8 Best Practices for Accelerating Revenue through Channels

Introduction

For organizations that sell products through diverse, multi-level sales channels, being best-in-class in channel operations and channel sales effectiveness is an imperative business priority. Driving sales revenue while attracting the top-performing channel partners – and keeping them engaged – is essential not only for success, but survival.

But many of these organizations are facing a "channel paradox" – conditions in which they are simultaneously under pressure to generate significant revenue and hindered by factors in that environment that make it difficult to do so. For example, although significant revenue flows through the channel, manufacturers glaringly lack the support systems that enable the productivity and efficiency expected from channel operations.

In this volatile environment, channel teams are caught between the demand for better cost efficiency of channel sales and the need to drive partner engagement and productivity. The channel team must provide enough incentive to motivate channel partners to sell their product, while being careful to avoid compromising profit margins. They must be able to mitigate the increased complexity and overhead that comes with managing a large-scale channel while achieving the needed market reach.

This paper examines four key business objectives for channel-intensive organizations and outlines the eight best practices to achieve those objectives. By evaluating their current approach and internal processes and developing a proper strategy and plan of action, these organizations will be better equipped to combat the channel paradox, simplify and streamline processes, and improve channel outcomes.

Top Eight Best Practices for Managing Enterprise-Scale, Multi-Level Channels

Model N has identified eight best practices for channel teams to tame the complexity and overhead of the channel. Together, these best practices support four key business objectives, including:

- Increasing channel revenue
- Gaining actionable intelligence
- Reducing the cost of channel sales
- Improving partner engagement

A root enabler of all eight best practices is the adoption of an enterprise-scale, purpose-built system that will enable channel teams to operate in the channel with efficiency, precision, and effectiveness.

Key Business Outcome	Required Best Practice
Increase Channel Revenue	1. Deliver Better - tageted, high impact incentive programs
Reduce the Cost of Channel Sales	2. Eliminate overpayments to the channel, such as payments on invalid or duplicate claims 3. Streamline financial operations by automating incentive management
Gain Actionaable Intelligence	4. Enable channel teams to measure, analyze, and improve business performance by program, partner and product 5. More effectively direct resources, help under-performers to strengthen results and improve execution at the product level using analytical insights.
Improve Partner Engagement	6. Streamline the onboarding process to speed partner productivity 7. Provide meaningful business data insights to partners to support improved sales planning and increase partner engagement 8. Pay incentive claims faster and more accurately to increase partner satisfaction

Increase Channel Revenue

Without support in the form of a purpose-built channel management system, all steps in the process of defining strategies, operationalizing programs, and assessing channel performance suffer. To lift performance, channel organizations should consider three critical levers in the channel:

- Incentive programs – Are my incentive programs impactful, motivating, efficient, utilized?
- Partners – Do my partners give me the coverage that I need in key territories, markets, and across products? Do my partners sell my products more than those of my competitors?
- Products – Is my product mix effective and profitable?

To increase channel revenue, channel teams must examine these levers and determine how to improve their offerings. Incentive programs are often seen as the most immediate method for gaining ground in channel. Across the board, however, many channel teams lack the systems support required to: 1) obtain accurate metrics and analysis of past performance as a way to inform current business planning; 2) track and process claims efficiently – which dramatically limits and inhibits their ability to define and introduce better targeted, more highly impactful incentive programs; 3) precisely examine the performance of individual partners along with individual partner utilization of incentive programs.

Best Practice #1: Deliver better targeted, high-impact incentive programs

Strategic and targeted incentive programs are generally more complex and difficult to manage. There are more of them and they include more precise eligibility requirements. They may also include more complex factors, such as combinations of products, purchase models, types of customers, markets, market share, and geographies. These complexities are amplified when manufacturers offer complex products through multi-level, complex channels.

Enterprise organizations at the $1B or larger level that depend on channels to deliver a significant percentage of their revenue also contend with the massive volume of claims. To mitigate the complexity and volume, many channel teams “dumb down” their incentive strategies. The goal is to simplify the incentive structure in order to simplify the back-end processing.

But thanks to increased competition for partners in a volatile marketplace, more “vanilla” incentive strategies end up falling short. Partners are in a position to demand more, and manufacturers must adapt in order to acquire the top-performing partners and keep them engaged.

What’s needed is a purpose-built channel management solution that provides capabilities for managing complex and/or high-volume incentive programs. The essential capabilities include those that help channel teams to define, operationalize, and assess incentives, including capabilities to:

- Define, propose, review, fund, and memorialize the incentive program
- Notify channel partners whom are eligible to participate
- Track, validate, and calculate accurate payments to partners
- Analyze, model, visualize, assess, and report on the incentive program results

Automating the Define Phase
The process of defining, reviewing, approving, and funding channel incentives can undermine the efficiency of a channel team. For some teams, current manually-intensive processes require days and weeks of time wasted chasing signatures. For others, this can devolve into poorly documented incentive programs or deal sheets and partner agreements amended on the fly.

The resulting imprecision causes confusion in the channel and contributes to overpayments – there are so many incentives that might apply that partners often apply for as many programs as they can with the expectation that the manufacturer will sort out which are correctly matched. The manufacturer, however, is often as overwhelmed by the complexity as its channel partners. As a result, manufacturers may decide to err on the side of the partner. Because incentives are high in volume, but low in terms of individual dollar amount, many manufacturers resolve that it is simply not worth the time of the teams involved to try to examine every sale processed to determine partner eligibility. As a result, manufacturers end up paying more than they should.

To streamline the process of defining incentives and to ensure that associated terms and conditions are fully documented, approved, funded and memorialized for future reference, organizations require advanced document management and authoring tools that are supported by a sophisticated workflow. Role assignment is required to enable accurate tracking and ensure secure access. A fully secure and enterprise-scalable repository is required, in which the terms for all approved incentive programs can be stored, searched, and retrieved as needed by the channel teams.

Operationalizing the Incentive

The most challenging part of operating incentives in a complex, multi-level channel system is processing the high volumes of incentive payments expected from the channel. Targeted, high-impact incentive programs are easier to manage when associated payment processing is automated.

First, claims must be validated to confirm that the partner making the claim is eligible to receive payment on the incentive. To do this, manufacturers must have a record of the defined and approved incentive program to ensure that the partner is in the appropriate category with an eligible sale of eligible product combinations, and so forth. This also means having full access to the partner agreements that define and govern terms and conditions of the incentive program, as well as ensuring that the agreements are current.

Next, validated claims must be calculated accurately for payment. Accurate calculation depends on having an accurate record of the incentive opportunities defined along with the partner agreements, so that the combination of factors that define the payment amount can all be appropriately considered.

Once validated and calculated, payment amounts must then be communicated to the ERP system to enable the financial team to make payments with confidence. The entire process must be tracked and recorded to ensure auditability. Partners with payment disputes will also want to see evidence supporting claim validations and calculations.

Enabling claims validation, calculation, and payout requires a system for incentive management that is integrated with the system used to define the incentive program – most often a contract management system – so that the terms of incentive programs can be consistently and accurately enforced. In addition, payout requires integration to ERP systems to enable financial teams to maintain their financial accounting systems.

Assessing Incentive Impacts

Understanding past incentive performance through advanced analytics helps channel teams to improve their decision-making on future incentive programs. To better understand the full impact of incentive programs, channel teams need visibility to a more precise level of detail. Factors that are essential to assessing incentive performance include:

- Partner performance, comparing sales performance pre- and post-introduction of the incentive
- Product sales performance, comparing sales pre- and post-introduction of the incentive
- Sales by partners participating in the incentive as compared to partners not eligible to participate
- Sales of products covered by the incentive compared to products not included
- Geographies, partner categories, and product categories of incentivized versus non-incentivized sales

Reduce the Cost of Channel Sales

Types and varieties of incentive programs offered by manufacturers to their channel partners include:

- Rebate programs offering back-end incentives on sales to drive specific product sales, market share attainment, customer satisfaction, and other measurable results
- Stacked incentives which offer rebates based on sales of specific combinations of products in specific markets and geographies according to the business goals of the manufacturer
- Chargeback programs that enable distributors to fulfill orders at negotiated prices below inventory costs and remain whole by charging the difference back to the manufacturer
- Marketing Development Fund (MDF) incentives that define marketing activities for trading partner execution funded by the manufacturer
- SPIFF incentives offering cash rewards to trading partner teams and individuals when sales are made

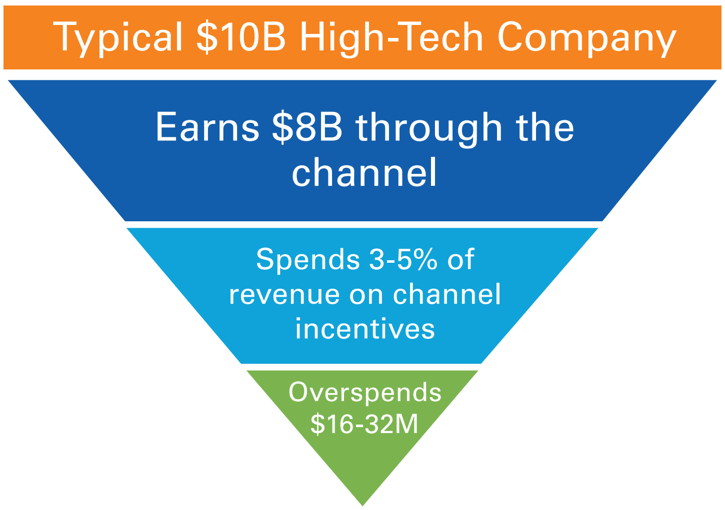
The methods by which trading partners apply to receive these incentive payments from manufacturers vary widely by industry. In some industries, it is common for trading partners to submit claims for rebates or chargebacks. In other industries, it is more common for product orders to include credits applied to the sale based on the incentive programs known to the partner. In all cases, however, the process of examining, validating, and calculating the money due to the manufacturer, the distributor, and the trading partner involved can be complex and time-consuming.

With complex products offered through multi-level, high-volume channels, enterprise organizations are at the mercy of the claims being made by their channel partners. In many cases, overworked channel teams do not properly validate claims, but instead simply pass them through for payment in order to keep processes moving and channel partners more satisfied. The cost of this overpayment can be massive, equating to as much as 5-10% of the overall incentive investment being made by manufacturers every year.[1]

Best Practice #2: Eliminate overpayments to the channel, such as payments on invalid or duplicate claims

What channel teams need to eliminate erroneous payments is a purpose-built channel management system with robust capabilities for claims validation and payment calculation.

1 - 2: "Improving the ROI of Channel Incentives," Accenture, 2014.



According to Accenture, as much as ten percent of the typical high-tech company's indirect channel partner incentives are overspent, or are generating insufficient return on investment.[2]

The challenge of keeping up with a high volume of claims coming through the channel is felt most keenly by channel sales and marketing professionals. Many times, organizations attempt to track claims in spreadsheets. However, the effort involved typically exceeds their capability to keep pace and achieve accuracy. As a result, organizations inadvertently – but regularly –overpay on ineligible claims as well as on claims that have already been paid.

On the partner side, the complexity of sorting out which incentives are in effect at any given time pushes the partners to submit claims for every type of incentive that is available. This is not because the partners intend to abuse the manufacturer so much as it is due to confusion – and the belief that the manufacturer will sort it out. In addition, a single-code based solution approach helps to consolidate expensive infrastructure in enterprise environments. A solution that also integrates with existing applications helps to reduce costs by eliminating added training and licensing overhead.

Best Practice #3: Streamline financial operations by automating incentive management

Automating the financial accruals process is another key requirement for these organizations. Without automation in this area, it is common for financial teams to over-accrue and under-accrue on a regular basis. Not only does this risk cash flow unnecessarily by tying up funds, it creates inefficiencies for those in finance and the channel teams that support them. Without a channel management solution, the manual accruals process is just an estimate, and one which can put an accurate financial statement at risk.

Also, in many organizations, revenue recognition can be disrupted by imprecise handling of credits and debits, improper anticipation of returns, and the impact of rebates and chargeback claims. ERP systems, on their own, lack the capabilities required to manage the complexity of channel revenue operations and leave financial teams at risk of complying with accounting rules with increasing requirements in these areas.

Automating the Define Phase

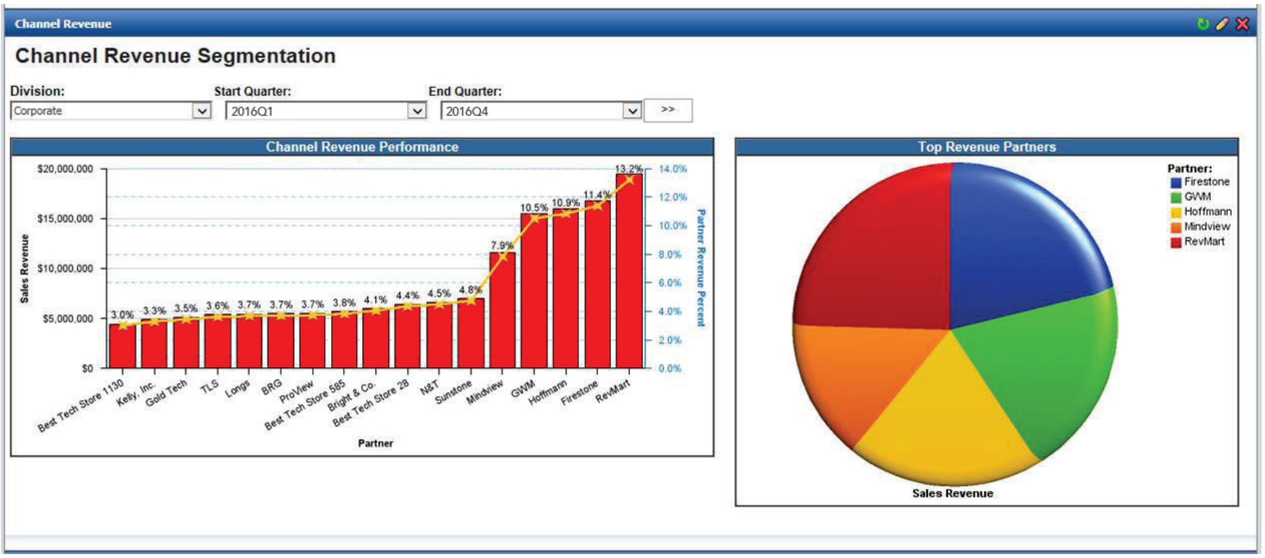
Best Practice #4: Enable channel teams to measure, analyze, and improve business performance by program, partner, and product

Best Practice #5: Direct resources to top-performing programs and partners, help under-performers strengthen results, and improve execution at the product level, using analytical insights

Channel teams, executives and LOB professionals all have visibility to the level of sales being generated by the channel. However, as Best Practice 4 indicates, what's lacking is the ability to measure and analyze how specific channel investments have contributed to those sales. In some cases, high-cost incentive strategies are generating low-profit sales results while lower-cost incentives are able to produce much higher productivity. In the same way, assessing the relative performance of channel partners operating in the same program category, region, or market segment is lacking. With analytics, channel teams are enabled to direct resources to top-performing programs and partners, as well as to help under-performers strengthen results and improve, as specified in Best Practice 5.

What's needed is a purpose-built channel management solution that offers capabilities for exceptional business analytics, tuned to the partners, programs and products, which are the bedrock of channel business.

The screen shots on the following page depict sample analytics dashboards illustrating partner revenue contribution and profitability, as well as payment claims activity. High-performing channel teams leverage detailed analytics such as these to determine which elements of the partner program have the greatest impact on the business. Armed with this data, channel teams can make informed decisions as to which incentives to repeat and which to eliminate. They can also target partners who may require additional training, or who may be eligible to participate in higher program tiers. Also, in many organizations, revenue recognition can be disrupted by imprecise handling of credits and debits,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Bright & Co.
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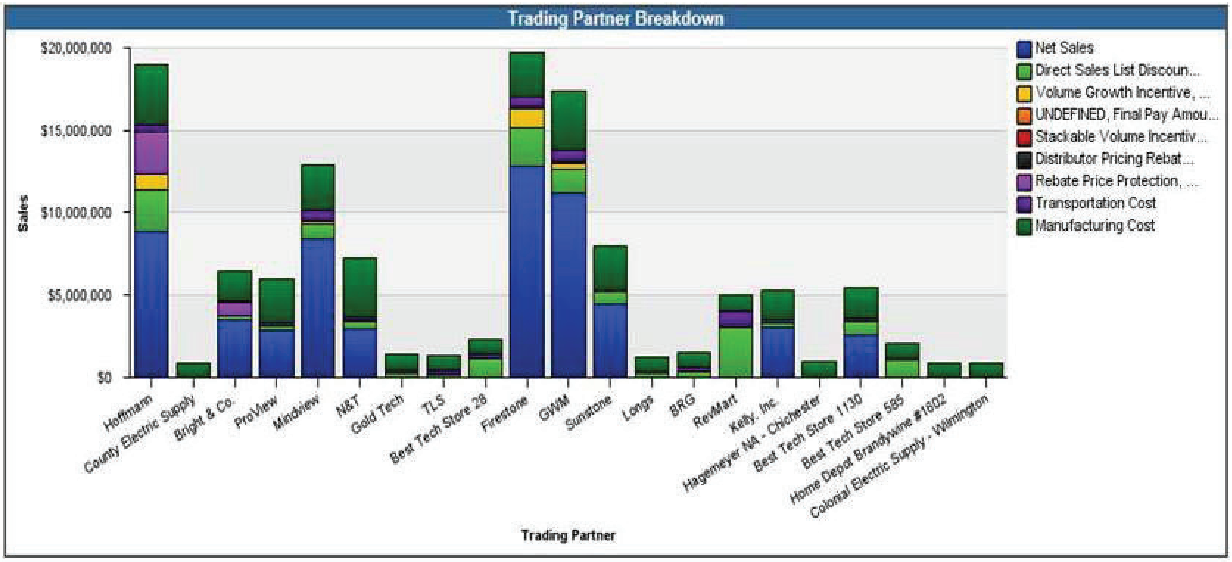
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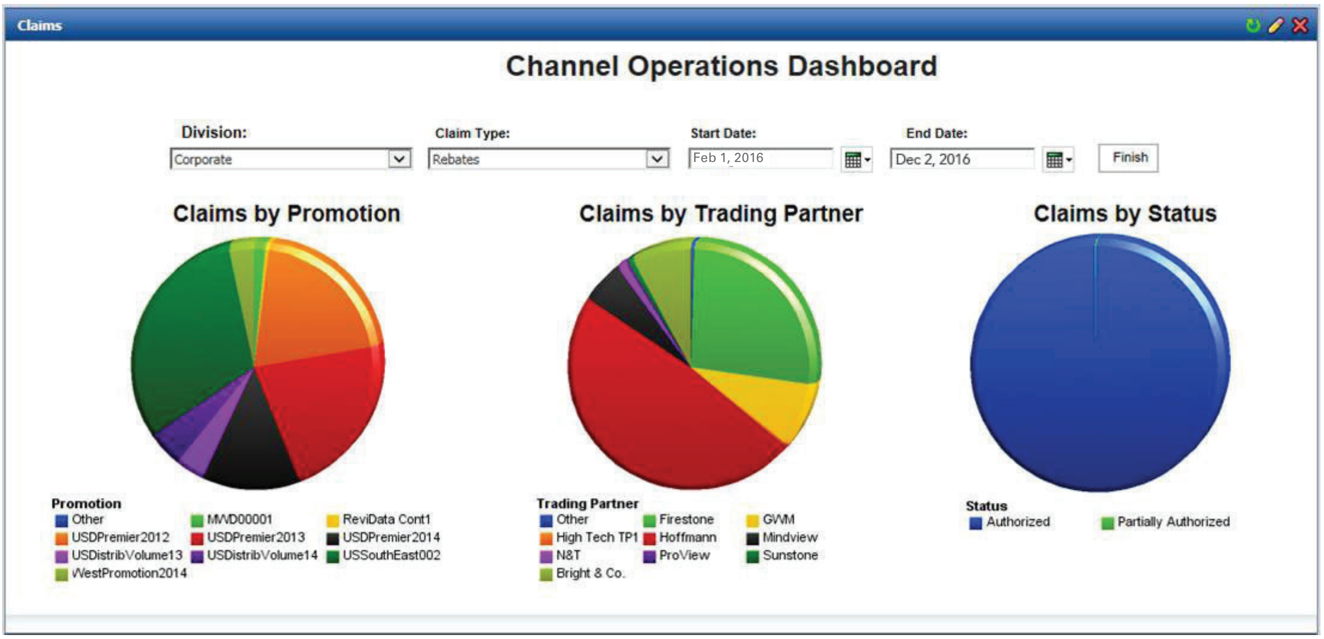
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Firestone
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Hoffmann
Mindview
N&T
ProView
Sunstone
Bright & Co.
Status
Authorized
Partially Authorized

Improve Partner Engagement

Forrester Research identifies partner engagement as the key predictor for channel teams in being able to achieve partner loyalty and sales productivity.[3] Without systems that enable channel teams to offer meaningful incentive programs, partner profitability, and meaningful business insights, channel teams are left with nothing more than relationship building. Channel teams make the most of relationship building, but this approach cannot scale for global enterprise business.

Best Practice #6: Streamline the onboarding process to speed partner productivity

Partner Recruitment and Signing

Recruiting new partners is an important step in managing the channel and is best supported with business performance metrics and insights based on real channel performance. For example, knowing which partners have performed well and with better cost-efficiency informs channel teams about the characteristics and behaviors that can help new partners to be more successful.

Systems support for the process of engaging and signing new partners can also be helpful, easing the process of placing candidate partners under non-disclosure agreements (NDAs) and speeding partner agreement definition and signing. It is essential that the terms and conditions governing the relationship are fully defined, memorialized, searchable, and retrievable for channel managers. Ideally, obligations and other activities associated with the agreements can be tracked and managed. For example, if partners are required to obtain certifications as part of their initial on-boarding, then the capability to track and manage that is ideal for channel teams to obtain as part of their authoring capability package.

Best Practice #7: Provide meaningful business data and insights to partners that support improved sales planning and increase partner engagement

Enabling Joint Business Planning

Normal channel management practices include quarterly business review (QBR) meetings, arranged by manufacturers or distributors with key partners in the channel. In preparing for these meetings, manufacturers often lack access to analytics that will provide actionable insights for partners.

For example, partners benefit from understanding how they perform in these ways:

- Sales performance by a partner within their category (e.g., gold, silver or bronze partner level)
- Sales performance by a partner within their region
- Sales performance by a partner within a time period, such as quarter-over-quarter and year-over-year
- Sales performance by a partner within an identified strategic target market
- Sales performance by a partner for a specific product category
- Utilization of incentive program funds by the partner, inclusive of rebates, chargebacks, stacked incentives, MDF, and SPIFFs

Partners would also benefit from self-service ability to look up the status of payment processing on specific claims or sales made by the partner.

3. "The Channel Partner Loyalty Playbook," Forrester Research, 2014.

For partner QBRs, channel teams would benefit from being able to prepare in advance with analysis and reporting on partner performance. Armed with better business data and analytics, channel teams would be able to engage partners more fully in joint business planning discussions. Finally, serving partners with meaningful updates on payment processing, utilization, and performance trends would add high-quality content to partner portals.

Assessing Partner Performance

Sometimes, the partners that utilize incentive program funding and perform at the highest cost are not necessarily the ones delivering the highest revenue contribution. Being able to identify under-performing partners, engage those partners more appropriately, and determine better strategies for producing sales is critical to the success of a channel-intensive business. Likewise, identifying partners that consistently deliver high-value sales at cost-effective rates enables their characteristics and behaviors to be modeled for recruiting and coaching efforts.

Rich analytics are required for channel teams to perform partner assessment in a meaningful, actionable, consistent, and repeatable way. Analytics must also tie together the data in the system from all phases of managing programs, partners, and products through the channel. This data includes the definition of incentive programs, the utilization of the programs during operational phases, and business results achieved. This data includes the details of partner agreements, the performance of partners in meaningful categories, and the utilization by individual partners of the programs offered. This data also includes the plan for product sales through the channel, the programs offered to support the plan, and the sales results such as sales profitability, market share, and geography.

Best Practice #8: Pay incentive claims faster and effectively manage obligations to increase partner satisfaction

Partner Communication on Incentives

After new incentives are defined, communicating to the partners with accuracy and timeliness about the program becomes a critical next step in engaging the partners. Systems that assist channel managers with communications will help speed the process by:

- Providing accurate lists of eligible partners
- Providing accurate eligibility information on the combinations of factors on which partners will get paid
- Providing the accurate timeframe governing the program

In addition, it is advantageous for channel teams to be assisted in communications about all active incentive programs at the time that a new partner is onboarded. With this type of assistance, channel teams can notify new partners accurately and quickly for more immediate partner encouragement.

Operationalizing Partner Payments

Due to the complexity of validating, calculating, and processing payments, it is typical for trading partners to wait months to receive payment. It is common, for example, for trading partners to wait for payment up to 180 days (two full quarters) from the time they submit a claim or order. If the trading partner does not agree with the payment calculation, they can – and often will— dispute it by escalating to the channel executive team. Often times, manufacturers do not have sufficient audit trail capabilities to address disputes and when disputes occur long after the sale, this lack of documentation can exacerbate the problems in the process.

The result is a decline in partner satisfaction, combined with more time and money spent by the manufacturer. Furthermore, if the partner believes that the process of receiving payment will take too long, the partner may become less willing to participate in field initiatives, marketing programs, and other activities. This lowers the overall engagement, loyalty, and sales productivity of partners.

What's needed is a system that enables manufacturers to validate and calculate payment due to partners. Such a system requires access to the incentive program definitions and trading partner agreements, so that details on terms and conditions can be examined and enforced as part of the process. Integration with ERP systems is required to enable financial teams to leverage accurate payment calculations within their systems of choice.

Conclusion

Companies that sell through multi-level sales channels must maintain focus on four key business objectives in order to get maximum value from channel programs, partners and products:

- Increasing channel revenue
- Reducing the cost of channel sales
- Gaining actionable intelligence
- Improving partner engagement

Working with over-stretched resources and inadequate support systems, manufacturers are finding it difficult to achieve their objectives. The volatility of today's marketplace and the complexity of channel conditions only serve to put increased pressures on these organizations. Channel teams caught between the demand for better cost efficiency of channel sales and the need to drive partner engagement and productivity must seek to implement purpose-built systems that will enable and support ongoing channel success.

An effective solution for channel management will improve business agility and provide robust capabilities to achieve these core channel objectives. By implementing such a solution, companies will be able to more effectively execute channel programs and incentive strategies. They will also be better equipped to assess partner and program effectiveness and evolve strategies to meet changing partner demands and evolving market conditions.
Model N provides a robust solution for channel management that enhances processes and improves outcomes for channel-driven organizations.

Why ModelN for Channel Management?

For organizations looking to accelerate revenue through diverse, multi-level sales channels, only Model N helps to:

- Increase channel sales revenue with higher-performing incentives and greater program participation
- Lower the total cost of sales by automating incentive processing, eliminating overpayments and reducing reliance on high-cost, low-return programs
- Improve partner engagement with better insights, more profitable programs and faster payouts
- Continually improve program and partner performance and product profitability, by leveraging exceptional analytics

Only Model N Channel Management delivers:

- Enterprise-class solutions that tailor channel and contract management to the needs of the business
- Integrated applications delivered on a secure, purpose-built platform that seamlessly scales to manage the industry's highest transaction volumes and most complex channel structures
- 25+ years field experience in the most challenging, channel-intensive industries, such as high tech, manufacturing, pharmaceuticals and consumer goods

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