VALUE-BASED PARTNERSHIPS STRATEGY

Develop strong relationships between vendors and channel partners that create value and delight

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Introduction and Acknowledgement

Hello! My name is Ignacio Sbampato, and I've spent the last 25 years navigating the cybersecurity business world, where partnerships are the key to success. I started my career as a software developer, had my own company for a while and 20 years ago my career changed when I took the opportunity of joining ESET, then a very small antivirus company, today a global leader in the endpoint security industry, the largest from the European Union.

My first experiences with partnerships coincide with my beginnings at ESET, where my team and I transformed the company into one of the most well-known cybersecurity vendors in Latin America with a 100 % channel-focused strategy, recruiting and activating hundreds of distributors, resellers, system integrators, and specialized consultants.

After 7 successful years that generated hundreds of millions of euros in revenue for the company, I was offered the chance to be responsible for the global business of ESET at the end of 2010. During my 13-years journey as Chief Sales & Marketing Officer and then Chief Business Officer, I led the establishment and development of partnerships all around the world that helped the company to reach the place it holds today.

Over the years, I've had the privilege of working with brilliant minds and the most dedicated teams, learning invaluable lessons along the way. In this e-book, I aim to share some of those lessons with you. The only way a small and unknown company from Slovakia could become a worldwide leader was by creating and capturing value for itself and also for those that were fundamental for its growth: its channel partners.

The billions of euros in revenue that me, my team and our partners were able to generate were the result of understanding the value of true partnerships, and because of those experiences, I decided to capture the learnings into a framework called the Value-Based Partnerships Strategy.

Relationships between channel partners and vendors are usually thought of within the boundaries of margins and partner programs, which are usually established without considering the effort that everyone involved needs to put into achieving success.

Often, those partner programs are designed to capture as much value as possible for the vendor, minimizing the role of the channel, and the multiplying effect it can have if thought of as a relationship that needs to create delight for everyone involved.

That is exactly what the **Value-Based Partnerships Strategy** attempts to address, the creation of value for all parties. It has been developed with the IT industry in mind, but it can be applied to other sectors where alliances play a crucial role.

Whether you are an aspiring entrepreneur, a seasoned executive, or someone who is simply curious about the mechanics of partnerships, my goal is to provide a framework, insights and strategies that will help you and your partners succeed. This work draws upon real-life experiences, best practices and proven success to illustrate how successful partnerships must be thought through with the value for both vendors and channel partners in mind.

Before going into the framework itself, I want to thank those who have helped me create it. A big recognition goes to Miroslav Mikuš, Chief Sales Officer at ESET, and Michal Šuster, Commercial & GTM Product Manager at Whalebone, who took the time to review earlier versions of the concept and provided me with ideas and feedback that significantly improved it.

Besides them, I want to acknowledge the lessons that every one of the partners and business leaders I worked with taught me: the success I achieved was only possible thanks to them.

Last but not least, I want to thank my family for their support on this new journey I am embarking on since this year. Their unconditional encouragement has been fundamental in finding the energy and focus I needed to seize the new opportunities for my career.

As this framework re-imagines the traditional Value-Based Strategy concept and applies some of its concepts to the world of partnerships, let's start by refreshing our knowledge of it.

Chapter 1:
Value-Based Strategy

Value-based strategy is the foundation of many modern business practices, focusing on maximizing the value perceived by customers as well as the value captured by the company. This strategy moves beyond cost-based or competitor-based pricing to place emphasis on the actual benefits delivered to the customer and the corresponding *Willingness to Pay*. Developed and popularized by thought leaders in business strategy, value-based strategy has been adopted widely across various industries, becoming a common practice to develop and describe the strategies of organizations around the world.

The concept of value-based strategy was significantly advanced by **Michael Porter**, a professor at Harvard Business School. Porter's theories on competitive advantage and value chain analysis laid the groundwork for businesses to focus on delivering unique value to customers. His seminal works, such as "Competitive Strategy" (1980) and "Competitive Advantage" (1985), emphasized that *companies should not merely compete on cost but also strive to differentiate their offerings by creating superior value*.

At its core, value-based strategy revolves around understanding what customers value most and how much they are willing to pay for it. The main principles include:

1. **Customer-Centric Approach:** Businesses must thoroughly understand their customers' needs, preferences, and pain points. This involves extensive market research, customer feedback, and continuous engagement.
2. **Value Proposition**: Developing a compelling value proposition that clearly articulates the unique benefits of a product or service. This proposition should highlight how the offering solves specific problems or enhances the customer's life or business.
3. **Differentiation**: Creating a distinct market position by offering unique features, superior quality, exceptional service, or other differentiators that set the product apart from competitors.
4. **Pricing Based on Value**: Setting prices based on the perceived value to the customer rather than solely on production costs or competitive prices. This involves assessing how much value the customer derives from the product and pricing it accordingly.

In order to implement a value-based strategy that takes into account the above principles we need to consider several key steps:

1. **Market Segmentation**: Identify distinct customer segments and understand their specific needs and value perceptions.
2. **Value Assessment**: Determine the perceived value of the product or service by understanding the customer needs and pains, using tools such as customer surveys or focus groups.
3. **Developing the Value Proposition**: Craft a clear and compelling value proposition that addresses the needs of target segments and highlights the unique benefits of the offering.
4. **Value Communication**: Effectively communicate the value proposition through marketing messages, sales pitches, and customer interactions.
5. **Value-Based Pricing**: Establish pricing strategies that reflect the value delivered to the customer. This may involve premium pricing for highly differentiated products or tiered pricing models that cater to different customer segments.

Many of the most renowned modern companies have based their strategies on the creation and delivery of value for their customers and themselves. Some notorious examples are:

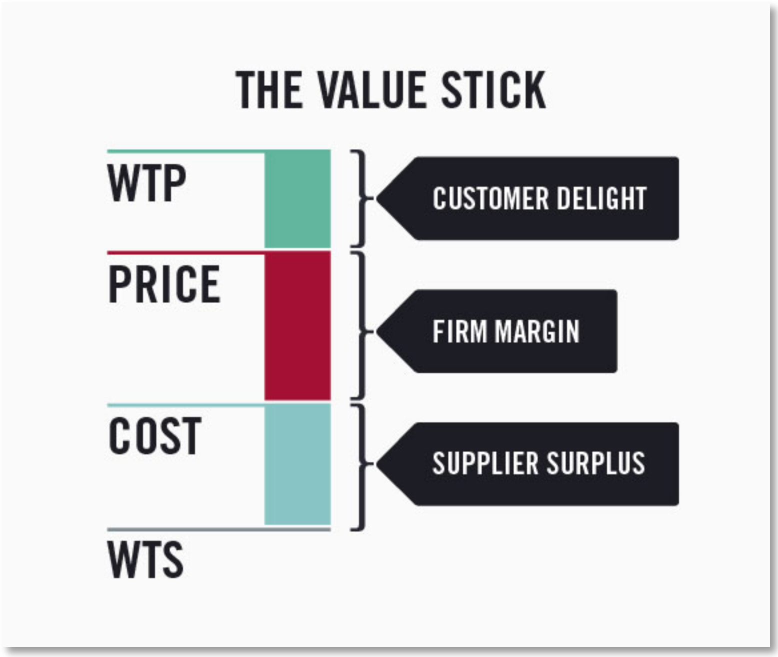
1. **Apple Inc.** focuses on delivering superior user experiences, innovative designs, and high-quality products, allowing it to command premium prices. Despite the higher costs, customers perceive significant value in Apple's ecosystem of products and services, driving strong loyalty and profitability.
2. **Tesla Motors**' value-based strategy emphasizes cutting-edge technology, sustainability, and high performance. Tesla's electric vehicles are priced higher than many traditional cars, but customers are willing to pay for the perceived benefits of advanced features, eco-friendliness, and the prestige associated with the brand.
3. **Nike** employs a value-based strategy by leveraging its brand strength, innovation in sportswear, and endorsements from top athletes. The perceived value of Nike products allows the company to maintain premium pricing while fostering a loyal customer base.

Value-based strategy represents a sophisticated approach to business that prioritizes the creation and capture of value. By focusing on understanding the customer needs and delivering unique benefits, companies can differentiate themselves in competitive markets and achieve sustainable profitability by increasing the willingness to pay of their clients.

The principles of this strategy, as developed by Michael Porter and other thought leaders, continue to guide businesses in crafting value propositions and optimizing their pricing strategies for maximum impact for both their customers and themselves.

Chapter 2:
Using the Value Stick in a Value-Based Strategy

The **Value Stick** is a pivotal concept within the value-based strategy framework, serving as a visual tool to help businesses understand and optimize the various components of value creation and capture. By breaking down the elements that contribute to both customer delight and company profitability, the value stick provides a structured approach to positioning and price setting that reflects the true value of a product or service.



Source: Harvard Business School Online

The primary purpose of the value stick is to illustrate the different levels at which value is perceived and captured in a business transaction. It simplifies the complex interplay between cost, price, customer-perceived value, and the company's profit margin. The value stick typically consists of four main elements:

1. **Customer-Perceived Value**: This represents the maximum price a customer is willing to pay for a product or service. It is based on the perceived benefits and the comparative value against alternative solutions. The higher the perceived benefits, the greater the customer's willingness to pay.
2. **Price**: This is the actual amount charged by the company. It is strategically positioned below the customer-perceived value to ensure that customers feel they are receiving more value than what they are paying for, resulting in an increased consumer delight.

3. **Cost**: This element represents the expenses and efforts incurred by the company to produce and deliver the product or service. It includes raw materials, labor, overheads, and any other associated costs.
4. **Value Captured by the Company**: The difference between the price and the cost is the company's profit margin. This represents the value captured by the company from each transaction, contributing directly to its profitability.

The value stick serves as a guide for businesses to balance customer satisfaction (also called delight) and their organization's profitability.

The goal of any organization using this approach should be to maintain a high customer delight, which will increase their Willingness to Pay, while at the same time decreasing their costs, thus lowering the Willingness to Sell in the value stick framework.

The result of an effective usage of this tool would be based on:

1. **Assessing Customer-Perceived Value**: Businesses need to thoroughly understand their customers' needs, preferences, and pain points. Techniques such as market research, customer surveys, and focus groups can help determine the maximum price customers are willing to pay.
2. **Setting the Right Price**: The price should be set at a level that captures significant value for the company while still being below the customer-perceived value. This ensures a consumer surplus, enhancing customer satisfaction and loyalty.
3. **Managing Costs**: Companies should strive to minimize production and delivery costs without compromising quality. Efficient cost management increases the margin between cost and price, boosting profitability.
4. **Maximizing Value Capture**: By effectively positioning the product and communicating its value proposition, businesses can capture more value. This involves strategic marketing, superior customer service, and continuous innovation.

Companies can also decrease their Willingness to Sell by focusing on improving their employees engagement and satisfaction and their impact in the community, which will ensure sustainability over time for their value creation activities.

Some examples of the application of the value stick can be seen in the following industries:

1. **Luxury Goods**: Companies like Louis Vuitton and Rolex focus on increasing the willingness to pay by offering high-quality, prestigious products. The customer-perceived value is extremely high, allowing these brands to set premium prices well above their costs. The substantial consumer surplus fosters brand loyalty and exclusivity.

2. **Technology Firms**: Companies such as Microsoft and Apple leverage innovation to enhance customer-perceived value. By continuously introducing cutting-edge features and superior user experiences, they can command higher prices while managing costs through efficient production processes.
3. **Consumer Goods**: Procter & Gamble (P&G) uses this framework to balance quality and cost across its diverse product range. By understanding the varying customer-perceived values for its different brands, P&G sets prices that capture value while maintaining consumer trust and satisfaction and uses scale to manage the costs.

The value stick is a versatile and powerful tool in value-based strategy, enabling businesses to visualize and manage the components of value creation and capture. By focusing on customer-perceived value, strategic pricing, and cost management, companies can achieve a balance that maximizes both customer satisfaction and profitability. Understanding and applying the value stick allows businesses to make informed decisions that drive sustainable growth and competitive advantage.

Additional Content

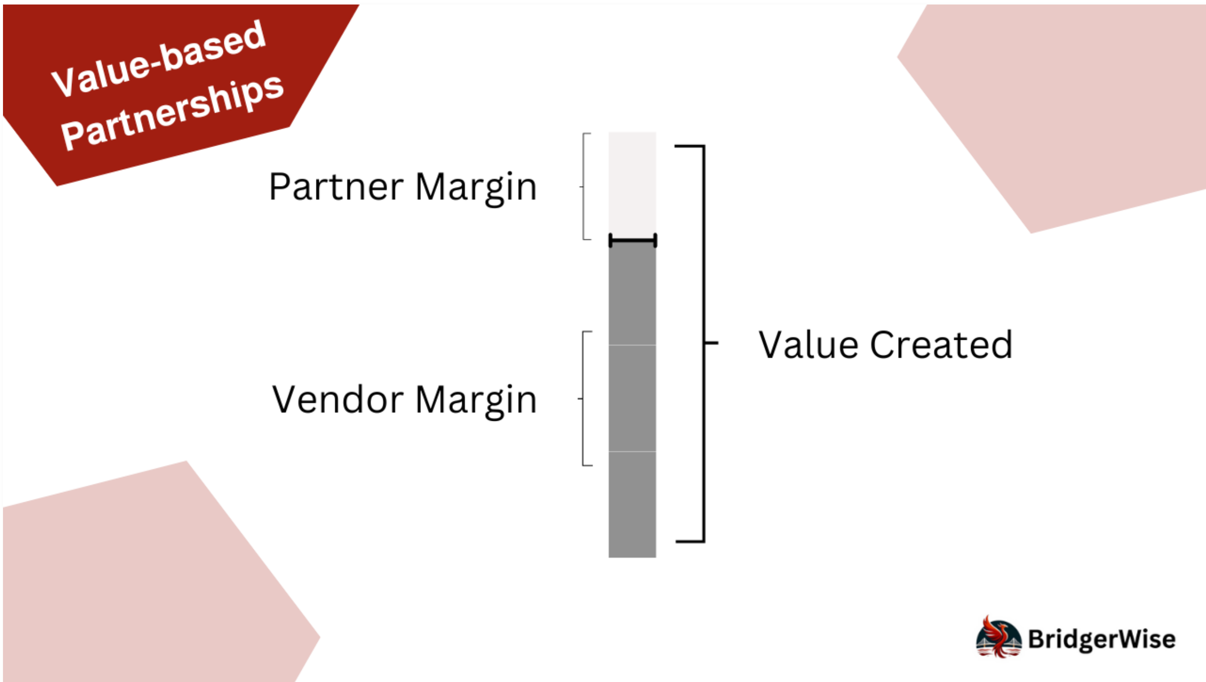
Explore more about **Value-Based Strategy** and how the **Value Stick** is used to visualize it in this video from **Harvard Business Review**, "*What is Strategy? It's a lot simpler than you think*."

Chapter 3:
The State of Vendor – Channel Partner relationships

At the moment of writing this e-book and creating the Value-Based Partnerships Strategy framework, the relationships between vendors and channel partners are ruled by Partner Programs.

The Partner Programs include the rules, responsibilities and benefits for the channel of the vendor, and one of the most important aspects of it is the margin perceived by the partners.

The margin is a percentage that determines the portion of the price paid by the customers that is to be perceived by the partner. The remaining amount is kept by the vendor. This is how the value created through the partnership is distributed among the parties.



The channel partners will then increase their business depending on how high the margin and prices are, and how large the volume they can sell to their customers is. The more clients they have, the more they pay for the vendor's solutions and the higher the margin is, the more gross profit the channel partner will obtain.

However, Partner Programs are not always designed for the channel to win. Vendors that are new to partnerships do not always take into account the effort that partners need to put in to promote and sell their solutions to their existing customers as well as to new potential ones.

It's not uncommon to see Partner Programs that don't balance properly the margin for the channel with the cost they have; and that don't provide enough additional opportunities to the partner to generate additional business.

For instance, recently I reviewed the margins given by two cybersecurity startups where they expect high commitment from their partners for a margin of only 10 %, which will make it very difficult for the channel to make a profit from the relationship unless they reach a high volume of sales.

Those startups have very low brand recognition and their investments in demand generation are not enough for partners to capture enough value to cover for their efforts to be part of the relationship.

These issues with margins, profitability, and opportunities for growth are not exclusive to traditional channel partners. Managed Service Providers also face issues due to poor pricing and cost overhead strategies when working with cybersecurity solutions. [1]

The effort that MSPs need to put into providing services on an ever-growing number of products plus the low margins that they get from many of them do not account for many of the additional costs they need to cover in order to provide their services.

These situations call for a different approach to defining partnerships strategies, which this e-book will start to address in the following chapter.

Additional Content

Canalys is the place to go when it comes to understanding the current state of the channel. I recommend you check them out and follow their analysts on LinkedIn.

[1] https://www.linkedin.com/posts/steven-kiernan_partners-face-profitability-challenges-in-activity-7191326889771184128-BMo4

Chapter 4: Introduction to Value-Based Partnerships Strategy

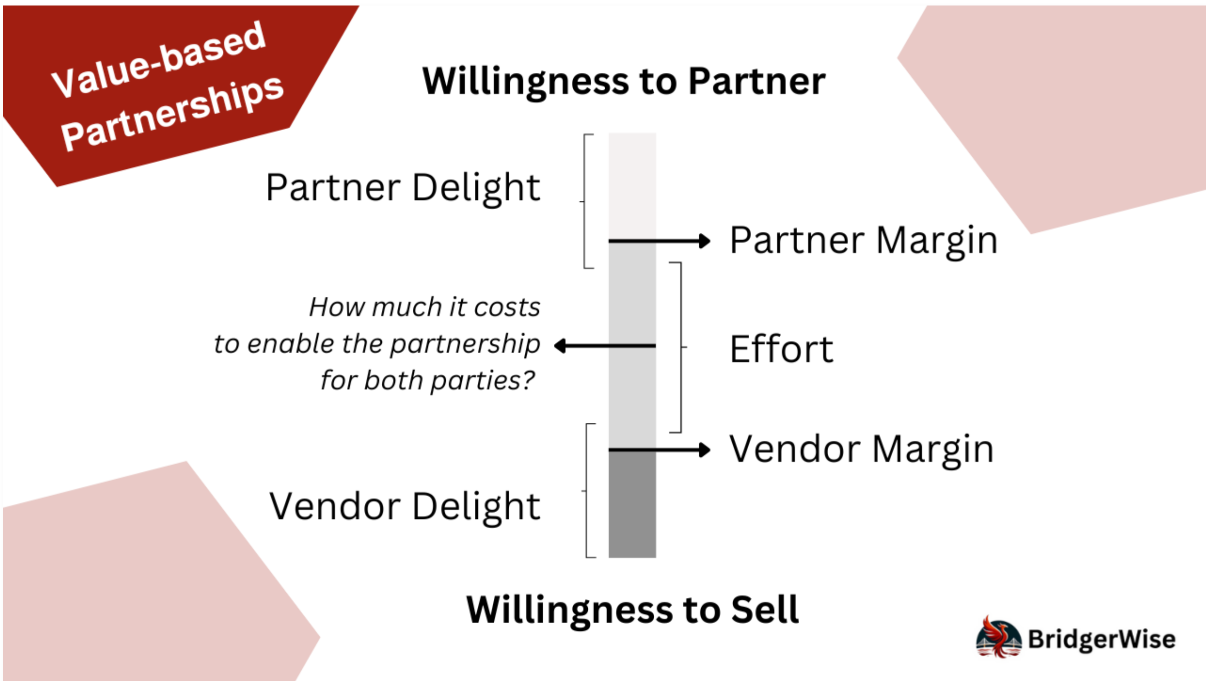
When it comes to software and hardware vendors, as well as service providers, building strong relationships with channel partners can be the difference between success and failure. To optimize these partnerships, vendors can leverage the principles of value-based strategy, adapting the value stick concept to focus on mutual benefits and efforts required from both parties. This re-imagined framework is known as the **Value-Based Partnerships Strategy**.

The core concept of Value-Based Partnerships Strategy is to maximize the value created for both the vendor and the channel partner by understanding and balancing their respective needs and contributions. By redefining the value stick to fit the context of partnerships, vendors can better manage these relationships, ensuring that both parties derive significant benefits while minimizing the effort required to work together.

Moreover, the Value-Based Partnerships Strategy enables vendors to recognize the opportunities to increase the value for them and their partners beyond the financial rewards (i.e., margins) and the initiatives to reduce effort on both sides.

The Value Stick Redefined

In the Value-Based Partnerships Strategy, the value stick is adapted to reflect the dynamics of vendor-channel partner relationships.



Here's how it is redefined:

1. At the top of the value stick lies the channel partner's **Willingness to Partner**. This represents the maximum perceived value a channel partner sees in the relationship with the vendor. Factors directly influencing this will include the potential revenue as well as direct efforts to promote and sell the vendor's solutions. Indirectly, other factors like brand strength, product quality, support and/or training will affect it.
2. At the bottom of the value stick is the vendor's **Willingness to Sell**. This reflects the minimum value the vendor needs from the partnership to make it worthwhile, including costs and desired profit margins. This could be impacted positively by other opportunities that could be created by the relationship.

The stick in-between is the value that is created from the partnerships, which is divided into three key components, each representing a crucial aspect:

1. **Partner Margin**: The top portion of the value stick represents the margin (or profit) the channel partner gains from selling the vendor's solutions. Increasing this margin can enhance the partner's willingness to engage deeply and invest in the relationship.
2. **Vendor Margin**: The bottom portion of the value stick represents the vendor's profit margin from the partnership. Optimizing this margin ensures the vendor's continued interest in the partnership and supports sustainable business growth.
3. **Effort**: The middle section of the value stick depicts the effort required for both parties to work together effectively, creating and capturing value. This includes the partner's effort to integrate, market, and sell the vendor's solutions, as well as the vendor's effort to support the partner through training, resources, and technical assistance.

The result of removing the effort from the margin is what we call **Partner Delight** and **Vendor Delight**, which can affect positively or negatively the *Willingness to Partner* and the *Willingness to Sell*.

The primary goals of the Value-Based Partnerships Strategy are:

1. **Increase Willingness to Partner**: By enhancing partner delight, vendors can increase the willingness of channel partners to engage and invest in the relationship. This involves providing compelling financial incentives, reducing the effort required, and creating additional opportunities for growth.
2. **Decrease Willingness to Sell**: By optimizing operational efficiencies and aligning partner strategies with company goals, vendors can lower their own threshold for what constitutes a worthwhile partnership. This means finding ways to reduce costs without increasing the effort required from partners, ensuring a mutually beneficial relationship.

In the following chapters, we are going to explore the dynamics between the different elements of the Value Stick as a tool to implement Value-Based Partnerships Strategies.

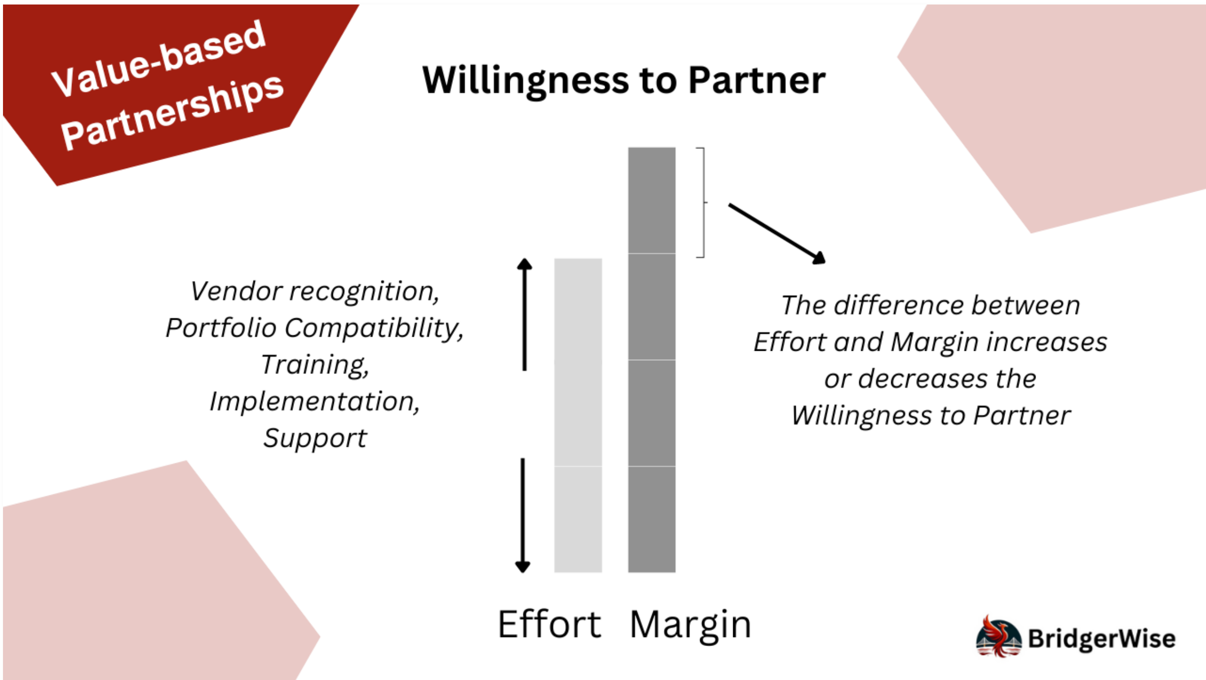
Chapter 5:
Understanding the Balance of Effort

Effort represents the middle section of the value stick and includes the work required by both the vendor and the channel partner to make the partnership successful. This effort can significantly impact both parties' willingness to engage in the relationship.

This aspect of a partnership is often overlooked, with vendors trying to maximize their profit by providing margins to their partners that are as low as possible and that won't create enough value for channel partners to be willing to work with the vendor.

When entering a relationship with a vendor, the channel partner will need to invest time and resources into understanding the market in case they are not present already there, train their staff, adjust their processes, promote the vendor's products to their existing customers, and provide support.

That effort the channel partner undertakes will carry a cost for them, reducing the profit they can generate as per the margin provided by the vendor.



Moreover, if the vendor has a low brand awareness in the market or the current portfolio of the channel partner is not compatible with the vendor's offering, the effort will be higher, and that will reduce the **Willingness to Partner**.

On the other hand, the vendor will need to invest more if there is not a good fit between them and the chosen channel partners, on top of the other costs that they will incur when developing an indirect channel.

Vendors need to create partnerships teams, develop and maintain systems and tools, train their staff and the channel partners as well, promote their brand, and develop their products.

Those efforts can directly affect their delight to enter a relationship with a channel partner, reducing their **Willingness to Sell**.

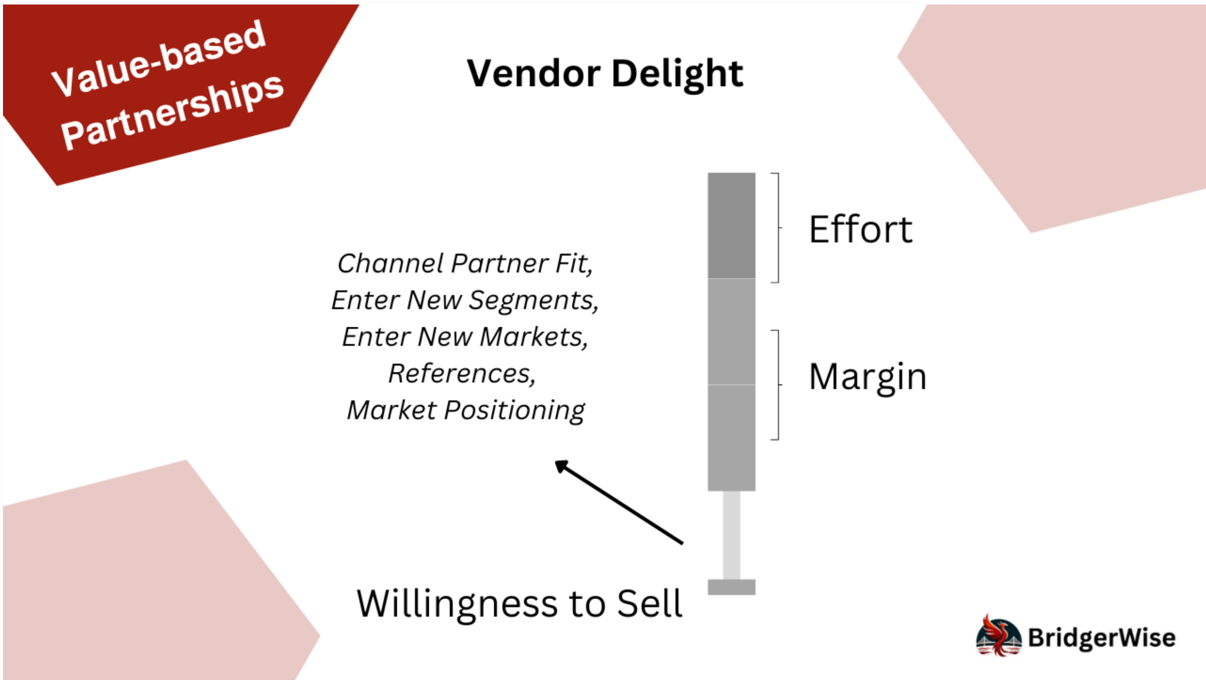
When a vendor does not choose their channel partners appropriately, ensuring there is a good fit between the needs on both sides, they will see their effort increased, their delight decrease, and obviously this will translate negatively into the value they can capture.

If we want the relationship to create the most value for the vendor and the channel partner, the effort required by both parties will need to be as small as possible and don't affect the Vendor or the Partner Delight negatively.

Chapter 6:
Reducing the Willingness to Sell

Willingness to Sell reflects the minimum value the vendor needs from the partnership to make it worthwhile. This includes covering costs, achieving desired profit margins, and accessing new opportunities through the partnership.

The idea of reducing this element of the value stick can feel counter-intuitive at first, but the point is that if you want to increase the **Vendor Delight**, you are extending the stick downwards, and that's the way you affect the results for the vendor positively.



As we mentioned before, vendors tend to focus on how to maximize their margin by reducing the channel partner's margin and focus on optimizing their costs. This is a short-sighted approach that will reduce their profit from the relationship over time.

For the willingness to sell to be reduced as much as possible, allowing the vendor to capture the maximum potential value, the value-based partnerships strategy should enable the partner to generate value with an appropriate balance between their margin and effort, minimize the vendor costs as much as possible, be based on an appropriate fit between vendor and channel partner and, last but not least, generate additional opportunities.

The right selection of channel partners, through an appropriate definition of the vendor's ideal partner profile and subsequently profiling of the potential ones will have a greater impact than most of any other decision made along the way.

The additional opportunities that the relationship can bring will create value through market expansion beyond the partnership itself due to the value generated by the reduction of the willingness to sell.

Reducing the Willingness to Sell becomes then an exercise where the vendor needs to increase the direct captured value - margin minus effort - for both themselves and the channel partner, and then, center in selecting the right ones considering the additional value that can be generated.

The strategies that a vendor can use to increase its own delight then need to be focused on two main goals: **optimizing their operations** and **finding the right channel partners**.

Examples of Operations Optimization

There is many activities that vendors can work on to reduce their own effort, for instance:

1. **Automating Processes**: Implement automated systems for order processing, partner communication, and support. Automation reduces manual work, minimizes errors, and speeds up operations.
2. **Centralized Tools**: Develop a centralized platform where partners can access resources, track orders, and communicate with the vendor. This reduces administrative workload and improves partner satisfaction.
3. **Outsourcing Non-Core Activities**: Outsource non-core functions such as logistics, customer support, or IT services to specialized providers. This allows the vendor to focus on core competencies and reduce operational costs.

The above are just a handful of the typical actions that organizations usually undertake in order to increase the captured value from any transaction. However, in the case of the value-based partnerships strategy, the vendor needs to consider that the optimization activities *shall not affect negatively the partner delight*.

Finding and Maintaining the Right Channel Partners

When operations can't be optimized without a negative impact on important parts of the strategy, as well as when vendors look into generating the highest possible value out of their activities in the indirect channel, the selection of the channel partners that have the right fit with the vendor becomes the most important task of all.

Vendors shall first and foremost develop an Ideal Partner Profile aligned with their overall strategy, and focus on closing partnerships with only those that fulfill the majority of the attributes of such profile. A non-ideal partner increases the overall effort for the vendor, decreases then its delight, negatively affecting their willingness to sell.

Afterwards, vendors must keep creating value for both parties regularly, delivering on their promises, and ensuring their delight is high as well as the partner's, ensuring mutual growth.

Chapter 7:
Increasing the Willingness to Partner

One of the key goals of the Value-Based Partnerships Strategy is to increase the motivation of channel partners to engage deeply and invest in their relationship with vendors. This is achieved by increasing their willingness to partner.

Willingness to Partner refers to the maximum perceived value a channel partner sees in the relationship with the vendor. This element is crucial as it determines the partner's enthusiasm and commitment to the partnership, something we refer to as **Partner Delight**. Increasing it, besides selecting the right partners as we said before, is what will *"make it or break it"* for the vendor.

The areas we need to influence to increase the willingness to partner aren't that different from those we need to consider to reduce the willingness to sell. However, the content of those areas differs significantly.

Firstly, the vendor should provide competitive margins to the channel partners that consist of a percentage of the price paid by customers for the vendor's solutions they procure through the partners and, for example:

1. **Incentive Structures**: Implement tiered commission structures that reward partners for achieving higher sales volumes, which could motivate partners to increase their efforts and sales activities.
2. **Performance Bonuses**: Offer bonuses or additional rewards for top-performing partners. This can be in the form of cash bonuses, trips, or exclusive access to other products, services or tools.
3. **Volume Discounts**: Provide better margins on bulk purchases or large sales to encourage partners to push for larger deals.

Then, the vendor should consider ways to reduce the effort the channel partner needs to put into the relationship, as the lowest it is, the higher the Partner Delight will be. This can be, for instance, achieved by:

1. **Product Quality**: Ensure the products and services crafted by the vendor deliver on their promises and are easy to implement and operate, satisfying the demands of the channel partner's customers.
2. **Streamlining Processes**: Simplify the processes for ordering, integration, and support. User-friendly platforms and clear procedures reduce the administrative burden on partners.
3. **Balanced Training Requirements**: Offer the right amount of training needed to equip partners with the necessary skills and knowledge without overwhelming their resources.

4. **Quality of Service**: Provide pre and post-sales support of high quality to assist partners with any issues. This ensures that partners have a direct point of contact for quick resolution of problems.

While the above might be sufficient for established vendors that enjoy of high brand recognition and demand, others need to find ways to increase the willingness to partner even further.

This is because a new or minor vendor needs to overcome obstacles like low brand recognition, insignificant demand for their products and services, and a small addressable market.

In the above cases, the channel partners will need to see additional opportunities for growth (*directly, or indirectly by offering related services*), even higher product and service quality, and a closer relationship with the vendor that opens even more prospects to have a partner delight high enough to commit to create joint value with the vendor.

Increasing the Willingness to Partner is a critical component of the Value-Based Partnerships Strategy. By focusing on enhancing partner delight through competitive margins, reducing effort, creating growth opportunities, and fostering communication and collaboration, vendors can build strong, loyal, and high-performing channel partnerships.

The potential revenue they can generate (or protect, in some cases) is the most important factor for channel partners to enter into a relationship with a vendor. These strategies ensure that both vendors and their partners derive maximum value from the relationship, driving sustainable growth and success and creating and capturing enough value to satisfy both.

Chapter 8:
Implementing the Value-Based Partnerships Strategy

Considering the Vendor and Partner Margins as well as the Effort component of the Value-Based Partnerships Strategy, and bearing in mind the opportunities to impact positively the Vendor and Partner Delight, the remaining area to explore is how it should be implemented.

Assuming the Vendor already has a strategy for its organization in place, the recommended steps to bring the Value-Based Partnerships Strategy to life should be the following:

1. Estimating Vendor and Overall Effort
2. Clarifying the Expected Vendor Margin
3. Creating the Ideal Partner Profile
4. Understanding Partner Effort
5. Defining Potential Partner Margin
6. Exploring Opportunities to Increase Delight

The first two steps need to, obviously, go together and will depend on what is the profit expected by the vendor.

We are going to explore each one of the above in more detail below.

Estimated Vendor and Overall Effort

It is essential to estimate the effort required from the vendor to support the channel partner. This step involves identifying the resources, time, and activities needed to establish and maintain the partnership. Key components include training programs, technical support, marketing assistance and budget, and ongoing relationship management. The goal is to comprehensively understand the vendor's investment in the partnership to ensure it is aligned with the expected returns.

Accurately estimating vendor effort helps to already understand areas where additional optimization might be needed. Moreover, this will also determine what additional effort might still need to be undertaken by the channel partner. The combination of both is what will be the overall effort that will be in the middle of the value stick.

Clarifying the Expected Vendor Margin

The next step is to define the value that the vendor expects to capture from their partnerships strategy and starts by setting what margin they are targeting. Knowing already the required effort, the vendor margin should cover that plus the minimum profit the vendor needs to achieve from the partnership to make it viable and what should be the markup on top of it to cover the vendor efforts.

The vendor margin will then determine how much of the value generated by each transaction is available to be distributed with the channel partner.

Defining the Ideal Partner Profile

Once we have defined the overall effort, the part of it that should be done by the vendor, and the expected margin, we can create (or review) the **Ideal Partner Profile** (IPP), a critical step in ensuring that the partnership will be mutually beneficial.

The effort we expect to allocate to the partner will help to identify the characteristics and capabilities of the channel partners that are most likely to succeed with the vendor's solutions. Not only that, focusing on channel partners that fit the IPP will reduce the effort of the vendor and the partner themselves, maximizing the value capture.

The goal is to select partners who are well-positioned to drive significant value from the relationship, reducing the effort required for onboarding and support while maximizing the potential for successful collaboration. A well-defined partner profile helps in targeting and recruiting the right partners, increasing the overall effectiveness of the partnership program.

Additional Content

Explore more about Ideal Partner Profile and Partner Personas in this article from BDPaths, *"Business Development 101: Building Your Ideal Partner Profile"*

Understanding Partner Effort

Having a good grasp of the effort required from the partner is crucial for building a realistic and effective partnership strategy.

This step involves evaluating the time, resources, and activities the partner needs to invest to successfully market, sell, and support the vendor's solutions.

Components to consider include training, integration with existing solutions, the role of the partner in the implementation, sales and marketing resources and activities, and post-sales support.

The goal is to identify potential challenges and areas where the vendor can provide additional support to reduce the partner's effort, on one hand, and what are the potential barriers to growth the partner can encounter, like the demand for the vendor's solutions.

A clear understanding of partner effort ensures that the partnership is structured to minimize friction and maximize productivity.

Potential Partner Margin

As we already know by now the vendor margin and the overall effort that the partnership will require, the potential partner margin already has a lower boundary, considering that it can't be higher than what the vendor requires to support and develop their indirect channel.

Moreover, the partner margin needs to consider what their effort is as well, as they need to generate a profit that motivates them to work with the vendor. In this aspect, the price of the solutions plays a strong role in defining the margin: the lower the price the customers pay, the lower the income per customer for the partner, which will require higher incentives.

Defining the potential partner margin is about determining the financial incentives that will be offered to the channel partner. This margin represents the gross profit the partner can expect to earn from selling the vendor's solutions.

The goal is to create a compelling financial proposition that motivates the partner to actively promote and sell the vendor's products. This step involves analyzing market conditions, competitive offerings, and the partner's business model to ensure that the margin is attractive and competitive.

By offering a well-structured margin, the vendor can enhance partner engagement and drive higher sales performance.

Exploring Opportunities to Increase Delight

We get to this step once we have the base for the Value-Based Partnership setup, with margins defined for both Vendor and Partners and a strong understanding of the Effort both will incur.

The goal is to increase the delight of the Vendor and/or Partner to decrease the Willingness to Sell and/or Increase the Willingness to Partner. We should have potential ideas even before we start to set up a partnership, and those should relate to the vendor overall strategy as well as with the ideal partner profile.

The vendor should focus on increasing the Partner Delight by monitoring their satisfaction with the existing processes and having ongoing activities to improve them. For instance, enhancing the procedure to implement the vendor's solutions to reduce the effort of the partner or investing in brand recognition that will drive additional business for the partner will be some of the ways to increase the Willingness to Partner.

When it comes to the vendor's own delight, this will come from how they can use the existing partnerships for capturing further value. Satisfied partners can serve as references to recruit others, new solutions can be sold through existing partners to their customers to generate more value, and a partner advisory board can provide valuable insights for future product and business development.

The goal is to create a partnership environment where both parties feel valued and motivated, leading to higher levels of engagement, loyalty, and success. By focusing on delight, the vendor can foster stronger relationships and drive long-term value creation.

Chapter 9:
Transforming Current Partnerships

The Value-Based Partnerships Strategy framework can also be used to transform already existing partnerships. When focusing on the value created for both them and for the channel partner, the vendor can understand what the reasons behind unsatisfactory performance are and how to generate additional value.

When applying the value stick to existing partnerships, the vendor should look to answer these questions:

1. Are we generating enough opportunities for our channel partners to capture value?
2. Are our margins generating enough profit for our channel partners considering the effort they need to undertake?
3. What can we do to increase the partners delight with our products and services and their opportunities to generate business through them?
4. Can we capture more value for ourselves by decreasing our effort and maintaining engaged channel partners at the same time?

The answers to those question will guide the vendor in assessing the current partnerships, and identifying areas where the value stick can be optimized.

Benchmarking and **Profiling** are outstanding tools in this process that can help to identify what partnerships are delivering value - and why - and look for others that share similarities.

Vendors should analyze their channel by benchmarking on performance indicators that will separate successful partners from the rest, and then review those that are not delivering as expected against their IPP by profiling them and understanding what the reasons behind the low results are.

The Ideal Partner Profile will be key to understand if the vendor is the right fit for their current channel partners, and how to focus mostly on those that are compatible with it and with the opportunities ahead.

As a result, new strategies to create and capture more value for the partnerships can be designed. The right distribution of effort and margins will, again, be the base, and the goal of maintaining high vendor and partner delight remains.

Afterwards, the vendor should continuously monitor the performance as well as the potential opportunities, implementing regular feedback loops with partners to understand their challenges and opportunities for improvement.

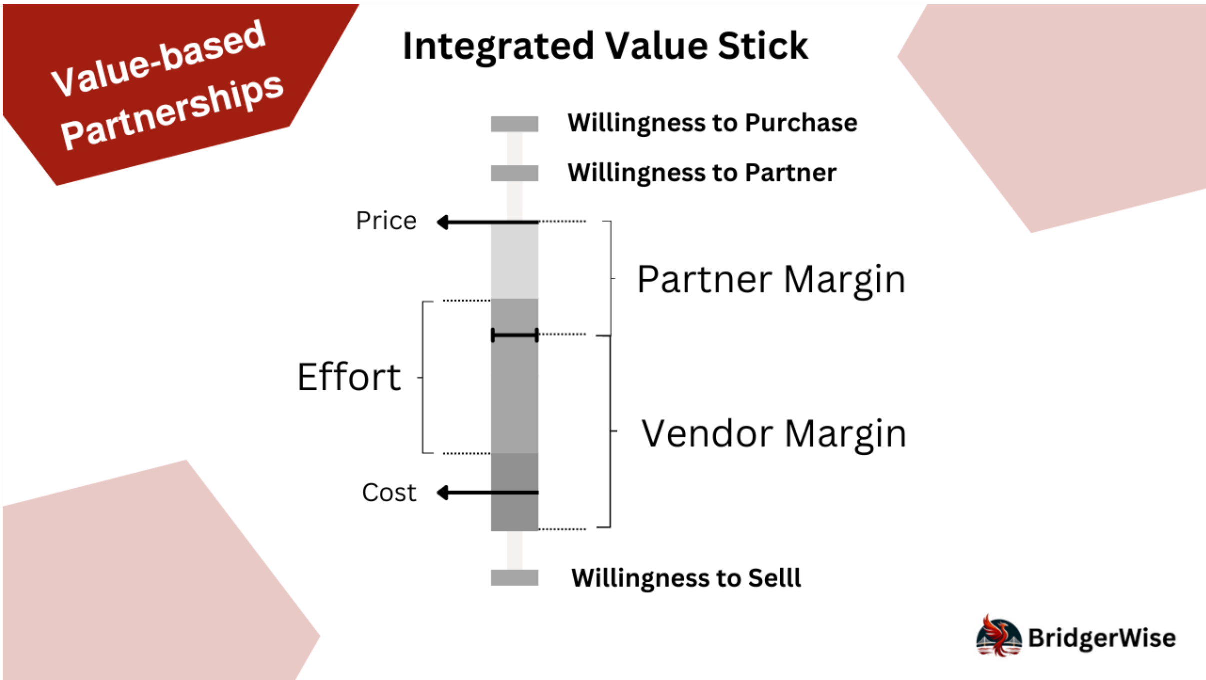
Chapter 10:
Integrating the Value Sticks

While it can be understood and applied independently, the **Value-Based Partnerships Strategy** should be seen as a part of the overall strategy of a company, which is focused on the value generated through the channel.

Even though we haven't explicitly mentioned it so far, the customer is logically a part of the equation, the overall Value-Based Strategy of the vendor. What we have done before is to zoom into a portion of the value creation chain of the organization and re-imagined the concept of the **Value Stick** with partnerships in mind.

At the end of the day, everything derives from the same value that is captured when a vendor sells to an end customer, directly or through a channel partner.

We can adapt the original value stick concept to include the partner, as we can see in the chart below:



This integration means that changes in the **Willingness to Purchase** - from the end customer - will affect the **Willingness to Partner** and vice versa, as the increase or decrease of the **Customer Delight** has an impact on the **Partner Delight**.

Increasing the Partner Delight to impact the Willingness to Purchase

When a vendor chooses to develop a Value-Based Partnerships Strategy and focus its attention on the increase of the Partner Delight, this approach can subsequently influence positively not only the Willingness to Partner, but also the Willingness to Purchase from the end customer.

This can happen, for instance, because:

1. Channel partners are the trusted advisor of their clients, meaning that when they are engaged and confidently rewarded, they can transfer that conviction to their customers.
2. Trained channel partners will be able to deliver better service to their customer, which will then increase their satisfaction, and create value for everybody involved.
3. Well-funded channel partners, who receive appropriate financial rewards (i.e., margin), can dedicate additional resources to become more efficient in their relationships with their customers, improving the capture of additional value.

Vendors that have decided one of their primary objectives should be the increase of Partner Delight, will then indirectly be increasing the customer delight too.

Increasing the Customer Delight to impact the Willingness to Partner

The same applies to the activities that the vendor can carry out in order to increase Customer Delight. Besides the obvious approach of product and service quality, a vendor can increase the Willingness to Partner by improving the Willingness to Purchase from the clients.

Vendors that invest in brand recognition, feedback loops, community building, outstanding service, and other similar activities centered around the end customer, will reduce the Effort for channel partners and increase their delight, as the end clients will then be more receptive to consider the vendor's solutions.

Any positive impact that the vendor activities have on the delight of customers will generate more opportunities for channel partners to create value for everyone.

As we can see, developing a Value-Based Partnerships Strategy that creates value for everyone involved - including the end customer - can have positive effects in the implementation of the overall strategy chosen by the vendor.

Consequently, this framework becomes a tool that can be used to understand and influence better the dynamics of vendors and channel partners, and at the same time, visualize and analyse how that can also affect the overall approach to value creation and capture of the vendor.

In a world where partnerships play a highly significant role, like IT or Cybersecurity, considering a Value-Based Partnerships Strategy is the clear way forward to ensure success.

Final Thoughts

If you got this far, you are already on the right track to create and capture value through partnerships.

Applying the Value-Based Partnerships Strategy in real life involves understanding how the value is to be shared by vendor and channel, and how the effort of each party influences their potential success. When designing new partner programs or analyzing existing relationships, this framework can improve the understanding of partnerships professionals regarding what makes a partnership thrive.

Minimizing effort, maximizing margins, and creating delight are the ways to ensure a high willingness to partner. Vendors who focus on these elements while maintaining a positive willingness to sell can build a prosperous partner ecosystem that drives mutual achievement and growth.

Embracing the Value-Based Partnerships Strategy will lead to the type of mutually beneficial relationships that are key for any long-term, successful partnership.

Let's stay in touch

I regularly publish content about partnerships, leadership, business, strategy and cybersecurity on my LinkedIn profile and my Substack newsletter, so I invite you to check them out.

As this is the first version of the Value-Based Partnerships Strategy, I will be working on new editions expanding it, that will be published on the **BridgerWise** website and LinkedIn page under the Resources section, where you will also find other tools.

Lastly, I invite you to follow the company where I currently serve as Chief Revenue Officer, Excalibur, where we are deploying a 100 % channel-based strategy with the aim to create value for ourselves, our partners and our customers, following the Value-Based Partnerships Strategy framework.

Contact me on LinkedIn

I regularly post content about partnerships, strategy, leadership, business and cybersecurity on my LinkedIn page. I look forward to be in touch with you and hear your feedback about this e-book.