

WHITE PAPER

---

## **Build or Buy**

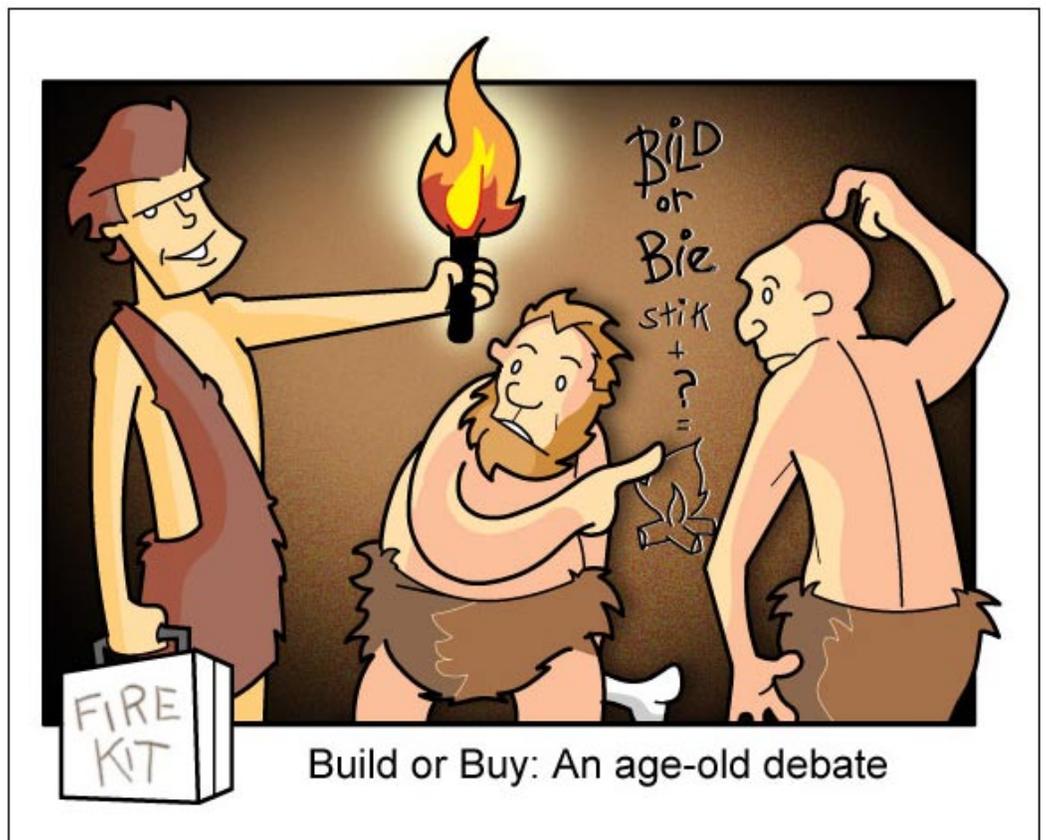
*Assessing the Gaps, Risks & Opportunitites*

## Introduction

Companies today face a significant challenge in growing sales and squeezing out more margin across multiple sales and distribution channels, including e-commerce, resellers, retail and direct accounts. With over 60 percent of high-tech revenues either sold, recommended or influenced through a channel, according to leading market analysts, establishing successful partnerships is critical to reaching customers. Technology solutions that deliver online self-service to business partners have emerged as a must-have infrastructure for competing effectively in this environment. These solutions, called channel management or Partner Relationship Management (PRM), deliver a meaningful return on investment more often than any other category of sales or marketing software, according to leading IT analyst firm Gartner, Inc.

Companies have taken a variety of approaches to establishing their partnering systems, ranging from custom IT development of portals to purchasing out of the box commercial software. This white paper outlines the risks, benefits and critical business issues that drive build vs. buy decisions, while exploring the range of approaches that are succeeding for companies and technology providers.

## The build vs. buy decision: An age old conundrum



The build vs. buy dilemma has been with us since the earliest days of packaged enterprise software. Back then, IT departments would regularly debate topics such as whether to develop a customer general ledger tool or buy one from IBM or a start-up like SAP. Times have certainly changed over the past four decades, but common wisdom for selecting to build or buy an enterprise application then and now has remained consistent. It is as follows:

When to Build	When to Buy
<ul style="list-style-type: none"> <li>▪ When applications provide unique, strategic differentiation and are not available through a packaged offering</li> <li>▪ When custom development and maintenance costs are significantly lower than packaged software license and maintenance fees</li> <li>▪ When projects have a low risk of failure</li> <li>▪ When custom systems extend existing software investments to meet specific business needs, which commercial vendors cannot produce quickly</li> </ul>	<ul style="list-style-type: none"> <li>▪ When using an “out of the box” product allows internal developers to focus on creating unique differentiators rather than building basic components</li> <li>▪ When a packaged solution generates higher quality, more robust features and greater reliability and scale at a lower cost than maintaining custom solutions</li> <li>▪ When the complexity and risk of building and deploying a custom application is unacceptably high</li> <li>▪ When you want to automate non-core business functions</li> </ul>

As ERP and CRM solutions increased in maturity, they also increased in complexity – and the build vs. buy decision became nearly automatic for corporate IT departments. Simply put, these enterprise deployments were too complex to risk an internal build with in-house software. The only way to create a competitive advantage through information technology was through innovation in using and extending packaged applications.

**Why is build vs. buy a debate for channel management?**

Although traditional CRM projects rarely go through a build vs. buy evaluation, this debate occurs frequently when considering Web technology to support indirect channels. Depending on the company and the circumstances, either approach can be effective. The need for a basic partner portal is strategic and critical. A minimal feature set can often be built at low cost and extend existing enterprise applications. While this suggests a good case for an in-house solution, building and maintaining a custom solution for partners has proven to be a complex, risky and expensive undertaking when contrasted with a commercial application with packaged channel management capabilities.

**Gaps, risks and opportunities**

The following reasons have been cited by executives whose companies elected to build custom channel management solutions.

1. “Our budget is too tight.”
2. “We are spending money departmentally.”
3. “No PRM vendor delivers on all of our requirements”
4. “Our IT staff can modify our enterprise applications”

### Reasons to Outsource Channel Management

#### **Speed-to-Market**

Increased competition has made speed-to-market an imperative. An outsourced solution has an advantage over in-house development in terms of speed because the product has been tested over time in the market and incorporates proven best practices in channel management.

#### **Total Cost of Ownership**

In addition to the cost of building, maintaining and upgrading a partnering solution, companies need to factor in risk. Development mistakes can be expensive, often resulting in delays and features that do not work properly or meet the needs of partners. Companies can minimize this risk by working with a PRM solution provider with a track record of building profitable partner relationships.

#### **Flexibility**

Pure ASP solutions provide capabilities at a reduced price, but also place more restrictions over how the technology can be used and extended. A packaged solution should provide both ASP and inside-the-network options for deployment. This flexibility allows your company to take the technology into your organization and extend it to meet evolving channel needs.

#### **Maintaining Focus**

Increased competition has forced companies to focus on core activities. Packaged PRM solutions have evolved to simplify the management of complex channels and allow businesses to concentrate on driving sales and margins.

#### **Configuration and Customization Tools**

The ability to configure the system through a simple interface allows your team to extend the solution at a low cost and create configurations that are easy to upgrade. As your business strategy changes, you will be able to rapidly extend the channel management solution to meet your unique and evolving business needs.

#### **Experienced Staff**

Partner business applications require a deployment team to have a strong understanding of the client's business goals, best practices in channel management and the capabilities of technology. By working with a vendor's focused and experienced professional services staff that is dedicated to client success and expert in solving your business problems, your team can spend less time managing the solution and more time focusing on making your business succeed.

Each of these arguments for building channel management infrastructure appears to have a sound rationale, but the build vs. buy decision often depends on whether channels are mission-critical to driving sales revenue and margins and overall business success. Today's "low-risk" decision and short-term savings can create high future costs and risk by preventing an organization from migrating to a more scalable long-term solution. Let us examine each argument in greater depth.

### ***"Our budget is too tight."***

Tight marketing and/or IT budgets often force channel organizations to create a custom solution to address current business challenges. The downside is that a temporary solution built by available engineers becomes increasingly larger and more complex as requirements grow and change. This requires a QA team, documentation, integrations to legacy applications, reporting and regular enhancements to adapt to changing business conditions. Because the foundation of the custom solution was never designed to handle this growth, it runs up against major limitations in performance and capabilities that require re-engineering. Costs can increase exponentially, requiring long-term commitment to full-time staff and leaving the business with a less competitive channel infrastructure.

ChannelWave recognizes that initial budgetary issues are a major concern for many organizations. Because of this, we have established a wide range of pricing and deployment options to help clients scale their solution appropriately. One approach is a phased deployment with initial features to address immediate priorities, which costs no more than a custom solution, and then expand to an enterprise deployment over time. Because of the deep capabilities available from ChannelWave, a phased approach can provide more functionality than custom development and provides the benefits of lower failure rates, rapid time-to-market and a support organization that consistently resolves deployment challenges. This approach allows clients to acquire a more cost-effective short- and long-term solution.

Other organizations have utilized non-IT budgets to finance packaged channel management solutions to avoid the high risks of custom development. Channel organizations do not have the same financial structure as internally focused departments. Most discretionary spending for channel marketing and support is included in MDF and co-op programs. For example, many channel organizations have unused MDF funds that accrue from sales because the channel does not have an efficient means to spend them. By applying MDF funds as a resource to fund a partner-supporting infrastructure, a reasonable budget can be established that does not require additional funding from IT.

Marketing spending faces the same pressures as technology investments. Without a clear way to measure and optimize the results of channel and end-customer marketing initiatives, it can be difficult to justify budgets. PRM solutions are designed to track and optimize results with tools like lead development, closed loop lead tracking, POS data consolidation, recruitment and ramp-up, partner support and partner metrics. By allocating a component of marketing budgets toward systems that deliver the intelligence needed to optimize results, a PRM solution can be considered an integrated requirement for marketing spending and included in marketing budgets.

### ***"We are spending money departmentally"***

Departmental spending often leads to a Frankenstein's monster for partner-facing systems. When different departments use best-of-breed capability for areas such as lead management, partner training, channel marketing or order management, the cost of connecting multiple point solutions to support overall channel strategies far exceeds the cost of a single, integrated system. The departmental approach also creates inefficiencies, because the enterprise needs to put together hardware, software and network connectivity to support all of these components.

If costs don't create enough of a challenge, the resulting disjointed architecture can be a major competitive disadvantage. Your prospects, partners and customers will feel the gaps in the systems and waste time and money trying to make them work. They will be forced to use a different interface for each task and endure clear discontinuities between business processes. The burden is on users to enter duplicate information, maintain multiple profiles and remember multiple passwords. Given the choice, partners and customers will select the integrated, user-friendly system over Frankenstein every time. The resulting loss in business can cost far more than building the system right the first time.

Trying to piece together disparate point solutions and custom internally developed applications across multiple departments for a partner-facing infrastructure can create a Frankenstein's monster, with multiple logins and interfaces, that scares away your partners and customers as opposed to a fully-integrated enterprise channel management solution.



**In-house Channel Solution**

**Packaged Channel Solution**

In contrast, ChannelWave provides multiple components, each delivering a deep set of capabilities to the enterprise, which are built on a common platform. With a single integrated system, our clients save costs by consolidating hardware, software, and networking environments into a central system. The integrated solution also delivers the user experience that partners and customers prefer by making it easy to do business with a company through a single log-in and integrated workflows to accomplish common tasks without data duplication.

The integration costs of connecting point solutions to build a custom PRM application gets expensive quickly. The consolidated application is also more difficult to use because it is inconsistent and hard to configure to meet user requirements. (Costs based upon an annual integration cost of \$25,000 per integration per year and an annual infrastructure cost of \$20,000 per system per year.)

Systems	Integrations	Complexity	Annual Integration and Infrastructure Costs
1	0		\$20,000
2	1		\$65,000
3	3		\$135,000
4	6		\$230,000
5	10		\$350,000
6	15		\$495,000

***“No PRM vendor delivers on all of our requirements”***

Although channel management technology is increasing in functionality every day, it still can be difficult to find every necessary component in a single package. Every industry and company requires specific capabilities and workflow for supporting partner relationships. An exhaustive review of business requirements will produce gaps that require custom development. However, a recommendation to build the entire solution because of these custom requirements can saddle a company with high support costs and prevent it from benefiting from the flexibility built into leading PRM solutions.

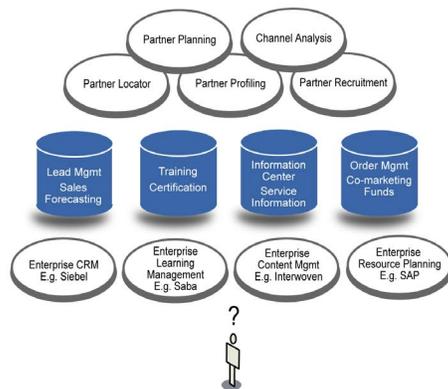
The most logical approach to vertical- or company-specific functionality is a combination of buy and build. Custom application extensions are created using Application Programming Interfaces (APIs) and the vendor’s Software Development Kit (SDK). ChannelWave believes that the buy and build approach is critical in providing our clients with the flexibility to extend and adapt our solution whenever necessary. Because of this, we offer a number of tools to extend the application, including defined XML interfaces, a service oriented architecture (SOA), J2EE standards and JSP templates, and detailed instructions for using the ChannelWave framework to build new custom functionality. We work closely with clients to deliver a highly integrated solution and provide them with the control to create the functionality they need within ChannelWave, without having to create their own infrastructure.

***“Our IT staff can modify our enterprise applications”***

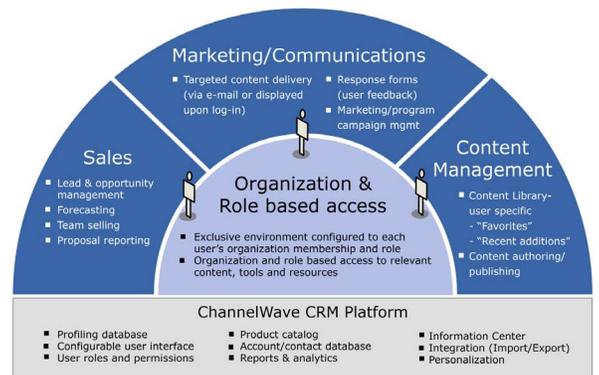
The motivation in purchasing an enterprise application is that it can support all departments with a single platform. The challenge in extending an enterprise application for a partner portal or extranet is that an externally-facing solution requires capabilities across multiple areas inside and outside the enterprise. Without an integrated solution designed for the channel, delivering cross-functional capabilities for partner development, marketing, sales, commerce, service and training requires touchpoints with multiple enterprise systems, including CRM, ERP, learning management and content management. Although many of these applications provide a “partner interface,” they were designed as standalone systems – not to handle the needs of a channel business model. Extending multiple enterprise applications does not create a single unified system for partners. Additionally, resources for enterprise projects are shared across the enterprise and the channel organization must compete with other departments for priority from the IT organization. Requests to extend solutions or deploy partner interfaces are often placed into future phases that may never occur.

**Key considerations in deciding whether to build or buy for channel management**

- Deep and complete product footprint in channel management
- Staff experienced in delivering channel solutions
- Strong configuration capabilities
- SDK, including extension tools and technical documentation
- Flexibility to deploy on-site tools and as an ASP
- Pilot project and phased deployment approach



**Extending Disparate Applications**



**Integrated Channel Solution**

Extending multiple enterprise applications to make a custom partner portal creates a set of silos for customers and partners that don’t effectively communicate and share information and resources in a user-friendly manner. This makes the system expensive and dramatically lowers partner adoption. In contrast, a single integrated approach provides a single connection between the enterprise and partners at a lower overall cost.

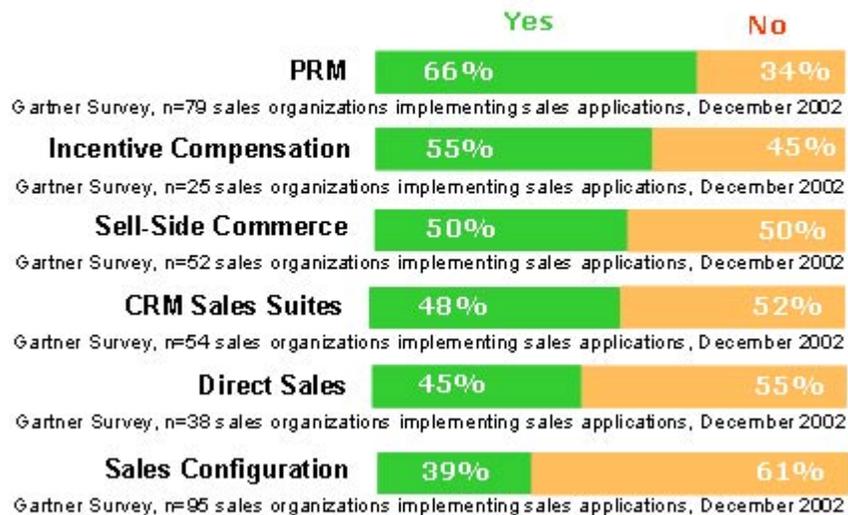
By providing the integrated portal and mission-critical business applications on a single platform, a packaged channel management solution is more cost effective and provides an easier-to-use foundation to extend enterprise applications. We have pre-built integrations from ChannelWave to a number of enterprise applications and continue to package this connectivity to allow organizations to effectively leverage their legacy systems.

The high cost of extensions also can become a challenge for organizations that simply cannot afford to integrate their partner portal with their enterprise applications. In this case, a standalone PRM solution provides a lower cost short-term option for supporting partners, even before the company has integrated PRM to other enterprise systems. The “buy” approach makes it easier to grow into an integrated solution, because it provides competitive partnering capabilities on day one and can tie enterprise applications to channel operations as the system evolves.

### Channel Management Delivers ROI

#### Gartner Survey:

Have you received demonstrable ROI from your deployment?



Companies that have invested in channel management solutions are seeing clear results in higher channel productivity, sales revenues and profits. According to leading IT research firm Gartner, Inc., packaged channel management or PRM solutions have delivered a demonstrable return on investment more than any other sales application.

### Conclusion

The build vs. buy decision for channel management is an important consideration for organizations weighing costs against business needs. The reasons for building or buying technology follow the same basic criteria of all IT decisions. As PRM solutions continue to mature, many of the reasons to buy instead of build have been incorporated into the technology. A build and extend approach with a vendor partner that has the right knowledge and a flexible approach to addressing your specific business challenges is often the best answer for companies struggling with this decision.



1.800.862.5596 [www.channelwave.com](http://www.channelwave.com)

Los Angeles Boston Washington D.C. Chicago Denver San Francisco Toronto