Wingfield (2002) choosing channel members should be consistent with the company's broader marketing objectives and strategies of the organization. Friedman & Furey (1999) recommends suppliers to use a partner evaluation checklist, which lists the most important criteria and allows evaluating potential reseller by those aspects. An example of partner evaluation checklist is described in Figure 5. The criteria used for selection are discussed in more detail later in this chapter.

		Excellent	Good	Average	Poor
General Management	Overall management quality / stability				
	Years in business				
	Previous success / failure as a partner				
	Extent of competitor relationships				
	Reputation in the market place				
Financial Strength	Revenue growth				
	Profitability				
	Financial stability				
	Net worth				
	Payment / credit history				
Capacity / Resources	Size, quality of sales force				
	Service / support capabilities and systems				
	Advertising and marketing budget				
	Inventory				
Market Performance	Customer retention / stability				
	Key account development				
	Market share / penetration				
	Experience in our product-markets				
	Customer satisfaction				
	Pricing stability (vs. Discounting)				

*Figure 5. Partner evaluation checklist (Friedman & Furey, 1999)*

### **Locating resellers**

According to McMillan & Paulden (1974), Root (1998), Mohr et al. (2005, p. 256), Donaldson (2007, p. 162), Hollensen (2011, p. 342) and Rosenbloom (2012, p. 216) information required to locate intermediary prospects can be found from numerous sources such as government agencies, banks, trade publications, trade fairs, direct mail campaigns, advertising, effective publicity and public relations, customers, and personal visits/selling. Barnett et al. (1989) highlights the importance of personal visits. They continue that even though personal visits are expensive they are vital in order to evaluate the intermediaries' competence and opportunities in the local market. Personal visits can also result to close relationship and supplier can evaluate the needs of the reseller. Another way is visiting trade fairs in the target market. According to Berg (2000) networking in trade fairs help locating prospective reseller. According to Gruner and Schafer (1996) trade fairs provide a good opportunity to investigate how various intermediaries work and how well they know the products they are selling. McMillan & Paulden (1974) suggests suppliers to ask their existing and potential customers advice and guidance in terms of locating reseller prospects. Gruner & Schafer (1996) support

McMillan and Paulden's idea by stating that a supplier should ask their potential end customers what intermediaries they have cooperated with and have confidence in.

### Sorting prospects

References from banks and existing customers of the prospect are good aids to evaluate the intermediary prospects (Root, 1998). According to Anderson (2009, p. 299) the supplier can conduct a market research survey to assess customer preferences for, and satisfaction with, the candidates. As a part of the survey respondents evaluate resellers in terms of their abilities to deliver necessary service outputs. According to Haas (1995) it is important to find out the history of the prospect – how long they have been in the business, what kind of marketing they use and what storage capacity they have. According to Anderson et al. (2009, p. 299) the results of research are used to create a list of prospective and preferred resellers. Donaldson (2007, p. 162) calls that drawing up a short list. According to Cavusgil et al. (1995) the supplier has to compare and evaluate the remaining prospects against the reseller profile created in the first phase.

### Choosing resellers

The last step of selection process is choosing the reseller. Cavusgil et al. (1995) and Root (1998) stress the importance to meet the intermediary in person to find out if the parties can get along. According to Anderson et al. (2009, p. 299) managers should visit each prospect, especially those located outside of the supplier's domestic market, to tour facilities, assess capabilities and gauge management interest. According to Root (1998) the final choice of intermediary is worth the time and money spent because the supplier's success in target market mainly depends on the reseller's efforts. If the choice is incorrect, it is costly to undo the arrangements and the whole selection process has to be remade.

There are several criteria that can be used to evaluate potential resellers. Many researchers have listed criteria to use. Some criteria are more acknowledged and some identified by only one researcher. The next list describes the most broadly acknowledged criteria to evaluate resellers:

- **Sales performance** (Pegram, 1965; Moore, 1974; Jones et al., 1992; Stern, 1992; Czinkota & Ronkainen, 2004; Blythe & Zimmermann, 2005; Hujanen, 2012)
- **Growth** (Moore, 1974; Stern, 1992; Cavusgil et al., 1995; Friedman & Furey, 1999; Blythe & Zimmermann, 2005; Kotler & Keller, 2006)
- **Products carried** (Brendel, 1951; Pegram, 1965; Moore, 1974; Hlavacek & McCuiston, 1983; Stern, 1992; Mallen, 1996; Czinkota & Ronkainen, 2004; Blythe & Zimmermann, 2005; Kotler & Keller, 2006; Donaldson, 2007; Dent, 2011)
- **Reputation** (Brendel, 1951; Pegram, 1965; Moore, 1974; Stern, 1992; Friedman & Furey, 1999; Czinkota & Ronkainen, 2004; Blythe & Zimmermann, 2005; Kottler & Keller, 2006)

- **Financial performance** (Brendel, 1951; Pegram, 1965; Moore, 1974; Andersen, 1992; Stern, 1992; Yeoh & Calantone, 1995; Friedman & Furey, 1999; Czinkota & Ronkainen, 2004; Blythe & Zimmermann, 2005; Kotler & Keller, 2006)
- **Experience** (Moore, 1974; Stern, 1992; Friedman & Furey, 1999; Czinkota & Ronkainen, 2004; Blythe & Zimmermann, 2005; Hujanen, 2012)
- **Commitment and cooperativeness** (Brendel, 1951; Czinkota & Ronkainen, 2004; Kotler & Keller, 2006; Donaldson, 2007; Hujanen, 2012)
- **Size and quality of sales forces** (Brendel, 1951; Cavusgil et al., 1995; Yeoh & Calantone, 1995; Mallen, 1996; Friedman & Furey, 1999; Czinkota & Ronkainen, 2004; Kotler & Keller, 2006; Hujanen, 2012)
- **Pricing policies and pricing stability** (Brendel, 1951; Moore, 1974; Stern, 1992; Friedman & Furey, 1999; Blythe & Zimmermann, 2005)
- **Product and marketing expertise & knowledge** (Andersen, 1992; Jones et al., 1992; Haas, 1995; Yeoh & Calantone, 1995; Czinkota & Ronkainen, 2004)
- **Physical facilities** (Brendel, 1951; Moore, 1974; Stern, 1992; Yeoh & Calantone, 1995; Czinkota & Ronkainen, 2004; Blythe & Zimmermann, 2005)

Sales performance can be evaluated with many factors, for instance number of sales, sales stability, sales on specific product line, number of new customers, growth and the ability to reach sales goals. Sales performance of channel partner's is especially important for companies which mainly rely on middlemen because the channel partners are the key generators for revenue and profit. (Moore, 1974; Stern, 1992; Blythe & Zimmerman, 2005.) According to Cavusgil et al. (1995) growth is an important indicator because if the intermediary does not grow, future expansion can be difficult and therefore the intermediary prospect is not interesting for the supplier.

Products carried refer to the products channel partner is already selling. Selling these products has generated knowledge about industry and the products and therefore training capable reseller requires fewer resources from the supplier compared to the ones who are new in specific industry. (Moore, 1974; Stern, 1992; Blythe & Zimmerman, 2005.) Donaldson (2007, p. 162) states that not carrying competitor products is one of the most frequently used criteria. Donaldson continue that suppliers prefer distributors who concentrate on their own products instead of dividing their time between competing products. According to Mallen (1996) intermediary should be chosen to be a one offering complementing products, not competitive. The products should also reach the same segment as the supplier. According to Rosenbloom (2012, pp. 222-223) intermediaries who carry compatible products are favored because they offer a better overall product mix to their customers.

Suppliers manufacturing technical products which are sold in industrial market should select distributors who carry small rather than large array of products. The reason is that distributors with lower number of products carried can focus more attention to supplier's products. (Hlavacek & McCuiston, 1983.) According to Dent (2011) B2B intermediaries usually add services to the products using special skill sets which have been recruited, developed and retained. Therefore they can have relatively high fixed costs and

project-based revenues which lead to volatile profitably and awkward cash flow. For being able to survive they need to be well focused on their offer to one or more customer segments. Resellers need to invest additional resources ahead of the sales curve to grow. So suppliers should seek for intermediaries specializing on specific products - those that supplier is offering – to increase the probability of having economically healthy intermediary with possibilities to grow.

According to Rosenbloom (2012, p. 223) if the prospective reseller's image is not high enough for the standards the supplier is attempting to project for its product, the supplier probably doesn't select the reseller. Having a reseller with bad reputation can affect negatively on supplier's own reputation. From channel strategy perspective, the reputation of distributors is one of the key strategic issues for a supplier to consider. According to Moore (1974), Stern (1992) and Blythe & Zimmerman (2005) financial performance can be evaluated with financial key figures like profits, debt, ROI etc. Economically healthy partners are more reliable and have better ability to pay their bills. On the other hand, Hlavacek & McCuiston (1983) state that financial capacity should not be overemphasized because sometimes less well financed distributors are "hungrier" and more aggressive. According to Mallen (1996) the major indicator of commitment is if intermediary ends selling competitive products in order to focus only to supplier's products. According to Cavusgil et al. (1995) feedback from the intermediary can be seen as commitment.

In addition to the previous list, there are criteria that are recognized by many researchers:

- **Years in business** (Haas, 1995; Friedman & Furey, 1999; Kotler & Keller, 2006)
- **Knowledge of relevant language** (Cavusgil et al., 1995; Czinkota & Ronkainen, 2004)
- **Size of the company** (Brendel, 1951; Czinkota & Ronkainen, 2004; Hujanen, 2012)
- **Market share** (Cavusgil et al., 1995; Friedman & Furey, 1999)
- **Willingness to invest to marketing and training** (Brendel, 1951; Cavusgil, 1995; Mallen, 1996; Jobber, 2001)
- **Present and previous partners and customers** (Brendel, 1951; Cavusgil et al., 1995; Friedman & Furey, 1999)
- **Service/support capabilities & systems** (Friedman & Furey, 1999; Czinkota & Ronkainen, 2004)
- **Goals, strategies & principles** (Cavusgil et al., 1995; Czinkota & Ronkainen, 2004)
- **Enthusiasm / aggressiveness** (Brendel, 1951; Donaldson, 2007)
- **Market coverage** (Brendel, 1951; Hlavacek & McCuiston, 1983; Friedman & Furey, 1999)

According to Cavusgil et al. (1995) English speaking staff is an important factor because it makes communication easier. According to Rosenbloom (2012, p. 224) prospective intermediaries can be judged on sheer size. Rosenbloom continues that it is usually a safe assumption that large intermediaries are more successful, more profitable,

better established and handle better product lines. Large intermediaries also employ more salespeople and are better equipped with offices, personnel and facilities than smaller intermediaries. According to Cavusgil et al. (1995) marketing capacities are important criteria and the supplier should discover what market share the intermediary possesses of the market. According to Jobber (2001) willingness to market a product is an important criterion to consider when selecting an intermediary. Jobber (2001) also states that most suppliers want to be involved in the decision process of the marketing strategy to ensure the marketing is proper to the product. According to Cavusgil et al. (1995) commitment is the willingness of the intermediary to invest into advertisement and training of the sales force.

A supplier should analyze an intermediary in terms of present and past customers, suppliers, competitors and other participants in the market. Potential reseller's goals and management and bookkeeping principles should be checked to see if they fit for supplier's ones. (Cavusgil et al., 1995.) Donaldson (2007, p. 162) states that in some cases enthusiasm and good knowledge of markets are more important than having good track records or good financial standing. According to Hlavacek & McCuiston (1983) aggressiveness of a potential distributor is always a vital criterion. They continue that market coverage should not be specified merely in geographical coverage but also in terms of market segment coverage. This refers to whether or not the potential distributor deals with the specific market segments the supplier is interested, not just whether the potential distributor happens to cover the geographical territories supplier is interested in. According to Rosenbloom (2012, p. 223) prospective intermediaries can cover also too much territory, which can lead to overlapping problems with existing manufacturers. This is especially important for suppliers using selective distribution.

In addition to criteria listed above, many opinions about important criteria exist. Moore (1974), Stern (1992) and Blythe & Zimmerman (2005) mention background of management team, credit handling and operating procedures as factors of management performance. They also state that channel partner's management team has to fit to the characteristics of the supplier, especially when there are cultural differences between the firms. These factors have a great effect to the establishment of good and working relationships among the channel. They group all criteria to four categories: 1) sales performance, 2) financial performance, 3) management performance and 4) compatible product carried.

According to Czinkota & Ronkainen (2004) criteria should correspond closely to the supplier's own determinants of success. They mention the following criteria to consider: Trading areas covered, compatibility, willingness to carry inventories, communications, cost of operations and knowledge of business methods in the exporting company's country



According to Cavusgil et al (1995) intermediaries often state that they can handle the whole target market, e.g. country or several countries, but it can be difficult because of geographical and economic constraints. Limited access to distribution channels or lack of motivation can also make intermediaries incapable of handling broad areas. Cavusgil et al. (1995) recommends suppliers to look for other intermediaries if the intermediary is incapable of handling broad areas.

According to Cavusgil et al. (1995) the supplier should examine the other supplier's experiences of the intermediary. Jones et al. (1992) state that a supplier should examine how a reseller treats its customers. According to Donaldson (2007, p. 162) the most frequently used selection criteria are market and customer knowledge, customer contacts and hunger to succeed.

Shipley's survey (1984, p. 251) revealed the most used selection criteria in British and American companies. The results were (Rank, criterion, percentage of companies which used the criterion):

U.S. Companies

1. Knowledge of the market (83)
2. Market coverage (75)
3. Enthusiasm for the product (61)
4. Number and quality of the sales personnel (49)
5. Knowledge of the product (47)

U.K Companies:

1. Knowledge of the market & Market coverage (79)
3. Previous success (67)
4. Number and quality of sales personnel (64)
5. Enthusiasm for the product (50)

According to Yeoh & Calantone (1995), there are six major selection criteria categories for suppliers looking for foreign distributors. The categories are 1) commitment level, 2) financial strength, 3) marketing skills, 4) product related factors, 5) planning abilities and 6) facilitating factors. These are core competences a distributor must possess for effective representation in foreign markets.

### **Convincing resellers**

According to Rosenbloom (2012, p. 224) suppliers should remember that a channel is a two-way street. Rosenbloom's selection process contains three steps. The first two – Finding prospective channel members and applying selection criteria to determine whether they are suitable - are discussed earlier in this chapter. The third step is "Securing the prospective members for the channel". Rosenbloom (2012, p. 224) states that also intermediaries do the selection of their suppliers. According to Wagner et al. (1989) intermediaries who are large and well-established can be very selective about whom they represent.

Suppliers, except the ones with truly extraordinary reputation and prestige, cannot expect quality intermediaries to contact them and suggest of becoming their channel members. Rather, most suppliers have to do an effective selling job to ensure the services of good intermediaries. A number of specific incentives can be used when attempting to secure channel members. But all of these should be aimed at conveying the supplier's commitment to support prospective channel members to become successful with the line. So a supplier has to communicate that the partnership will be mutually beneficial if each of the parties does their jobs. In general, the more specific a supplier can be in describing what kinds of support and assistance will be offered the better. (Rosenbloom, 2012, p. 225.) According to Gordon et al. (1991) prospective intermediaries want to know precisely what a supplier can offer for them if they decide to join the supplier's marketing channel.

According to Rosenbloom (2012, p. 225) there are many possible incentives a supplier can offer. Most of them fit within one of the following areas:

- Good profitable product line
- Advertising and promotional support
- Management assistance
- Fair dealing policies and friendly relationships

According to Duff (2002, p. 10) a good product line with strong sales and profit potential is the most important thing a supplier has to offer. According to Rosenbloom (2012, p. 225) suppliers has to offer more than just good products lines to secure all channel members they want. Rosenbloom (2012, p. 225) still admits that suppliers with well-known and highly respected products have a significant advantage over lesser-known suppliers. Therefore it is especially important for lesser-known manufacturers to communicate the benefits of handling their products – from the channel member's point of view. Instead of focusing on strengths of the products, suppliers should focus on how effective the products can be in generating sales and profits for intermediaries.

According to Ramaswami & Srinivasan (1998) prospective intermediaries are interested of promotional support a supplier can offer. According to Rosenbloom (2012, pp. 226-227) in both consumer and industrial market a strong advertising program is one of the most effective inducements to secure intermediaries. A supplier who has such a program gain almost immediate credibility in the eyes of prospective intermediaries in regards to the sales potential of the line. Trade advertising, advertising allowances, cooperative advertising campaigns, point-of-purchase material and show-room displays demonstrate strong channel support and are good lures for prospective intermediaries to join the channel.

Prospective channel members are interested of getting help to improve their management in addition to advertising and promotional support. One good sign of supplier's commitment to help intermediary is management assistance. Management assistance can contain various areas, for example training programs, financial analysis and planning, market analysis, inventory control procedures or promotional methods. The scope of assistance varies widely depending on the type of relationship involved. For example, a contractual channel relationship involving a comprehensive franchise agreement between the supplier and the channel members would generally be expected to provide for much more comprehensive management assistance than a conventional loosely aligned channel relationship. (Rosenbloom, 2012, pp. 227-228.)

Rosenbloom (2012, p. 229) highlights that channel relationships are not mechanical or purely economic relationships. Rather, a channel relationship is a relationship between organizations of people and therefore a social system. Therefore the same behavioral interactions and processes similar to all social systems are valid in channel relationship also. Simply said, a channel relationship is not only a business relationship but also a human relationship (Jussaume & Tansuhaj, 1991; Kingshott & Pecotich, 2007). According to Rosenbloom (2012, p. 229) even though the relationship may be based on formal agreements or even in legal contracts, people-to-people element is never fully removed. Supplier should remember this when trying to secure channel members. So a supplier should communicate to prospective channel member that he/she is genuinely interested of building a good relationship built on the basis of trust and concern for their welfare, not only business entities but as people as well. On the other hand, Wathne et al. (2001) state that interpersonal relationships, cordiality or even genuine liking of channel members for each other cannot replace competitive products, pricing and support programs. Therefore a supplier has to be able to offer a balanced partnership to prospective distributor.

### **Forming an agreement**

When suitable reseller has been found, supplier and reseller negotiate the profit model, terms, conditions and time frame of their partnership. If both parties agree they will sign an agreement. (Anderson et al., 2009, p. 303.) Some possible terms and policies are described in Figure 6.

	Questions To Address
<b>General Issues</b>	
Brand and Trademarks	What restrictions are there on using a brand name, logo, or other trademarks?
Contract Renewal	What is the term of the distributor agreement: what are the conditions for renewal
Termination	What are the specific ground for partner termination? Will warnings be provided?
Management Reporting	What information is the partner required to provide? How often?
Auditing	What kinds of visits, inspections, etc. Will be made? When/how often?
Ownership	Who takes title to the product?
<b>Sales and Compensation</b>	
Sales Resources	Is the partner required to commit a specific level of sales (or support) resources?
Compensation	On what basis are partners paid? What is the commission or discount schedule?
Bonus/Incentives	What incentives exist separately from the standard commission/discount schedule?
Pricing	Are partners allowed to discount prices? If so, by how much, and when?
Sales Credit	Do partners get credit for all sales in their territories, or just the ones they initiate?
Customer Collections	Who is responsible for customer billing and debt collection?
Terms of Payment	When is payment due from customers? From the partner?
<b>Inventory / Facilities</b>	
Inventory Maintenance	Are partners required to stock a specified level of inventory?
Return Privileges	Can partners return unsold inventory? Under what circumstances? Any limitations?
Facilities Design	Are partners required to use specific interior or exterior layouts?
Inventory Displays	Are partners responsible for maintaining specified types of in-store displays?
<b>Restrictions</b>	
Territorial Integrity	Are partners confined to specific territories or markets?
Full-Line Enforcement	Are partners required to carry the complete product line?
Resale Restriction	Can partners sell to other distributors (e.g. Unauthorized, out-of-territory)?
Customer Restrictions	Are there certain types of accounts that partners are not allowed to pursue?
Exclusivity	Can partners sell competitors' products? If so, are there any limitations?

*Figure 6. Possible terms and policies for the reseller agreement (Friedman & Furey, 1999)*

This study does not cover different types of agreements or negotiation process, because they are not within the scope of the study. The next chapter focuses on managing resellers, the next phase after the reseller has been found and the agreement has been signed.

## 2.3 Managing Resellers

Anderson et al. (2009, p. 279) define business channel management as the process of designing a set of marketing and distribution arrangements which create superior customer value for target segments and customers, and executing those arrangements directly through supplier's sales forces and logistics systems or indirectly through resellers and third-party service providers. Rosenbloom (2012, p. 259) defines channel management as "the administration of existing channels to secure the cooperation of channel members in achieving the firm's distribution objectives." This definition high-

lights that actions are done to an already existing channel with selected resellers. It also points that channel members do not automatically cooperate merely because they are members of the channel. Rather, administrative actions are required to secure cooperation. The definition also stress that distribution objectives are needed to guide the management of the channel. According to Anderson et al. (2009, p. 279) suppliers have to design programs and systems that encourage partners to contribute their capabilities, market offerings and deliver intended total customer experience to customers. In the following sections the ways to support, evaluate and motivate resellers are discussed.

### **2.3.1 Supporting Resellers**

According to Rosenbloom (2012, p. 266) channel members are usually supported on a disorganized and ad hoc basis. Rosenbloom (2012, p. 266) states that if the channel is having a problem in a particular area, the supplier may attempt to patch it up and hope that the problem will not come back again soon. Instead of these kinds of quick fixes suppliers should focus on well planned programs that support the recognized needs and problems of the channel members.

Suppliers have various strategies and tactics to support resellers. Most of them can be categorized to training, technical support or marketing and sales support. This chapter discusses those strategies in more detail and provides a supplier an insight how to build a supportive program to enable resellers to sell supplier's products successfully.

### **Training**

It is essential that suppliers explicitly state expectations in terms of market access, value-added services, cost-to-serve goals, the intended total customer experience and management professionalism so they can design appropriate support programs (Anderson et al., 2009, p. 314). According to Rosenbloom (2012, p. 356) training programs must be planned to meet the particular needs of the channel members and must be implemented in a manner that is acceptable to them.

Perhaps the most direct way to strengthen a reseller's resources and capabilities and helping them to reach their goals is training and coaching (Anderson et al., 2009, p. 379). Kotler & Keller (2006, p. 483) also stress the importance of training by stating that suppliers need to plan and implement careful training programs for their intermediaries. Friedman & Furey (1999) state, that basic product training is absolutely essential for a partner channel. According to Rosenbloom (2012, p. 356) training programs can also be one of the most effective strategies for building channel members promotional cooperation.

Training means transferring knowledge and skills in a systematic manner through courses, seminars and demonstrations. This can be two-way: suppliers offering training

programs for product knowledge, selling skills and technical skills and resellers offering courses concentrating to customer applications, changing customer needs and operational procedures. (Anderson et al., 2009, p. 379.) According to Friedman & Furey (1999) partners should receive similar instruction, documentation and other resources as the field sales force. According to Narus & Anderson (1988) supplier can increase distributors' competence with products literature, catalogues, sales courses, videotapes and computer systems courses. Dhotre (2010, p. 69) states that training programs are extremely essential for new intermediaries and even for the existing ones. Therefore suppliers should regularly conduct training programs, refresher courses, seminars and convergences for their channel members. Intermediaries benefit from those courses and can sell more effectively (Dhotre, 2010, p. 69; Friedman & Furey, 1999).

There are two common forms for training efforts: certification programs and skills training. Certification program means that a supplier requires that personnel of its reseller take a series of technical courses and demonstrate competence, often through an examination, before the reseller is officially allowed to perform certain tasks or offer particular services. One example is Microsoft Corporation which requires third party service engineers to obtain certification to deliver value-added business solutions or technical support using Microsoft products. To become Microsoft Certified Professional, technicians complete a series of courses and demonstrate proficiency through certification exams. (Anderson et al., 2009, p. 379.)

Skill training means courses on focused topics. For instance supplier can offer reseller's sales representatives a course in how to sell to major accounts. (Anderson et al., 2009, p. 379.) According to Rosenbloom (2012, p. 356) training programs can cover topics such as product knowledge, selling techniques and customer counseling skills. Of these topics the most suppliers focus on products knowledge spending from 75 to 100 per cent of their education budgets to that. According to Friedman & Furey (1999) many resellers are smaller organizations with less experienced sales forces, so supplier has to often provide some basic sales training for them. Rosenbloom (2012, p. 356) also highlights the importance of sales training. On the other direction, a reseller might provide for instance supplier's operations and information systems personnel a course on reseller-industry bar-coding standards (Anderson et al., 2009, p. 379).

According to Rackham & Ruff (1991) most participants forget more than 80% of what they learned within one month after attending a training program. Such findings highlight the importance of a second performance enhancement tool – coaching. Coaching means the improvement and reinforcement of desired skills, behaviors and performance through periodic assistance, counseling and practice. Partner companies, for instance supplier and reseller, coach each other at both the strategic and skills levels. (Anderson et al., 2009, p. 380.)

Strategic coaching and conceptual guidance occurs between senior or middle-level managers during the joint annual planning, implementation and review processes. During those meetings the coach share the wisdom of experience and help partner's manager to form a set of goals, strategies and activities for the coming year. Skills coaching aims to strengthen reseller on tactical level. One example could be that a supplier conducts a technical selling training program for reseller's salespersons and follow it up by having its field engineers make a series of joint sales calls with the salespersons. Therefore the reseller's salespersons can fearlessly practice the new skills because the field engineers provide advice and act as a technical safety net. (Anderson et al., 2009, p. 380.)

One-on-one training and coaching is the most effective way to train salespeople. Training and coaching should be done in the real customer contact. Role play can be used also but it is never as realistic as in the field. (Anderson et al., 2009, p. 306.)

### **Technical support**

Suppliers can reduce the cost-to-serve customers for an entire channel by maintaining and providing operational and technical support, for example inventory control, logistics and customer service systems for resellers. By eliminating overlaps, the supplier enables resellers to offer a broader array of services at lower costs than they could do alone. One example is Okuma, which has adapted 24-hour, seven-days-a-week, and 52-weeks-a-year customer service support program for its North American market to improve resellers' technical and service capabilities. This service makes technical expertise and repair parts available to reseller's service personnel. If anytime a reseller faces a technical or service problem it cannot solve, the reseller can contact Okuma for technical service advice or parts. According to immediacy and severity of the problem there are three levels of support: online portal for files regarding machine service; telephone line where a service engineer helps; or Okuma's technical representative or team coming to the customer's site. (Anderson et al., 2009, p. 382.) Narus & Anderson (1988) and Friedman & Furey (1999) also highlight the importance of technical support. Friedman & Furey (1999) mention 24/7 (all day, every day) call centers and the Internet as good vehicles for technical support while Narus and Anderson (1988) highlight technical representatives.

### **Marketing and sales support**

According to Friedman & Furey (1999) the single factor that most influences the success of a partner channel is the extent to which there is demand for its products and services. The minimum level for marketing support involves all of the traditional techniques for generating demand, for instance effective branding, aggressive advertising etc. In addition, resellers must be provided with their own tools for creating demand on

a local level. Many resellers are unable to do this on their own and need support and probably some money too. Different channels require different types of support. Marketing support is usually less an issue of finding the perfect solution than of providing partners with a lot of different ways to attract customers.

According to literature a supplier can use the following strategies for marketing support in marketing channel:

- **Cooperative advertising** (Friedman & Furey, 1999; Rosenbloom, 2012)
- **Promotional allowances** (Friedman & Furey, 1999; Rosenbloom, 2012)
- **Displays and selling aids** (Narus & Anderson, 1988; Friedman & Furey, 1999; Rosenbloom, 2012)
- **In-store promotions** (Friedman & Furey, 1999; Rosenbloom, 2012)
- **Contests and incentives** (Rosenbloom, 2012)
- **Special deals and merchandising campaigns** (Rosenbloom, 2012)
- **Missionary selling** (Narus & Anderson, 1988; Rosenbloom, 2012)
- **Trade shows** (Rosenbloom, 2012)
- **Marketing research** (Narus & Anderson, 1988; Kotler & Keller, 2006; Anderson et al., 2008)

According to Rosenbloom (2012, p. 344) cooperative advertising is one of the most pervasive forms of advertising. In cooperative advertising suppliers provide money for resellers to advertise suppliers' products. According to Friedman & Furey (1999) giving partners money for local advertising is one of the most effective ways to ensure that they make more sales, even though it is expensive. Also allowing partners to use logos and other trademarks and mentioning these partners in advertisements can have a powerful effect on their prestige and ability to attract customers – assuming that the brand has prestige enough.

According to Rosenbloom (2012, p. 347) offering direct cash payment or a certain percentage of purchases on a particular products to channel members is the most typical strategy used for promotional allowance. The promotional allowances aim to encourage resellers to buy more of the supplier's products or to engage more in promotional activities. According to Friedman & Furey (1999) sales promotions in all of their various forms - heavily-advertised special deals, rebates, etc. –help partners to sell more products.

According to Rosenbloom (2012, p. 349) displays and selling aids refer to all kinds of special racks, shelving, platforms, signs, promotion kits and in-store displays. According to Friedman & Furey (1999) partners make more sales when they have products that they can demonstrate to customers. The more products they can demo to customers, the better. According to Rosenbloom (2012, p. 351) in-store promotions are short term events designed to create added interest and excitement for the supplier's products. Ac-



cording to Friedman & Furey (1999) in-store promotions are expensive but very effective.

According to Rosenbloom (2012, p. 352) the contests and incentives sponsored by supplier to stimulate channel members sales efforts are popular. They can take many forms and are limited only with imagination. The incentives can be nearly anything, for example cash, cars, merchandise, travel etc. Missionary salespeople mean suppliers' salespeople who are specifically assigned to supplement the selling activities of channel members. They for instance train distributor's salespeople, accompany them on sales calls or help to close sales requiring technical knowledge, take initial orders for new products from the final user and provide technical assistance. The main objective of participating trade shows – in addition to make sales- is to attain the maximum impact and gain the widest recognition for the company's products, especially to new ones. Therefore the company's recognition and respect will be enhanced. Trade shows also offer a good chance to meet the current and potential distributors and discuss face-to-face with them about new products and strategies or purely socialize with them.

Some resellers do not have enough resources or capabilities to conduct regular market research studies. Therefore they can have difficulties to identify emerging customer prospects or adapting their total customer experience to better meet changing market preferences. (Anderson et al., 2008, p. 380.) According to Narus & Anderson (1988) supplier can offer market researches to distributors to enhance their competence. Reddy & Marvin (1986) describes how Parker Hannifin Corporation (PH) supports its resellers' sales and marketing efforts. Reselling contract requires that all resellers provide all customer invoices involving PH products to PH's market research department. The department has also extensive profiles on existing and potential PH customers globally. After analyzing invoices PH sends each reseller a customized report that analyzes the reseller's product line sales by geographic region, by market segment and by customer and also the research data and analytical software. The report can identify prospects and forecast sales. PH also provides the contact information of these prospects and proposes a strategy to create new business with existing and potential accounts. Resellers are not forced to follow those proposes but they can analyze the data and generate marketing development strategies by themselves.

Resellers' performance can be affected positively by improved target market selection, adaption of marketing policy and better relations with resellers, including qualified joint decision making. The reason for better performance is a result of better decision quality and larger commitment from both parties. (Donaldson, 2007, p. 163.)

Suppliers have to decide how much effort to give to push versus pull marketing when managing their resellers. A push strategy means that the supplier uses its sales force and trade promotion money to make resellers to carry, promote and sell the product to the

end users. Push strategy is suitable when there is low brand loyalty in a category, brand choice is made in the store, the product is an impulse item or product benefits are well understood. A pull strategy means that the supplier uses advertisement and promotions to persuade consumers to ask the product from resellers and therefore inducing the resellers to order the product. Pull strategy is suitable when there is high brand loyalty and high involvement in the category, when people perceive differences between brands or when people choose the brand before they go to the shop. (Kotler & Keller, 2006, p. 468.) According to Anderson et al. (2009, p. 318) in some cases the best support a supplier can offer to resellers is to aggressively use pull promotions to build brand preference among customer firms and steer them to reseller firms for servicing. According to Kotler & Keller (2006, p. 468) top companies use skillfully both strategies.

### **2.3.2 Evaluating Resellers**

Friedman & Furey (1999) state, that the success of a partner channel is highly dependent on active performance measurement and management. They continue that it is important for suppliers to understand that partners do not work for them: They have their own objectives, business models, ideas how to develop business, retain customers or sell products. They are loyal to their shareholders. Therefore a strict performance management system is essential. Rangan (2006) states, that despite the widespread use of channel partners in accomplishing go-to-market goals, two important aspects of channel management—assessing performance and setting goals—are only weakly developed and enforced. Misunderstandings of partner roles and responsibilities are common.

To be able to ensure the performance and the profitability of the channel, supplier has to be able to evaluate the costs and performance of the channel and individual members. If some members do not meet the goals or are unprofitable, supplier has to be able to terminate their partnerships. This chapter introduces the ways a supplier can evaluate the costs of the channel or an individual member, how to evaluate the performance and how to terminate the partnership.

#### **Evaluating costs**

According to Kotler & Keller (2006, pp. 481-482) each channel alternative will produce different level of sales and costs. Figure 7 describes how different sales channels add value per sale and generate costs per transaction. Manufacturers try to replace the high-cost channels with low-cost channels when possible. But usually customers prefer high-cost channels, for instance sales people, especially when they are ordering complex products but commodity items can be purchased through low-cost channels like the Internet.

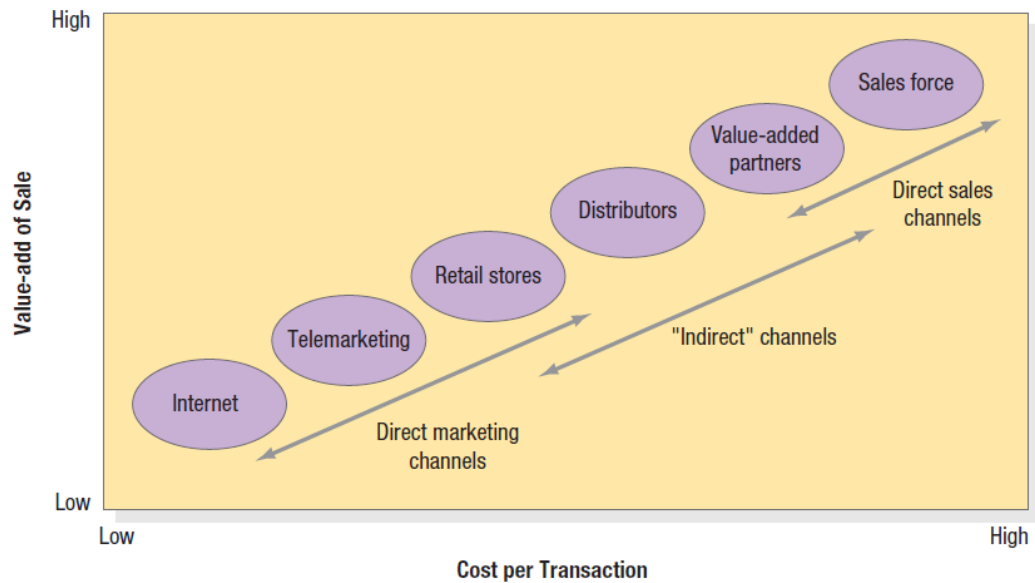


Figure 7. *The value-adds versus costs of different channels (Kotler & Keller, 2006, p.481)*

According to Friedman & Furey (1999) companies who are able to switch their customers to lower-cost channels without loss of sales or deterioration in service quality, will gain a channel advantage. Kotler & Keller (2006, p. 482) stress that the company has to analyze the sales and costs of different channels to decide channels used with different markets. Generally sales agents are better choice for low volume markets and manufacturer's own sales persons for high volume markets. Both Friedman & Furey's and Kotler & Keller's statements highlight the fact, that manufacturers have to be able to evaluate the performance and the costs of the resellers to be able to use the most profitable channel.

Friedman & Furey (1999) describes two ways to evaluate channel's profitability. The first one is expense-to-revenue ratio (E/R). E/R is equal to average transaction cost divided by the average order size. For example, if the average size of order is 20 000 and the average costs are 2 000, the E/R equals 10%. Another one is cost-per-transaction, which equals total channel expense divided by number of transactions. For instance, if the costs of the channel are ten million and it generates 5 000 transactions, the cost-per-transaction equals 2 000. To calculate the costs of a channel, the following categories can be used to evaluate costs:

- Distributor or partner margins
- Indirect channel program costs
- Direct and indirect channel marketing and promotion costs
- G&A corporate overhead allocation
- Other allocated expenses

According to Corey et al. (1989) costs can be grouped to four categories: 1) customer communications, 2) paperwork flows, 3) physical distribution and 4) financial risk assumptions. According to Friedman & Furey (1999) there are many ways to calculate the costs. The most important thing is to logically use the same system to all channels and distributors to make comparison possible. In addition to costs also the capacity - revenue - should be evaluated. To achieve the goals set to the channel, channel members have to be able to generate enough revenue. Usually the goals are set too high.

### **Evaluating performance**

Suppliers should summarize their expectations of performance to reseller, taking into account both marketplace realities and the supplier's channel goals (Anderson et al., 2009, p. 314). According to Friedman & Furey (1999) suppliers should set realistic expectations for the channel, especially in the beginning. They continue that most partner channels take eighteen to thirty months to reach the target levels of sales and profitability. According to Anderson et al. (2009, p. 314) if a supplier intends to target several market segments through separate channels, the supplier should develop expectations for each type of reseller it authorizes. These expectations are then formalized in sales agreements, policy statements and annual objectives or quotas. After formalization the expectations are communicated and explained to all authorized resellers (Friedman & Furey, 1999; Anderson et al. 2009, p. 314). Suppliers must periodically evaluate intermediaries' performance (Kotler & Keller 2006, p. 485; Dhotre, 2010, p. 69). To follow expectations fulfillment, a performance metrics should be formed. According to literature, the following metrics are widely acknowledged:

- **Sales volume and value** (Nirmalaya, 1992; Friedman & Furey, 1999; Mohr et al., 2005; Kotler & Keller, 2006; Donaldson, 2007)
- **Customer satisfaction** (Nirmalaya, 1992; Friedman & Furey, 1999; Donaldson, 2007)
- **Growth of sales** (Nirmalaya, 1992; Friedman & Furey, 1999; Kotler & Keller, 2006; Donaldson, 2007)
- **Cooperation** (Nirmalaya, 1992; Mohr et al., 2005; Kotler & Keller, 2006)
- **Market share** (Friedman & Furey, 1999; Mohr et al., 2005)
- **Inventory level** (Friedman & Furey, 1999; Kotler & Keller, 2006)
- **Selling/marketing inputs** (Friedman & Furey, 1999; Donaldson, 2007)

According to Friedman & Furey (1999) sales volume can be calculated for example by partner's total sales by month. Donaldson (2007, p. 163) states that sales volume, sales value and new business are the most commonly used metrics. Results are often compared against past performance. According to Friedman & Furey (1999) customer satisfaction is the key performance indicator for service and support partners and it can be calculated with numerous ways. Customer complaints are especially important for service partner evaluation. Growth of sales can indicate the future importance of the partner. According to Kotler & Keller (2006, p. 485) the cooperation can be related to pro-

motional and training programs while Mohr et al. (2005, p. 258) refer to willingness to coordinate activities with supplier's national programs. Nirmalaya et al. (1992) indicate compliance as a performance indicator. According to Friedman & Furey (1999) market share reveals the partner's market penetration and competitive position. Inventory level is a good indicator to determine if the reseller can meet fluctuating local demand. Selling/marketing inputs can be measured for example by sales calls per month.

In addition to these generally acknowledged metrics many researchers have identified other metrics also. According to Kotler & Keller (2006, p. 485) evaluation can be done against standards like customer delivery time or treatment of damaged and lost goods. Donaldson (2007, p. 163) mentions customer services as a criterion. According to Mohr et al. (2005, p. 258) reseller's satisfaction with and commitment to the supplier is an important criterion. Nirmalaya et al. (1992) mentions the following reseller's features: contribution to supplier profits, competence, adaptability and loyalty. Friedman & Furey (1999) list operating margins, partner share (% of revenue from supplier's products), sales made /sales quota and lead-to-close ratio as possible metrics.

Kotler & Keller (2006, p. 485) state that suppliers often pay too much for some intermediaries for what the intermediaries are actually doing. Suppliers should set up functional discounts in which they pay specified amounts of channel's performance of each agreed-upon service. Intermediaries performing under the standards need to be counseled, retrained, motivated or terminated.

According to Andersen et al. (2009, p. 386) annual planning is a one way to ensure that supplier's and reseller's interests are aligned and appropriate resources and capabilities are allocated to deliver the intended total customer experience. When a supplier and a reseller participate in the planning process, they are more engaged and probably work hard to implement it. To reinforce commitment, the supplier and the reseller hold both planning and review session at least once a year and preferably at the reseller's home office. During these meetings three fundamental questions are discussed: 1) what do we know?, 2) what do we want to accomplish? and 3) how will we do it? After the session perspectives are summarized in annual reseller marketing plan for each reseller and for channel networks as a whole. These plans include:

- Situation analysis: Strengths, weaknesses, opportunities and threats for the supplier and reseller.
- Mutual objectives: The objectives the supplier and the reseller commit to accomplish
- Basic requirements section: What kind of support the reseller needs
- Action program section: The actions the supplier and the reseller will take separately and together in the market place
- Implementation and control: A timetable for program implementation, assigned responsibilities for execution and performance measures and expectations

The supplier manager should meet with each reseller quarterly to review the performance versus the plan and to initiate corrective actions.

A supplier and resellers should analyze overall channel performance periodically to determine whether they have fulfilled their commitments. This can be done by market research or financial analyses. Results gained from these evaluations are used to improve value-delivery efforts. (Anderson et al., 2009, p. 388.)

Conducting market research refers to customer satisfaction and customer value assessment studies. There are several methods to perform those studies and lot of literature about the topic, so this study does not cover them in more detail. Findings of researches are used in several ways. Firstly, reseller and supplier reexamine what different parties contribute to the delivery of the intended total customer experience to determine whether channel task and rewards should be reformulated or not. Another result of the research might be that the supplier adapts its channel offering to better motivate its resellers and enable them to serve customers. The third possibility is that the research findings point to needed improvements in supplier and reseller firm coordination. (Anderson et al., 2009, pp. 388-389.)

To complement channel performance analysis, financial performance of the channel has to be evaluated in addition to customer satisfaction and value assessments. There are two important reasons for financial evaluation. Firstly, both the supplier and resellers want to check if the expected financial returns have realized. (Anderson et al., 2009, p. 389.) According to Kumar et al. (1995) resellers are more motivated to continue if expectations have been met or even surpassed. Anderson et al. (2009, p. 390) continue that both the supplier and reseller hope to find new ways to achieve their cost-to-serve goals. For instance, if they learn that the channel's delivery costs are above the industry standards, they can investigate how to strengthen their logistics system.

The most common financial evaluation methods are diagnostic measures and profitability analyses. A diagnostic measure indicates that a problem may exist in the channel. The most common way is to use ratio analyses. The ratio analyses start when ratios of two or more items from income statement and/or balance sheet are calculated. After the calculations the results are compared to industry's averages – if the ratio is close to the industry average it is performing acceptably well on that dimension. The last step is to track performance over time with ratios and to make cross-industry comparisons. (Anderson et al., 2009, p. 390.)

Even though performance diagnostics can help to detect potential problem areas, they usually do not provide insight into the nature and cause of the problems. To better understand the problems and their sources, suppliers usually perform profitability analyses. One way to perform those is an activity-based costing (ABC) approach to explore

distribution channel profitability from the supplier's point of view. (Anderson et al., 2009, p. 390-391.) Manning (1995) calls that approach strategic cost management (SCM). According to Manning (1995) SCM recasts the direct costing income statement around distribution-related activities. The SCM has four steps:

1. Dividing the organization's costs into activity costs like order processing and selling costs and into non-activity costs like regional advertising or trade-show participation. Also the amount of expenditures associated with activity and non-activity costs are estimated.
2. Subdividing and classifying costs as channel-related or specific reseller-related costs.
3. Tracing each cost back to individual channels or resellers including approximations of the cost required to perform a specific task
4. Estimating revenues channels or resellers generate and constructing direct costing income statement.

These analyses allow examination of the profitability of channels or resellers. According to Friedman & Furey (1999) suppliers should remember that in the first two years new partners, learning how to sell new products into new markets, rarely deliver sales volume that could be expected from them after mastering the product and markets. At the same time profitability suffers because of large start-up costs.

### **Terminating a reseller agreement**

Sometimes changes in environment, market, customer needs, supplier or resellers require changes to the channel. According to Anderson et al. (2009, pp. 404-405) a supplier has two options in these kinds of situations: 1) transfer relationship or 2) terminate partnership. Transferring relationship can happen from supplier to reseller or from reseller to supplier. The most common reasons for transfer are amount of purchases and customer's total customer experience requirements. If a customer orders in large quantities it is profitable for supplier to serve it directly. But if the amount of purchases decreases significantly and drops below breakpoint, it is profitable for the supplier to move the customer for a reseller. On the other hand, if customer's total customer experience requirement increases, e.g. because of the increased need for technical assistance, the supplier can probably serve the customer better because of better technical know-how. One way to make transfers smooth is compensation. The partner who gets the customer pays fixed sum, some percentage of sales to customer from fixed time period or combination of these to the partner who assigns the customer.

According to sales research company Huthwaite's research (1996), 84 per cent of the channel revenue across a range of high-tech firms was contributed by just ten per cent of the partners. The others, 90 per cent, were producing very little in sales. But still they represented an inordinate expense in partner administration, programs and maintenance. In this kind of situations supplier sometimes has no choice but to terminate the partner-

ship. This can be a result of poor performance of reseller or change in factors mentioned in the last paragraph. According to Anderson et al. (2009, p. 405) supplier and reseller should enter into the partnership with the clear idea that the arrangements are not likely to last forever. To ensure this, a contract renewal clause should be included into written agreements that specify that the agreements will be reviewed at periodic intervals. After the reviews the agreement would be continued or discontinued depending upon whether mutual self-interests are being met or not. Conditions which can lead to partnership termination, for example disruptive marketplace changes or poor performance, should be addressed in the agreement. Also the procedures for termination should be defined. These could include for instance advance notification of termination date, inventory buy-back and equitable compensation for past efforts. Termination should also be conducted polite and friendly way to in order to prevent ill-will and damage to supplier's brand. That way the supplier can maybe use the reseller's services in the future also.

According to Friedman & Furey (1999) low-productivity partners may not be poor in their business; they are just most likely committed to another company's products or focused elsewhere in the market place. But supplier has to be able to terminate these under-performing partnerships. Friedman & Furey (1999) recommends a rule of thumb of cutting from five to ten per cent of channel partners each year according to sales volume. They continue that the softer version is to drop these partners into a lower tier of channel membership with fewer benefits. By doing so, most will move on and the ones who stay won't continue to drain as much resources or funds.

### **2.3.3 Motivating Resellers**

According to Goodman & Dion (2001) motivating channel members is one of the most fundamental and important aspects of channel management. According to Freeman (2003) when channel members appear to lack motivation, suppliers try to encourage them with an extra price incentive, advertising allowance, dealer contest or pep talk. Instead of these kinds of quick fixes suppliers should invest to well-planned and organized programs. According to Rosenbloom (2012, pp. 259-260) motivation, in channel management context, refers to actions taken by supplier to foster channel member cooperation in implementing the distribution objectives. Motivating channel members can be divided to three parts:

1. Identifying the needs and problems of channel members
2. Offering support that is coherent with needs and problems
3. Providing leadership through the effective use of power



## Identifying the needs and problems

A supplier needs to view its intermediaries like it views its end users. It has to determine intermediaries' needs and construct a channel positioning the way its channel offering is tailored to provide superior value to intermediaries. Being able to encourage channel members to top performance starts by understanding their needs and wants. (Kotler & Keller, 2006, p. 483.)

To be able to successfully motivate channel members, a supplier has to first make an attempt to understand what they want from the channel relationship (Goodman & Dion, 2001). According to Narus et al. (1984) distributors may have quite different needs and problems than suppliers. According to Donaldson (2007, p. 163) increasing personal contact will lead to a better understanding of customers and channel members' needs and behaviors. On the other hand, Rosenbloom (2012, p. 262) states that supplier should not rely only on the regular information coming from the existing channel communications system for accurate and current information on channel member needs and problems. Rosenbloom (2012, p. 262) continues that there is a need to go beyond the regular systems. Emergence of social networking sites like Facebook, Twitter, LinkedIn and so on can provide additional information about channel members opinions, attitudes and behaviors. But the problem is that even though the information can be rich and potentially valuable it still may lack structure and focus required to obtain a good understanding of channel members' needs and problems. To learn about channel members' needs and problems, the following approaches acknowledged by several researches (for example Friedman & Furey, 1999; Rosenbloom, 2012) can be used:

- Research studies of channel members conducted by supplier
- Research studies by outside parties
- Marketing channel audits
- Distributor advisory councils

According to Rosenbloom (2012, p. 262) it is common that companies conduct research studies dealing with their end customers but rarely with their channel members. Meyers (1988, p. 12) states that less than one per cent of suppliers' research budget is spent on channel member research. According to Kovar (2007) researches are sometimes the only ways to reveal faint or hidden channel member needs or problems. Friedman & Furey (1999) suggests that channel feedback is an important part for developing channel and recognizing the needs and problems of the partners. They introduce the following ways to get good channel feedback:

- Channel surveys
- Structured interviews

According to Friedman & Furey (1999) channel survey is a straightforward and good way to start. A channel survey normally has a number of dimensions - for example pricing, marketing support, etc. – for which feedback would be beneficial. The survey is sent to representative sample, for instance to 100-250 partners. The result is quantitative data that can reveal general opinions about supplier's performance in key areas. An example of channel survey is presented in Figure 8.

	Excellent	Good	Fair	Poor
<b>Our Market Position</b>				
Brand image / reputation	O	O	O	O
Technological superiority	O	O	O	O
Competitive performance	O	O	O	O
Product quality	O	O	O	O
<b>Channel Support</b>				
Marketing funds	O	O	O	O
Sales call participation	O	O	O	O
Technical assistance	O	O	O	O
Training programs	O	O	O	O
<b>Channel Programs</b>				
Overall quality	O	O	O	O
Responsiveness to your needs	O	O	O	O
Promotional events	O	O	O	O
Loaner/demo equipment	O	O	O	O
Partner web site	O	O	O	O
Lead tracking data base	O	O	O	O
Help desk	O	O	O	O
(Etc.)	O	O	O	O

*Figure 8. An example of a channel survey (Friedman & Furey, 1999)*

Surveys reveal channel satisfaction and dissatisfaction but don't provide insight for the causes. Structured interviews are highly effective approach to reveal causes for satisfaction and dissatisfaction and to reduce distance to market. If conducted to large enough number of partners, for example 20-30, it reveals the key themes and beliefs among all partners. (Friedman & Furey, 1999.) Interview as research method is discussed in more detail in the chapter three.

Research designed and executed by a party who is not a member of the channel is necessary to achieve complete and unbiased data on channel members' needs and problems. The use of outside parties provides higher certainty of objectivity. For suppliers who have no marketing research department or limited research capabilities use of outside research company offers a level of expertise not available in their own organization. (Rosenbloom, 2012, pp. 262-263.)

Suppliers can conduct a marketing channel audit periodically, just like they do with financial audit (Coz et al., 1972). According to Rosenbloom (2012, p. 263) the focus of marketing channel audit should be to gather data on how channel members find the supplier's marketing program and its component parts, where the relationship is strong and weak and what is expected of the supplier to make the channel relationship viable and optimal. The supplier may gather data from channel members' needs and problems from areas such as:

- Pricing policies, margins and allowances
- Extent and nature of the product line
- New products and their marketing development through promotion
- Servicing policies and procedures such as invoicing, order dating, shipping, warehousing and others
- Sales force performance in servicing the accounts

Rosenbloom (2012, p. 263) states that the marketing channel audit should identify and define in detail issues relevant to the supplier-distributor relationship. Calantone & Gassenheimer (1991) have listed channel issues and grouped them to six overall areas. The areas (and some example of issues) are:

- **Manufacturer's performance** (quality, cycle time, delivery reliability, flexibility, ordering methods, assistance readiness)
- **Distributor's desire for autonomy in making its own decisions** (freedom, degree of independence)
- **Manufacturer's desire to influence the distributor's decision** (minimum volume quotas, acceptance and adoption of products, dealer showrooms)
- **Manufacturer's use of power (pressure) to influence decision** (minimum volume quotas, acceptance and adoption of products, dealer showrooms)
- **Control relinquished to the manufacturer by the distributor** (Selection and breadth of product line, territorial rights)
- **Distributor's satisfaction with the working relationship** (profits, sales support, opportunities, growth potential, customer service level)

Marketing channel audits should be cross-tabulated or related to specific geographical location, sales volume or other variables. Marketing channel audits should also be done on a periodic and regular basis to identify trends and patterns. That way it is possible to identify issues remaining constant, dissipating and enlarging in scope. Also emerging issues can be recognized with periodical audits. (Rosenbloom, 2012, p. 263.)

Distributor advisory council means a group of significant partners who meet periodically with the top management. These partners represent the whole partner community and consist as much as ten percent of the partner base, but a common size is about twenty partners. Partner leadership councils can be used for many purposes but the main idea is to listen partners and hear their ideas about the channel. (Friedman & Furey, 1999.) According to Bego (1964) there are three important benefits when using distributor advisory

ry council. Firstly, it provides recognition for the channel members. Distributors are more engaged when they have participated to planning phase. Secondly, it can help to identify and discuss mutual needs and problems that are not identified from the regular information flow. Thirdly, it generally improves channel communications, which helps the supplier to learn more about the needs and problems of channel members and also vice versa.

### Offering support

When the needs and problems of the channel are recognized, the supplier should try to offer coherent support. But different channel members have different needs and different problems. To recognize needs and problems better, Perry (1989) recommends using a portfolio-based distribution portfolio analysis (DPA). According to Rosenbloom (2012, p. 169) while DPA provides a comprehensive method for categorizing channel members, the essence of DPA is that it can help channel managers to focus more insightfully on the channel members by presenting all channel structures and/or channel members as a portfolio. Each structure and group of channel members is seen as a particular “investments” within the portfolio. This means that channel structure is represented as vertical portfolios (Figure 9).

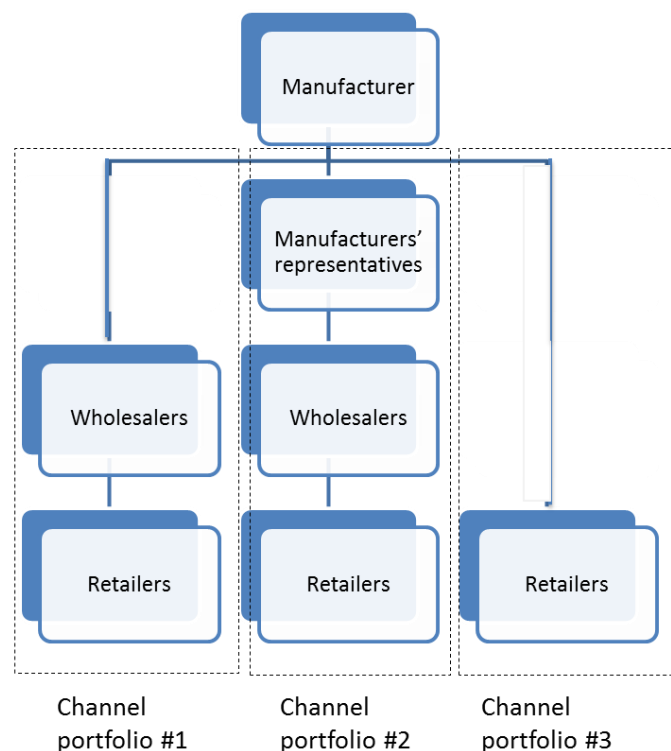


Figure 9. Channel portfolios (Rosenbloom, 2012, p. 170)

When channel structure has been formed to channel portfolios, channel portfolios can be combined in a matrix showing a variety of possible channel structures and types of

channel members (Figure 10). The different types and sizes of retailers, wholesalers and manufacturers' representatives shown horizontally within the different vertical channel structures can be viewed as different categories. To motivate channel members, the tactics to motivate might have to be varied for each category. The main idea of this portfolio approach is that different types and sizes of channel members may respond differently to different motivation strategies. (Rosenbloom 2012, p. 169.) As an example, wholesalers probably appreciate training more than retailers and retailers appreciate high slotting allowance more than retailers. Supplier should also keep in mind that different motivations may apply across different countries (Hofstede, 1980). According to Dickson (1983) grouping channel structures and members into a portfolio before launching a motivation program may prove to be helpful in targeting the appropriate motivation strategies.

Horizontal Channel Portfolio				
Vertical Channel Portfolio		Manufacturers' rep- representatives	Wholesalers	Retailers
	Vertical channel portfolio #1		Large general line wholesalers Medium general line wholesalers Small general line wholesalers	Small independent retailers Mail order retail- ers
	Vertical channel portfolio #2	Domestic representa- tives Overseas representa- tives	Specialty wholesalers	Department stores  Specialty stores
	Vertical channel portfolio #3			Mass merchandis- ers Discount stores Specialty chains

Figure 10. Matrix of vertical and horizontal portfolios of channel structures and members (Rosenbloom, 2012, p. 171)

When the distributor categories have been identified, the supplier has to decide which motivating tactics to use. Purely supportive actions and tactics (technical, sales and marketing) are discussed in the chapter 2.3.1. In the aspect of channel motivation, researchers have found several commonly acknowledged tactics to motivate distributors:

- **Pricing policies** (Kotler & Keller, 2006; Donaldson, 2007; Rosenbloom, 2012)
- **Improving distributor's performance** (Friedman & Furey, 1999; Kotler & Keller, 2006; Dhotre, 2010; Rosenbloom, 2012)
- **Rewarding success** (Dhotre, 2010; Rosenbloom, 2012)
- **Effective communication** (Kotler & Keller, 2006; Donaldson, 2007)
- **Joint decision-making** (Donaldson, 2007; Rosenbloom, 2012)
- **Territorial rights** (Kotler & Keller, 2006; Rosenbloom, 2012)
- **High-quality products** (Donaldson, 2007; Rosenbloom, 2012)
- **Balancing push and pull advertising** (Kotler & Keller, 2006; Rosenbloom, 2012)

- **Fairness, respect and trustworthiness** (Heide, 1994; Donaldson, 2007)
- **Sales leads** (Narus & Anderson, 1988; Rosenbloom, 2012)

According to Kotler & Keller (2006, p. 481) price policy means that the manufacturer has to establish a price list and schedule of discounts and allowances that intermediaries see as equitable and sufficient. Rosenbloom (2012, p. 169) states that offering higher margins to channel members than competitors offer is an effective way to motivate channel members. Offering price-protected products by refusing to deal with price-cutting middlemen is another way. According to Friedman & Furey (1999) training is often seen very positively by partners. According to Dhotre (2010, p. 69) suppliers should take initiative and make all efforts to improve the performance of intermediaries. Training programs, sales support and rewards to the performers highly motivate intermediaries and help to minimize channel conflicts. According to Kotler & Keller (2006, p. 483) the supplier should provide capability-building programs to improve intermediaries' performance. These are discussed in more detail in the chapter 2.3.1.

According to Rosenbloom (2012, p. 169) supplier should reward channel members who perform more distribution tasks with higher margins. According to Donaldson (2007, p. 163) probably the most important factor for resellers motivation is an effective communication. This includes keeping the reseller up to date and maintaining regular personal contact. According to Kotler & Keller (2006, p. 482) the supplier should constantly communicate its view that the intermediaries are partners in a joint effort to satisfy end users of the product. According to Donaldson (2007, p. 163) joint decision-making is an important aspect affecting to distributor's performance. According to Kotler & Keller (2006, p. 483) distributor's territorial rights define the distributors' territories and the terms under which the producer will enfranchise other distributors. According to Rosenbloom (2012, p. 169) supplier can provide protected territories to its resellers or protect resellers' sales through highly selective distribution. According to Heide (1994) a manufacturer has to determine the rights and responsibilities of channel members and treat them respectfully and give opportunity to be profitable. Donaldson (2007, p. 163) reminds that a supplier should be able to keep its promises.

In addition to the ones mentioned, Rosenbloom (2012, p. 169) lists the following common channel tactics for motivating channel members: Provide strong advertising and promotional support for channel members, Provide a wider array of promotional allowances to channel members than competitors provide, Make more special deals and merchandising campaigns available to channel members than competitors do, make available higher levels of cooperative advertising money than do competitors, make use of missionary salespeople to support channel members' sales efforts, develop sales quotas for channel members based on analyses of their market potentials, offer channel mem-

bers a “partnership” arrangement stressing mutual commitment and expectations, develop special licensing or franchising agreements to tighten the channel relationship, offer channel members an exclusive dealing arrangement, use dual distribution to foster inter-channel rivalries, employ tying arrangements (including full-line forcing) to limit channel members’ selling of competitive products, emphasize product life cycle management to assure channel members of timely new products additions and deletions, assure guaranteed sales and unrestricted returns to channel members, offer financial assistance to channel members, offer management assistance and training to channel members, provide channel members with superior logistical support, provide sophisticated online ordering for channel members, offer technical assistance and support for channel members, provide channel members with market research on their target markets and generate customer leads and pass them on to channel members.

### **Providing leadership**

According to Anderson & Coughlan (2002) channel power can be defined as the ability to alter channel members’ behavior so that they take actions they would not have taken otherwise. According to French & Raven (1959) the suppliers have the following types of power to elicit cooperation:

- Coercive power
- Reward power
- Legitimate power
- Expert power
- Referent power

Coercive power is used when a supplier threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate. This can be an effective power but using it can create grudge, generate conflict and lead the intermediaries to organize countervailing power. Reward power is nearly opposite compared to coercive power. Reward power means that a supplier offers intermediaries an extra benefit for performing specific acts or functions. Usually reward power generates better results than coercive but it can suffer from inflation. The intermediaries may start to expect a reward every time the supplier wants a certain behavior to occur. Legitimate power means that a supplier requests a behavior that is warranted in the contract. Legitimate power works as long as intermediary views the supplier as a legitimate leader. Expert power refers to special knowledge a supplier has and intermediaries value. When the expertise is passed on to the intermediaries the expert power weakens and therefore the supplier must continue to develop new expertise so that the intermediaries are willing to continue cooperation. Referent power means that the supplier is so highly respected that intermediaries are proud to be associated with it.

## 2.4 Software Products and Reselling Them

Software products have unique features compared to other goods. According to Mäkelä & Mutanen (2005) software products are not exactly similar to material or information goods but they have characteristics of both goods. They also state that the different nature of software brings distinct features to software business.

Production of the first copy of software can be very resource-intensive but replication has close-to-zero costs. Software business is a high-risk business because significant research and development investment is spent before any copies of software are sold. (Messerschmitt & Szyperski, 2003; Mäkelä & Mutanen, 2005; Kittlaus & Clough, 2009.) Because software is usually tightly integrated to other information systems and hardware, extensive planning of interoperability with requirement analysis and specification process is essential (Mäkelä & Mutanen, 2005).

Because software products are immaterial they do not require either human or mechanical actor to convey their content. That enables cost-effective and swift distribution opportunities. Software still requires a provider. (Mäkelä & Mutanen, 2005; Kittlaus & Clough, 2009.) This creates possibilities for resellers and distributors to operate without significant side costs like logistics or warehousing.

From R&D's point of view one of the most significant features of software is the possibility to produce and deploy reusable modules which form a distinct entity (Messerschmitt & Szyperski, 2003; Mäkelä & Mutanen, 2005). These modules are like building blocks and they have many important features: they can be shared by multiple projects; they are encapsulated having a well-defined interface to the outside world; and they can be deployed, installed and upgraded as independent units (Messerschmitt & Szyperski, 2003). This creates possibilities to develop vertical products on the basis of the main technology what is exactly how M-Files product family was developed. According to Mäkelä & Mutanen (2005) an increasingly important part of the software business is focused to serve the needs of a particular business function. These markets are called vertical markets and they demand specialized software, which are usually part of products families (Mäkelä & Mutanen, 2005; Kittlaus & Clough, 2009). So the ability to specialize the software to meet the requirements of vertical markets can create significant business opportunities.

Very seldom all the needs of the customer are fulfilled by software alone. Software based solutions can be supported and complemented by a variety of services, e.g. customization. The decision to focus on product-based or service-based business is a key strategic decision. Providing services to complement products can for instance provide constant cash flow which helps a company to survive over bad periods of business. (Mäkelä & Mutanen, 2005.) Tailoring and customization of software can also generate



significant revenue. If the software is agile and easy to customize, tailoring with low costs can be a significant competitive advantage compared to rigid systems.

Software products have unique features like low distribution costs, easy replication and fast technology development cycles. Therefore software markets expand often quickly forming very competitive business environments. These environments are also very turbulent and uncertain and therefore extremely risky and hard to navigate. The risk is increased by large sunk costs. This kind of business environment requires special strategies which take into account factors like customer lock-in, entry barriers and first-mover-advantage. As a fast growing, dynamic and rival-intense environment, software business demands speed, integration, innovation and constant change. (Mäkelä & Mutanen, 2005. See also Messerschmitt & Szyperski, 2003.)

According to Jansen et al. (2007, p. 677) a software supply network (SSN) is a series of linked software, hardware and service organizations working together to satisfy market demands. It differs from physical goods supply chain management (SCM) in two ways. Firstly software is malleable after release and delivery and therefore need extensive maintenance. Secondly products delivered through SSNs are tolerated to have much lower quality levels than other products (Baxter & Simmons, 2001).

## **2.5 Choosing and Managing Software Product Resellers**

Figure 11 summarizes the main points of the previous chapters from software business viewpoint. The arrows describe the reseller selection process discussed in the chapter 2.2. The three boxes describe the areas of reseller management: Supporting, motivating and evaluating. These three areas have interconnections between them and those are described with double arrows. Managing resellers is discussed in the chapter 2.3. Figure 11 adapts selecting and managing resellers to software business based on the findings discussed in the chapter 2.4. As a result, Figure 11 provides a framework to choose and evaluate software resellers starting from choosing resellers and then managing them with three different viewpoints.

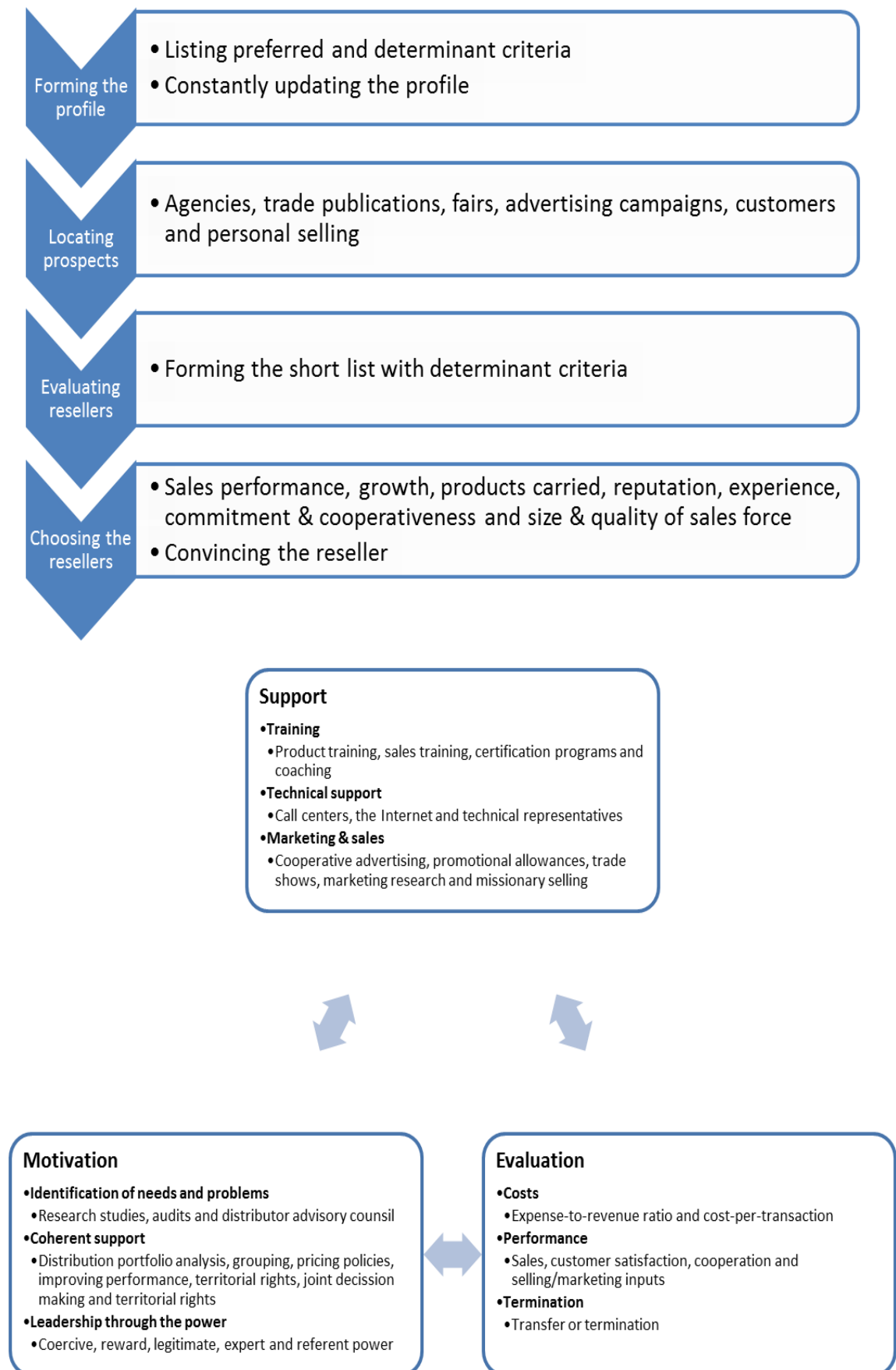


Figure 11. Choosing and managing software resellers

Choosing the right resellers is extremely important for software companies because software products are supported and completed by services such as 1) installation, 2) adaptation, 3) training and 4) support. Resellers affect strongly to the end customers decision and therefore resellers' recommendation for supplier's software is extremely important for not so well known products, like enterprise content management software. The same goes for promotion; resellers play an important role when introducing software to new markets.

To choose the right resellers, four step selection process is recommended for software suppliers: 1) forming the profile, 2) locating prospects, 3) evaluating resellers and 4) choosing the resellers.

Forming the profile means that a supplier lists all criteria a reseller should have and decide which one of those are determinant. Chosen criteria are collected to evaluation checklist, which is used in the third step to evaluate intermediaries. It is important to notice, that the list should be updated constantly to adapt to changes in environment and supplier's own situation. Locating prospects can be done through various sources such as governments agencies, banks, trade publications, trade fairs, direct mail campaigns, advertising, effective publicity and public relations, reseller inquiries, customers, advertising and personal visits/selling. Especially personal visits, trade shows and customer recommendations are important. Evaluation of the reseller can be done for example with market research survey or references. With this evaluation a short list of prospects is formed and then compared to reseller profile created in the first step.

In the last step the resellers are chosen according to selected criteria such as sales performance, growth, products carried, reputation, experience, commitment and cooperativeness and size and quality of sales force. Sales performance is required to cover high R&D costs of software products. Usually software suppliers use quite selective distribution so importance of a single reseller is much higher than in some other industry, for example in beverage industry. Also nearly free logistics increases the profitability of selling more. Size and quality of sales team are highly related to sales performance. Growth of the reseller is related to future sales of the reseller but also means possibility to take vertical products of the supplier to reseller's assortment. Products carried are highly related to resellers experience and reputation. Offering a compatible product also increases the possibility to sell the supplier's software as a part of the total package. Reputation is extremely important for software that requires a lot of services; an enterprise would not probably trust major database migrations to a reseller who has failed the previous similar migrations. Experience is highly required in the abstract industry of software where integrations and fast technology cycles make holistic industry understanding mandatory for success. Commitment and cooperativeness are important because supplier can use a lot of efforts and money to train resellers. Other important criteria for software suppliers are knowledge of relevant language, willingness to invest to

marketing and training, service/support capabilities and systems and enthusiasm and aggressiveness.

In addition to selecting a reseller, a supplier should be able to convince the reseller to choose the supplier. The most wanted resellers can be very selective about whom they represent and therefore a supplier has to be able to sell the partnership. The most important thing for a supplier is to communicate its willingness to support reseller's success with the supplier's line. Incentives are also important. Incentives can be for example good profitable products line, advertising and promotional support, management assistance or fair dealing policies and friendly relationships. The last phase of selecting a reseller is to negotiate policies and terms and sign an agreement.

To succeed a marketing channel needs to be managed. Managing a marketing channel contains 1) supporting, 2) motivating and 3) evaluating resellers.

### **Supporting**

Supporting resellers can be divided to three classes: 1) training, 2) technical support and 3) marketing support. The support should be based on well planned programs that support the recognized needs and problems of the channel members.

Training programs can include for example product, selling technique and customer counseling trainings. In software industry certification programs are common. Coaching is maybe the most effective way to train people and reduces forgetting skills. Certification and training are extremely important in software business, where resellers usually also install, modify, train and support. Therefore total customer experience of the software is highly dependent on reseller skills and abilities. Poorly installed or modified system does not provide the expected value to the customer. In these kinds of situations the customer can easily point frustration towards the software instead of the resellers. Therefore certifications and trainings can also affect to the brand of a software supplier – in the eyes of both reseller and customer. To suppliers certification tests and trainings increase the trust and commitment through deepened commitment.

Technical support reduces channel costs. It also enables resellers to offer broader array of services than they could do alone. Technical support can be offered, for instance, through call centers, the Internet or technical representatives. In software business technical support is required to enable resellers to deliver all intended features to the customer. Constant change and new versions make training everything new nearly impossible and therefore resellers should have a way to find help and support when needed.

Marketing support is required to enable resellers' success. In addition to creating demand a supplier has to offer tools for resellers to create demand by itself. Strategies for

that are for example cooperative advertising, promotional allowances, missionary selling, trade shows and marketing researches. A supplier should also define the amounts of push and pull marketing and find a proper balance between them.

### **Motivating**

Motivating resellers can be divided into three parts: 1) identifying the needs and problems of channel members, 2) offering support that is coherent with needs and problems and 3) providing leadership through the effective use of power. To recognize the needs and problems of resellers, a supplier can use for example research studies, audits or distributor advisory council. When the needs and problems are recognized the supplier should try to offer coherent support. To recognize the proper tactics for every reseller the supplier can use distribution portfolio analysis and group different resellers to different groups. Tactics a supplier can use include for example pricing policies, improving distributor's performance, rewarding success, effective communication, joint decision-making, territorial rights, high-quality products, balancing push and pull advertising, offering sales leads and being fair, respectful and trustworthy. The powers a supplier can use to motivate resellers are coercive, reward, legitimate, expert and referent power. In software business expert power is more important than in many other businesses.

### **Evaluating**

To ensure that a channel is profitable, supplier should be able to measure the costs and profits of the channel. Each different channel generates different amounts of costs and sales. There are several ways to evaluate costs, for instance expense-to-revenue ratio and cost-per-transaction. Supplier should summarize its expectations of reseller's performance. Suitable performance metrics should be formed to enable evaluation. Metrics can include for instance sales volume and value, customer satisfaction, growth of sales, cooperation or selling/marketing inputs. Suppliers should have annual meetings with resellers where goals would be defined together. Review meetings should be hold periodically to follow if the goals are going to be met and corrective actions can be planned. Supplier should also perform financial analysis, for example profitability analyses or diagnostic measures. Sometimes environment changes or reseller cannot meet the expectations of supplier. In these kinds of situations partnership can be transferred or terminated.

Figure 11 is the basis for the empirical study of this paper. All the areas – choosing, supporting, evaluating and motivating resellers- are included. Questions related to choosing resellers are not asked from resellers. Also other questions vary a little bit depending on the view point meaning that resellers and channel managers have different questions. All the questions aim to reveal the ways software companies use to choose

and manage resellers and also how resellers receive supplier's actions and what tactics are the most effective ones. The questions are presented in the Appendix 1.

### 3 RESEARCH METHODS

This chapter introduces the research methods used in this study. The first section covers the research approaches used in management sciences. The second section presents the used research method. The third section describes how the research was performed.

#### 3.1 Research Approach

Research approaches used in management sciences can be classified to descriptive and normative by the intended use. Descriptive research aims to describe a phenomenon by creating describing concepts, describing processes, classifying phenomenon, presenting correlations, explaining causalities or increasing the understanding by any other means. Nominative research aims to find results which can be used as guides when developing processes or performance. (Olkkonen, 1994, p. 44.) Another way to divide research approaches is the classification to theoretical and empirical by the way the information is gathered. According to Olkkonen (1994, p. 51) theoretical methods aim to develop new theories on the basis of existing and acknowledged theories. In empirical research the information is gathered from the real world.

The research approaches used in industrial engineering and management and business economics studies can be divided into four categories: Concept-analytical, nomothetical, decision-methodological and action-analytical approach. The approaches are presented in Figure 12 (Constructive approach presented in the picture is not discussed in this text). Concept-analytical approach aims to develop conceptual systems needed to describe and identify phenomena. Common methods of concept-analytical approach are comparison, analysis and synthesis. Nomothetical approach aims to find dependencies and causal and correlative connections. Common methods of nomothetical approach are quantitative and the material is analyzed using mathematical statistics. Decision-methodological approach aims to develop mathematics-based methods. The results are usually mathematical or other kinds of models which give recommendations for the conclusions to be made. (Olkkonen 1994, pp. 59-71; Näsi 1981, pp. 6-10.)

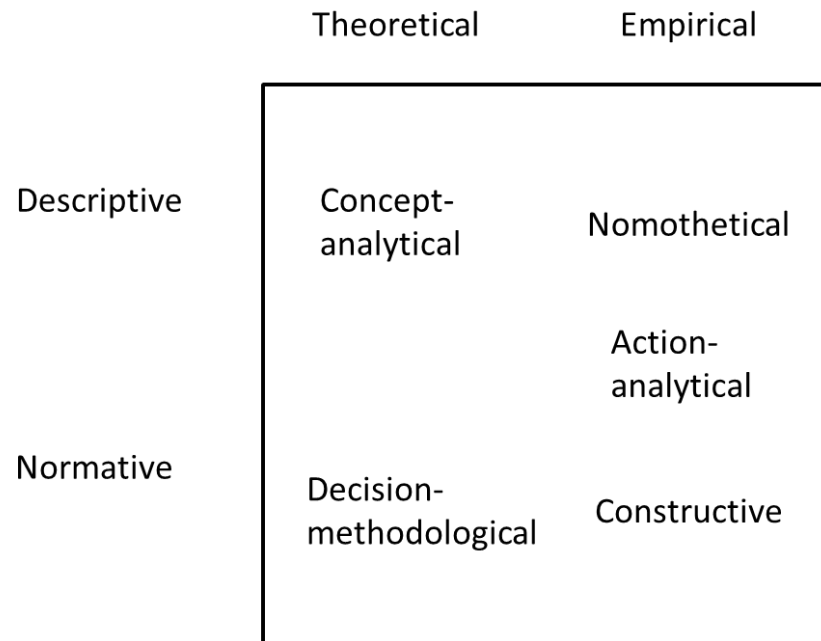


Figure 12. *Research approaches used in management sciences. (Kasanen et al., 1993, p. 257)*

The approach of this research is an action-analytical research. Action-analytical approach aims to a global and deep understanding of the research subject and phenomenon. The results are usually hypotheses, theories, concepts, definitions and normative guides. It is common that action-analytical studies do not have available external, objective or quantifiable observations of the research subject. (Olkkonen 1993, pp. 72-75.)

### 3.2 Used Research Method

The research of this study is conducted as a case study research. According to Gummesson (1993) the general reason to do a case study research is to better understand complex phenomena. Case studies provide a structure to observe factors such as events, activities, processes or individuals (Creswell, 2003). Case studies observe factors within a context. Case studies can be used to various reasons such as an explanatory tool, and exploratory method or to arrive at some sort of description. Case study is an empirical research tool which investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidences are used. Yin (2003.) Case study research methods can be qualitative or quantitative and direct or indirect. Qualitative methods aim at improved understanding (Gummesson, 1993). This research uses qualitative methods to better understand the phenomenon of choosing and managing resellers.

According to Gummesson (1993) there are five qualitative research methods: Existing material, questionnaire survey, qualitative interviews, observation and action science. According to Hirsjärvi & Hurme (1993, pp. 40-41) interview is a suitable data collection



method if the research is about examining the basic nature and characteristics of the research subject and forming hypotheses. According to Gummesson (1993) qualitative interviews often aim to go beyond obvious facts. This research uses interviews.

There are two different types of interviews: Formal and informal. According to Gummesson (1993) informal interviews have open ended questions that are not put in any pre-established order. According to Koskinen (2005, p. 104) interviews can be divided to structured, semi structured and unstructured interviews based on the researcher's control. This research is informal and semi structured.

Yin (2003, pp. 59-62) highlights the importance of the following factors in semi structured interviews:

- Because it is impossible to foresee what kind of findings will be the important ones for the study, researcher has to ask additional questions in addition to those prepared beforehand
- Researcher has to study the way interviewee gives the answers and interpret the true meaning behind the words
- Researcher has to be able to change the study plan to adapt to recognized needs but still remember the original goals
- Researcher has to understand the topic well and understand the goals of the study to be able to focus on right things
- Researcher has to be familiar with the topic already before starting the research but prejudices should not affect to the collection of data.

The factors Yin mentions are relevant and taken into account when performing this research. The next section provides more detailed information about performing the study.

### **3.3 Performing the Research**

A pre research for this study was conducted in the summer of 2012. That study was a seminar report for the course Academic Writing II (ARII) and the topic of the report was Choosing Software Resellers: Case M-Files. One finding the report provided was that interviewees would like to get a list of questions before the interview to be able to think questions beforehand. In this research interviewees got the questions from one to five days prior to the interview. Another important factor of the ARII research provided was the insight to the topics of channel management and software business. This insight enabled the researcher to focus on the most important factors determining the success or failure of an international software company's channel.

According to Weiss (1995) it is important to know what kind of information the study needs and to be able to help the respondent to provide it. Therefore the following matters should be clarified before the interview:

- What is it wanted to obtain in the interview?
- Tense and specificity in the interview
- Questions to ask

The interviews conducted in this research aimed to determine the suitable and effective ways to choose and manage software resellers. The tense was generalized present to refer to the current situation and to enable future aspect. Interviewees were interviewed as independent persons and their own opinions were asked instead of the official company opinions. This research used only open questions which were formed the way that respondents were able to easily answer them. Questions are based on the themes derived from the theoretical framework presented in the chapter two. The interview questions can be found from Appendix 1.

Questions of the interview are constructed to chronological order starting from choosing resellers and ending to possible termination of the partnership. The chronological order allows discussion of reseller partnership in different stages of the relationship. Differentiated questions to supplier and reseller employees allow studying the research topic from two view points and finding factors where resellers and suppliers agree and disagree.

The interview was used to discover key factors related to choosing and managing software resellers. The goal was to find personal opinions of people working in supplier side choosing and managing resellers and in reseller side cooperating with suppliers. Selected persons were familiar with the software industry and had experience of working in marketing channel – some interviewees had even worked in both supplier and reseller side. To better analyze the answers of the resellers, also the following questions were asked: 1) how long you have been selling M-Files?, 2) do you have other products you sell actively?, 3) how much did you sell M-Files in 2012 in euros? (both licenses and services) and 4) what was the ratio between licenses and services?. Some resellers considered these figures sensitive, so they are not published in this study. The figures, however, have been used in the analysis.

The reseller interviews were arranged by emails and conducted by GoToMeeting software. The supplier interviews were arranged either by personal contact or by email and conducted by GoToMeeting software. GoToMeeting software allows users to record discussions and that feature was used for all interviews. The interviews were held on times suitable for the interviewees. Because of time differences this meant interview times from 9:00 to 21:30 Finnish time. Time reservation for an interview was one hour. The duration ranged from 15 minutes to 54 minutes (excluding introductions). Table 2 presents the time, date and duration of the interviews. The list of interviewees can be found from Appendix 2.

*Table 2. Date, time and duration of the interviews*

	Date	Time (Finnish time)	Duration(min)
Person 1	9.1.2012	13:00	56
Person 2	10.1.2013	9:00	46
Person 3	10.1.2013	10:00	55
Person 4	10.1.2013	15:00	37
Person 5	11.1.2013	9:00	45
Person 6	25.1.2013	10:00	34
Person 7	25.1.2013	11:00	32
Person 8	25.1.2013	15:00	17
Person 9	14.1.2013	20:30	54
Person 10	15.1.2013	10:00	32
Person 11	15.1.2013	10:00	32
Person 12	15.1.2013	15:00	26
Person 13	16.1.2013	13:30	35
Person 14	16.1.2013	15:30	44
Person 15	18.1.2013	10:00	35
Person 16	25.1.2013	12:00	15
Person 17	25.1.2013	13:00	27

According to Grönfors (1982, pp. 137-140) expediency of transcribing tapes should be considered carefully. In this study a memo of interview has been written instead of transcription. Because all the interviews were recorded the researcher was able to listen them anytime. Therefore writing a transcription would not have provided any extra value for the research.

## 4 RESULTS

This chapter presents the results of the interviews. The results have been divided to similar sections as the theory part except that support and motivation sections are combined due to their close interdependence:

- Choosing resellers
- Supporting and motivating resellers
- Evaluating resellers

The following sections cover the interesting findings of the interviews. Themes are covered first from the supplier's and then from resellers' viewpoint.

### 4.1 Choosing Resellers

This chapter presents the results of the interviews related to choosing a reseller. Locating a reseller is discussed first, then choosing and in the end convincing a reseller.

#### Locating resellers

Most M-Files employees named inbound contacts/leads as an important way to locate potential resellers, some as the most important. It was mentioned, that increased publicity also increases the number of inbound contacts, and for example Gartner's Magic Quadrant listing raised significantly the number of interested resellers. From active ways to find a reseller, all M-Files employees mentioned the Internet as an important source and for some, it was the most important. Used sources were for example search engines and LinkedIn. Also competitors' web sites were used to search a list of their resellers. Research companies providing lists of potential resellers were mentioned by many employees – and also the problems with those kinds of lists were mentioned, because they usually contained many unsuitable resellers. Own contacts were mentioned by couple of employees as a source for potential resellers with a better success rate. Most of the employees mentioned fairs and events as good places to find resellers and meet them immediately, but especially fairs are not currently widely used in M-Files.

*“The most used way to find resellers is a lead follow-up”* M-Files Employee

*“Of thirty listed resellers [provided by a research company] only eight were suitable for shortlist”* M-Files Employee

Most employees mentioned that potential resellers are first sorted with criteria such as current business (on or out of scope with ECM), website quality, products carried (do they represent a competitor), office's location, references, customers and "headquarter or subsidiary". The resellers who pass are contacted. The way to contact potential resellers depended on employee. Some employees mentioned that they find out the person who makes decisions in the company from LinkedIn or from search engines. As a first contact, some preferred to send an email first and call after that while the others preferred to call first. The purpose of the contact is to arrange a meeting; face-to-face or webinar.

*"Poor websites and missing customer and reference information often indicate poor sales performance"* M-Files employee

Most of the interviewed resellers approached M-Files themselves. About half of those resellers had sold some other document management system which was too expensive or difficult for their target customers so they searched for another system. Another half didn't have any document management system but their customers needed a one. Every reseller used Google as the primary way to locate potential document management system suppliers. All of them found M-Files within the first hits of search results and downloaded a trial version. After trying the trial they contacted M-Files and started to discuss about partnership.

### **Choosing resellers**

M-Files employees evaluated potential resellers with various criteria. M-Files has a table containing the selection criteria but because employees were asked to mention the most important ones, the answer varied. The most commonly mentioned criteria were: Number and quality of sales people and existing customer base. Number and quality of sales people are closely linked to the sales competence and existing customer database indicates how fast a reseller can start to generate revenue. Also ability to get new customers was mentioned. Technical competence was mentioned often and it can be measured in the terms of size of technical team, the ability to do the implementation and to provide services or experience of document management systems. Years in business is also a widely used criterion.

*"I view all strategic partners as gold mines, because they have an existing customer base which can be immediately leveraged to sell M-Files."* M-Files employee

Personal impression was considered as an important criterion by some employees, and it could be evaluated for example by motivation, appearance, office, and understanding of the product. For some employees "state of mind" was even the most important criterion. Products carried was seen as an important criterion, because it is closely related to the number of suppliers a reseller represents. If a reseller has a lot of products and resellers,

there is a possibility that M-Files has to compete against other suppliers about reseller's attention. One employee stressed the importance of having suitable business, which M-Files could support and which would allow creating a joint business case. Market approach and market implementation were mentioned and measured by ways to contact and serve customers. One employee mentioned also the courage to approach new customers with M-Files as a positive sign. Many employees mentioned that face-to-face meetings are important to form the impression and to evaluate personal chemistries.

*"It is good to see the office because after that you can think: Would a customer buy from them after visiting that office?"* M-Files employee

### **Convincing resellers**

All employees mentioned the importance to convince the reseller to choose M-Files. The most important factor to convince a reseller is the product itself. One employee said that he sells the product to a reseller the same way he would sell it to an end customer – getting them excited about the product. One employee also mentioned the easiness of the product as a way to convince the resellers about the product. On the other hand, one employee stated that the money is the main thing. According to him explaining the business opportunity, "the solid business case", is the best way to convince the reseller. In fact, many employees mentioned profit opportunities and used an investment simulator developed by M-Files to calculate profits with different scenarios for different reseller levels.

*"The most important thing when convincing a reseller is the demo of the product"* M-Files employee

Some employees mentioned that it is important to communicate to potential reseller that M-Files supports them. Some employees mentioned competitive pricing which allows win-win-win situation (competitive prices for end customer, possibility to make profit for reseller and possibility to generate revenue and profit for M-Files). Also API interface was mentioned as a possibility to include M-Files as a part to the total solution offered by reseller.

*"Resellers have to know that they can rely on M-Files on making money"* M-Files employee

Every reseller mentioned the product (M-Files document management system) as the main convincing factor when they decided to become M-Files resellers. Most were enthusiastic about product features like easy end user use, easy implementation, API, Microsoft compatibility, flexibility, integration possibilities and the possibility to broaden the use easily when the customer grows. Most of the resellers had tested different document management systems and M-Files was the most suitable for their needs.

*“We tested 20-30 different kinds of document management systems and of these M-Files was definitely the best software.” Reseller*

For some resellers the main motivation to choose M-Files wasn't the features of the product itself but the way it could support their current business. M-Files was suitable to be used as a part of the solution they offered to their customers. These resellers were also able to sell M-Files easily to their current customers and becoming a reseller didn't cause any restrictions for them.

*“I knew that I could sell M-Files to my existing customer” Reseller*

Pricing model was an important convincing factor for most resellers. Cheap price for end users and high margins attracted resellers. Price increase in the beginning of 2013 raised a lot of comments in the interviews and therefore highlighted the importance of pricing. Some resellers who had not even mentioned pricing as a reason to start to sell M-Files raised new prices to discussion.

For some resellers the company image of M-Files was an important convincing factor. M-Files' ambition and capability were mentioned. One reseller was convinced about M-Files as a supplier after discussing about detailed technical questions with some highly technically skilled M-Files employee.

## **4.2 Managing Resellers**

This section contains the results related to supporting, motivating and evaluating resellers. Like mentioned in the beginning of the chapter, supporting and motivating sections are combined due their close interdependence. Supporting and motivating resellers is discussed first and then evaluating resellers.

### **4.2.1 Supporting and Motivating Resellers**

This section presents the findings of the interviews. First discussed topic is technical support. The second one is training and the third one sales and marketing support. The fourth topic is communication and the fifth company level motivation. The sixth topic is personal level motivation.

#### **Technical support**

Every M-Files employee mentioned technical support as an important support function and for many it was the most important one. It was highlighted, that resellers should have an email address from where they can get a professional answer quickly. According to an M-Files employee, many resellers are already somehow familiar with the topic

[document management] and face complex and demanding cases requiring detailed knowledge soon after starting to sell M-Files. One employee highlighted the importance of technical support and mentioned that M-Files should provide technical support 24 hours a day seven days a week in the future.

Like M-Files employees, also resellers saw technical support as the most important support function. Resellers highlighted the importance of quick responses for their questions; they are representing M-Files to their customers and potential customers and therefore they have to be able to answer quickly to their questions to maintain credibility. Generally resellers preferred to use email when asking technical questions. Most resellers were satisfied to the technical support and one reseller described it with a term “superb”.

In addition to be able to ask questions, many resellers highlighted the importance to find information themselves and work independently. The main source for this was M-Files Partner Portal, which is an extranet like platform to provide documents to partners. Resellers found it useful for finding sales material such as brochures and sales presentation. On the other hand, many resellers found the lack of detailed documentation as the most required improvement. They would like to have documentation about the following aspects:

- Examples of different kinds of solutions made by M-Files and other resellers
- Ideas what can be done with the software
- Experiences of different solutions
- Best practices
- Answers to common questions of request of quotation

## **Training**

Some M-Files employees said that basic technical training is essential for a reseller to understand how to use and implement the product. One M-Files employee mentioned constant training as an important way to support resellers. For both basic and constant training M-Files has M-Files Academy certification program. Most resellers also mentioned technical training as an important support. Many resellers had had especially for them tailored training in addition to common training and that was appreciated.

Sales training was mentioned by some employees. Some employees mentioned teaching the best ways to sell the product as a part of sales training. Videos, webinars and live training were mentioned as different ways to teach sales to resellers. From many resellers' viewpoint sales training was not performed well. They felt that they should be taught ways to sell M-Files; Target customers, what kind of approach to use, what are the features customers appreciate and so on.



## **Sales and marketing support**

The most M-Files employees mentioned marketing support and some described it as an important way to help reseller to generate leads. The most common way to support resellers' marketing is providing funds for their marketing activities. Also marketing material and demo environment were mentioned by many M-Files employees. For most resellers sales leads provided by M-Files were the most important form of marketing support while that was usually regarded as a motivating factor instead of supporting factor by most M-Files employees. Most resellers were satisfied with the amount of leads they get but some did not get more than couple per year. In those cases M-Files was not search engine optimized for the local languages and that can explain the lack of leads. Most resellers mentioned sales materials as an important form of marketing support and generally resellers were satisfied with the quality and availability of the material. Resellers didn't mention marketing funds as an important support and those who mentioned, mentioned it when they told about support they would like to have. Some resellers hoped general advertising from M-Files on their markets.

*"We don't have resources for marketing; we are a small company"* Reseller

Many M-Files employees mentioned personal help in marketing and sales as an important way to support a reseller. Personal marketing help means participating seminars, fairs and other events with a reseller. Sales help means participating customer meetings with a reseller – according to M-Files employees this is especially important for new resellers. Also helping in demonstrations was mentioned. Some employees mentioned advising related to websites and Google optimization. Some resellers found sales help important. Google optimization was mentioned by some resellers but nobody highlighted the importance of that.

One employee highlighted joint planning as the main support method. Joint planning includes for example events and target customers. The plan helps to define the required actions from both parties. Also general business support and communication about strategic insight of markets and product were seen important. One employee stated that it is important to understand reseller's needs and support them.

*"We have to make a plan together; how to proceed"* M-Files employee

## **Communication**

The most M-Files employees said that they are in contact with their key/strategic resellers nearly daily by email or Skype. Face-to-face meetings are trying to be held one or two times per year. Some employees mentioned that they have review discussions once per quarter and status updates once or twice per month. Prioritization to

key/strategic resellers and to others is done most commonly with revenue generated by reseller. Other indicators used to prioritization were next year's plan, potential, commitment, growth of sales, reseller's investments and length of relationship. In addition to revenue, especially the length of the relationship was seen as an important factor. One employee mentioned that it is important to find a balance how to divide time between old and new resellers.

*"New partners need more time and support but they have to be instructed to be more independent soon."* M-Files employee

Most resellers told that they discuss nearly daily with their channel account managers while some said that they are in contact with M-Files only once per month or less. Resellers who discussed daily with their channel account manager were satisfied to the communication. Resellers who were in contact only once per month said that communication should be more frequent and they also hoped scheduled meetings. Some resellers mentioned, that even though they discuss nearly daily by email with their contact person, they would like to have frequent phone or Skype calls also, for example once per week.

### **Company level motivation**

In general motivating factors could be divided to company level and to personal level. For M-Files employees the most important company level motivation was aggressive margin. Marketing funds based on sales success was seen also as an important motivating factor. Different kinds of margin campaigns were also mentioned. In addition to monetary factors, providing support, leads and information was seen important. Leads were divided based on sales success and the length of relationship: new and successful resellers get more. One employee thought of sharing stories of succeeded M-Files resellers to other resellers.

*"For many resellers M-Files is the primary product, so their profit is dependent on how much they sell M-Files - That is the main source for motivation."* M-Files employee

For the most resellers leads were one of the most important motivating factors and for some the most important. Partner meeting was important for many resellers and they appreciated the possibility to meet other resellers and discuss about topics such as solutions, strategies related to M-Files, their customers etc. Product and its development were motivating factors for many resellers. Good margins and business potential were important for some resellers. One reseller said that selling new licenses to existing customers motivates him. Also publicity was mentioned meaning Gartner's Magic Quadrant listing 2012. The resellers who had exclusivity in their market felt that it is highly motivating factor for them. Some resellers said that exclusivity to their markets would

motivate them to invest more to M-Files. Some resellers said that their deals are too small that they would be able to hire sales people to sell M-Files.

*“I have a trust that I can make money with M-Files”* Reseller

*“Money is the most important thing but other things has to work also”* Reseller

*“It’s a good product; I want to get it to people”* Reseller

*“We would like to invest to M-Files, but it depends on how many resellers there will be in our market.”* Reseller

### **Personal level motivation**

According to M-Files employees, in personal level the most common factor for motivating resellers was constant and active communication. Building a relationship is an important factor and allows to know if a reseller is focused to M-Files or not and discover what is the reason if the reseller is not focusing on M-Files. Also receiving feedback and forwarding it in the organization was seen as an important duty. Some employees mentioned engaging the management as an important motivating factor. For resellers the most important form of personal motivation was quick responses from their channel account manager.

*“The most important factor for reseller’s motivation is that supplier cares”* M-Files employee

*“M-Files is dedicated to work with us, that is motivating”* Reseller

According to M-Files employees motivation tactics used were general and they were mostly based on either partnership level or the length of partnership. Some employees also mentioned that new resellers and resellers who had just lost a deal needed more motivation. Motivating tactics specified for certain channel or reseller type were not defined.

### **4.2.2 Evaluating resellers’ performance**

This section presents the results related to evaluating resellers’ performance. The first topic is evaluation metrics and the second one is setting goals. Third one is costs and the fourth one is terminating partnership.

#### **Evaluation metrics**

The most common way to evaluate resellers was to follow generated revenue quarterly and yearly. That was done by CRM system, to where M-files employees added the data from resellers’ emails. It was mentioned that this system will be changed in the near

future to more effective. Activities, for example meetings or marketing activities, were commonly followed monthly. Also number of new customers and revenue from new and existing customers –ratio were used. Other quantitative methods used were amount and size of cases and sales pipeline. M-Files employees had also different kinds of qualitative ways to evaluate resellers, for example reseller SWOT analysis, prospect analysis, year plan analysis and realization, impression of reseller and feeling about the relationship. Some employees mentioned that in the future there should be a predefined scorecard which could be used to evaluate resellers' performance.

### **Setting goals**

Setting goals divided M-Files employees to two different opinions. About half of employees said that they set goals based on partnership level. The partner contract defines goals for different levels. Another half used those levels just as guiding goals. They didn't set goals for resellers but asked them about their own goals and their expectations for next period's revenue. Some employees also hoped certain number of organized customer events or certified personnel from their resellers. The most resellers said that M-Files did not set goals for them. Less than half of resellers set any goals for themselves. The most common goal was revenue generated with M-Files licenses and services but some resellers planned also their marketing activities and followed the number and size of opportunities.

*"We want to double our sales in the next year. We want to grow the same pace as M-Files does."* Reseller

### **Costs**

Costs caused by resellers are not calculated or estimated. Resellers are prioritized by the means mentioned earlier and resources such as time, R&D and marketing support are divided according to that prioritization. Because channel account managers' salary is strongly based on the results of resellers they automatically divide their time to the most profitable and potential resellers.

### **Terminating partnership**

According to M-Files employees a reseller partnership termination possibility is written to contract. Contract contains goal levels for sales, activities, marketing investments and support quality. If these are not met, the contract can be terminated. The most M-Files employees highlighted that even though they have the power to terminate partnership, they will discuss with an underperforming reseller and if needed, make the decision together. If a reseller is not willing or able to invest enough to M-Files activities, the

reseller contact information will be removed from M-Files websites and the reseller is asked to remove everything related to M-Files from their web sites.

*“It is important to understand why a reseller could not meet goals and try to help them.”* M-Files employee

*“It takes lot of effort to obtain a reseller so it is better to find ways enabling a reseller to sell more than terminating the partnership.”* M-Files employee

## **5 DISCUSSION AND CONCLUSIONS**

This chapter provides conclusions of the study and discussion about the results of the research. The first section provides a summary of results and discussion. The second section covers the research contribution and implications starting from managerial implications and then providing recommendations for M-Files. Theoretical implications are in the end of this section. The third section is the evaluation of the research and the fourth section is topics for further research. The fifth and the last section is conclusions.

### **5.1 Summary of Results and Discussion**

The goal of the study was to find ways how a growing software company can internationalize through a marketing channel. To reach the goal, 17 professionals from both supplier and reseller side were interviewed. This chapter summarizes the findings of the research and compares them to literature findings discussed in the chapter 2. The chapter discusses first about choosing resellers. Then is covered supporting and motivating resellers and in the end evaluating resellers.

#### **5.1.1 Choosing resellers**

This chapter provides a summary of results and discussion related to choosing resellers. Searching and evaluating resellers is covered first. The second section discusses about choosing resellers and the third about convincing resellers.

#### **Searching and evaluating resellers**

According to this research in most cases software resellers were the ones who had searched for software to be sold. Usually software and a supplier were found through search engines. Therefore the results of this research can mean that being well search engine optimized is vital for a software supplier searching for resellers. This research indicated that positive publicity increases the contacting. A software company can also get contact information of potential resellers who download trial version of its software. These inbound leads are important for suppliers actively looking for resellers. This research revealed that another ways to find resellers are for example search engines, social media (for example LinkedIn), exhibitions and lists provided by research companies. According to this research software resellers sort the possible resellers with criteria such as current business, products carried and first impression.

Literature highlighted mainly ways how a supplier can find a reseller. For example Rosenbloom (2012, p. 225) stated that suppliers have to actively find and sell their products to resellers. This research revealed that in this limited scope, it can be assumed that passive search is an important way to find software resellers.

McMillan & Paulden (1974, Root (1998), Mohr et al. (2005, p. 256), Donaldson (2007, p. 162) and Rosenbloom (2012, p. 216) listed different ways how suppliers can locate reseller (for instance government agencies, banks, trade publications, trade fairs, direct mail campaigns, advertising, effective publicity and public relations and customers). Findings of this research support literature. Some sources were not actively used and the reasons can be mostly explained by the unique features of software business. Government agencies and banks do not probably have information about all software resellers and advertising globally is difficult for a growing company with limited resources. For many software companies, for example M-Files, target market and target customer is not strictly defined. As the software products can be general and designed, for example, to increase the productivity of companies, nearly all companies can be end users. Therefore asking a potential customer's opinion is not a realistic way to find resellers from foreign markets. Also asking current global customers' opinion is troublesome, because usually implementations and other services are delivered globally by the same provider. That means customers want to work with the same service provider from the start to the end of the implementation.

This research revealed that unlike Barnett et al. (1989), Cavusgil et al. (1995), Root (1998) and Anderson et al. (2009, p. 299) not all M-Files employees see personal visits mandatory in selection phase. This can be a result of advanced communication methods which allow performing presentations and meetings effectively over the Internet. Software resellers are probably more used to these kinds of communication methods than resellers in other industries.

### **Choosing resellers**

According to this research after forming a shortlist a software company evaluates remaining resellers with various criteria. The most important ones are sales competence and technical competence. Criteria such as company's history, personal impression and products carried are also important. In this research different M-Files employees mentioned different criteria as the most important ones. Because different employees worked in different geographical markets that supports Rosenbloom's (2012, p. 220) statement that one list of criteria cannot be enough to all conditions. According to this research software resellers' selection process is quite similar to Root's (1994) selection process with four phases: 1) drawing up the intermediary profile, 2) locating intermediary prospects, 3) evaluating intermediary prospects and 4) choosing the intermediary.

According to this research selection criteria used by software companies are similar to the ones mentioned by researchers such as Pegram (1965), Moore (1974), Jones et al. (1992), Stern (1992), Czinkota & Ronkainen (2004) and Blythe & Zimmermann (2005) (for example sales performance, products carried, experience, size and quality of sales forces and years in business). But some criteria such as growth, financial performance, reputation and goals, strategies and principles were not discovered in this research. There can be several reasons for excluding these but all of them provide valuable information about the potential reseller. On the other hand, this research highlighted the importance of suitable business model as a selection criteria but in the literature just few researchers, for example Mallen (1996) and Rosenbloom (2012, pp. 222-223), mentioned it.

### **Convincing resellers**

This research supports Rosenbloom (2012, p. 224) and highlights the importance of convincing potential resellers. In the research both the supplier and resellers considered the product itself as the most convincing factor. Another important factor for both parties was suitability to reseller's current business and pricing policy, which allowed win-win-win situation to end users, the reseller and the supplier. According to this research for both the supplier and resellers an image of the other party is an important factor when forming the decision to start the partnership. In this research M-Files employees considered important to communicate that M-Files supports and wants to help its resellers. These methods are in line with Rosenbloom's (2012, p. 225) ideas about communicating supplier's commitment to support prospective channel members to become successful with the product.

### **5.1.2 Supporting and motivating resellers**

#### **Supporting**

According to this research, technical support is considered to be the most important support function by both a supplier and resellers. That supports researchers such as Friedman & Furey (1999) and Narus & Anderson (1988) who also highlight the importance of technical support. This research revealed that both a supplier and resellers highlight the importance of quick responses. Friedman & Furey (1999) recommends 24/7 call centers and the Internet as good vehicles for technical support. According to this research resellers highlighted the importance of detailed and comprehensive technical documentation in addition of being able to ask questions. They wanted documentation from topics such as existing solutions, best practices, experiences, filling requests of quotations and so on. According to this research, that need is not recognized by the supplier. M-Files is offering sales and technical material through its Partner Portal but especially the technical documentation does not fulfill the needs of resellers. Need of



documentation has been recognized in the literature for example by Anderson et al. (2009, p. 382).

This research revealed that both a supplier and resellers considered technical training important. M-Files has a certification program for technical training. This finding supports literature because many researchers such as Kotler & Keller (2006, p. 483) and Rosenbloom (2012, p. 356) highlight the importance of training programs. According to this research sales training was not so important for the supplier while many resellers stressed the lack of proper sales training. This situation was recognized in the literature also. Rosenbloom (2012, p.356) for example states that suppliers usually spend 75-100 per cent of their education budget for product training. According to Friedman & Furey (1999) many resellers are smaller organizations with less experienced sales forces. Like discussed in the previous chapters, many software resellers are small. The need for sales training can be also a result of technically oriented background of resellers. M-Files employees have also mostly technical background which can to some extent explain disinterest to sales training. One way to solve the problem would be to follow Friedman & Furey's (1999) recommendation to offer similar instructions, documentation and other resources to reseller like to supplier's own sales force.

According to this research the supplier regards marketing funds as the most important way to support resellers' marketing. That is on line with researchers such as Friedman & Furey (1999) and Rosenbloom (2012) who also recognize marketing funds as an important support method. But according to this research resellers did not consider marketing support important unless they were missing it. This research revealed that marketing materials are considered important by both a supplier and resellers. Surprisingly this research revealed that for resellers the most important form of marketing support are sales leads while the supplier, on the other hand, experienced sales leads as a motivating factor instead of supporting action. This can be a result of different viewpoints. Maybe resellers consider leads as necessity while the supplier considers them as an extra help given in addition to the basic support. One marketing factor recognized by literature (see for example Friedman & Furey, 1999; Kotler & Keller, 2006, p. 468 or Anderson et al., 2009) but not important according to this research was demand creating marketing performed by the supplier. This can be a result of limited resources of fast growing and relatively young supplier.

According to this research the supplier considers personal help in sales and marketing situations as an important way to support resellers and that supports literature. According to Anderson et al. (2009, p. 306) one-on-one training and coaching is the most effective way to train salespeople. In this research some resellers found personal sales help important but marketing help was not stressed. This can mean that resellers would like to receive skills required in sales from trainings while the supplier prefers participating customer meetings with a reseller and helping promote the product in resellers' events.

So according to this research, it looks like the supplier is offering reactive sales help while resellers demand proactive sales help.

### **Communication**

According to this research a supplier prioritizes resellers by generated revenue, length of relationship and other factors. This research revealed also that supplier's employees communicate nearly daily with key resellers and usually by email. Resellers who communicated nearly daily with their contact person were satisfied to the communication except many of them were missing more regular and even scheduled phone or Skype calls. Other resellers discussed with supplier about once per month. These resellers thought that frequency of once per month is not enough and they hoped for more regular and scheduled meetings. So according to the research, nearly all resellers would like to have more scheduled meetings. Communicating only via emails is not enough even if it happens daily.

### **Motivating**

Motivating factors can be divided to company level and to personal level. According to this research a supplier highlights different kinds of monetary factors and providing support, leads and information on company level motivation. That supports literature which also recognized those factors (see for example Narus & Anderson, 1988; Kotler & Keller, 2006; Donaldson, 2007; Dhotre, 2010; Rosenbloom, 2012). According to this research sales leads, partner meetings, exclusivity to markets and product related factors were the most motivating factors for the resellers on the company level while monetary factors were not stressed as much. These factors, excluding reseller meeting, were also recognized by literature (see for example Narus & Anderson, 1988; Donaldson, 2007; Rosenbloom, 2012).

According to the research the supplier finds communication, building relationship and receiving feedback as the most important factors on personal level motivation. For resellers the most important motivating factors on a personal level were quick responses.

According to this research growing and young software companies do not have an organized process for motivating resellers which is described for example by Rosenbloom (2012, p. 483). This research revealed that the supplier does not have specific tactics to identify the needs of resellers or provide tailored support. Probably the supplier trusts that it can recognize resellers' problems and needs during constant communication and yearly partner meetings. From channel powers listed by French & Raven (1959) the supplier uses regularly reward power and expert power. Aggressive powers such as coercive and legitimate were not used and probably would not improve the supplier's ability to affect to its resellers. Referent power (supplier is so highly respected that interme-

diaries are proud to be associated with it) could not be discovered or denied in the research.

### 5.1.3 Evaluating resellers

According to this research a software company evaluates resellers' performance mainly by revenue, quarterly and monthly. Also activities, new customers and different kinds of qualitative methods such as SWOT analysis and personal impression can be used to evaluate performance. M-Files realizes the lack of a scorecard system. Literature also stresses the importance of periodical performance evaluation (see for example Kotler & Keller 2006, p. 485; Dhotre, 2010, p. 69). The findings of this research support literature's performance evaluation lists. In addition to metrics M-Files used, literature mentioned customer satisfaction and growth of sales. These could be used easily in software business and would probably offer value for channel management.

According to this research a software company has two ways to set goals for resellers. The first approach is to set goals by partnership level. The other is to not set goals but to ask resellers about their own goals. In this research most of the resellers did not set goals for themselves. Those who did set a goal for revenue. Literature favors setting goals –approach. For example Andersen et al. (2009, p. 386) describes annual planning as a way to ensure that supplier's and reseller's interests are aligned and appropriate resources and capabilities are allocated.

According to this research a software company does not calculate or estimate the costs of a channel or a reseller. The supplier prioritizes time and resources to most profitable and potential resellers. Friedman & Furey (1999) described two different ways to calculate costs, expense-to-revenue ratio and cost-per-transaction, which could be useful. There is also a possibility that software business by itself is so different to physical goods industries that calculating costs would not provide any value to a supplier.

According to this research M-Files has a right to terminate the partnership if a reseller cannot meet its goals, does not have enough activities or support quality is not high enough. M-Files stressed that terminating a partnership is the last option. M-Files highlights the importance of finding the problems and helping to solve them instead of terminating the partnership. Literature recognizes M-Files' approach (see for example Anderson et al, 2009, p. 405) of terminating partnership together if both parties agree. On the other hand, literature also stresses the importance of terminating partnerships of poorly performing resellers. Huthwaite's research (1996) revealed that in high-tech industry 84 per cent of the channel revenue was generated by ten per cent of partners. Friedman & Furey (1999) state that underperforming partnerships have to be terminated and recommends cutting five to ten per cent of resellers with the lowest sales volume yearly. Softer version is to drop the same amount to lower class of partnership.

#### **5.1.4 Choosing and Managing Software Product Resellers**

Figure 13 adapts the results of the research to the theoretical framework created in the chapter 2.5. Irrelevant factors have been excluded and new important factors have been added. Also the form of the framework has been adapted to present better the results.

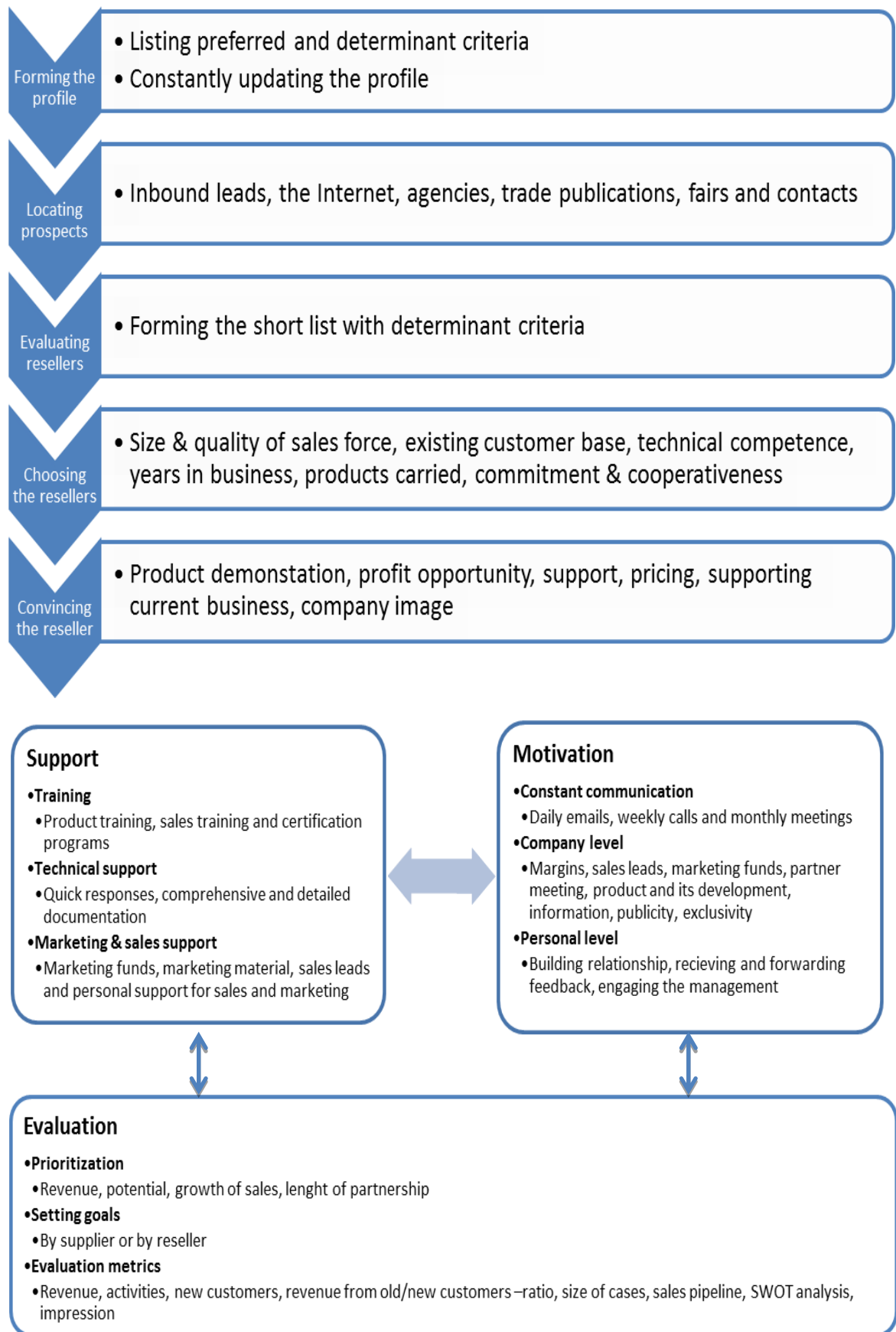


Figure 13. The modified framework for choosing and managing software resellers

The first step of the choosing process, Forming the profile, has remained unchanged. Locating prospects –step does not include advertising, customers or personal selling anymore but inbound leads, the Internet and contacts have been added. Evaluating resellers –step has remained unchanged. Choosing resellers –step does not contain any more reputation or experience criteria but existing customer base, technical competence and years in business criteria are included. A new step, Convincing the reseller, has been added to the choosing process to highlight its importance. Earlier in was part of Choosing resellers -step.

Managing resellers – process has been reformed. Earlier all three sub processes - support, motivation and evaluation- were interconnected to each other with double arrows. Now support and motivation has been grouped together and a strong double arrow describes the strong interconnection between these two areas. Evaluation is still in interconnection with both other areas but interconnection is not as strong.

Support has the same sub topics as earlier: Training, technical support and marketing & sales support. Training part does not include coaching anymore. In new technical support part all different medias to provide support have been replaced with the requirements: Quick responses and Comprehensive and detailed documentation. Marketing & sales support part replaced cooperative advertising and promotional allowances with marketing funds. Also missionary selling, trade shows and marketing research have been excluded while marketing materials, sales leads and personal support for sales and marketing have been added.

Motivation area has changed all the sub topics. Previous Identification of need and problems, Coherent support and Leadership through the power have been replaced with Constant communication, Company level and Personal level. Also the content has been mostly changed to represent the results.

Evaluation area changed also all the sub topics. Prioritization, Setting goals and Evaluation metrics replaced Costs, Performance and Termination. Contents of Evaluation metrics and Performance are quite similar.

## **5.2 Research Contribution and Implications**

This section presents the research contributions and implications. Managerial implications are discussed first and then recommendations for M-Files. The third section describes the theoretical implications of the research.

### 5.2.1 Managerial Implications

This chapter provides a practical step-by-step guide for channel managers to channel management starting from forming the reseller profile and ending to possible termination of the partnership. The following combines both theory and results of the interviews and therefore provides a holistic insight to the topic of choosing and managing software resellers. The order follows the previous chapters starting from choosing resellers and continuing to supporting and motivating resellers and ending to evaluating resellers.

#### Choosing resellers

First software companies should decide what kind of resellers they are looking for. Then they should define the desired attributes a reseller should have and form an evaluation criteria checklist. Then they should allow those resellers to find them by optimizing search engine results, providing trial version of their product on websites and trying to achieve as much as possible positive publicity. Suppliers should also actively search for companies with desired attributes. Some ways to actively find potential resellers are The Internet (for example search engines, competitors' web sites listing their partners, LinkedIn and other social media web sites), exhibitions, research companies and personal contacts.

When potential resellers have been found actively or passively they should be sorted with determinant criteria. Sorting criteria can be for example current business, products carried, head quarter location and/or first impression (prospect's web sites, references/customers, office location).

Prospects that pass sorting should be listed to a short list and contacted. The main purpose for contact should be arranging a meeting – preferably a face-to-face meeting. From these prospects a supplier should choose the desired resellers with predefined criteria. The choosing criteria can be for example:

- Sales competence (number & quality of sales people, ability to get new customers, previous sales performance)
- Existing customer base
- Products carried
- Technical competence (size of technical team, ability to provide services and support, experience)
- Years in business
- Personal impression (motivation, appearance, office)
- Suitable business model
- Growth
- Financial performance
- Reputation
- Goals, strategies and principles

When a software company has chosen a reseller it should convince a reseller to begin a partnership. Resellers who contacted a software company are easier to convince than the ones a software company contacted. For convincing, a software company can use the following factors: Presenting the product and its features, suitability to a reseller's current business, pricing model (profit opportunity), company and product image and communicating about intensive help and support.

When a reseller is convinced, both parties should agree on terms and policies and write an agreement.

### **Supporting and motivating resellers**

A software company should provide support for its resellers from the beginning. New resellers should be trained and certified. Technical training should ensure that resellers have technical competence to provide services and support. Certification test should be used to confirm desired competence. A software company should also invest to sales training and teach a new reseller the best ways to sell the product.

A software company should be able to provide constant technical support to its resellers. If resellers have something to ask they should be able to get answers quickly. In addition to responsive support, a supplier should provide comprehensive and detailed documentation about the product including for example Examples of different kinds of solutions made by the software company and other resellers, ideas what can be done with the software, experiences of different solutions, best practices and answers to common questions of request of quotation.

In addition to technical support, a software company should also provide sales and marketing support for its resellers. Marketing and sales support can include for example marketing funds, sales leads, marketing material and demo environment, advertising in resellers markets and/or personal sales and marketing help (participating customer meetings and marketing events).

To be able to motivate resellers, a supplier should be able to identify the needs and problems of the channel. To identify the needs and problems, a supplier can use for example:

- Research studies conducted by the supplier
- Research studies conducted by outside parties
- Marketing channel audits
- Distributor advisory councils
- Channel surveys
- Structured interviews



When a supplier has recognized the needs and problems of a channel, it should provide coherent support for those needs and problems. Because resellers are different, a supplier should categorize resellers to be able to provide coherent support to every reseller. To categorize, a supplier can analyze channels as portfolios and form matrixes from those channels. These matrixes serve as the basis of categorization and allow a supplier to provide tailored support to every channel members. In addition to supportive actions mentioned earlier in this section, a supplier should also use motivating tactics such as:

- Pricing policies (margin, campaigns)
- Sales leads
- Sharing information (product development, market, publicity)
- Events where resellers gather, meetings
- Exclusivity
- Building a relationship
- Receiving feedback and delivering it forward
- Engaging reseller's management

A supplier should prioritize its resellers. By prioritizing a supplier enables the effective use of company's resources and maximizes the profits of a channel. The strategic resellers should get the most time and other resources such as R&D, marketing funds and sales leads. A prioritization can be done for example with sales, potential (new resellers have higher potential than sales) and/or annual plan.

A supplier should invest a lot of resources for constant communication. Communication with strategic resellers should contain daily emails, weekly scheduled calls, monthly scheduled remote meetings and face-to-face meetings once or twice per year.

Constant communication is the basis for building a relationship. Channel manager is all the time in the touch with a reseller and knows what is happening and can provide coherent support. Constant communication motivates a reseller and enhances the trust between the parties.

### **Evaluating resellers**

Software companies should be able to evaluate their resellers. To do evaluation effectively and fairly, a scorecard should be formed. The scorecard could contain for example the following metrics:

- Sales value
- Growth of sales
- Activities
- New customers (number of new customers, revenue from new and existing customers -ratio)
- Sales pipeline (amount and size of cases)
- Participated training

- Number of certified personnel

A supplier should define its own goals for channel and different markets taking into account market realities. These goals should be the basis of reseller specific goals. A supplier should plan together with a reseller an annual plan. An annual plan should include:

- Situation analysis (SWOT)
- Objectives
- Support a reseller needs
- Actions to be taken (separately and together)
- Timetable for implementation
- Responsibilities
- Performance measures and expectations (scorecard)

A supplier and a reseller should meet quarterly to review the performance and compare it to the plan. Corrective actions, their timetable and responsibilities should be designed if necessary.

In addition to these annual plans and follow-ups a supplier should analyze overall channel performance and costs periodically. This analysis could include for example customer satisfaction research, diagnostic measures and/or profitability analysis.

A supplier has to know which resellers generate profits and which cause costs. If a reseller is not generating profits and does not hold potential for future growth, a supplier should discuss with a reseller about the future of the partnership. If a reseller is not willing to invest more to supplier's product, a partnership should be terminated. If a supplier has different levels or tiers for resellers, a poorly performing reseller could also be transferred to a lower level or tier instead of terminating the partnership.

### **5.2.2 Recommendations for M-Files**

M-Files should review its desired reseller profile and if needed modify it. The current resellers and their performance should be analyzed to find the best type of reseller to document management system. New prospects should be evaluated with these criteria.

M-Files should also invest more to sales training it offers to resellers. Many resellers were unsatisfied and would like to have training related to topics such as target customers, what kind of approach to use, what are the features customers appreciate and so on. Technical training was well organized and performed.

According to the research the biggest problem M-Files resellers are facing is the lack of detailed technical documentation. M-Files should share all the documentation it uses internally related to following topics:

- Examples of different kinds of solutions made by M-Files and other resellers
- Ideas what can be done with the software
- Experiences of different solutions
- Best practices
- Answers to common questions of request of quotation

These documents should be detailed enough that resellers would be able to solve most of their technical problems without help of M-Files. Resellers should also be encouraged to add their documents to this database. This, therefore, would also decrease the stress for technical support and allow quicker responses.

M-Files should conduct a channel study to find out the needs and problems of the channel. M-Files should categorize resellers to different categories according to, for example, partnership level, length of relationship, sales and size of the reseller. The best ways to support and motivate these groups should be defined. For example new resellers could appreciate technical training, old and big reseller could appreciate better margins more and old but small resellers sales training and marketing funds.

At the moment M-Files does not have a unified way to measure the performance of resellers. M-Files should develop a scorecard which includes all the necessary metrics. This scorecard should be explained to a reseller. An annual plan should be formed together with a reseller. The annual plan should be reviewed quarterly and corrective actions should be decided. M-Files should also measure the overall performance of the channel periodically.

M-Files should organize its communication style from current ad hoc to more scheduled. An arranged meeting should be scheduled to all resellers at least once per quarter. With strategic resellers M-Files should have scheduled weekly calls.

### **5.2.3 Theoretical Implications**

This research studied the ways how a software company can successfully internationalize through a marketing channel. A lot of literature was studied from the fields of managing marketing channel and software business. The research provided good material to analyze a software marketing channel. In this limited scope it looks like that in software industry some topics of choosing and managing resellers differ from the literature norms. Two conclusions can be made from the results of the research.

The first scientific contribution of the research was the importance of passive search in the process of finding resellers. Typically literature focuses on active search of resellers and does not recognize passive search. In this research, nearly all software resellers were the party who approached M-Files. For M-Files inbound leads (results of passive search) are as important or even more important way to locate resellers as an active search.

The importance of passive search can be expected to be a result of the unique features of software business. Next, couples of possible reasons are presented. First of all, close-to-zero logistic and inventory costs enable even the smallest companies to sell licenses of a software supplier. In markets of physical goods resellers have to be able to move and store goods before delivering them to customers while in software business an email to a supplier is enough to order and deliver license and product to the customer. Therefore number of software resellers can be much bigger than in physical goods markets. Also the small number of national or global software reseller chains can explain the large number of software resellers.

Secondly, software products open new opportunities for resellers. Many interviewed resellers mentioned that they realized the demand for a document management system when their customers asked to solve a problem they didn't have a solution for. That can lead to a situation where software resellers are more active and eager to take new products in to their assortment than physical good resellers. Also near-to-zero logistics and inventory costs and lower risks can have an effect for resellers' activity. Thirdly, many resellers are highly skilled in information technology and they are able to learn how to deliver services with relatively small training efforts. These services can form a big part of reseller's revenue and for some resellers they can be the main business. Therefore software resellers are able to change their revenue model relatively easily and adapt to dynamic and constant changes of software industry. This, as a one factor, can increase resellers' activity to find suitable software to their assortment.

The importance of passive search sets new challenges for suppliers. Like all interviewed resellers, the majority of resellers search for products to be sold from the Internet. This increases the importance of search engine optimization. If the software is not in the top results it easily loses its chances to be examined closer. Being a top result is also a part of the product and company image and resellers do their first judgment based on the first glance to the search results page (Figure 14). Quite few resellers are interested on software which is not listed on the first site of results.

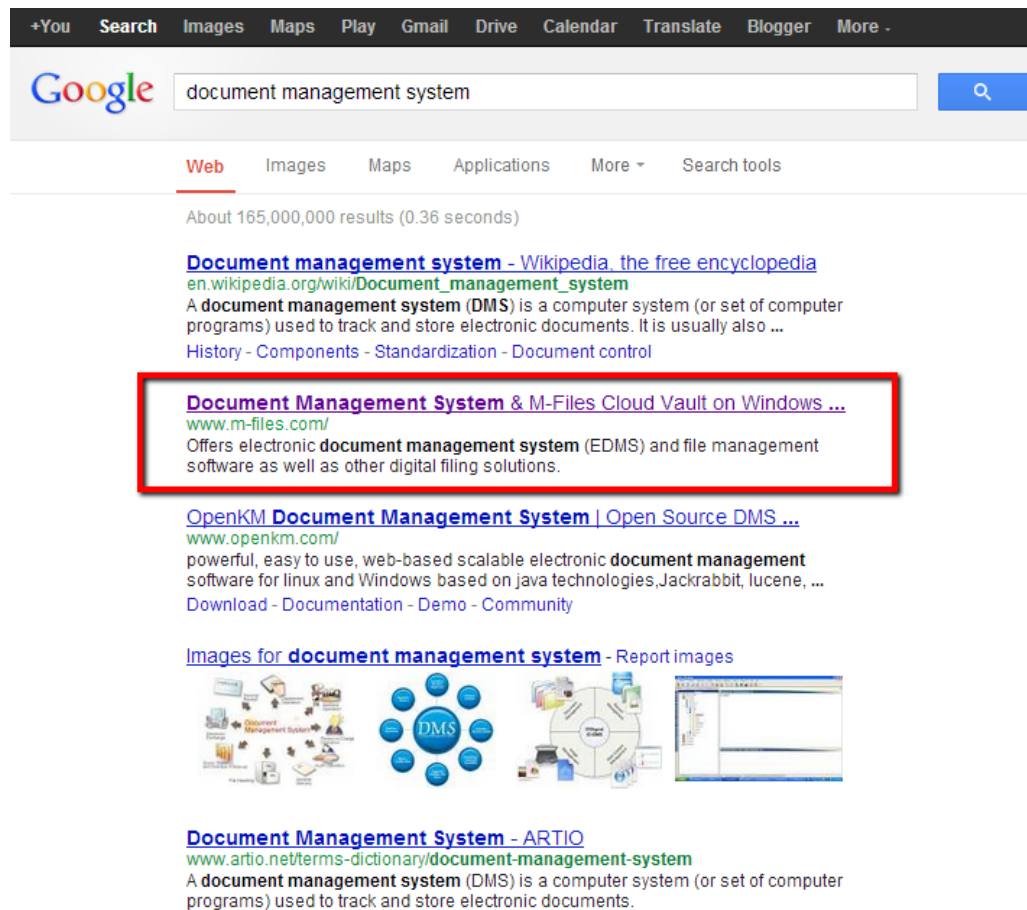


Figure 14. A screenshot from Google search results.

Most of the interviewed resellers had downloaded a trial version and tried it before they contacted M-Files. This highlights the importance to provide a trial version. Interviewees mentioned that they had compared several document management systems against each other. Therefore a software has to be designed a way it is easy to use even without formal training.

Another important scientific contribution of the research was the importance of detailed and comprehensive technical documentation. According to the research software resellers primarily search information independently and if they cannot find it they contact the supplier's technical support. So a software company should ensure that all technical documentation related to solutions, limitations, best practices and experiences would be available for resellers. Resellers should also be encouraged to add their own solutions and findings to the database. The documentation should be detailed enough that a reseller could provide the solution with the help of the documentation without a need to contact the supplier.

This finding has two major benefits for companies who implement it. Firstly, resellers are able to offer solutions to more cases than they could without studying possibilities

of the software from the database. Best practices, experiences and existing solutions allow resellers to use them as the basis of the solution they are offering increasing the quality of the offered solution. Being able to offer solution to more cases and to bigger cases results to increased sales and therefore to increased profit for the supplier. Secondly, if resellers solve more their problems independently that releases resources of technical support. Released resources allow technical support to help resellers quicker and in more detail.

The literature recognizes the need to provide documentation for resellers. Documentation discussed here differs from the one literature discuss by the source and the purpose. When the documentation mentioned by the literature is originating from the supplier, the documentation discussed in this research can be originating from both supplier and resellers. While the purpose of the traditional documentation is to explain how to use the product and how to maintain it, the documentation discussed in this research helps resellers to create something new from the existing solutions and to create business opportunities.

Probably the literature does not highlight the importance of this kind of documentation, because physical goods cannot provide the same opportunities as software with open interfaces. If a supplier writes documentation to a machine, it includes everything how to maintain it, how it should be used and how to repair it. That documentation does not contain information about how that machine could be combined to totally different machine to create a new machine or how it could be reconstructed to provide a feature that wasn't included to the original product.

### **5.3 Evaluation of the Research**

The goal of this study was to define how a software company should choose and manage resellers. The study was able to gather a broad theoretical background and to form a framework which summarizes the theory related to the topic. Theory contains literature from Europe, North America and Asia and from the middle of the 20<sup>th</sup> century to the most recent studies. Therefore the theoretical basis is broad and covers a big part of the literature related to the topic.

The empirical research was performed with a semi structured research. The approach was successful and revealed issues which were important for software resellers but neglected by the literature. 17 persons from eight different countries provided a saturation point for both supplier and reseller side.

The research reached it goals and can provide advices how M-Files can choose and manage European resellers successfully. The results can be adapted by other software

resellers also. The research discovered some important theoretical findings literature had not focused on earlier.

## **5.4 Topics for Further Research**

The results of this research provide interesting topics for the further research. One interesting topic would be to study if the same channel is suitable to all software products. This topic would include identifying the attributes required to be able to sell different kinds of software products customer relationship management systems to enterprise resource planning.

Another possible topic for further research would be studying the other markets and finding if American and Asian resellers can be managed the same way as Europeans. This topic would focus more on cultural and structural differences of different markets. The study could provide insight to companies expanding to Asian markets from European and American markets, just like M-Files.

## **5.5 Conclusions**

To be able to successfully internationalize, companies have to be able to choose the right resellers and manage them effectively. Suppliers have to be able to provide the necessary support for resellers to enable their success and motivate them to invest to supplier's products.

This study revealed many important factors which can help M-Files and other software companies to build and improve their marketing channels. Findings such as importance of passive search and importance of detailed technical documentation can significantly increase the channel performance of companies who implement them. This study provides a practical guide for channel managers how to implement the findings of the research. Channel managers can follow it step by step starting from forming the reseller profile and ending to possible termination of the partnership. By following the guidance of this research a growing software company can internationalize successfully through a marketing channel.

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## **APPENDIX 1: QUESTIONS OF SEMI STRUCTURED INTERVIEW**

### **For M-Files personnel:**

- How do you find potential resellers?
- How do you choose resellers? How do you proceed?
- What are the top three most important criteria for choosing resellers?
- How do you convince resellers to choose M-Files?
- What are the most important ways to support resellers?
- What kind of support resellers need to succeed?
- How often you discuss with your resellers, does the size/sales of the reseller matter?
- Do you motivate your resellers and if yes, how?
- Do you use general tactics or reseller/channel specific tactics?
- Do you evaluate your resellers' performance? What metrics do you use?
- Do you set goals and if you do, how do you follow them?
- Do you estimate or calculate the costs of a channel and/or reseller?
- When do you terminate the partnership and how?

### **For resellers:**

- How did you become an M-Files reseller?
- What kind of support you would like to have?
- What kind of support you get now?
- Do you discuss and agree about your goals?
- How often do you discuss with your channel account manager?
- Which M-Files' actions motivate you?

## APPENDIX 2: LIST OF INTERVIEWEES

*Table 3. List of interviewees*

Name	Position	Company
Antti Arvio	Director, Channel Sales EMEA	M-Files
Arve L. Nielsen	CEO	Nettpost
Bo van Weert	Owner	Valbosoft
Christian Habenstein	Channel Account Manager	M-Files
Gert-Jan Voogsgeerd	Partner / DMS Consultant	Office in a Box
Janne Romppanen	Vice President of Strategic Partnerships	M-Files
Jeroen Uittenbosch	Account Manager	Host Access Solutions B.V.
John Minto	Managing Director	Mintronics Ltd
Juhapetri Stein	Channel Account Manager	M-Files
Jussi Sinkkonen	OEM project manager	M-Files
Kimmo Järvensivu	Channel Account Manager	M-Files
Ronald Uitslag	CTO	Host Access Solutions B.V.
Sampo Torikka	Channel Account Manager	M-Files
Scott Erickson	Vice President of Channel Sales	M-Files
Steen Madsen	CEO	Solution Management ApS
Stephen Morin	Managing director	Allied Images
Umeshkumar Dua	Business Consultant	ACS-Apt