6 drivers for investing in a **strategic channel incentive program**

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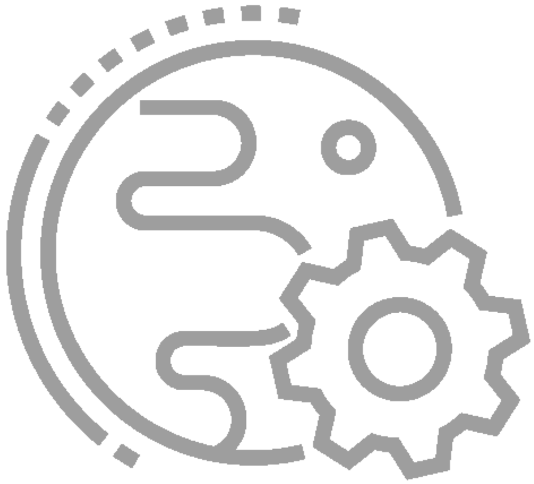
Channel owners are finding their channel partners' performance flattening, at a time when they are being chartered to get more out of them. Many would benefit from implementing a channel incentivization program to boost performance, but wait too long before employing an incentivization strategy. If you want to get the most from your channel investment, here's why you should institute a strategic incentive program sooner rather than later.

CFOs: "justify your channel program and technology investments"

To incentivize or not to incentivize? That is the question that many channel managers of early channel programs ponder with respect to their channel partners – and to which many of their CFOs require a justified business case.

The strongest business cases are multi-dimensional, i.e., they factor multiple "hard" (easily quantifiable) and "soft" business drivers – the latter which impact performance, but are less clear in terms of cause and effect, e.g., brand loyalty and product training. That's because each driver can reinforce one or more other drivers. Following are 6 business drivers to consider in the development of a business case for a strategic channel incentive program.

“Because our competitors do”.



So, why an incentive program? The easy answer: “Because everyone else does” (i.e., the need to stay competitive). In a recent study by the Incentive Federation, a whopping 84% of U.S.-based businesses employ non-cash incentive programs (award points, travel, merchandise, and gift cards). Note that that number was only 27% twenty years earlier.

driver 1

incentive programs are necessary to keep pace with competitors.

The vast majority of companies today employ incentive programs as a means to boost channel partner productivity, gain market share, etc. So as not to be left in their dust, channel program neophytes need to do the same. Note, though, that competition for channel partners’ attention and loyalty is not about the ”what” (having an incentive program) – it’s about the ”how” (designing programs that are nimbler, resonate with your audience, and are easier to consume).

targeted productivity

But responding to competitors can’t be the only element of an incentive strategy business case – particularly since this is more of a “soft driver” (unless you are prepared to get into complex market share calculations). The other commonly identified driver for incentive programs is that they have been proven to increase top line revenue (and, properly managed with automation, bottom line revenue as well).

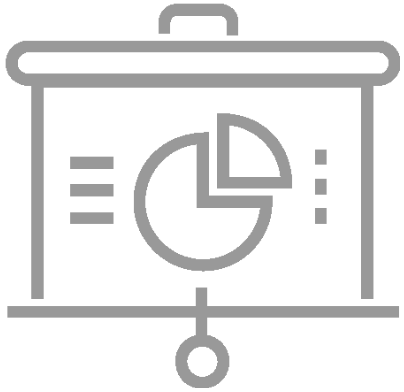
driver 2

increase productivity/revenue.

Well-designed incentive programs spur channel productivity. Indeed, savvy channel practitioners employ a hybrid long-range/short-term incentivization strategy to maximize channel revenue potential.

unearthing hidden potential

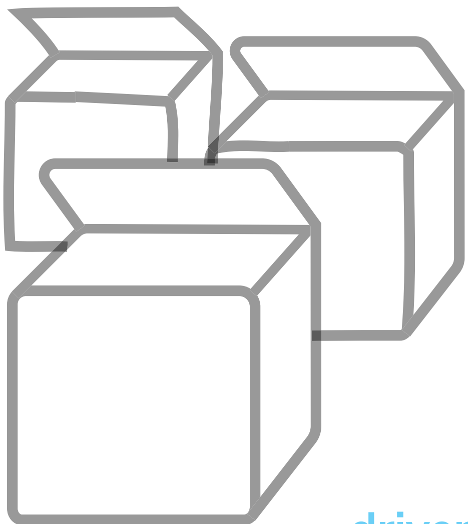
The mirrored benefit of utilizing an incentive program to keep channel partners motivated on a short-term basis (Driver #2) is the early indicators that it provides channel practitioners into identifying its highest-performing partners. Potential performance may not be reflective of historical performance; moreover, two partners slotted in at the same tier may not perform or respond exactly the same way.



driver 3

identify up-and-comers – and their attributes.

Incentivization drives individual partners to step up their performance and demonstrate their value – and gives channel practitioners insights into those partners and, over time, what motivates them. Thus, strategic incentivization can act as an investment guide for which partners and which programs to mix and leverage to maximize your ROIPI (return on incentive program investment).



reducing overstock

Let's face it – sometimes you can wind up in an overstock position. Seasonality, competitor discounting, market forces – they can all impact what you end up holding above and beyond what you sell.

driver 4

reduce overstock

Incentivization can be an effective means for reducing overstock. But realize that such programs have no bearing on long-term channel partner loyalty.

“what have you done for me lately?”

Many channel practitioners believe they have an adequate channel compensation/incentive model, i.e., their channel partner “tiers”. Like hiring employees into position levels, channel practitioners often slot channel partners into one of three or four tiers, based on their historical performance (usually based on recent revenue) or their potential (forecasted revenue), with different discount levels. For example, Bronze partners may get a 20% discount, Silver partners 30%, and Gold partners a 35% reduction. The assumption is that Bronze partners will be motivated (incentivized) to attain Silver, and Silver partners Gold, in order to get a larger discount margin.

But it can take years for channel partners to advance from one tier to another. And we now live in a time of “What have you done for me lately?” – when performance is not considered in terms of years or quarters, but in months and weeks.

driver 5

incentive programs are the engagement stair-steps to partners’ long-range advancement.

Channel tier advancement can be a good incentive for driving long-range performance … but the operative phrase is “long-range.” Incentive programs, implemented strategically, can act as a stair-step mechanism to advance channel partners from one level to the next faster, while keeping partners motivated and engaged (loyal) in the interim.

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course-correct the ship

Your company has goals – e.g., get into a new market, introduce a new product, take advantage of changing market conditions. Incentivization is your maneuvering mechanism (think: steering wheel, yoke, or joystick) for getting there. And a diverse channel ecosystem without a steering wheel is impossible to turn … at least quickly, by which time that market opportunity may be gone or diminished. Indeed, in the course of research for this report, a channel executive for a networking technology company characterized the essence of their incentivization strategy and programs:

“To drive channel partner behavior in the direction we want to go.”

driver 6

engender market maneuverability.

It may be a soft driver, but it’s perhaps the most important one. Are you a software company wanting to sell more cloud? Incentivize channel partners to register and close cloud deals. Want to introduce an innovative new building material product into a new home construction market? Design an incentive program that rewards partners for certifying and selling into a specific vertical (N.B. this can also act as a new partner recruitment enticement).

summary

Today’s channel marketers need to implement, craft, and fine-tune their incentivization strategies with a clarity of purpose , i.e., as smart temporal programs designed to bring about the right behaviors for boosting productivity, expanding into new markets, and engendering long-term partner loyalty.