

Model N Guide to Financial Compliance in the Channel

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Executive Summary

Things are changing quickly for CFOs and finance teams in High Tech. Finance leaders are more involved and responsible for strategies and growth. It is no longer enough to play a traditional role focused on revenue and operations. CFOs are asked to deliver more value and play a significant leadership role in company strategy in high growth areas such as channels.

Channel expansions and growth are adding new complexity, financial compliance and risks.

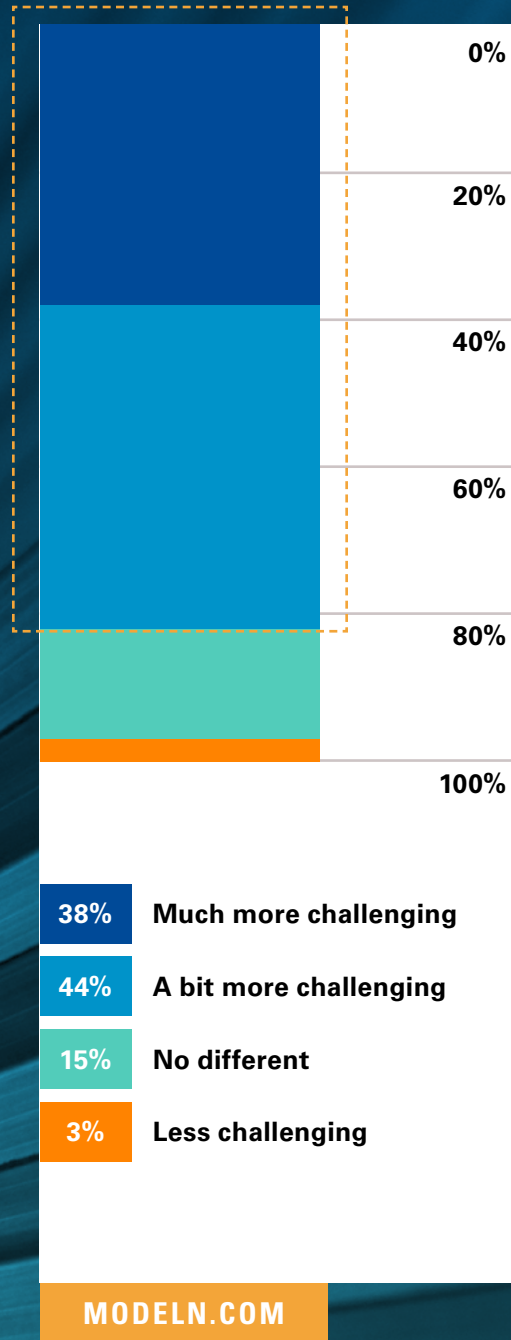
While channel sales leaders are focused on building and maintaining channel partnerships, the compliance challenges they create are often landing on the CFO's desk.

In a recent report, 93% of executives said they face challenges with financial control of their channel, especially with partner data, while 82% say channel financial controls are more difficult.¹

With the explosion of global channel sales and partner growth, there are new hurdles contributing to these new compliance challenges. The challenges include consistent partner communications, channel reporting guidelines, one-off sales commitments, fragmented channel processes, siloed systems, and insufficient data.

This brief will review the state of financial compliance in the channel, discuss current challenges, and provide recommendations for CFOs. We will introduce how Model N's solutions support the strategies and processes to ensure channel compliance and reduce risk.

82% say channel financial controls are more difficult.



¹ 2021 State of Revenue Report, April 2021



50%

of all leaders
said one of their
top challenges is
compliance risk.

Executive Hurdles

These hurdles are introducing new areas that finance leaders must transform. Some of the key issues include:

- What guidelines are needed to maintain compliance in the channel?
- How are new business models such as revenue annuities changing the goals and roles of channel programs?
- How can we establish and manage what sales are communicating to partners as it relates to on-the-fly incentives?
- What latitude does sales have with channel partners, and how does it affect compliance?
- Can we trust the data required to validate and pay partners and sales?
- How do we improve our financial audit trails in the channel?
- What should we be paying partners, and what earn-outs and payouts are required?

To these questions, CFOs and finance leaders need a modern commercial system of record for financial compliance for the channel.

Introduction

Channel expansion, operational efficiency and partner experience have accelerated the complexity of managing channels. Equal focus is being placed on business functionality, channel engagement and financial controls which in the past were overlooked or not a high priority.

The diversity of multi-tiered indirect channels, dozens of incentives and rebates, partner marketing, the threat of non-branded products being sold, and gray markets all have impacted the success of channel compliance. Also, with latitude given to sales and channel operations, it has become harder to manage liabilities, accruals and over payments are rampant. It was discovered that one multi-billion dollar manufacturer of networking solutions audited and found they were paying 8% overpayments across channel programs.

What is meant to help accelerate revenue through channels can have a significant negative impact. CFOs and finance often struggle to know and grow their true top line and trust the contribution of channel partner revenue while maintaining compliance.

In a recent survey of 650 executives, 50% of all leaders and 44% of CFOs said one of their top challenges is compliance risk. For CFOs and Finance, "channel incentives are designed to boost sales by increasing loyalty and motivating channel partners to sell products but are vulnerable to abuse which may cost high tech companies an estimated \$1.4 billion in lost profits each year."

Model N has observed that during the past 18 months, 50% of all channel tools projects have been driven by or heavily influenced by the finance organization.

How do CFOs and finance leaders maximize operational efficiencies while maintaining compliance in the channel?

Ideal Solution

For CFOs and finance leaders to capitalize on global markets, a commercial system of record for channel compliance is needed. Establishing a system of record supportive of channel compliance will not happen overnight. Organizations should rethink their approaches, practices, and initiatives. They need to analyze and select modern solutions that establish and automate end-to-end processes, discover and analyze partners, and track a wide range of channel compliance areas. To achieve this transformation, CFOs

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 activities 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 and marketing program success.

Financial Compliance Challenges

The pressures facing compliance in the channel expected to grow 10 fold over the next 5 years per Forrester are driven by the size and complexity of the channel.¹

To complicate things more, new business models such as revenue annuities and the changing roles of the channel in pre-sales and post sales are challenging the goals and definitions of incentive programs.

For these reasons finance executives are inserting themselves into the retooling process to assure business and partner needs are met and ensure over payments are eliminated and operational efficiencies improved.

With the speed of channels expanding and the volume of business growing, finance executives and their teams have several goals:

- Understand where incentive over payments have occurred
- Validate partner claims quickly and accurately
- Gain visibility into what partners are selling
- Track channel revenue performance
- Manage accruals, claims, credits, payments, and commissions

With these and other responsibilities in Finance, there can be an impact on the ability and resources to assess, manage and satisfy channel partner related financials.

Audits of channel partners are an essential part of a channel compliance program. Mature programs typically have achieved buy-in from various stakeholders within the organization, such as finance, internal audit, compliance, legal, and sales operations. The overall objectives for channel partner audits should include testing for completeness and accuracy of point-of-sale (POS) reporting and claims submitted by the channel partner and an assessment of contractual compliance to the partner agreements and pricing program terms and conditions.

¹ *What I see coming for the channel in 2021*, Forrester Research, Jay McBain

1-2%

Most high tech companies have 5% to 10% over payments, which can amount to 1-2% of total revenue.



We eliminated seven figure over payments in the channel by using Model N.”

Top 5 Semiconductor company

Model N Introduction

Most high-tech companies 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 overpayment delays and accrual challenges. This exposes companies to considerable risk and continues their current revenue execution crisis.

Model N supports the entire channel compliance ecosystem from the initial definition of rebate programs and market development funds, to managing and auditing of incentives to ensure correct and timely payouts and payments. All of this is backed by the automation, collection, and normalization of data with partners to ensure compliance and reduce risk.

With visibility into channel, inventory, incentives, payouts, and payments, Model N enables companies to maximize every revenue moment while ensuring channel compliance.

A New Level of Channel Compliance

A \$40B handheld device manufacturer eliminated 9 figure over payments when they found they were paying on rebates that had expired and automated the review and controls of overpaying rebates with Model N.

Learn more today.

Model N

Visit our industry
solutions page [*here*](#)

About Model N

Model N is a leading provider of cloud revenue management solutions for life sciences and high tech companies. Driving mission-critical business processes such as pricing, quoting, contracting, regulatory compliance, rebates and incentives, our software helps companies know and grow their true top line and maximize every revenue moment at speed and scale. With deep industry expertise, Model N supports the complex business needs of the world's leading brands in pharmaceutical, medical technology, semiconductor, and high tech manufacturing across more than 120 countries, including Johnson & Johnson, AstraZeneca, Novartis, Microchip Technology and ON Semiconductor. For more information, visit www.modeln.com.

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