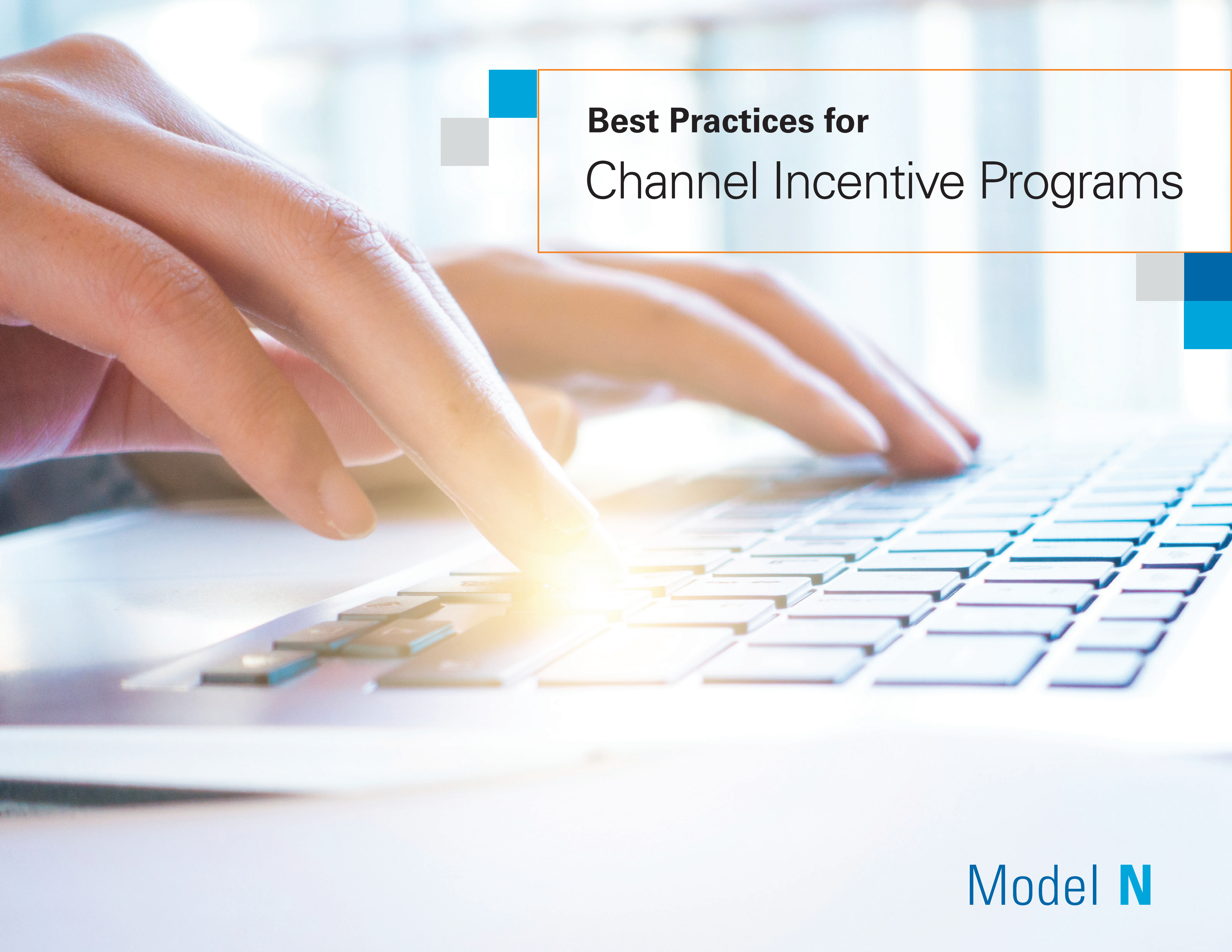

Best Practices for

Channel Incentive Programs

Model N

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Introduction

Manufacturers and vendors rely on financial incentive programs to motivate their channel partners. In turn, channel partners (resellers, distributors, etc.) rely on these programs for revenue. According to one source, manufacturers spent $55 billion USD in channel incentive programs in 2012, out of a total channel marketing budget of about $69 billion USD. Thus, incentive programs play an important role in marketing to the channel.

Despite their potential to improve channel performance, however, incentive programs often fail to live up to expectations. This shortcoming results from various causes, such as poor design and execution. But a major shortfall can be attributed to inadequate data.

Missing or inaccurate data makes it impossible to tie incentives to actual performance. It leads to slow and error-prone payment processing, and prevents the calculation of program ROI.

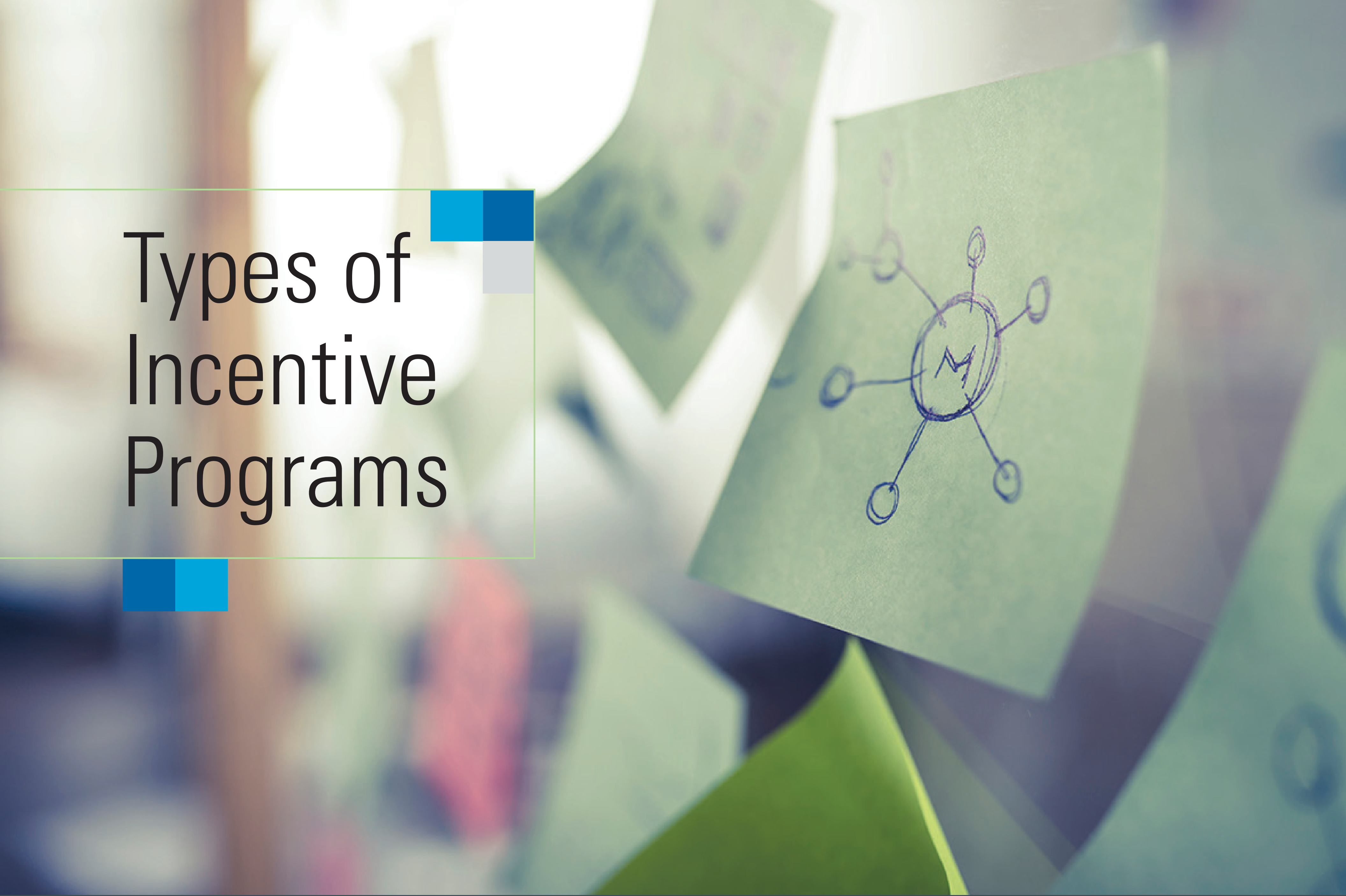
With so much at stake, manufacturers must take a vital interest in perfecting their incentive programs.

Our purpose here is to examine c**hannel incentive programs for best practices**[1]. What types of programs are manufacturers and vendors using today? Which programs do channel partners respond to, and why? How do you measure success? How can programs be improved?

We'll answer these questions and more, drawing on experience and research conducted with practitioners who derive a majority of their income from the channel.

1. "What makes a channel incentive program successful in the new channel?" White Paper, hawkeyechannel.com

Types of Incentive Programs



Incentive programs can be categorized in a number of ways. A recent Channel Data Management survey conducted by Baptie & Company and Model N[2] among 85 technology manufacturers listed the following types of partner incentive programs:

- Sales quota attainment
- MDF/Co-op
- Product based programs
- Special pricing
- Ship and debit programs

Respondents were asked to rank which types of programs they favored. MDF/Coop programs topped the list, with nearly 72% of respondents running these types of programs. MDF (Marketing Development Funds) are monies given by manufacturers to partners in advance of performance. They are intended to encourage a specific behavior, such as marketing tied to a particular product or service. Coop programs award monetary credits to partners for sales that result from marketing a particular product or service. They are also called "trade promotional allowance" programs.

In this same survey, more than half the survey respondents also reported running Special Pricing, Product-Based, and Sales Goal Attainment programs. The least popular type of program, run by less than one quarter of the respondents, was the Ship and Debit program. A Ship and Debit program is essentially a Special Pricing Agreement.

The manufacturer offers very low pricing to a distributor to serve a specific end-customer. The distributor earns a "lower-than-normal-margin" price by providing extra services to the customer.

2. 2014 Channel Data Management Survey Results: Using Channel Data to Manage Partner Programs, White Paper, http://channelinsight.com/resources/white-papers/2014-channel-data-management-survey-results/

TYPES OF INCENTIVE PROGRAMS

In a separate survey conducted among vendors and partners[3], incentive programs were classified somewhat differently, as follows:

- Performance based
- Big deal discount
- Volume rebates
- Short-term, price-based
- SPIF
- Non-payment incentive
- MDF

SPIF (Sales Performance Incentive Fund) and Rebate programs could be classified as "Sales Quota Attainment" programs, where the manufacturer rewards the distributor (company or salesperson) financially for selling a certain amount of a product or service.

Other types of incentive programs include loyalty programs, which are designed to build relationships by rewarding desired behaviors over the long term, and sales contests, which include the element of chance to earn a reward.

In the previously-mentioned survey, rebate programs were further classified by manufacturers as follows:

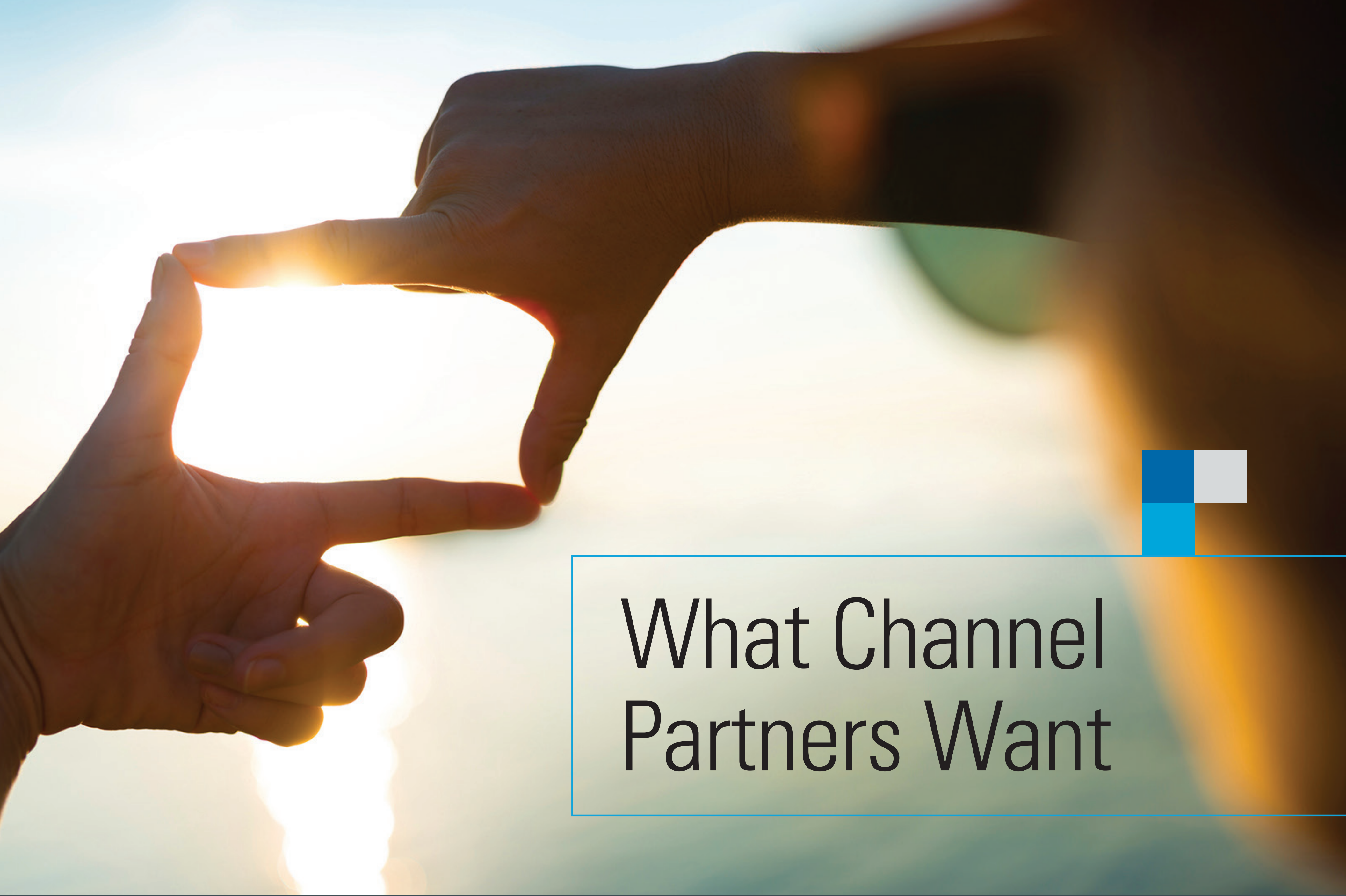
- Performance based
- Objective based
- Activity based
- Program based

Manufacturers favored performance based programs, for example, those using metrics such as year-over-year growth or sales quotas. An example of an objective based program is one using new customer acquisition as a metric. Programs that allocate MDFs are an example of activity-based programs, while a ranking system such as Bronze/Silver/Gold describes a program based plan.

Manufacturers view incentive programs as motivators to encourage their channel partners to sell regularly on their behalf.

Most of these programs rely on financial compensation, hence the importance of accurate, timely data to gauge performance.

3. Silicon Valley Research Group, 2012



What Channel Partners Want

Incentive programs are more than a “nice to have” for channel partners. Partners rely on these programs for revenue. But to what degree? The Silicon Valley survey found that incentives can boost partner sales and profits by as much as 40 percent.

So which types of incentive programs work best?

In this survey, partners rated the following types of programs as the most motivating:

- Big deal discounts
- Performance based
- MDF

They rated the following as the most effective:

- Performance based
- Big deal discounts
- Volume rebates

Regardless of program type, certain elements must be present to ensure success. One key factor is communications.

For starters, partners need to know that the program exists. Next, they need to know the details—how it works and how to achieve the rewards being offered.

As reported by Parago, a global leader in customized incentive and engagement solutions, email remains the most used means of communication to share information, followed by LinkedIn, Twitter and Facebook.[4] However, one email announcing the program is hardly enough. Communication must be regular and continual. It also must be clear and simple.

Parago suggests using a variety of media channels, such as direct mail, personal presentations by channel sales managers, placing posters in your partner’s place of business, or using telemarketing or text messaging.

Complexity is the enemy of program success. Partners want easy-to-understand programs with realistic and attainable goals. And they want cash incentives, not prizes. Prize rewards lack universal appeal and present tax complications.

Finally, partners want to be paid promptly, consistently and accurately. Late incentive payments can damage relationships, undoing the original purpose of the incentive program.

4. Top Ten Tips for the Most Effective Incentives in 2015, Webinar Video, 2014, http://www.bhengagement.com/webinar-video-top-10-tips-for-the-most-effective-incentives-in-2015/

Obstacles to Success

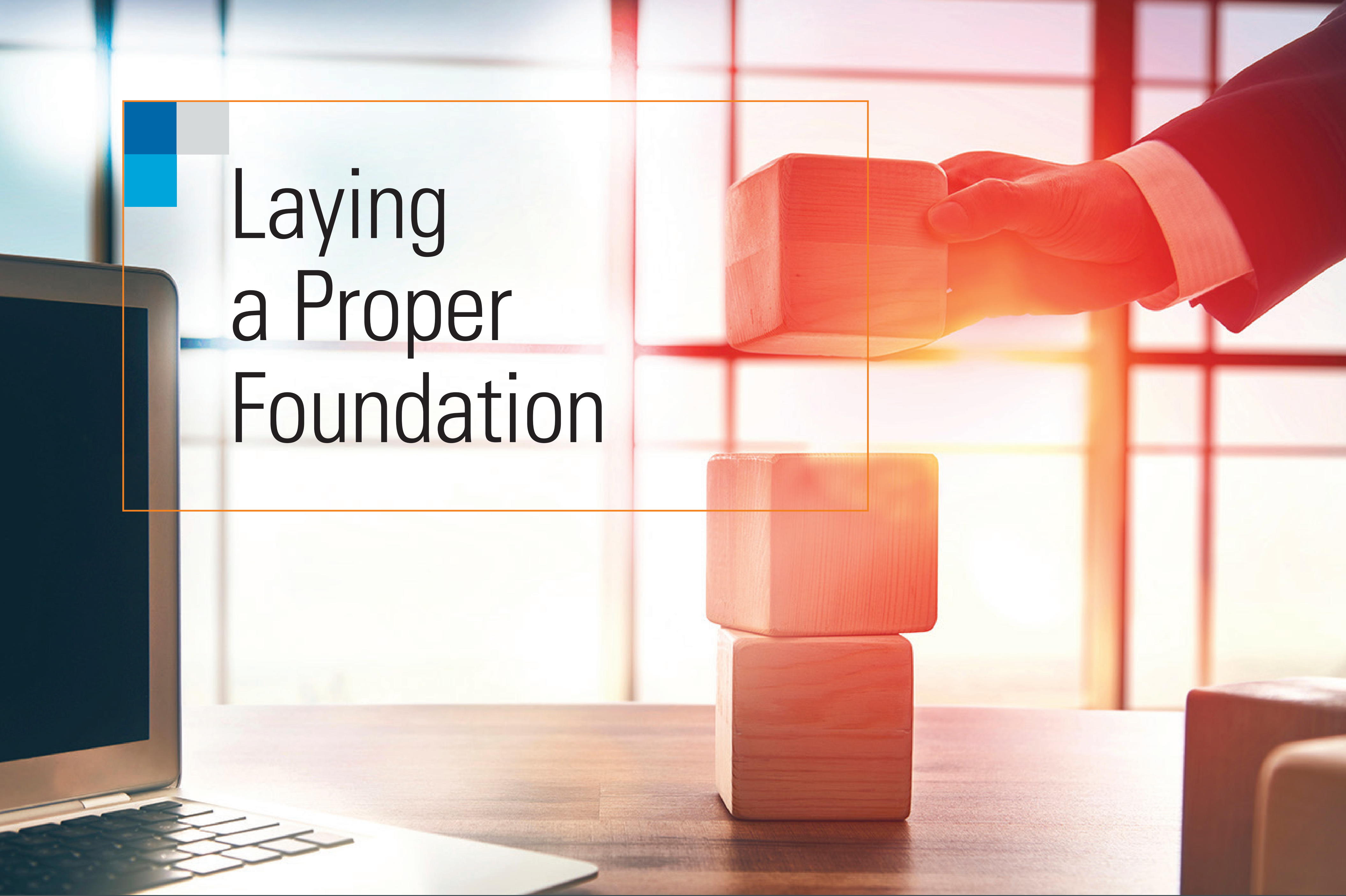
Even the best designed incentive program can fail when data is missing or inaccurate. Manual processing of claims and rebates places a huge burden on the partner. To claim benefits, partners must track sales and submit claims with proof of performance. The manufacturer must then manually verify these claims. This process often leads to requests for more information and delays before claims are finally paid out.

The challenge is collecting consistent and standardized data from channel partners[5]. Different partners use different IT platforms, so the burden falls on the manufacturer to translate sales data from these diverse platforms into a common format to determine eligibility for incentive programs.

Without timely and accurate data, manufacturers can't know how well a program is working until it's over, if then. They lose the ability to make course corrections mid-stream. Inaccurate data and manual processes impede the prompt payment of claims. They also lead to claims being overpaid. In the Baptie & Company/Model N survey, more than one-third of respondents reported overpayment errors ranging from 5 to 10 percent.

In the Silicon Valley research study, respondents reported the average incentive overpayment as 6 percent. This same survey found that respondents ran an average of 21 channel incentive programs annually. For these companies, incentive overpayments ran in the millions of dollars. That's revenue needlessly lost.

5. See Channelinsight's eBook on Channel Data Collection Best Practices: http://info.channelinsight.com/-temporary-slug-02a9ddd7-1dc8-4e5c-9aee-d67de4d39fe3



Laying a Proper Foundation

Accurate, timely and standardized point-of-sale (POS) data is the foundation for an effective incentive program.

Easier said than done. According to the Silicon Valley survey data, manufacturers can generally segment their channel revenue by partner type; however a majority cannot identify the end-customer source of that revenue. Only 34% of respondents had complete, accurate and standardized data about end-customers.

The survey also revealed that a majority of companies rely on self-reporting by partners and end-customers for their POS data. Self-reporting is prone to errors, leading to incomplete and/or inaccurate data.

The ideal situation would be having channel POS data that identifies every partner and every end-customer in every sales transaction—and having this data cleansed, standardized and available in real time.

This would allow you to enhance the data by attributing it to a particular category of partner, such as tier-one or tier-two. You could also enhance the data by end-customer and vertical market segment.

With this segmentation information available in your POS transaction data, you can more precisely target the partners that you want to motivate. You'll know who they are and whom they are selling to. You'll know whether they are reaching new accounts, and what percent of their sales are derived from existing, but strategic, accounts.

You'll understand which vertical market segments your partners are penetrating, and how much they are selling in each segment. You'll know which products or services they are selling and to whom, so you can find cross-selling and up-selling opportunities to tailor incentive programs around.

This complete and nearly instantaneous view of POS transactions lets you see how well different partners are performing with your incentive programs. You'll know where to focus, and where to make changes and adjustments. And you can make these alterations mid-stream, turning an incentive program that isn't working into one that performs to your expectations.

Understanding your channel partners and end-customers in detail lets you measure their performance against your strategic goals. You can use this detailed POS transactional data to design incentive programs at the level needed to drive your business forward.

For example, you can tier, or segment, partners by their potential to fuel your growth. A tier-one partner might be motivated by financial incentives linked to sales lead generation, deal registrations, rebates on products sold, MDFs on targeted markets or products/services, plus a number of other incentives.

For a lower tier partner with less potential to drive business, you might simply offer portal access and sales/marketing collateral to help them promote your products or services.

Having accurate sales data history allows you to create incentive programs that reward incremental revenue growth, not just the attainment of a revenue goal. Avoid rewarding partners for recurring or existing business, which provides no incentive to grow.

And for even greater leverage, you can ally yourself with complementary vendors, and stack their incentives with yours to provide greater motivation to your partners.

Part of your foundation for designing successful incentive programs is simplicity, visibility and timeliness. Make your programs easy to understand. Give your partners access to a portal and dashboard so they can measure their own progress toward set goals. Make the dashboard highly visual, so partners can see at a glance where they stand. And keep the dashboard up-to-date with up-to-the-minute information. Nothing motivates like a deadline staring you in the face.

Finally, pay your incentives on time. Make 30 days your outside limit. Respect your partner's cash flow.

Modeling and Testing

With accurate, historical POS data, you are in the best position to model and test incentive programs before you launch them.

No more "ready, fire, aim."

Draw a careful bead on that rebate program, for example. Can you calculate the expected ROI? What incremental revenue can you expect after deducting all the costs of launching and running the program?

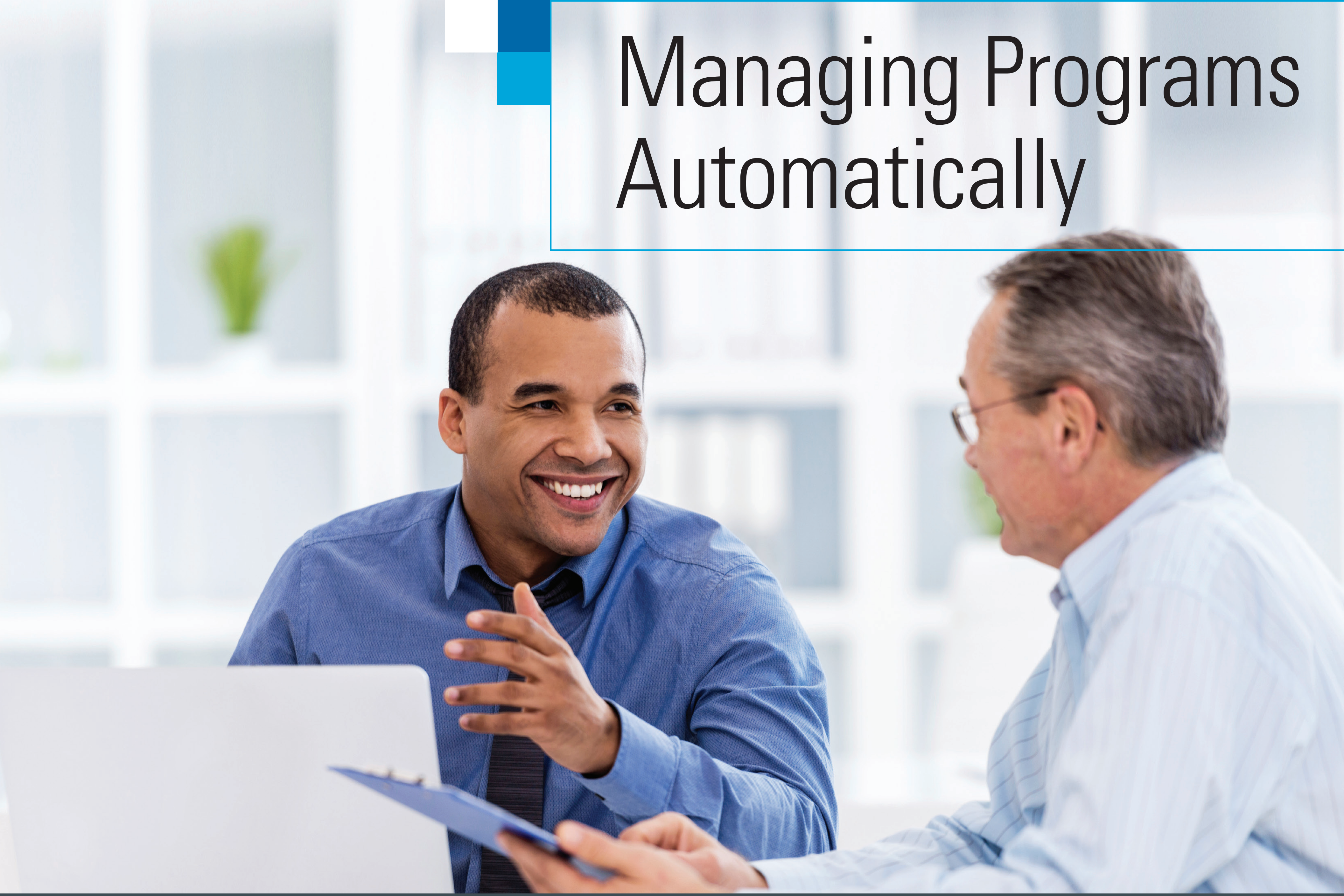
Modeling a program requires answers to a few basic questions:

- What are the goals of the program?
- Which partners am I targeting?
- How will I make partners aware of the program and train them?
- What is the definition of program "success"?

Answering these questions will help you decide which type of incentive program might work best. Are you trying to increase sales to a specific, targeted vertical market? Do you want to improve sales performance for a specific product or service? Are you launching a new product or service that you want your partners to promote?

Once you have modeled your program around clear, focused goals, give it a test run. This step, also, requires accurate, historical POS data. What has worked in the past? It's also likely to work in the future. At least it's a good starting point. But you can't even start if you don't have clean, standardized and accurate data.

Managing Programs Automatically

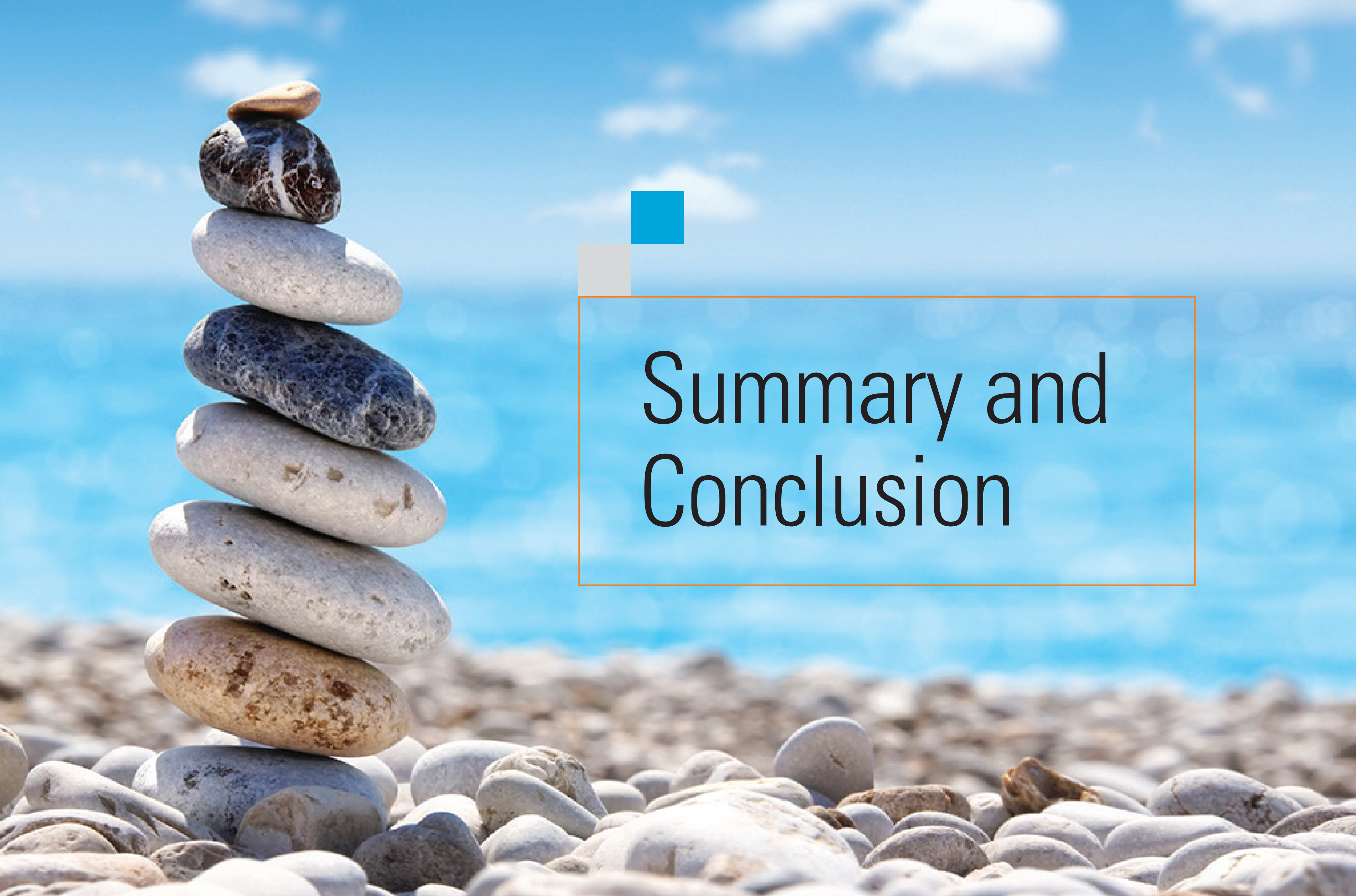


Some things lend themselves to automation; others don't. Designing an effective incentive program requires a human with a thinking brain. Getting that program to run on autopilot, however, does not. Nor does measuring the program's effectiveness.

What are the elements of an automated incentive program management system? Here are some of the essentials:

- Doesn't require IT staffing or hardware
- Uses technology to identify eligible partners
- Has calculation rules and program definitions embedded
- Has calculators to do the sales math
- Contains lists of partners, products, geographies, vertical markets and customers
- Employs a built-in audit trail to satisfy regulatory requirements
- Integrates with other front end/back-end company systems

The benefits of an automated incentive management system are many. You can create rules about who is eligible for what incentive program and apply them to your channel partners across the board. You can calculate incentive payments for each program automatically, and pay incentives speedily without the need for a cumbersome claims process. You can set goals against which to measure progress, and provide a dashboard so participating partners always know where they stand. And you can accurately measure program ROI, allowing you to know which programs are driving business and which are not.



Summary and Conclusion

SUMMARY AND CONCLUSION

The starting point for a fine-tuned, high performance incentive program is complete, accurate and timely POS data. With that foundation, you can decide which channel partners you want to motivate and what type of program design will work best to serve both your interests.

Using a Channel Data Management (CDM) cloud application with an Incentive Management application built in, you can model and test programs before launching them. You can also measure performance in real time, and make course corrections as you go to ensure that a program performs as expected. And you can measure program ROI, allowing you to fine-tune programs even further to grow revenue and profit in the channel.

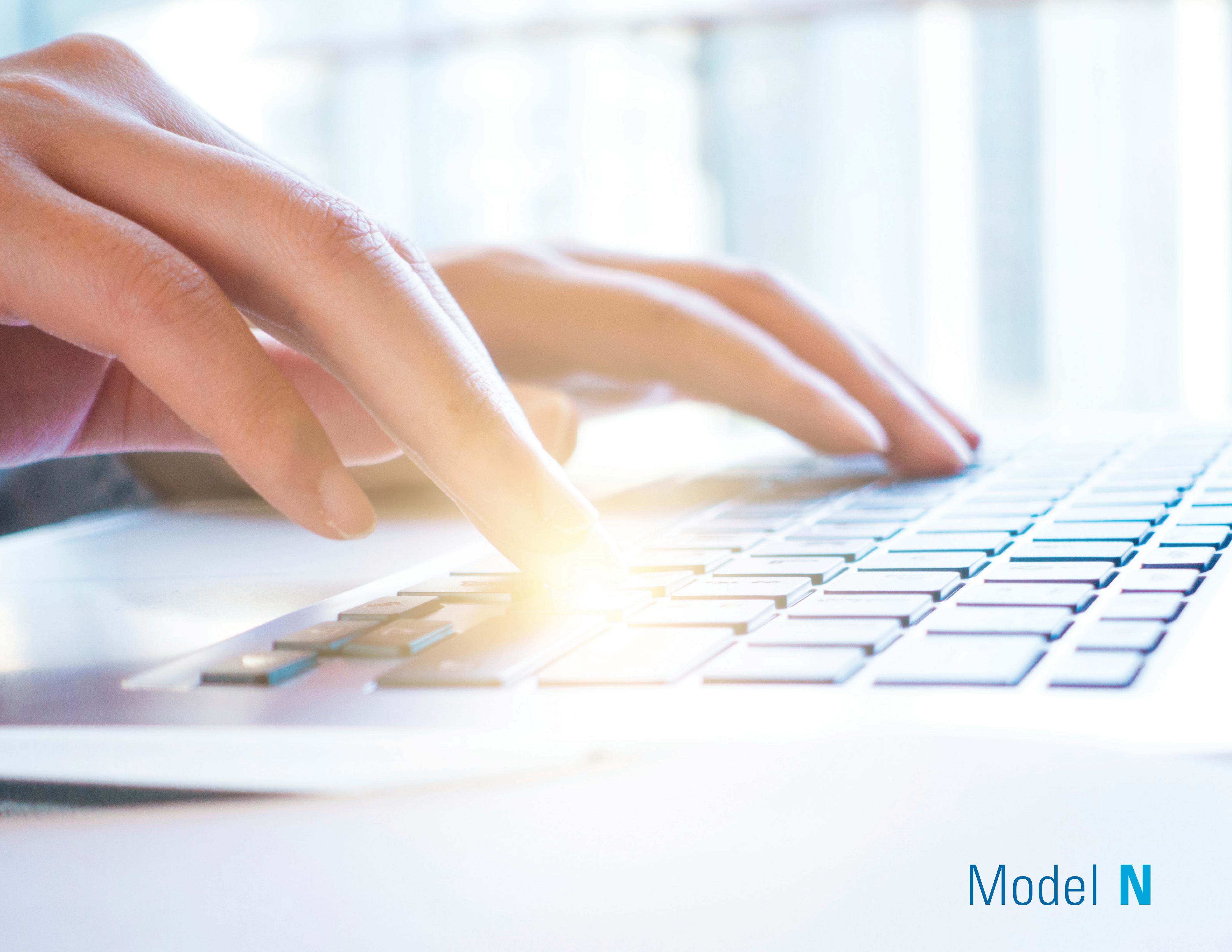
CLOSING NOTES

The content presented in this eBook is intended to provide foundational information to help with channel partner management, as well as provide best practices for channel data management.

To assist your effort further, this information can be supplemented by other best practice white papers offered by Model N including:

1. Webinar: Best Practices for Incentive Programs in the Channel
2. eBook: Best Practices for Enhancing the Vendor/Reseller Relationship

For more information, visit www.modeln.com.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