

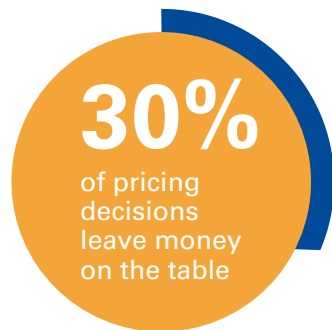
The Guide to Revenue Execution

The Strategic Imperative of
Ship and Debit Programs for
Semiconductor and Electronic
Components Manufacturers

Model **N**

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Digitization has compounded the complexity of what was once a simple process of selling products through a channel to end consumers.



Now sales leaders have to factor in a broad set of variables that impact margins and revenue. Channels, products, regions, and business models can all impact how products are priced. Add to that the need to negotiate some end-customer prices outside of pre-established terms. The last layer of complexity occurs when different incentive programs are factored in. What is meant to help accelerate deals through the channel can have significant negative impact on revenues. Sales leaders around the world are now struggling to maximize their true top line.

1% to 2%

of total company revenue is lost through incentive over payments

The strategic question that needs to be asked is: **How do sales leaders maximize revenue at speed and scale across billions of revenue execution moments every day?** The harsh reality for most semiconductor and electronic components manufacturers is that they are facing a growing revenue execution crisis. 1-2% of total company revenue is lost through incentive overpayments, 30% of pricing decisions leave money on the table, and there is an estimated \$2B worth of revenue leakage across the semiconductor and electronic components manufacturing industry.

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How is it possible for sales leaders at semiconductor and electronic components manufacturers to respond to the chaotic market which they were instrumental in creating? How do you maintain responsiveness to customers, successfully manage distributor and channel sales relationships, while improving revenue and margins in the face of downward pricing pressure? How do you effectively respond to market pressures while simultaneously maximizing your true top line revenue?

3-5%
Organic Growth

At Model N we believe it is imperative for sales leaders to implement or reevaluate their existing Ship and Debit programs to address these issues and capture 3% to 5% organic growth.

Ship and debit programs when done correctly can:

- Increase channel revenue and wallet-share of end customers
- Allow you to rapidly manage price changes in response to end customers
- Improve channel and distributor engagement by improving inventory management and reducing their overhead
- Enable the implementation of global pricing and inventory processes reducing your costs and improving responsiveness to channel demands
- Completely eliminate overpayments of credit claims and discount rebates to channels

We'll discuss these benefits in more detail, but first it is important to describe the ship and debit process and explain why it can be more successful than other channel strategies.

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The Rise of Ship and Debit

For decades channel sales would negotiate end-customer prices, ship inventory to their channel, and rely on their channel to ship the correctly priced inventory to the correct end customer as they purchased the product over time. You can see this simple process depicted in this chart:



Early on, this was a simple process to manage, but as organizations grew so did their complexity. Mergers and acquisitions added new products, new markets, and additional channels. Continual pressure to grow revenue led organizations to expand their channels so they could access new markets. They also added more tiers to their existing channels. Competitive pressures increased product catalogs by

forcing organizations to come up with more diverse products and more specialized products. IoT and the pervasive use of semiconductors and electronic components in nearly everything imaginable has created unprecedented demand. New products are rapidly developed and delivered making older products obsolete. Added to all of this is the growing market pressure created by digitization highlighted above.

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What was once a simple process to manage has now become untenable.

This growing complexity has led to a variety of problems that most semiconductor and electronic components manufacturers are trying to address. For example:

- Incentive overpayments due to poor quality data, challenges in validating POS and credit claims against prices, debit records, changing inventory value over time and channels double dipping into price protections
- Fragmented view of the market making them unresponsive to demand
- Lack of visibility into current inventories delaying their understanding of current liabilities
- Making price changes is slow causing loss of revenue and increased inventories
- Channel conflict caused by delays and an inability to protect their margins
- Lack of visibility into end-customer demand causes a decrease into top line revenue and end customer share of wallet
- Other areas of impact are: fragmentation of revenue streams and an increase of the number of end customers, increase the volume of transactions, more pricing volatility changing inventory values which dynamically impact price protection payments that may overlap credit claims

10%

All of this leads to 10% overpayment on credits.

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To address these issues Ship and Debit programs have been adopted.

These programs simplify a lot of the process for both the manufacturer and the distributor. With Ship and Debit a manufacturer sets a single price for their product which the distributor pays for all of its inventory. This eliminates the need for distributors to manage different inventories of the same product simply because the same product used to be priced differently for different customers. Then the end customer often negotiates the price down from what the distributor wants to sell it for. The distributor asks for permission to sell at the discounted price, and if the manufacturer agrees, the distributor ships the product and submits a credit claim to the manufacturer to make up for the discount plus their margin.



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Benefits for distributors and manufacturers

There are significant benefits to both manufacturers and distributors in this process which we will discuss here.

However, there are several pitfalls that sales leaders need to avoid if they truly want to maximize every revenue moment. **Before we discuss the pitfalls here are some of the benefits:**

For Distributors:

DISTRIBUTOR ASSURANCE

Let's face it, distributors are in the business of driving revenue while sustaining their business. Being able to claim a debit as soon as a product has shipped to a customer can have a positive impact on distributor relationships and long-term success. When distributors can sell a product and quickly claim the debit from the supplier, it improves their cash flow and keeps the distributors' outlook positive and reduces frustration. No longer will they have to wait weeks or months for payment to be "made whole."

DISTRIBUTOR CONFIDENCE

While there's an outside chance distributors may consider undercutting supplier prices, they have already paid the supplier for the product and need the confidence to focus on selling and notmaking or asking for price adjustments.

DISTRIBUTOR CHANNEL ENGAGEMENT

It is much easier to deal with a manufacturer with a simplified process. Distributors want to sell products from manufacturers who are easy to deal with, reduce their overhead, and pay them in a timely manner.

For Manufacturers:

MAXIMIZED REVENUE

Manufacturers can more easily maximize revenue because they have visibility into end-customer demand.

CHANNEL DEPENDABILITY

Channel organizations are no longer able to manipulate pricing to offering deeply discounted product prices to end customers beyond those who had special pricing agreements.

REDUCED OVERPAYMENTS

Incentive overpayments can be reduced dramatically.

RAPID AND EFFICIENT PRICE CHANGES

With simplified distributor pricing that comes with ship and debit, it is exponentially easier to change prices when market conditions dictate it.

A Better Way

This process resolved many uses, but also has some drawbacks. For distributors, the reporting process can be difficult. For the manufacturers, incentive payments need to be timely because distributors are now dependent upon the manufacturer to hit their already razor thin margins. These are problems that canbe worked out with improved processes and ensuring enablement of sales and accounting staff.

Superior technology is needed, however, to adequately address several of the pitfalls. People and processes can ensure that reporting is timely, but how do you ensure the data is accurate? How do you ensure the data is detailed enough to ensure accurate and timely payments? Also, how do you ensure the agreed upon price is enforced?

Many **Model N** customers have adopted this more sophisticated approach and are achieving fantastic results. Microchip established standardized and consistent global pricing and opportunity practices with the Model N suite of solutions which has resulted in significant ROI:

3-6%

increase in topline revenue by capturing more pocket share

10%

Elimination of up to 10% of overpayments on credit claims (averaging seven figures annually)

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Most semiconductor and electronic components manufacturers have no integration between their quoting and what ends up being their actual sales price. Without this integration matching credits to debit records and quotes is 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 process from quoting to credit claim, ensuring that pricing and credit claims are 100% accurate. Visibility into inventory and accurate sales data is ensured via a sophisticated data collection and cleansing solution and process that can occur weekly or even daily. The combination of these capabilities enables manufacturers to maximize every revenue moment.

“Model N has become a true value to the individual salesperson. It helps them do their job faster, better, more efficiently, and more effectively. They like it, and that’s really significant.”

— **Mitch Little**, Vice President of Worldwide Sales, Microchip Technology

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At NXP they were able to:

- Gain transparency into opportunity lifecycles
- Identify and remove roadblocks by measuring effectiveness throughout process
- Determine ideal prices using data and analytics
- Communicate more effectively with customers
- Accelerate quote turnaround
- Refine opportunities by leveraging systematic approval system and historical data behind each transaction
- Automate global pricing capabilities

“Model N allowed us to raise the bar in how we respond to customers, made us more effective in the way we respond to customers, made us more capable in the way we price, and to avoid any errors we might make.”

Vice President, Global Sales and Marketing, NXP

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