What Do Channel Partners Really Want?

The Partner’s Perspective on “Incentive Program Best Practices”
Executive Summary

Your channel sales account for an average of 60% of your revenue. With worldwide IT spending expected to reach $3.8 trillion in 2014, that adds up to an impressive $2.3 trillion in channel sales revenue for the year. So, why does it seem so difficult to grow sales through your channel?

Success in your channel depends on your relationship with your partners. Too often vendors focus on the wrong things when trying to grow their channel sales. Model N surveyed 102 senior channel distributor and reseller executives to uncover what they believe to be the key factors for channel success.

As a result, we have identified Best Practices, as defined by channel partners, for vendor/partner relationships with an emphasis on how to create an effective incentive program. The key is communication and information sharing between partners and vendors. Without shared, accurate, timely sales performance results, both vendors and partners are — at best — guessing about what is effective. It is time to stop guessing.

Introduction

Channel growth is a goal shared by vendors and partners. Why is it so frustrating? What really works to increase channel sales? And what doesn’t?

Model N posed that question to channel partners including distributors, resellers, system integrators and direct marketing retailers. The answers reflected the challenge that plagues all relationships — dependable, reliable, timely communication that results in a true sense of partnership. To quote one respondent, “We want teamwork, we want to work together to achieve our goals.”

What was encouraging was how much value partners see in their vendor relationships, especially when looking closely at the elements that comprise effective incentive programs. This was exemplified by partner willingness to share details about the behaviors and incentives that work for them, those that don’t work for them, and their candid responses about just how important incentives are to their financial success.

To illustrate the financial impact for both vendors and partners, we discovered that 60% of respondents indicated that an effective incentive program can increase sales of a particular vendor’s products by up to 40%. That is good news for the vendor, but what about the partner? What do partners gain from incentives? Our partner survey respondents reported that incentives can account for as much as 14 – 18% of their total company revenue. From these findings it is apparent that effective incentives benefit both vendors and partners.

Business Issue

This research sought to provide guidance for technology vendors who are interested in implementing best practices in their relationships with channel partners. We took a deeper look at how successful relationships can grow sales, with special emphasis on incentives. We chose to focus our questions on:

- Identification of the aspects of vendor relationships most crucial to partner success
  — Evaluation of current vendor performance in this area
• Identification of key aspects for successful incentive programs
  — Evaluation of impact on partners of both effective and ineffective measures

• Measurement of financial impact of incentive programs for partners

• Identification of the impact of communication and data sharing on success
  — Discovery of suggestions for improvement
  — Understanding importance of social media in communications

It was our intent to delve into the issues and identify best practices as defined by partners for vendors to use as models in their own channel relationships.

Best Practices Survey Methodology and Demographics

In March of 2012, Model N surveyed 102 U.S. channel partners. Both qualitative and quantitative research methods were employed. The results are statistically valid and can be projected to the larger channel partner population, while commentary was provided by in-depth interviews.

We reached out to the owners, presidents, CEOs, VPs, Directors and Managers of VARs, system integrators, distributors, and direct marketing retailers. The size of the average enterprise of our respondents was about 75 employees and $125M in annual revenue. Products included systems, sub-systems, software and components; and vendors included HP, Cisco, Microsoft, IBM, Dell and Apple, among others.

As we probed, we wanted to identify and compare both the importance that channel partners placed on a variable and their perception of how well the vendor performed in delivering that variable. First, we asked partners to rate each variable from 1 to 10, with 10 being the best. Then we compared the variables as shown in a chart illustrated in Figure 1, which shows a diagonal line. Variables that fall on the line indicate that performance by vendors is equivalent to the importance assigned by partners for that variable. Above the line is the “area of diminishing returns,” which indicates that vendors are over-investing given the level of importance to partners. Below the line is the “area of opportunity for improvement,” which identifies areas that need greater attention by vendors.

What do Partners Need to Succeed?

Give and take is essential for relationship success. The Model N survey, although focused primarily on what partners want from vendors, also explored the partner perspective on their value to their vendors. Partners understand the need for reciprocity and believe that they bring quite a bit to the table. When asked to define their contribution to the vendors they represent, partners identified their specific technical expertise, ability to leverage existing customer relationships and in-depth local market knowledge as the primary services they provide to their vendors. The ability to stock inventory and handle the logistics involved with product delivery was also seen as an important role.
When asked to describe how vendors can help partners cope with the changing sales environment, our respondents provided clear direction. A request for additional sales and marketing support was first and foremost, followed by the need for sales and technical training. Channel partners also expressed interest in having the vendor share best practices in sales, marketing and market research. In short, they agree with these words from a manager at a distributor, “Give us all the information you can to promote your product.”

We asked partners to rank the importance of a pre-defined list of vendor activities and attributes. Channel partners listed high quality products, vendor reputation in the marketplace and competitive pricing as the most important activities and attributes that contribute to their success, closely followed by tracking and reporting on sales and incentives. We also asked them to rank how well the vendor delivered on each of the variables. The comparison of importance to partners vs. the ability of vendors to perform is shown in Figure 2. It is clear that partners would like vendors to invest more in each of the most important activities and attributes. Partners also reported that competitive benchmarking is important to them and few vendors do a good job of providing this information. It is interesting to note that good incentive programs are important, but not primary, and in fact cannot make up for deficits in reputation, product, pricing, and communication.

One area where partners feel that vendors over-invest is social media. Although 95% of channel partners thought that social media tools would be at least somewhat important in communicating with vendors in the future, the consensus was that there is too much emphasis placed on it presently.

What Do Partners Consider To Be Best Practices for Incentives?

Channel partners ranked the level of motivation provided by varying types of vendor-sponsored incentives, naming big deal discounts, performance-based campaigns and market development funds (MDF) as the most motivating. When asked to designate the most effective incentive programs partners chose performance-based, big deal discounts and volume rebates. The flip side was also addressed. Partners identified non-payment incentives as the least effective and least motivating type of incentive, stating that “Prize rewards are the least effective.”

We compared level of partner motivation associated with different program types with their corresponding level of effectiveness in Figure 3. As you can see, most program types fall in the “area of diminishing returns” or over-investment. The one type of program identified as needing additional focus or investment is MDF. To quote a respondent, “We want MDF that we can use for custom programs.” In other words, partners want to leverage their local market knowledge to develop their own incentive programs. Partners want to be respected for what they know to be their strengths: technical proficiency and knowledge of the specific needs of their local markets. By expanding investment in MDF, vendors leverage partner expertise and partners gain control of planning programs that they know will be effective for their targets.
Channel partners are very clear on the factors that contribute to an effective incentive campaign. First and foremost they love cash — the more the better! A majority of partners report that incentive programs are responsible for as much as 40% of their overall profits (Figure 4). The simple truth is that a cash incentive is frequently carried directly to their bottom line. As we have seen, partners depend on incentives for revenue and profit margin, so they expect to be paid consistently and quickly. In keeping with this they want to be in the loop on details and appreciate getting tips that will help them succeed.

Progressive incentives motivate the best because they encourage a partner to participate and provide different levels of rewards based on incremental sales. Progressive incentives combined with realistic and attainable goals together encourage a partner to engage with a vendor’s program. The combination of an achievable goal, with additional incentive to try for a stretch goal is very effective. The partner gets a taste of the reward and is inspired to want more. Communication of where they stand, and what it will take to get to the next performance level is key.

They are equally clear on program elements that do not work including incentives that are too small or those that are poorly marketed or overly complex. Additionally, partners will not participate in programs where the sales targets are out of sync with what they know to be demand for that product. And, as we have already discussed, prizes suffer from a lack of universal appeal (not everyone needs another big screen TV) and the taxes that must be paid on prizes can actually create a disincentive.

Channel partners shared that an effective incentive would be most likely to motivate them to invest more of their own marketing dollars and to stock inventory in support of that incentive. This level of partner support is crucial for vendor incentive success.

Communications Best Practices For Vendors And Channel Partners

Partners have indicated that they want more sales training, timely and detailed sales and incentive reporting and additional tips about best practices for effective use of incentives from vendors that can lead to their success. They are very clear about the communication they need from vendors. What information are partners willing to share with vendors? When asked about sharing POS and inventory data with vendors, only half of respondents indicated that they are comfortable or very comfortable sharing this information with their vendors. When asked to explain their reluctance to share this vital data, partners were very willing to respond. The primary reasons given were concerns about potential competitive conflict, lack of trust in the vendor and fear that the data could fall into the hands of their competition. One respondent, a manager at a large distributor, stated simply, “I like to hold some of the power by having this information,” underscoring that the partner/vendor relationship is seen as uncertain and potentially untrustworthy.
We followed up on these responses by asking how vendors could increase partner comfort with sharing POS and inventory data. Partners stated that first and foremost, vendors need to build trust. They can do this by honoring their commitments, contract and guarantees about how the data is used, and how partner relationships with their customers are handled. Vendors can address security concerns by providing clarity on security arrangements for data-in-transit and data at the vendor site. Finally, vendors must continuously work to improve their processes and programs in line with partner requests and be upfront about communicating these improvements.

Conclusions: What Do Your Partners Want?

To quote a partner, “Timely response to calls, shorter shipping times, effective communication... that’s what we want.” Our partner respondents were very clear about what they want. Vendors can change partner behavior with effective incentive programs because partners depend on incentives to boost sales and increase their profits. They want incentives and they want them in cash. Prizes are not appealing and can lead to a tax hit on the back end.

Keep it simple. Overly complex programs are difficult to administer and time-consuming. Your partners want to be selling, not filling out a mountain of paperwork. Communicate the details upfront, along with tips for success. Above all, pay faster and more accurately. Automate your incentives, track and report performance in a timely manner and your partners will respond by actively participating in and promoting your incentives.

Build trust. Honor your commitments, contracts, and guarantees. Continue to improve your processes and programs and communicate those improvements on a regular basis.

Follow these best practices and your partners will engage and they will succeed. Your partners will create their own marketing materials, and they will stock inventory to support your incentives.

Your path to growth is navigated shoulder-to-shoulder with successful partners.

1. Grow your end-customer and partner revenue: The future of Incentive and Rebate programs in the channel, Model N 2011
2. Gartner Forecast Alert: IT spending worldwide, 1Q14 Update