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## **Checklist: Channel Partnering in Europe**

**How to market your products in Europe via Channel Marketing 040329jp**

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## CHANNEL PARTNERING IN EUROPE: A CHECKLIST OF ISSUES

*Having set your sights on expanding into Europe, how should you approach the business of marketing, distribution, and channel partnerships? Are the established practices in North America relevant? The answer: in many ways yes, but in many other critical ways, no. Jude Pinto, a consultant with 1Step2Europe, goes through a checklist of issues involved in a European marketing effort, and the areas of similarity and difference in building channel partnerships in Europe....*

1. Europe is not a single entity or culture - the European Union and Euro notwithstanding - but a community of different nations, with different histories, different mentalities and, despite efforts at harmonization, different legal frameworks. What works well in Britain, for instance, may not work as well in France or Germany. You need to understand the differences in mentality between French, German and British decision-takers.
2. European technology markets have evolved their own channels based on local market forces and ways of conducting business. Locally based customer service is more important than in the U.S., and is more heavily regulated. Don't approach European channel partners without a full understanding of the legal frameworks in their countries.
3. There are legal benchmarks that virtually prohibit channel exclusivity. For the most part, channel exclusivity is a thing of the past. Aggressive marketing, strategic alliances and the Internet have all contributed to the new channel landscape.
4. If you try to impose your tried-and-true American Channel Partner Agreement on a European distributor, you could land up in trouble, legally and financially. The Europeans are regulation-conscious, and have a different perspective on monopoly and competition from what North Americans are used to.
5. The laws relating to Competition and Anti-Trust are stricter in Europe, and failure to comply could cost you millions. If you have a market share of over 30%, you will be subject to the heaviest scrutiny. End-user price fixing, and restrictions on distributors from selling into certain areas or target groups, are a definite no-no.
6. In matters relating to Liability and Warranty also, European laws are stringent. Germany clamps a minimum warranty of 2 years on sale of certain software products. Faulty installation manuals can be judged as a product deficiency. In the UK you can't limit liability for death or personal injury caused by negligence. And what is considered fair in one country may be unfair in another.
7. European laws have generally strengthened the position of commercial agents in relation to their principals. In Belgium, you may have to pay compensation to a distributor upon termination of an indefinite, exclusive contract performed within Belgium. It makes no difference if the contract says that another law will apply. It will not. In many European countries, agents can benefit from mandatory minimum notice periods of upto 3 months, and are entitled to compensation on termination of the agency agreement, even if the agreement is terminated on notice, or a fixed period expires! Continental European legal systems are more favourable to distributors than the legal systems of UK, Scandinavia and Switzerland.
8. Watch out for quirks in European intellectual property laws. Licensors cannot pile in prohibitory clauses banning reverse engineering, decompiling, etc., as is commonly done by US licensors. European legislation permits limited access to licensed software to ensure interoperability with a licensee's existing system. It is not possible to exclude this right.
9. Though the laws protecting consumers are at various stages of implementation, they are generally strict. So when your channel partners sell to consumers, take care to see that they comply with the consumer protection laws in that area.
10. A variety of European laws now regulate the processing of personal data and data privacy; so your channel partners will need to comply with the local data protection laws.
11. Before you finalize your channel mix, you need hard data on the fundamentals of the market you are entering. Customers in similar segments but different European countries may behave differently. You need profiles, for each target country, of customer perceptions, purchase habits, purchase ecosystems, and pre- and post-sales handholding and servicing practices.
12. End-user ecosystems may be different from what you are used to. Americans like to sell aggressively, make decisions quickly and trust the Internet. They like to get the deal done. Many European cultures have different approaches. In some, personal relationships are more important. In others, a thorough technical understanding is critical.
13. Get a clear picture of trends in distribution and channel partnering in the target countries. Find out what it costs to



sell and to serve customers through each channel. Do a cost-benefit analysis. What level and pattern of rewards are proper for each segment? Study the complexities of the new channel partnering environment in Europe, and how best to use the same. The traditional dealers, resellers, VARs and systems integrators have been supplemented by diverse intermediaries who influence brand or product choice, like consultants, web portals, special service providers, outsourcers and the like.

14. Another trend: as systems and services become more important, channel partners depend more heavily on revenues for integrating the product into a larger system. Pressure on margins, high costs of accreditation, the threat of direct sales (which take up half the West European market), market consolidation, rise of the grey market, channel conflict and e-commerce are areas of concern to European channel partners, who look to revenues from services and solutions as a way out.
15. In devising a channel mix, you may well use different approaches towards broadline and value-added distribution. The European channel market is rapidly dividing into two: systems integrators and VARs who work with IT vendors on services and solutions, and smaller resellers who may not have the resources to do so. HP adopts a two-tiered approach to distribution - rationalising its broadline approach to commoditised hardware and exploring opportunities with channel development partners for solutions sales.
16. Channel partners are most enthusiastic about companies that leave more work to them. One firm that has managed this task well is SAP, which has a clear value proposition for both clients and partners. SAP leaves 90% of implementation and other services revenue to partners. This makes it much easier to get partners on board. At the commodity level, the key issue is to generate sufficient demand to justify carrying delivery expertise and overhead at the local area.
17. In Europe, as elsewhere, the Internet has widened the market and pared excessive product markups while complementing the channel structure. It has also enhanced the channel relationship. Many companies list and link to their channel partners. Some have created an Intranet to support their channel partners. On the downside, the Net has sometimes led to channel conflict and contention. You must decide how to integrate e-business channels with your chosen distribution channels.
18. Once you decide on the fundamentals - which channels to use, what roles they play, the role of the Internet, and the rewards pattern, then the issue of linking up to your European channel partners on a regular basis arises. You must research the kind of data and information they want, and how best to interact with them. One very first approach is to send them e-mails. Checkpoint, Cisco and others are examples of companies who try to interact with their intermediaries and customers in a bidirect channel. They offer end of life announcements or news by electronic media only. So the intermediary and the end user is forced to visit the website regularly.
19. Web-based interaction is just one element in an overall communication strategy to reach senior managers in your European channel partners. Channel is a people's business, and it is essential to have more occasions to meet (at workshops, seminars etc.). Forums where partners can meet, discuss the market and how they work with you, and explore ways of improving things, are desirable. Going forward, you can organize broader seminars and events, and work with the important intermediaries in your industry in Europe, to influence perceptions on your product.
20. In your interactions with them, and with the business community, you will have to work to deliver a coherent message, so that different groups are not given different messages. The key challenge is to work out a successful hierarchy of value propositions, moving from the overriding brand proposition down to the single account or service proposition, while using the right media to communicate each one.
21. Be aware of what is required of you. According to Gartner Group, channels look for the following characteristics from U.S. vendors: trust, consistent vendor behavior, fair pricing (margins), training and accreditation support, proper lead management, easy systems (reliable business solutions), and regular and relevant communication. Trust can be looked upon as a combination of competence, honesty and benevolence. Partners need to believe that, at some level, you have their best interests at heart.
22. Be aware also that you are in competition with other vendors. Unless suppliers have a monopoly position, they have very little real power over their resellers. Unlike employees, partners can simply switch from one supplier to another. Most distributors and resellers don't have much time, and what time they do have, they want to invest in maximising profits.
23. Assess the effectiveness of your channel partners, and do channel ROI to get to grips with the return on your channel investments. There are companies which deliver performance metrics for the purpose. Apart from ROI and product sales, customer satisfaction, new customer acquisition, customer retention and growth are performance indicators that may be useful.



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The information contained in this document is of a general nature. Should you require further advice for your particular business requirements, please refer to the contact details below: **Steve Palladino, sPalladino@1Step2Europe.com, Ph: NJ (973) 944 4618 International Key Account Manager**

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