

Optimize Your Incentive Strategy Throughout The Demand Chain

Marketers relying on indirect channels undertake unique challenges to capture partner mindshare and maintain sales velocity throughout their demand chain. A comprehensive incentive strategy can help overcome these challenges. One that is ill conceived, however, can be costly, confusing, and even rejected by your channel partners - and thus ineffective. This eBook presents some of the practices to follow, and pitfalls to avoid, to ensure an efficient and effective incentive strategy throughout your demand chain.

JUGGLING PROMOTIONAL EFFORTS

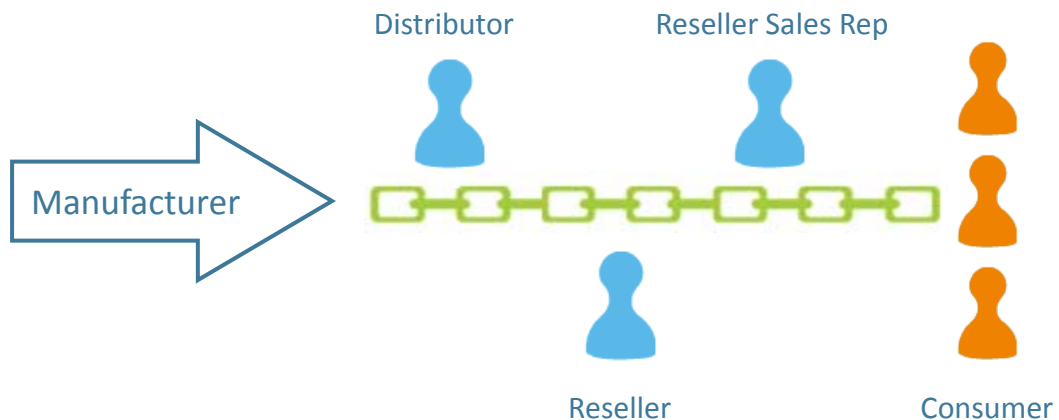
While many marketers sell their products and services direct to their consumers, most sell through intermediaries that include a vast array of retailers, resellers, distributors, agents, jobbers and more. As a category, multi-channel marketers will continuously be challenged trying to win mindshare and indeed shelf space from their channel partners. This is in addition to the corresponding challenge of winning attention and purchase preference from the ultimate consumer.

In fact, it's typical for marketers to spend from 2 to 10 times their consumer marketing budget on trade and channel promotions and programs. This means trade promotion budgets in aggregate can often reach as high as 20-30% of profits in the wholesale prices of products (depending on your industry, product, and channel model) and the trend is that the figure is increasing. Funds available for such efforts are finite. As resources tighten, marketers are compelled to apply more strategic thought towards the incentive programs they offer throughout the demand chain, and possibly re-evaluate the use of those marketing funds for better spending efficiency and effectiveness. It is imperative that the money is well spent and is generating optimal channel partner performance.



THE DEMAND CHAIN

A demand chain typically involves all the intermediaries that make up the distribution (sales) process between you and the ultimate consumer of your product. Chain participants represent your channels of distribution. “Indirect” channels represent the various independent organizations that are not direct employees or subsidiaries of the manufacturer. Marketers utilize indirect channels as a cost effective way to broaden distribution and/or add value to the product before it reaches the consumer. Since they are not under direct control of the manufacturer, however, there are challenges often associated with keeping these intermediaries focused on selling your product. As such, in an effort to influence their behavior throughout the sales process, incentive programs are typically offered to channel intermediaries who are often not associated with direct sales organizations and captive company-owned outlets.



Each level of your demand chain can be an effective target for an incentive program.

Depending upon the desired behavior and program objective, targeting any one point in the chain may be more effective than another. Each program will have its own best home.

KEEP YOUR CHANNEL FOCUSED ON YOUR GOALS

Every channel program offered by marketers is essentially a series of “carrots” and “sticks” to influence the behaviors of the various intermediaries.

Carrots serve as positive reinforcements to reward desired behaviors, whereas “sticks” provide negative reinforcement to discourage other types of behaviors.

In general, when developing relationships, we all know it’s better to use positive reinforcement wherever possible. It shouldn’t be surprising, therefore, to accept that most components of a channel program are designated as “carrots.” While conventional wisdom may think that the profit earned by the various resellers should be enough of an incentive, those more seasoned among us understand that there are many behaviors that can be influenced through the proper design and deployment of incentive programs.

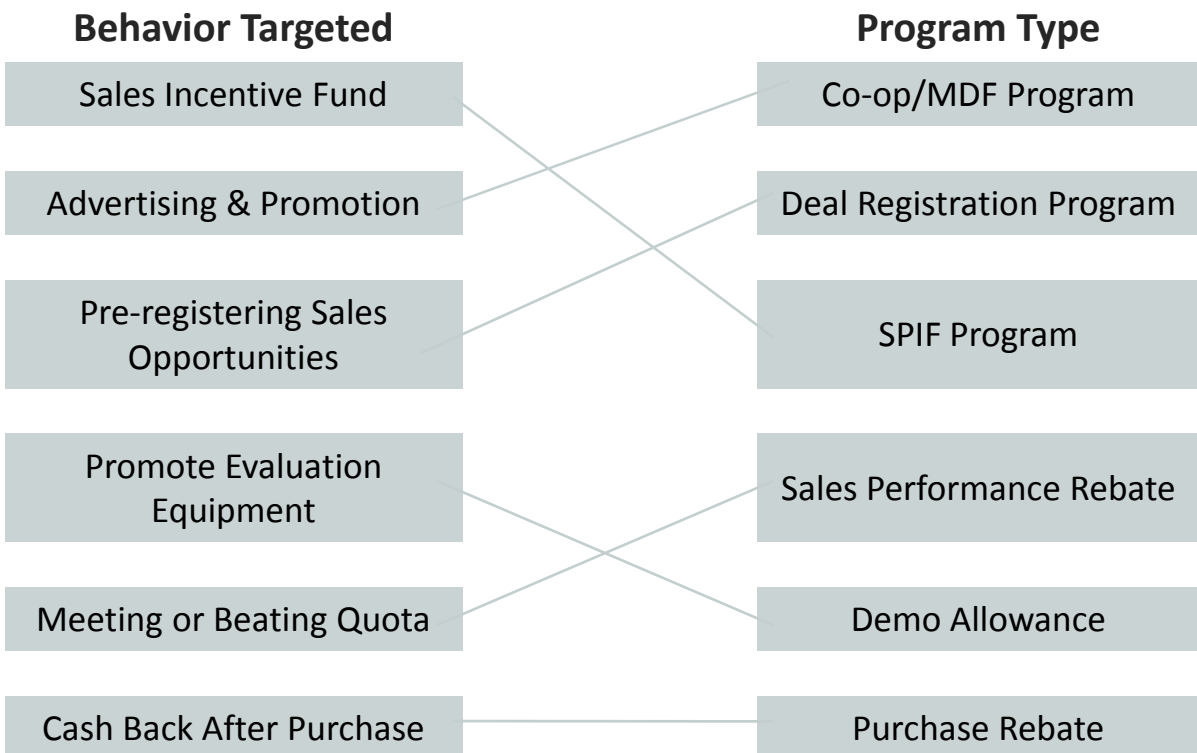


A COMPREHENSIVE INCENTIVE STRATEGY IS MULTI-DIMENSIONAL

Incentive programs can take many different forms and the best format depends upon the behavior marketers are trying to influence. A comprehensive incentive plan that works synergistically to achieve sales and marketing objectives can create a competitive advantage to expand distribution, improve sales velocity, and grow market share. In the end, it's not about how much money you spend, but how you effectively allocate your spending to influence behaviors that makes the difference.

A comprehensive incentive plan improves sales velocity.

An incentive program is designed to target a specific behavior:



Incentive programs are designed to influence behaviors, and a well conceived program can target multiple audiences simultaneously and/or multiple behaviors from a single target audience. While influencing sales behaviors of your partners and subsequent purchase behaviors of the end consumer are the most common, incentive programs may influence other behaviors as well. There are essentially two different types of incentive programs:

- **Sales incentives** directly influence a sales transaction. Examples of these include SPIFs, rebates, and sales contests.

- **Activity incentives** reward “soft” activities that directly or indirectly influence sales. Rewards are provided for influencing behaviors associated with the sales process, though not the sale event itself. Examples of soft activity incentives include promotional allowance programs (more commonly known as Co-op/MDF), deal registration, and demo incentives.

Whether within a specific segment of the demand chain or across multiple points, the reality is that sales are actually a result of multiple activities. And these activities may each have been instigated – or certainly supported by – targeted incentive programs. A single marketing activity rarely, solely, and directly results in a sale.

All budgets are finite, and defining *how much* to invest in what type of program can be the difference between a strategy that achieves a real competitive advantage versus those strategies that are a cost of doing business and deliver only limited effectiveness.

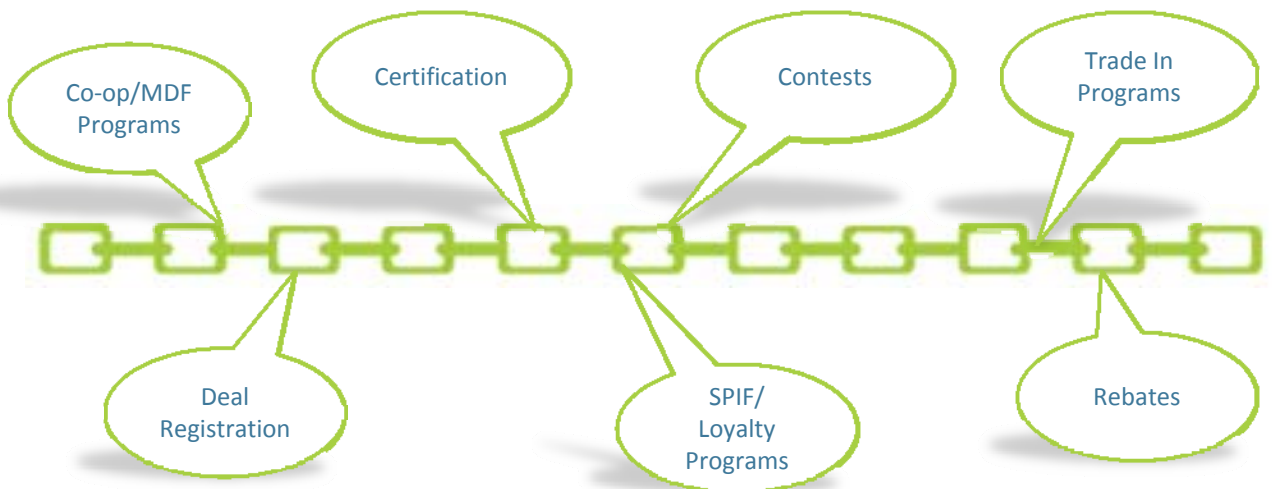
Incentive programs
influence behaviors.

A COMPREHENSIVE INCENTIVE STRATEGY IS MULTI-DIMENSIONAL

Below is a typical representation of what a comprehensive incentive program can look like:

Target Audience	Sales Incentives	Activity Incentives
Distributor	Sales Performance Rebate	Co-op/MDF allowances
Reseller	Sales Performance Rebate	Co-op/MDF allowances Deal registration
Reseller sales rep	SPIF/loyalty program Contests	Deal registration Certification Incentives
Consumer	Rebate Trade-in	Demo Reference Account Beta partnerships

Channel complexities can make program planning daunting. Most channel structures consist of a confusing array of distributors, agents, resellers, retailers, and more. Each plays a different role. Each incentive program, therefore, should consider the entire demand chain and look beyond its specific target audience. Deployment of several different incentive programs is often required to balance the needs of all entities.



CHALLENGES FOR MULTI-CHANNEL MARKETERS

While the basic reasons that most marketers utilize indirect channels of distribution are to lower direct costs and increase product access to consumers, both of these objectives can be offset by the introduction of increased marketing costs and reduced control of your product message. These trade-offs can be exacerbated by the existence of multiple programs all targeting the same ultimate sale. Indications include:

- **Many different layers** within the demand chain need to be considered. Each has a unique role in the sales and distribution process. In recognition of this model, multiple incentive programs and variations on existing programs are often warranted.
- As the quantity of impacted layers increases, **more planning** is required. The back-end requires more time too; program effectiveness cannot be measured until all reseller participation is recorded.
- **Unique programs may mean different infrastructures to manage, each** adding to the cost of deployment and maintenance.
- Multiple programs make it **harder to isolate the impact of any one program** on sell-through, making it tough to answer the question, “What programs are most effective in the attainment of our goals?”
- **Capital and human resources are stretched thin** in an effort to design and manage the plethora of programs available.
- The more complex your demand chain, the more difficult it is to **build awareness, maintain enthusiasm, and retain compliance**.
- **Many channel partners don’t want vendors targeting their sales reps** with promotions for fear that they’ll lose control of the sales priorities. As employers, the channel partners believe they should be directing sales actions based on broader, company-based strategic goals.

QUICK REVIEW OF DESIGN BASICS

Program design is as much an art as it is a science. Also, no two programs are truly alike – nor really should they be. Design starts with an evaluation of program objective fundamentals. Key among them include the following:

- What is the business **objective**? The program purpose is often correlated to the impacted product's current lifecycle status and also serves as the basis for program structure and execution.
- What **behaviors** are you trying to influence and at which level(s) of the demand chain? Understand what behaviors will drive partner mindshare capture, buyer preference and/or consumer action. When planning an incentive program, know which level(s) of your demand chain requires the most persuading and have the greatest likelihood to attain your program objectives.
- What are the **barriers** to overcome? Barriers can be related to conveying your message or conducting the sale transaction, among other factors in an indirect sales and marketing effort.
- How will you define **success**? Program goals must be explicit and measureable. If multiple incentives contribute to single sale or target the same behavior, each program's net contribution needs to be identifiable.



- What **metrics** will be used? And do you know your **benchmarks**? Each program must have measurable costs and business impacts, so as to ensure it effectively uses coveted marketing spend.
- What is the **channel's role**? Based on program objectives and product goals, consider the channel partner's role in your go-to-market strategy. Conversely, consider your channel partners' own go-to-market strategies and how your incentive program will help them.
- What is the end user's **purchase process**? Understand the purchase process and know the decision makers, influencers, and preferred channels for fulfillment.
- What is your **competitive position**? To impact a sale, consider buyer preferences and understand any programs you are trying to counter.



Collectively, these considerations tee up what a program is intended to accomplish. Each one influences program definition, structure and goals. Once they are understood and evaluated, incentive program strategies and tactics can be defined.

PARAMETERS FOR PROGRAM DEFINITION

The information established above defines program objectives and parameters—but not the program itself. A review of your incentive mix at each level of your demand chain can be a valuable exercise in ensuring they combine to achieve corporate sales and marketing objectives through your indirect sales channel. Each incentive program needs to provide a strong ROI and add unique value to your channel partner program. When defining a single incentive program, the following elements are essential to its design and should be based on previously-defined program objectives:

- **Whom to incent.** Determine program participation criteria within your indirect channel. Partner level, status, vertical market, and geography are all common eligibility criteria and multiple parameters can be applied simultaneously.
- **Eligible products or services.** Like partner eligibility, the targeted product(s) is a foundation of an incentive program.
- **Sanctioned activities and related ROI measurements** for each activity. In addition to partner and product eligibility, determining which activities are allowed for use in the incentive program is a primary component of its definition.
- **Duration.** When is the program active? What are the related timelines regarding claiming, fund availability and reporting?



- **Proof of performance.** What are the criteria for earning the reward? What is the audit process?
- **Reward type.** Payment method is a cornerstone of program definition. Your partners will want to know if payment is in the form of SPIF, rebate, cash, debit/value cards, soft funds or other mechanism. Your decision here also impacts program finances.
- **Compatible programs** that drive towards common goal. Are there any? If so, how will they work together to make a positive contribution to your partner program and contribute to sales momentum? Do they target the same audience, event and/or desired behavior?
- **Go to market strategy**, including what it will take to build awareness, secure participation, and provide training.
- **Infrastructure** requirements, to facilitate program processes, including audit, approval, and administrative tasks.
- **Reporting** requirements, to track program progress vs. goal at each step of the program's lifecycle.
- Program **costs** (administration and communication), projected ROI and expected break even point.
- **Funding.** Has the expense of the program, including projected rewards, been budgeted? When do those funds expire?
- **Target audience.** Incentive programs are designed to influence behaviors, and a well conceived program can target multiple audiences simultaneously and/or multiple behaviors from a single target audience.

THE TOP 10 LIST

To optimize the performance of your incentive programs, consider these the best practices for program design:

1. **Target your rewards as close to the buyer/seller as possible.** Some products are “sold;” others are “bought.” Either way, focusing your reward on some combination of the reseller sales person or the end user will likely result in greater sales velocity than levels higher up the demand chain.
2. **Furnish formal Terms and Conditions** (program guidelines) that clearly and concisely spell out program eligibility, participation requirements, and details on how rewards are earned, as well as what is not qualified or allowed. Additionally, require all participants to proactively agree to these terms and conditions in advance of participation. The terms and conditions should be readily available for all participants as reference. This will become invaluable when resolving disputes.
3. Get a **legal review** of all programs before they are launched. Promotion laws can vary greatly from country to country, and even state to state.
4. Make sure you launch the program with a **solid communication strategy**, which includes “high touch” involvement by sales and channel account managers for key resellers. This also includes training, which is necessary to assure uniform understanding of program benefits and administration.
5. **Establish clear metrics.** Ideally, the metrics should be either unique to each program or measured by isolating the impact of the program.



6. **Leverage existing infrastructure.** Centralize processes where possible. In planning, consider long term programs where the rewards can vary over time as needs change (for example: “earn double points when you sell ‘X’ product in May”). This way, you dramatically lower the cost of infrastructure, as well as shorten your time to market instead of responding to each reward scenario by deploying multiple programs.
7. **Strong follow-through.** Whether program administration requests or payment processing, be responsive to your partners. Cash flow is the largest concern for most business today. Most programs are pre-funded by channel partners, so reimbursement should prompt. Similarly, respond to special requests quickly. Process automation can help on both fronts.
8. **Elicit partner feedback.** Though subjective, it is as relevant to evaluating program performance as quantitative metrics. How your partners perceive the effectiveness of your program relative to their needs, competitive offerings, and administrative fundamentals can make a big difference between success or failure—or making a successful program even more successful.
9. For ongoing programs (like Co-op/MDF and other loyalty programs), be sure to **review program performance often.** Compare results against goal, administrative structure, and rewardable activities no less frequently than annually. Make necessary revisions to ensure the program aligns with the strategic goals of your organization, evolve program components based on key learnings, and “refresh” the program to keep it relevant to participants.
10. **Maintain your own list of best practices.** For each program you deploy, keep track of what works, what doesn’t, and what to expect so you can make the same or similar program better next time. This is a valuable exercise regardless of program size. Each program offers another opportunity to improve program performance over prior efforts.

WHY PROGRAMS FAIL

Whereas best practices are the “Do’s” of program design, there are some “Don’ts.” Most programs fail not because they’re ill conceived, but because of poor execution. Most program break downs have to do with poor partner engagement and fall within the following broad categories of error:

- **Poor alignment with reseller business goals.** If one or multiple aspects of a program don’t conform to the channel partner’s business model, conflict ensues and utilization decreases. The best way to overcome this is to preview the program’s components with the key channel partners who are ultimately essential to program success. Survey your partners to better understand how planned programs align with their go-to-market strategies.
- **Poor program understanding from key stakeholders—**both internal and external. Building program awareness and understanding from all stakeholders requires more than an email campaign. Channel partners are bombarded with information about new programs every day from their vendors. It takes an extra effort to break through the clutter and get them engaged. It is considered best practice to require some type of pre-registration which provides an early metric for partner on-boarding.
- **Administration is too cumbersome.** In this case, the program is simply too complex or too time consuming to follow relative to the reward offered. The devil is in the details, and even delays in reward payment or distribution can dissuade future participation.



SO, ARE YOU READY?

Allocation of your marketing spend is an art. Successful, targeted programs are a key vehicle for strong ROI and goal attainment. Like the products themselves that you manufacture, know the desired positioning before you develop and launch an incentive program. Your go to market strategy that follows ultimately determines program value. A thorough analysis of the considerations discussed here will put you on the path to defining the behavior you wish to incent and then influencing it through effective and sustained program deployment.



For more information on how to optimize your channel incentive strategy, contact CCI at 1.888.260.2667