QUINLAN
&ASSOCIATES

SCALING NEW HEIGHTS

OPTIMISING STARTUP DISTRIBUTION

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EXECUTIVE SUMMARY

With the rise of new digital technologies, many startups are developing innovative products and solutions aimed at levelling the playing field with incumbents, a large number of whom continue to be weighed down by legacy infrastructure, systems, and processes. However, many of these startups have also come to realise that rather than disintermediation and disruption, there can be many benefits to cooperation and collaboration with large corporates.

Industry incumbents are also increasingly keen to drive growth and corporate innovation through partnering with startups. Driving internal disruption can be challenging, requiring a change in leadership and cultural mindset, innovation, and operating practices, as well as the ability to bypass legacy systems. Partnering with agile startups is seen as a way to access new technologies and ideas in a much shorter timeframe.

A startup's partnership with corporates can come in many forms – from accessing corporate capital, to growing their reach and increasing their distribution channels, to developing a prototype that may lead to a joint product or solution.

While many startups are great at identifying technologies and developing new products, most struggle to scale. As such, we see an increasing number of startups leveraging partnerships as a way to expand their distribution channels, access new clients and, ultimately, drive sales. However, it is critical for these partnerships to be appropriately executed if startups are serious about scaling new heights.

Coming together is a beginning, staying together is progress, and working together is success

- Henry Ford

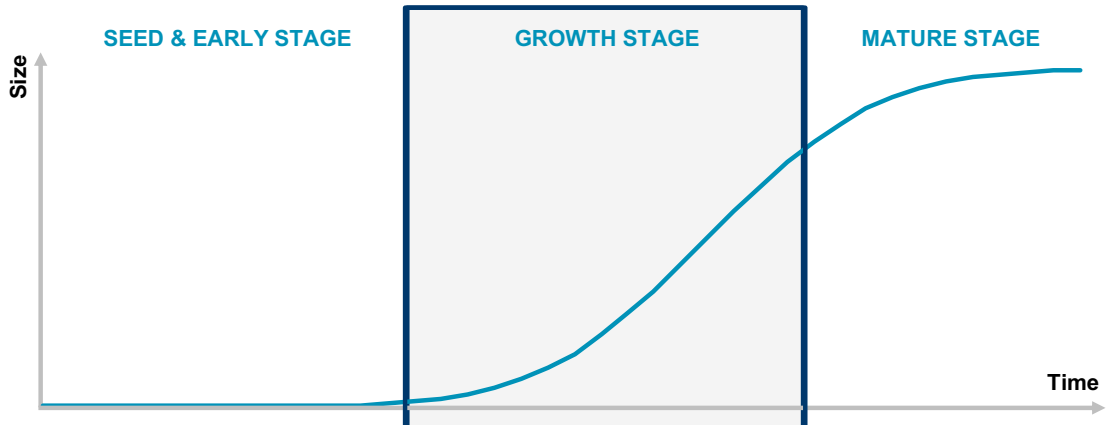
SECTION 1
THE STARTUP PARTNERSHIP DILEMMA

Building and running a startup is hard work – most firms are typically low on manpower, short on capital, and have little visibility in their target market. Many founders throw everything they have into growing their firms at a rapid pace to reach a certain size where they are no longer considered early-stage startups. It is at this point that product-market fit has been established and a handful of clients are onboard. Unfortunately, the toughest part is yet to come: scaling.

The challenge of scaling is something all startups encounter as they transition from early-stage to growth-stage companies. With early-stage companies, a significant amount of time is spent developing the company's product and technology, bringing initial clients on board, conducting proof-of-concepts ("POCs"), and refining the firm's growth strategy. In our experience, many founders do reasonable jobs in building their company to a point where it has achieved product-market fit, has several customers onboard, and is even profitable.

However, at a certain stage in a startup's lifecycle, most founders need to be able to demonstrate rapid growth in their client base and/or revenues to raise new capital and fund further expansion plans (see Figure 1). With a small team, this presents a major problem. It is at this point most founders understand the need to develop and implement an effective sales strategy.

FIGURE 1: LIFECYCLE STAGE AND CHALLENGES



	SEED & EARLY STAGE	GROWTH STAGE	MATURE STAGE
Key Focus	Product-Market Fit	Rapid Scaling	Ongoing Growth
Key Challenges	• Product development • Initial client acquisition • Strategy refinement	• Capital raising • Client base expansion • Sales strategy development	• Market share growth • Geographic expansion • Margin optimisation

Report Focus

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SECTION 2
SALES STRATEGY

Put bluntly, most startups lack a proper sales strategy. As a result, many founders are unable to provide clear guidelines to their sales teams on the company's strategic priorities or financial targets. This often results in suboptimal business development efforts, as well as long and painful sales cycles, that can be extremely damaging when operating on limited funding.

In short, an effective sales strategy is one that maps out a clear plan of attack to accelerate company revenues in a cost-effective manner. This includes, among other things, identifying relevant target markets and clients, leveraging appropriate tools to facilitate sales processes (e.g. CRM systems), creating a compelling sales narrative, and optimising available distribution channels (which largely reflect whether a startup is a B2B, B2C, or B2B2C company).

Below we list out some of the key features (and differences) between the sales process of B2B, B2C, and B2B2C companies (see Figure 2).

FIGURE 2: BUSINESS MODELS AND SALES PROCESS

		1 B2B	2 B2B2C	3 B2C
Business Model	Description	• Provide goods / services to other businesses	• Provide goods / services to the retail market via businesses	• Provide goods / services to the retail market
	End User	• Businesses	• Retail / individuals	
Sales Nature	Target Audience	• Businesses	• Individuals via businesses	• Retail / individuals
	Decision Makers	• Multiple		• Single
	Sales Cycle	• Long sales cycle, with multiple engagement stages		• Short sales cycle, with minimal engagement stages
Sales Operations	Primary Sales & Marketing Activities	• Relationship building • Customer education • Brand awareness		• Point of purchase action • Marketing focused on emotional triggers
	Product Knowledge	• Detailed, with an emphasis on how product addresses key pain points and how it fits with existing business operations	• Detailed, with an emphasis on how product expands current offerings and enhances end user experience	• Less detailed, with sales efforts focusing on users' psyche and emotional triggers
Sales Channels	Focus of Sales Team	• Relationship building • Client support and service		• Maximise transaction value
	Partnerships	• Service vendors, system integrators	• E-commerce platforms, distributors	• Consumer platforms

SECTION 3
SALES CHANNELS

Many startups do not have the financial bandwidth to hire large teams to sell their products and services. However, at the same time, they need to rapidly scale their business to survive. Therein lies the key dilemma – without a sales team driving revenues, how can a startup scale? And without revenues rapidly scaling, how can a startup hire a dedicated sales team to drive further growth?

In order for startups to rapidly grow their client base, they can leverage a number of sales channels. At a high level, this includes both direct and indirect channels, each with their own pros and cons (see Figure 3):

- **Direct:** selling directly to the consumer via in-person meetings and demos, in addition to online direct sales. Direct sales require the build-out and management of a sales team, together with marketing spend; if a startup has various target markets with different demographics, they will likely require local sales teams with local relationships.

- **Indirect:** selling through various sales channels, which can be any third party that offers your product or service to the end customer. Sales channels can include technology vendors, system integrators, retailers, online e-commerce platforms, or other online / offline channels.

FIGURE 3: SALES CHANNELS

		DIRECT SALES	INDIRECT SALES	Details
Clients	Access	–	✓	• Startups, especially B2Bs, typically lack access to potential clients, and may rely on the client base of appropriate sales partners
	Onboarding	✗	✓	• The vendor onboarding process for B2B startups can be long and arduous and may be expedited if solutions are sold via an "approved" partner
	Ownership	✓	–	• Clients acquired via direct sales are owned by the startup, but those acquired via indirect channels may be owned by the sales partner
	Feedback	✓	–	• Direct contact with end clients result in a tighter feedback loop, and hence faster iterations / refinements to the products
Operations	Control	✓	✗	• Startups have complete control and transparency over sales processes and pipeline, but tend to have very little influence over that of their sales partners
	Scalability	✗	✓	• With limited resources, startups find it difficult to scale up their direct sales force, while large partner sales teams can be leveraged with no upfront cost
Financials	Revenue	✓	–	• All revenues earned via direct sales are retained by the startup, while indirect sales channels typically take a portion of revenues as a "referral fee"
	Cost	✗	✓	• A direct sales force represents a fixed cost, which may be difficult for a large sales team, while indirect sales partners lead to lower cost

✓ Favourable – Dependent ✗ Unfavourable

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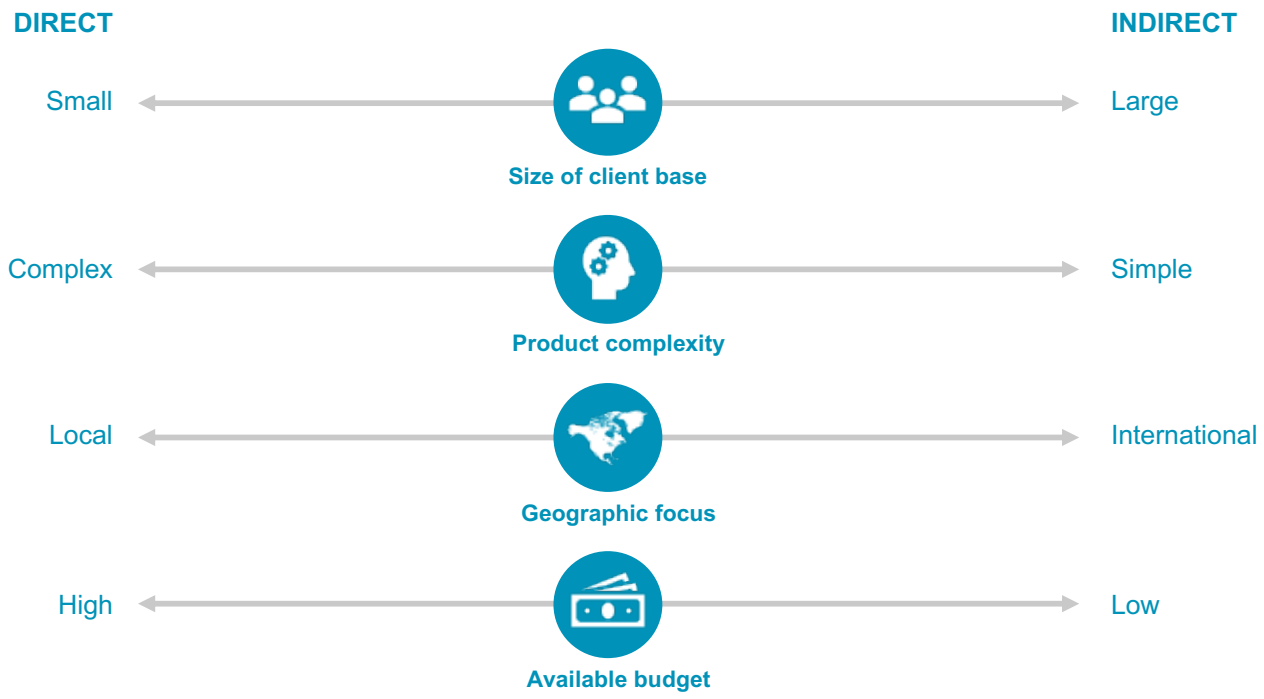
SECTION 4
THE OPTIMAL APPROACH?

Creating an optimal sales strategy isn't easy; while startups cannot do everything themselves, it is difficult to find the right partner/s who can really help and increase sales channels. Sometimes, partnerships can even create more work for startups.

The decision to focus on direct or indirect sales channels is dependent on a number of factors, with key considerations including: (1) the size of the target client base; (2) the complexity of the product; (3) the firm's geographic focus; and (4) available budget (see Figure 4).

FIGURE 4: CHANNEL SELECTION



1. Size of Client Base

The size of a startup's client base has a large influence on its choice of sales channel; direct channels are generally more appropriate for startups targeting a fewer number of corporate clients, while indirect channels should be leveraged when accessing a much larger client base, such as small-to-medium enterprises or the wider retail market.

For example, consumer products require promotion and directly targeted marketing efforts towards end users, with the goal of improving value perception and brand awareness. While a small in-house sales & marketing team may be well placed to drive such efforts, many startups could benefit from leveraging the distribution support of relevant external partners with a powerful retail network.

2. Product Complexity

From a product complexity perspective, direct sales channels should be leveraged when there is a need to provide customers with in-depth product knowledge, ensuring sales personnel can explain the applications of a startup's products in detail. Conversely, a third-party salesforce typically has less incentive to fully understand the products they are on-selling, given their competing sales priorities. Accordingly, indirect channels should generally be leveraged where product knowledge may not be a key driver of the consumption decision.

For example, startups operating in the B2B space typically need to have conversations with multiple teams and key decision-makers within large corporations, resulting in a more complex decision-making process that places greater demands on sales personnel. Larger clients also have more stringent onboarding requirements that must be met by approved service providers, resulting in considerably longer sales cycles. While piggybacking on an approved third-party reseller may expedite this process, product knowledge is still critical to closing any deal, requiring senior sales personnel who are able to effectively engage with key decision makers within an organisation.

3. Geographic Focus

From a geographic perspective, most startups are typically limited to targeting clients in their local market via direct sales efforts in their early years. However, as they reach critical mass at home and look to distribute their products internationally, many firms turn to third-party distributors to leverage their existing onshore relationships.

4. Available Budget

Budgetary constraints force startups to scrutinise the marginal sales value of direct vs. indirect channels, affecting the decision to either inhouse or outsource their distribution efforts. For many startups, the revenue pay-away associated with using a third-party distributor is often much more palatable than the fixed cost associated with hiring a dedicated salesforce.

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SECTION 5
PARTNERSHIP CONSIDERATIONS

Whilst selling through direct channels provides a startup with complete ownership of client relationships and operational control of the sales process (while also ensuring they keep 100% of client revenues), a number of key limitations exist – namely, more limited client access, a much slower onboarding process, and inherent scalability issues (or punitively high costs tied to building an in-house salesforce). Moreover, many startups arrive at pitch meetings with poorly constructed pitches that fail to convey a compelling sales narrative, including how they add value to end-consumers and why their product is unique vs. existing competitors in the market.

Recognising these obstacles, many startups leverage indirect sales channels to drive their client acquisition efforts. Partnerships with third parties that have an established salesforce and client base appear to provide clear benefits to startups with limited budgets and/or customer reach. In fact, many startups are becoming increasingly dependent on distribution partnerships to sell their products and services, seeing them as an extension of their in-house sales team.

Notwithstanding the obvious benefits of utilising partner distribution channels, many startups that we have spoken to find their partnership arrangements highly ineffective in generating new sales – in many cases, nothing much changes. This is even the case for startups who have secured distribution arrangements with leading global incumbents (e.g. global online marketplaces, data vendors, and system integrators); where the benefits of piggybacking off the brand, footprint, and client relationships of a major player seem like a forgone conclusion.

The CEO of a FinTech company we spoke to highlighted their frustration with a recent distribution partnership, calling out a number of key problems. Most importantly, the FinTech company believes its partner does not educate its salesforce properly on their product and, in many cases, the sales team is unaware of their service offering. Even those that know of the offering are seen as passive in promoting it, only discussing a specific product if their end client makes a direct enquiry. Furthermore, many of the partner's sales representatives were viewed as having subpar knowledge of the FinTech's wider offering, resulting in negligible conversion rates.

Choosing the right sales channel is only the beginning; startups need to provide their partners with appropriate collateral (and supporting education) to successfully drive sales.

In our experience, there are several key contributors to the potential ineffectiveness of many partnership arrangements that startups should carefully consider:

Is this the right partner for you in that specific target market or geography?

- It is important for startups to understand the benefits a partner brings to the table. This includes their reputation, area/s of expertise, the size and stickiness of their client base, and the quality of their sales and marketing teams. While no partner is perfect, each has their unique strengths and weaknesses. As such, it is important for startups to choose a partner that is a good match for their specific requirements.

Will the partnership give you the access to clients that you are looking for?

- In an ideal world, signing a contract with a partner would open the door to a wide network of potential clients. However, this is merely the first step. Much of the hard work lies in ensuring that partners are clear on the value that new products bring to their clients, the revenue potential from the partnership itself and, most importantly, are cognisant of the commissions they will receive from on-selling new products.

How can you ensure that your partner is incentivised to sell your product?

- Large firms typically have an extensive number of their own products, as well as partner products, as part of their offering. However, a partner sales representative can only push a specific number of products in each client conversation. Often, if a client is not asking for a specific solution, the sales team is not interested in selling it. The fact is, salespeople will focus on products they know that are an easy sell. This means partners need to be properly educated on a partner product and the value it brings to their client. Moreover, a simple revenue share with the partner firm does not automatically equate to additional sales; a startup must ensure that partner sales teams are properly incentivised to push its product over that of a competitor.

Do you have a direct line to the end customer and are you a part of the sales process?

- Some partners may be reluctant for their product partners to engage directly with their clients. Depending on the product or service being offered, this may or may not be viable. A more complex product typically requires more in-depth conversations with the customer; the ability to be involved in the sales process of a partner enables a startup to receive direct feedback from end users and allows them to improve and/or customise their offering to maximise future sales.

What is the value you are getting from this partnership?

- It is critical for startups to evaluate the value they are getting out of each partnership. This includes understanding whether the revenue they are receiving from the partnership is greater than the cost of maintaining it. As part of this process, startups also need to assess whether both sides are working together towards a common goal with clear targets – in particular, startups will need to evaluate how happy their clients are with the service they receive from partner sales teams.

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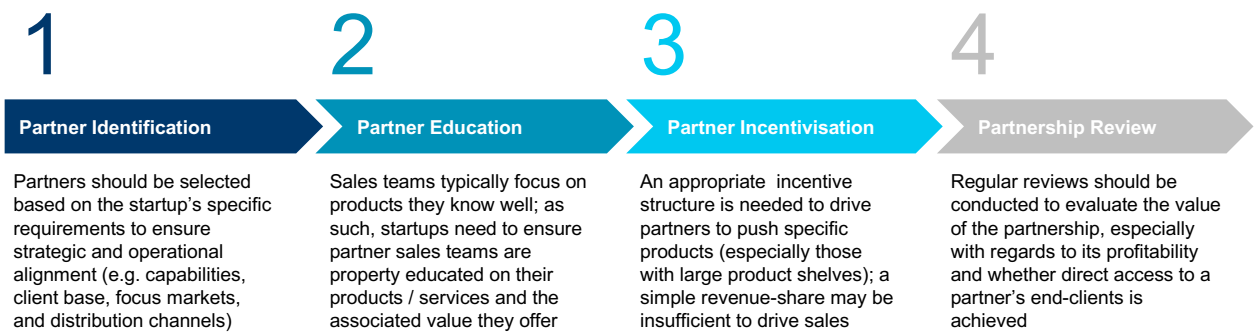
In summary, we believe startups should adopt the following four-step approach when evaluating partnership arrangements (see Figure 5).

FIGURE 5: APPROACH AND CONSIDERATIONS



Choosing the right sales channel is only the beginning; startups need to provide their partners with appropriate collateral (and supporting education) to successfully drive sales.

From our experience, many startups focus on developing their product at the expense of creating effective sales material (i.e. they forget about the narrative they need to have with their target customers). Furthermore, these startups do not provide much assistance to their partners in terms of ongoing education. In fact, a technology vendor we spoke to told us that 'partner products are great since they help us provide more choices to the client. However, we have a lot of products on the shelf and many of our salespeople don't understand all the products we have, so it would really help if the partner provided easily digestible material (and training support) on their products.'

A strong sales partnership needs to be supported by both parties, with ongoing reviews and refinements, in order for the tie-up to scale new heights.

SECTION 5
HOW CAN WE HELP?

As a leading global strategy consulting firm, Quinlan & Associates has considerable experience supporting a range of startups with their scaling efforts. Some of the key services we offer include:

WHITE-LABELLED MARKETING MATERIAL AND COMPANY PITCHES

- Development of world-class, institutional-ready company pitches used to support face-to-face sales and fundraising efforts, including detailed market / industry / regulatory analysis, articulation of a company's value proposition and strategy, product positioning and benchmarking, and supporting marketing collateral

CLIENT AND PARTNER IDENTIFICATION AND ACCESS

- Identification of and introduction to most relevant target clients (direct sales) and partners (indirect sales), with assistance in negotiations to determine the most appropriate partnership terms, with emphases on partner education and incentivisation

DEVELOPMENT OF AN EFFECTIVE SALES, BUSINESS DEVELOPMENT, AND PRICING STRATEGY

- Establishment of clear end-to-end sales strategy and processes, advice on new market entry, creation of appropriate product pricing schedules, and in-person sales / pitch support

INDUSTRY THOUGHT LEADERSHIP AND COMMUNICATION

- Preparation of in-depth research reports to raise public awareness of a startup's specific industry and/or product offering, including engagement with our network of stakeholders (e.g. clients, media)

CORPORATE TRAINING

- In-depth soft-skills coaching covering sales and marketing, presentation / pitching skills, negotiation, and project management

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STRATEGY WITH A DIFFERENCE

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