

A person's hands are shown holding a tablet computer. The background is a server room with racks of equipment, all overlaid with a blue tint. A large white circle is centered on the page, containing the title text. An orange banner is positioned on the right side of the image.

Model **N**
Guide to High
Tech Channel
Compliance

WHITE PAPER

Model N Guide to High Tech Channel Compliance

EXECUTIVE SUMMARY

If you are a sales, channel or finance leader, rethinking channel strategies to better connect sellers and buyers with your products and services is the new norm. In designing channel strategies, sales and finance leaders are experiencing new hurdles introduced due to expanding global and regional compliance issues.

In a recent survey of 300 executives published in the 2020 State of Revenue Report, 44% of executive said one of their top challenges is compliance. Also, senior executives have concerns about the data and information they rely on for effective revenue management. This topic also came up in questions about accuracy of data. It is unnerving to discover that despite recent advances in technology, particularly around data and analytics, about two-thirds (65%) of executives are less confident in the accuracy of their revenue reports today than they were a few years back.

The explosion of global channel sales and partner growth is a major contributor to these new compliance issues due to inadequate processes, siloed systems and data, and outdated reporting solutions. These hurdles are introducing new areas that sales and finance leaders must transform. Some of the critical areas include:

This guide will review the state of channel compliance, discuss current challenges, and provide recommendations for sales and finance leaders. The guide will also discuss how Model N's solutions can reinvent their strategies to know and grow your true top line while maintaining compliance.

- How will global or regional data privacy impact channel revenue, end-customers, and new market segments?
- How can we ensure our channel is not selling to denied or restricted parties?
- How can we be alerted to any gray market distribution of our products in the channel?
- What legacy processes should change to better support the indirect sales channel?
- What resources will we need to support channel partner growth and compliance?
- What technologies are needed to drive and understand channel compliance?
- What channel compliance analytics do I need to keep finance and other executives up to date?

To these questions you need a commercial system of record for channel revenue compliance.

INTRODUCTION

Channel expansion and digitization has accelerated the complexity of maximizing revenue in your channel. What was once a simple process of selling products via a few partners to end consumers now requires channel leaders to factor in country and global legal compliance. The diversity of multi-tiered indirect channels, the threat of non-branded copies of products, and gray markets can all impact the success of channel partners. What is meant to help accelerate revenue through channels can have a significant negative impact. Sales and channel leaders struggle to know and grow their true top line and trust the contribution of channel partner revenue to their organizations.

The harsh reality for most high tech companies is they face a growing myriad of compliance challenges. “With a new regulatory alert issued every nine minutes” according to Thompson Reuters, the strategic question that needs to be asked is: How do sales and channel leaders maximize revenue at speed and scale across billions of revenue execution moments every day while maintaining compliance in the channel?

THE PRESSURES OF TODAY'S CHANNEL COMPLIANCE

ASC606

Stated simply, ASC 606 is all about revenue recognition. For high tech companies, recognizing revenue often has many factors throughout the lifecycle of the sale. With products, product bundles, subscription models, product and service bundling, incentives and rebates, there is a myriad of things that can go wrong. If you are an organization that processes millions of transactions and generates a significant percentage of revenue through channels, this adds a level of complexity to endless combinations of revenue recognition challenges. As a sales or finance leader do you have a handle on all points of revenue in your channel and can you reconcile your incentives and rebates with trusted data?

General Data Protection Regulation (GDPR)

While the European Union's General Data Protection Regulation (GDPR) focuses on protecting consumer privacy and gives them greater control over how data is collected and consumed, high tech companies should consider two areas related to the channel.

First, with substantial restrictions on unregulated data collection, companies with indirect channels must secure the collection of data and ensure data privacy. Second, while data privacy is key, sales, marketing and finance teams want to know who they have sold to, how well products are selling in certain geographies and market trends associated with end-customers. Doing this with complete customer confidentiality is extremely difficult. It is time consuming and often involves human interaction and intervention with data. As a sales or finance leader do you have an active plan and automation in place protecting end-customers information originating from European Union channel partners to completely understand markets, trends, and channel revenue?

Regional Data Protection Regulation (CCPA)

While international protection is front and center, regional data protection has surfaced. CCPA ensures that consumers in the state of California have a right to know what personal information is being collected from them and offers them the right to ask companies to delete that information or opt-out of its collection altogether. Like GDPR, companies collecting data from the channel partners must secure and maintain the privacy of key information such as a person's name, address, unique personal identifiers, online identifier, email address, and other key information.

As a channel sales or finance leader, do you have a strategy, plans and automation in place to protect end-customer channel information? Will you know which markets and channels are performing and what trends are influencing success for your products?

Denied and Restricted Parties

As a sales, marketing, and finance leaders, how do you know if your channel is selling to an entity or party in question?

How can you confirm and automate that you are compliant?

While channel partners may be a large part of high-tech revenue, companies have the legal responsibilities to monitor and manage who they sell to globally. Numerous governments publish lists of entities and companies that are denied or restricted from doing business.

Using government supplied lists to manually review and compare what is going through your channel isn't efficient and effective as parties change. It often involves processes and resources to review channel data and to expose when parties are not in compliance.

Gray Market Sales

According to the American Bar Association, "Gray markets exist wherever unauthorized resellers can take advantage of pricing disparities and make money by importing goods from cheaper markets into more expensive markets. In our increasingly interconnected world, this kind of activity is becoming easier and more pervasive."

For many high tech companies, challenges such as price erosion, lost margins, channel relationships, brand impact and customer loyalty may be a few of the issues gray markets sales introduces.

While companies may use channel partner reviews to limit these actions, there must be a better way.

As a sales and finance leader, how do you know if your distributors and resellers are selling outside of defined territories, geographies, and products without pouring through tons of partner supplied information? Do you have a way to automate the review of potential gray markets?

Ideal Solution

TO ACHIEVE THIS TRANSFORMATION



Sales and finance leaders need to reinvent their internal solutions, processes, and organizations.

For sales, marketing, and finance leaders to capitalize on global markets, a commercial system of record for channel revenue with an emphasis on channel compliance is needed. Establishing a commercial system of record supportive of channel compliance won't happen overnight. Organizations should rethink their approaches, practices, and initiatives. They need to analyze and select modern solutions that automate, analyze, and track a wide range of compliance areas while maintaining incentives to motivate their channels. To achieve this transformation, sales and finance leaders need to reinvent their internal solutions, processes, and organizations.

A system of record for channel compliance allows a shift from infrequent and unknown channel information to real-time insights that are trusted, consistent, granular, and auditable. This provides a better understanding of partner pricing and contract consistencies, validates channel sales, surfaces sales anomalies, and confirms end-customer privacy. Also, channel compliance provides knowledge and validation of partner performance as well as marketing program success while maintaining end-customer confidentiality.

Model N

Model N Introduction

Most high-tech companies lack the consistency or have no commercial system of record for channel compliance. Without this system of record, contracts and quotes are error prone and will be a continuous source of overpayments and delays. This exposes manufacturers to considerable risk and continues their existing revenue execution crisis. Additionally, there is an inability to know at any given moment what current channel inventories are.

Model N integrates the entire channel compliance process from collecting, normalizing and managing data to ensuring compliance and privacy by identifying channel anomalies including gray markets and denied parties. Visibility into channel sales data and inventory is provided by 100% cloud, sophisticated data collection and cleansing solution that provides end-customer privacy. The combination of these capabilities enables companies to maximize every revenue moment while ensuring channel compliance.

A NEW LEVEL OF CHANNEL COMPLIANCE

Many **Model N** customers have adopted this automated approach and are achieving fantastic results. Diodes automated and standardized with Model N Channel Data Management which has resulted in significant ROI:

Diodes' 2018 revenue grew by **15.2%** and gross margins grew by

22%

Today, Diodes decision-making has dramatically improved since they've been able to consolidate their data. Decisions are now targeted instead of being applied to all regions. Diodes has daily insights into its channel with data that is consolidated and cleansed automatically with Model N's CDM. Through consistent and current data, Diodes has seen a 6% gain in margin and is now better equipped to maximize revenue and topline growth with regular and validated insights.

At Diodes, They Were Able to Achieve:

- Daily insights and transparency into the channel
- Transparency of the complete sales cycles down to the customer level
- Fully automated the channel data process
- Channel issues faster
- Better decisions with trusted data

"We were in the dark before the improvements CDM offered. Now we can pinpoint issues and target solutions faster in the channel. We can drive better business decisions with better data."

— **Emily Yang**, VP of Worldwide Sales and Marketing

"We now have an effective and measurable way to manage the channel. Model N's CDM solution made us much more proactive in our approach to working with our partners."

— **Ron Ryan**, Sr. Vice President,
Global Channels and Operations, Cambium Networks

Thanks for your time!

To learn more about Model N Channel Data Management, visit our solutions page [here](#).

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