

ICSC Case Competition 2015

“Ours or Theirs”: NetSuite’s Internal Struggle to Balance Channel Partners

The weather was just beginning to show signs that another Boston winter was coming soon. One Bostonian, Kelly Swanson, was headed home from her office located in Netsuite’s east coast headquarters when her cell phone rang. She glanced down to see that it was one of her district sales directors calling from Atlanta, GA. “It’s Friday, surely this can wait until Monday,” Kelly thought to herself. Her phone rang again as she transferred from the green line to the orange line train to head to her apartment in Oak Grove. She was just able to jump on to the train before the doors closed. “That was lucky,” she thought as she settled in for the 30-minute ride to the north side of Boston.

Kelly checked her phone to see that the same Atlanta district director had called again. “Maybe I should call him back,” she whispered as she checked her watch to see that it had only been 15 minutes since the last call. It was important for Kelly to get off to a good start with her directors since she had only been the East Coast VP for small business accounts for 30 days. Kelly had 5 district sales directors that reported to her with each of those responsible for roughly 8-10 sales reps.

Kelly had a bad feeling as she hit the “call” button just under the name of Jim Hargrove, the Atlanta district sales director. The line rang twice before an anxious voice with a strong southern accent uttered, “Kelly, thank goodness you called me back. I know it’s late in the day on Friday but we have a big problem. Hopefully you remember that we were working on a deal with Infinity Packaging here in Atlanta. This is the deal where you came down and went to dinner with the Chief Operating Officer (COO) last month. Do you remember this one?”

Kelly acknowledged that she did indeed remember meeting with the COO of Infinity but before she could say anything else Jim cut her off, saying, “Well I’ve got good news and I’ve got bad news. The good news is Netsuite got the CRM deal with Infinity.”

“That’s great,” Kelly said, “so what’s the bad news.”

Jim paused, “We didn’t sell them our software. A local reseller, Cloud-Guide Technology, won the deal selling our software. And the worst thing about it is that they sold it for 10% less than we offered it. Kelly, this has to stop. This is the fourth deal this month that my reps lost to a reseller who was offering the NetSuite product to the same customer. What am I suppose to tell the reps? They are becoming really discouraged with this issue. They do all the right things...meet with the customers, build relationships, develop the specifications and proposals and then right at the last minute, whoosh, the resellers come in and under bid us on the same solution. We do all the work and they get the sale. It’s not fair.”

Jim finished up by asking, “I’ve heard from other district directors that they are struggling with similar issues. Is there someone at corporate you can talk to about this?”

Kelly apologized to Jim and promised that she would spend the weekend thinking about it. She also explained to Jim that this is a tough, complicated issue and that it would take some work to get it straightened out. She wished Jim a good weekend and promised that she would get right on it first thing Monday morning.

The problem weighed on Kelly the rest of the evening as she got ready to go to a small cocktail party being hosted by a friend who lived a few buildings down from her own. Despite the chitchat going on at the party, Kelly found herself thinking intently about the various options that she could explore on Monday that might solve the reseller problem. Suddenly two new faces wandered into the party and Kelly was soon cornered in the kitchen making small talk with these two people that she had never met.

“So what do you do for living,” Kelly asked the unfamiliar partygoers. “We work for a consulting company that specializes in sales force effectiveness.” Kelly perked up. “Oh, tell me more about that” she inquired. “Yeah, most people have never heard of us, but we help

companies struggling with sales force issues. You know things like compensation, training, recruitment and selection...any thing to do with helping the sales force be more effective and more efficient at the same time,” was the response to Kelly’s question.

Kelly was quick to follow up, “How about problems with channel partners? Have you ever helped a company that was struggling with balancing both an internal sales force and external channel partners that sell the same products?”

One of the partygoers jumped in “Yes, as a matter of fact, helping companies with channel issues is something that we help with all the time. Why do you ask?”

Kelly gave a brief overview of the issue she was having with Netsuite’s internal and external sales channels. She mentioned that it was very complicated and asked if her two new friends would be willing to meet for coffee the next morning. “I know tomorrow is Saturday morning but is there anyway we can talk more about it? It is really important that we get started on addressing this.” Both of the partygoers said that they were available and the three of them agreed to meet at a small coffee shop just a few blocks from the apartment where the party was being held.

The Coffee Shop Meeting

As you might imagine, the two partygoers who met Kelly the night before are you and your ICSC partner. You both arrived at the coffee shop a few minutes early and agreed that one of you would take notes while the other asked Kelly some key questions to learn more about the situation. Below are the notes from the meeting in question and answer style...

How is your division currently organized?

It’s a pretty simple organizational structure. NetSuite segments the market based on size of the customer and geography. So there is one division that handles customers greater than 100 employees (Enterprise Segment) and the other handles customers with fewer than 100 employees (The second segment is Kelly’s group, The Small Business Segment). Kelly’s east

coast division has offices in Atlanta, Boston, Raleigh-Durham, Miami and Washington DC. Each office has one manager and 8-10 sales reps.

What's the typical profile of reps in the small business division?

Most reps have 3-5 years experience in the division. They are typically hired right of college. The majority of sales associates are well trained in enterprise and cloud-based software. They also go through a very intense 6-month training program when they hired where they get technology, product and sales training.

Do they get any training on how to work with resellers?

No.

What's the typical profile of the reseller sales people?

Most reseller reps have a minimum of 10 years in sales, however, very few have the level of enterprise software knowledge that the NetSuite reps have. In fact, many reseller reps come from outside industries like copier sales, insurance, or office product sales. Resellers hire reps because they are great at selling but not necessarily great at software selling. This has also been a bit of an issue as they often say things to the customer that aren't always true.

What types of training does NetSuite provide for resellers?

Because NetSuite has no formal partner certification or training program a reseller can misrepresent the NetSuite brand to a prospective client, have a bad reputation in the area with a failed project, or mis-estimate the pricing. Resellers can also sell competitor products if they choose so NetSuite does not train partners very intensely since it could be used against the NetSuite Sales team in other deals. Overall, the only training they get is a web-based course on the product and a two-day product training here in Boston. However, they are not required to come to the two-day training event. Usually, an expert at the reseller also leads some training about different cloud-based CRM solutions for the reseller's new reps. However, there is a lot of variance in the quality of this training.

So who does a reseller call if they have questions once the reseller becomes the key contact with the customer?

They are suppose to call the Channel Partners Manager who has 1 or 2 people that can help with questions. Ultimately, the resellers just have to figure it out on their own. Over time, the resellers learn the product and how to sell it through trial and error. Some really gutsy resellers will actually call or email the local office and ask some questions. Some of the NetSuite reps play nice and try to help the reseller out. But most just ignore the request for help. Kelly has heard of one NetSuite rep that basically cut a side deal with the reseller and said that they would help but only if the reseller paid them some money; completely under the table deal. "Its clearly getting out of control" is Kelly's quote.

Why did NetSuite engage with resellers to begin with?

NetSuite's first priority (when the company first started) was companies with more than 100 employees; the Enterprise Segment. All of NetSuite's early resources went into landing sales in this target segment. Over time, the company realized that it was missing a big market in the Small Business Segment. But obviously, there are 1000's of small business in this segment so there was no way that NetSuite could hit them all. So they launched the five Small Business offices with the expectation that all sales to this segment in these five key markets would flow through the internal NetSuite sales team. All other sales would come through resellers that could service all of the other smaller cities throughout the eastern US. Unfortunately, NetSuite leadership signed agreements with resellers in the five key markets because the resellers promised that they could deliver millions in additional revenue if they were allowed to offer the NetSuite product. Finally, NetSuite has signed some reseller agreements because they cater to a very specific industry like healthcare or financial companies. Customers in some industries really like dealing with a software vendor that specializes in their market.

So what is the agreement with the resellers when it comes to both a NetSuite rep and a Reseller rep calling on the same customer at the same time?

Once a reseller identifies an opportunity with a potential customer they must register it with NetSuite. A NetSuite channel manager will then check to see if a direct NetSuite sales

rep is engaged with the account. If there is no duplicate engagement the reseller is free to work the account, if there is duplicate engagement there must be a preference call with the prospective customer to determine if NetSuite or the reseller should continue the sales cycle. The problem is that resellers are very quick to mention the low prices that they can offer so customers will frequently choose the reseller because they learned about the product from the NetSuite rep but want to choose the reseller because of low prices. Its sort of like customers exploring products at Best Buy, only to go home and order it off of Amazon at a cheaper price.

What does it take to become a NetSuite Reseller?

The resellers are composed of any company that qualifies through NetSuite's channel sign-up process. Today there is no real reseller certification process. They simply fill out a basic questionnaire. Resellers can prospect any account in any territory, vertical, size, or geography. Most resellers sell other competing products like Oracle and Microsoft in addition to NetSuite. They choose the product that they feel fits best with a customer's operating environment.

So NetSuite Reps don't really have a way of protecting an account that they have been working with over the past few weeks or months?

That's correct. It can be very confusing for customers because resellers will often wait until they have had several meetings with a customer before they register it with the NetSuite Channel Manager. Then the customer gets this awkward phone call from the NetSuite Channel Manager asking them to pick which team they want to keep working with. Its very confusing for the customer.

Why can resellers sell the NetSuite product so cheap?

NetSuite gives resellers a very deep discount, a wholesale price, which they can mark-up to sell the software to their customers. Sometimes they will sell the product at close to "cost" because they are bundling NetSuite with other software so they make profit by selling in high volume.

Do NetSuite Reps get any commission if the reseller sells a NetSuite product to a customer that the NetSuite Rep was engaged with?

No. So again, the NetSuite reps often do most of the work and the Reseller gets the sale with no reward going to the NetSuite rep.

How are NetSuite's Reps paid?

They receive a base of \$45,000 to \$55,000 and commissions of 3% of total billings. A billing is the monthly revenue that is brought in by the monthly license fees that customers pay based on how many employees are using the software. Most reps' average monthly billings are between \$40,000 and \$100,000 per month; really outstanding reps have monthly billings of around \$200,000 month.

What percentage of NetSuite Small Business Division sales come from resellers versus the internal NetSuite sales force?

When the division first started (10 years ago), 90% of billings came from the NetSuite sales force and only 10% came from resellers. Now it is closer to a 70/30 mix. This year, Kelly's division is on pace to have roughly \$175,500,000 in total annual billings (this number includes both internal and reseller billings for the year). The gross profit margin on sales landed by NetSuite reps is around 50%. The gross profit margin on sales landed by resellers is around 35%.

How bad is the problem? What's the impact of this issue on the sales force?

Kelly said that she's not really sure what the total impact has been so far but that she has received several phone calls from district managers complaining about the issue. She also thinks that at least ten sales people have quit over the issue in the last twelve months. But it is also tough to deal with because the resellers make up such a substantial amount of revenue. So making them angry could mean a dramatic loss in future billings. She also thinks that at least one of her district directors is ready to quit over the issue.

Next Steps

You and your consulting partner thank Kelly for the meeting. “So, do you think you can help?” Kelly asks. You both say yes and are excited to get started. “What makes the most sense as a next step?” One of you asks Kelly. Kelly says that she’d like to set-up a meeting with the VP of Sales for all of Netsuite as well as the head of Channel Partners. She says that in this first meeting, she’d like for you to present your ideas for how to get this problem straightened out. She recommends that you be as specific as possible but that you also really need to have your “ducks in a row” since she thinks you’ll only have about 15 or 20 minutes with these important NetSuite executives. She ends the conversation with “if they like you, they’ll probably bring you back for future discussions.”