

TRANSFORM YOUR CHANNEL INCENTIVE PROGRAMS FOR TODAY'S NEW BUSINESS MODELS

Model **N**

EBOOK

The high-tech industry is facing a new challenge – one that’s driven by advances in digital marketing and influences that are transforming the way enterprises engage with their channels. Long sales cycles with traditional incentive models are proving to be no longer effective at maintaining loyalty and growing revenue. When making technology purchases, customers are demanding more cloud-like, customer-centric experiences from their vendors.

“Cloud-based vendors and hyperscalers have set new norms for simplifying customers’ experiences of purchasing IT infrastructure.”

McKinsey & Company¹

In response, high-tech manufacturers are transforming their business from traditional transaction-based models to ones that focus on securing recurring revenue for an expanded menu of products and services. They’re pursuing new go-to-market approaches that include subscriptions, hardware and software bundles, and pay-per-use models for onsite equipment.

When done correctly, this business model transformation can increase market share, improve the customer experience, and maximize revenue by sustaining and expanding profits.

However, it’s a shift that will also substantially impact a company’s sales approach, especially within the indirect channel. For most high-tech companies, the channel is the primary source of sales. In fact, up to 70% of high-tech revenue can be attributed to channel partners.

¹McKinsey & Company. “Hardware’s business model shift: Finding a new path forward.” March 3, 2021.

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THE TRADITIONAL INCENTIVE MODEL ISN'T WORKING

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The traditional incentive model isn't working

Business buyers are operating more like consumers. They do research on their own. They expect speed and variety. And they've started to embrace the benefits of remote and digital engagement with vendors. According to Forrester, buyers spend 68% of their customer journey on digital interactions before they speak with a salesperson – either direct or a channel partner – and 71% will decide on a vendor after a digital-only journey.²

As traditional interactions between vendors and customers are replaced with digital and remote engagement, business-to-business (B2B) companies have seen a rise in ecommerce, which could cannibalize direct and indirect channel sales. However, if positioned correctly, the opposite could occur. Customers may be able to purchase more easily, but without professional support, they will likely not be able realize the full value of their investment. Larry Walsh, CEO of Channelnomics, counsels vendors to “think of partners as enablers of that experience. Partners are the means of ensuring that customers not only get a product but also get a return on their investment and a positive experience.”³ As such, your channel strategy should incentivize partners to think beyond the sale to post-sale education, training, and retention activities.

Along with needing to take an omnichannel approach to sales, you also must embrace the hybridization of the channel itself. As you shift to a recurring revenue business model, understanding and addressing the customer lifecycle becomes even more important. And that requires including different types of partners at different lifecycle stages within your diverse incentive programs.

“Across all phases of the buying cycle (research, consideration, purchase, and reorder), **approximately two-thirds of buyers prefer remote human interactions or digital self-service.**”⁴

McKinsey & Company

Pitfalls of traditional incentives⁵

44%

of manufacturers are concerned with incentive participation

44%

question the accuracy of sales tracking

40%

believe their total cost of ownership was too high

38%

believe their teams spend too much time maintaining and administering incentives

² Jay McBain. “What I See Coming For The Channel In 2020.” Forrester. January 7, 2020.

³ Larry Walsh. “2019 Channel Lessons for the Next Decade.” Channelnomics. December 17, 2019.

⁴ Liz Harrison, Dennis Spillecke, Jennifer Stanley, and Jenny Tsai. “Omnichannel in B2B sales: The new normal in a year that has been anything but.” McKinsey & Company. March 15, 2021

⁵ WorkStride. “2018 Report: The State of Channel Incentive Programs in the Manufacturing Industry.”

A hybrid channel for the customer lifecycle⁶



Influencers (partners, agents, affiliates, ambassadors)

Work with buyers during their pre-purchase research



Traditional transaction channel

Close the sale



Retention-focused partners (consultants, ISVs, digital agencies)

Drive adoption, cross-sell, and upsell; ensure positive and ongoing customer experiences; and re-earn business

To address these shifts and ensure you can build and manage the best-possible partner journey, you need to embrace a channel strategy that factors in your business model, as well as your current and future channel partners. A key factor in the success of your channel strategy is changing your approach to channel incentive programs. As you create new programs and evaluate existing ones, follow these five steps:

- Structure and define your programs to drive strategy.
- Engage and enable your channel to adapt to new selling models.
- Improve the partner experience by making it easy to do business.
- Establish financial controls to ensure channel compliance.
- Quickly respond to changes in the channel, the market, and your business.

⁶ Jay McBain. "What I See Coming For The Channel In 2020." Forrester. January 7, 2020.

STRUCTURE PROGRAMS TO DRIVE STRATEGY

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Structure programs to drive strategy

Incentive programs represent a comprehensive partner strategy and an important part of doing business in the high-tech industry. They should be used to support channel adoption, sales, revenue, and market share growth – not just give away “free money.”

Determine what you’re trying to accomplish and tailor your programs to incentivize those activities. For example:

Channel strategy and partner adoption	Channel market share	Revenue growth	Channel performance and ROI measurement
<ul style="list-style-type: none"> • Design program strategy and incentives. • Attract, on-board, and train partners. • Enable and prepare channel marketing. • Design solutions and product bundles for partners. 	<ul style="list-style-type: none"> • Develop and deliver channel automation. • Deliver co-branded partner marketing. • Define and offer compelling products and services. • Create and reward with valuable incentives and rebates. 	<ul style="list-style-type: none"> • Measure customer and product adoption. • Create renewable revenue streams. • Align special pricing and discounts with rebates. • Analyze market trends and competitors. • Validate with accurate channel data. 	<ul style="list-style-type: none"> • Validate channel program success and value. • Surface special pricing and discounts. • Accurately and timely process partner payments. • Ensure partner compliance.

EMBRACE HYBRID PROGRAMS

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Embrace hybrid programs

Historically, incentives have been paid on outcomes, rather than on non-transacting activities that drive behavior like marketing or proofs of concept that generate the sale. Moving forward, you should build your incentives around the customer lifecycle, buying journey, and your partners’ business models. Doing so not only enables partner development and strategic growth, but it also decreases customer churn and increases customer renewal.

By embracing hybrid incentive programs, you can support activities throughout the customer lifecycle – from presale, through sale, to post-sale. By hypertargeting incentives to drive behavior in each of the key phases, you can prepare and enable partners to effectively market, sell, and drive repeat purchase of your products and services.

The LAER customer engagement model

	Land	Adopt	Expand	Renew
Goal	Secure the first sale from a new customer.	Help the customer adopt and use the solution successfully.	Cross-sell and upsell to drive additional customer spend.	Convince the customer to renew.
Incentive examples	Performance rebates driven by total units, price per unit, or percentage of revenue.	Customer rebates driven by certification level reached or training completed. New incentives are unlocked as levels increase.	Milestone-based incentives driven by activities that support a customer’s growth plan. Gamify incentives to drive customer engagement.	Retention rebates (based on volume, mix, or growth) driven by continued business or customer loyalty.

Developing programs around non-transacting activities will require some internal adjustments, as there will likely be more scrutiny placed on these programs. **Follow these best practices to secure buy-in from internal teams:**



Put processes in place to reduce overpayments, partner gaming, and fraud.



Be able to ensure proper attribution by getting proof of performance.



Keep in mind that you're not giving your partner more money; instead, you're rewarding them for influencing and generating an outcome, rather than giving them a rebate based on the sale.



Measure your programs to ensure they're successful and eliminate the ones that aren't.

IMPROVE THE PARTNER EXPERIENCE

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Improve the partner experience

The move to omnichannel sales and subscription models may force your channel to undergo changes faster than they are ready for. To help them adapt and succeed, you must support your partners with the things they want:

- Make it easy for them to access information about customers, purchasing and usage trends, and product offerings.
- Offer targeted training, development, and certification programs to help them gain valuable expertise.
- Tailor experiences to match their business models.
- Develop easy-to-understand marketing content and programs that support subscription models.
- Design incentives and don't overwhelm them with too many ad-hoc programs.
- Enable digital self-service so they can easily submit and correct data and rebates, view claims, verify eligibility, and track their performance.
- Eliminate headaches by allowing them to submit data in their preferred formats.
- Pay them quickly and accurately, with full transparency into claims acceptance and payment status.

Partners are working with more brands, making it more important than ever to foster engagement with your best partners. Always remain on the lookout for ways to improve the partner experience. It's important to recognize that what works for one partner won't necessarily work for another. One-size-fits-all incentives are no longer effective. You need to be able to personalize your programs to address their needs and business models. By gathering insights from their feedback and performance data, you can optimize your incentives to develop the programs that will best apply to them.

68%

of sales teams have experienced an increase in channel conflicts resulting from the rise in omnichannel sales.⁷

⁷Liz Harrison, Dennis Spillecke, Jennifer Stanley, and Jenny Tsai. "Omnichannel in B2B sales: The new normal in a year that has been anything but." McKinsey & Company. March 15, 2021

ESTABLISH FINANCIAL CONTROLS TO ENSURE COMPLIANCE

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Establish financial controls to ensure compliance

As channel programs and the ecosystem have grown more complex and cumbersome, ensuring channel compliance has quickly risen to the top of the list of challenges companies face. Managing liabilities has grown more difficult, and as a result, overpayments are rampant. And when overpayments can equate to upward of 10% of revenue, the ROI of your incentive program and your gross margins suffer.

Establishing control of incentive, rebate, and market development fund programs through a single, commercial system of record is essential to success. Along with providing real-time insights that are consistent, granular, and auditable, this system can help you set up appropriate terms and conditions and approval workflows. Not only does this help prevent unauthorized programs, but it provides the guardrails necessary to ensure partners met their obligations before payment was made. And the later will only grow in importance as more non-transacting partners and programs are added to your ecosystem.

93%

of executives have experienced challenges with financial control of their channel, especially with partner data.⁸



Reduce channel compliance risks.

Get the "**Guide to Financial Compliance in the Channel**" to learn how you can maintain compliance, improve financial audit trails, and validate data used to pay partners and sales commissions.

⁸ Model N. "2021 State of Revenue Report."

QUICKLY RESPOND TO CHANGES

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Quickly respond to changes

As business models, partner and customer journeys, and buying cycles continue to change, the channel ecosystem will evolve. New partners and new types of partners will enter the mix. According to Forrester, today's channel ecosystems have 10 times more partners than transactional channel programs.⁹ And that growth isn't slowing down: Expect the average program to expand tenfold in just five years, with 80% of those new partners being non-transacting.¹⁰

To scale all aspects of your channel programs – from recruitment and onboarding to incentives and enablement – automation is necessary. With a platform that enables you to automate the development, execution, monitoring, analysis, and optimization of channel incentives, you will be able to get the right programs to market faster and improve the partner experience.

Another key requirement to succeeding in this new environment is accurate and timely data, as that will give you the valuable insight you need to optimize your programs. Plus, you'll be able to accurately and automatically predict channel partner influence and revenue contribution – and then take the appropriate steps to motivate and incentivize your top-performing partners.

10x

Today's channel ecosystems are 10x larger than they have been in the past.

⁹ Jay McBain. "What I See Coming For The Channel: 2021." Forrester. January 21, 2021.

¹⁰ Jay McBain. "What I See Coming For The Channel In 2020." Forrester. January 7, 2020.

SUPPORT FOR YOUR BUSINESS AND CHANNEL TRANSFORMATION

Model **N**

Support for your business and channel transformation

Model N provides a robust suite of channel solutions to support you as you transition to and succeed in this new era of technology-as-a-service. Through a single platform, you can manage all your incentives from plan to pay. Rapidly create, track, and optimize channel programs. Gain visibility and insight into partners and their performance so you can personalize programs. And establish the financial controls needed to ensure compliance, reduce overpayments, and maximize channel ROI.



Channel Data Management

Improve the accuracy, consistency, and timeliness of your channel data. Channel Data Management automatically collects, standardizes, validates, and enriches sales, inventory, and claims data – so you can track and understand trends, correctly pay incentives, and make better business decisions.



Channel Management

Eliminate price erosion caused by overpayments to your channel. Channel Management automates channel sales and inventory activities and provides real-time visibility so you can eliminate unnecessary discounting, match sales and claims data, and track inventory levels.



Rebate and MDF Management

Create and manage effective rebate and market development fund programs from creation through claims payment. Rebate and MDF Management delivers visibility, efficiency, and control for your programs, enabling you to better engage your partners, ensure compliance, and improve program ROI.



Payment Management

Make global partner payments easy, efficient, and transparent. Payment Management automates payment processing for streamlined payee onboarding, faster time to payment, and fewer errors from payment verification through payment receipt.

End-to-end support for the channel lifecycle

Along with our proven cloud-based revenue management solutions, Model N has established partnerships with high-tech channel experts to help you assess, plan, build, monitor, and validate your channel programs' value and ROI.

Model N suite of channel solutions

- Automate and implement programs
- Measure performance and success
- Ensure channel compliance
- Achieve operational excellence



- Develop, launch, and sustain robust channel strategies
- Profile partners to ensure you have the right partner ecosystem
- Optimize processes
- Align benchmarks and metrics to industry best practices



- Design and execute winning partner strategies
- Create and deliver partner marketing services and events
- Build a partner success practice
- Analyze and measure your channel's impact on business

Ready to increase the ROI of your channel?

Schedule a meeting to see how Model N can help you develop channel programs that promote the transition to new business models.