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Cut Your

Channel Incentive Reward Spend

How to Decrease Your Incentive Program Budget
by 30%, 40%, 50% ... or More

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Introduction

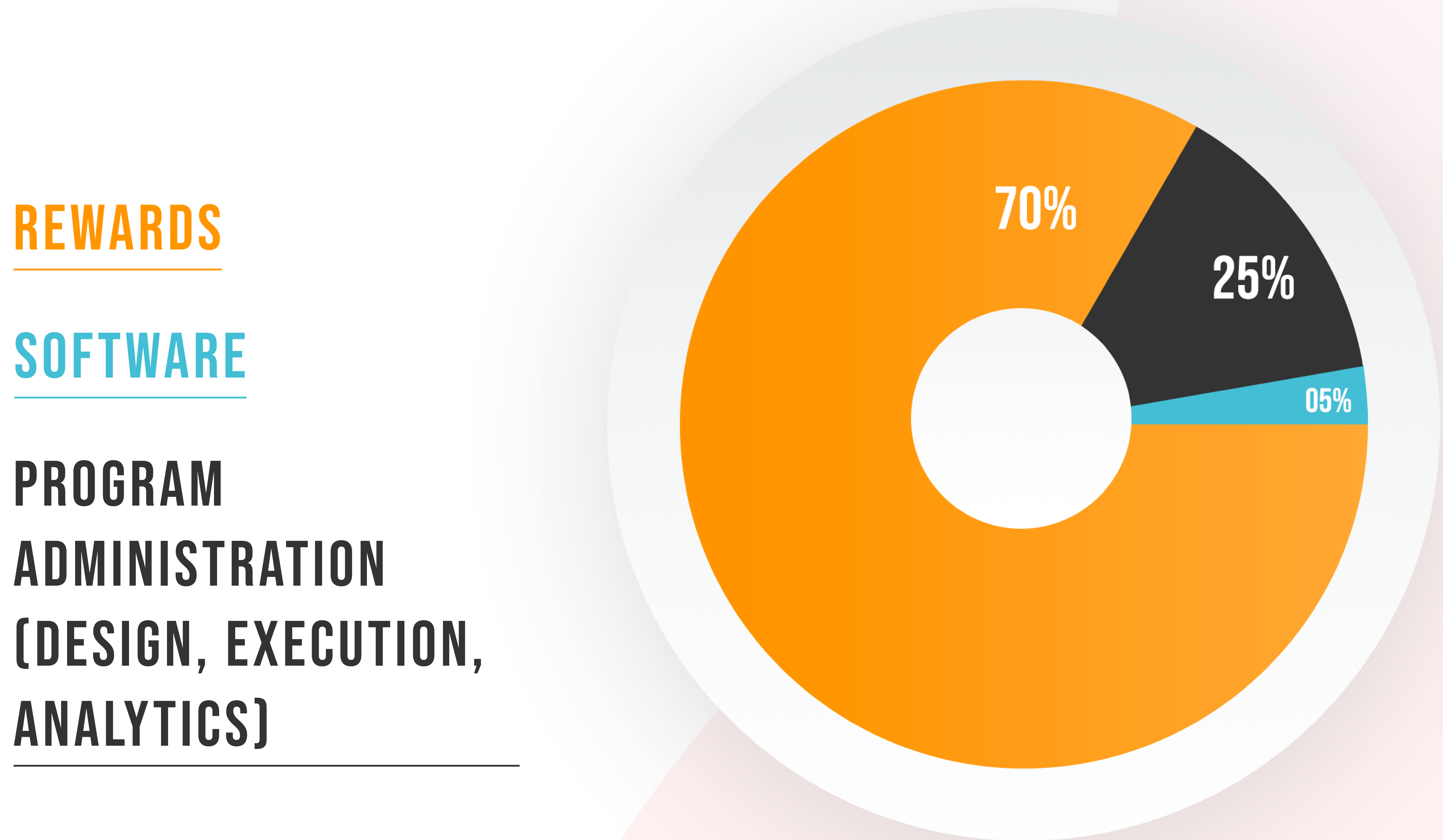
Demand for channel partners is on the rise for technology companies. Consequently, the need for effective channel partner incentive programs is also growing.

In fact, most technology companies are looking for opportunities to improve their existing channel incentive programs to:

- Drive sustainable growth
- Reduce overstock
- Strengthen their channel relationships, and
- Increase ROI

All of this sounds great. But is it really so simple?

There is no doubt that channel incentives programs, when done right – i.e., designed innovatively, monitored diligently, and communicated effectively – breed higher partner participation and performance. But while that success produces a substantive ROI, it is limited by correspondingly bigger **reward spend** – which is the **largest component of a channel incentive program** budget.

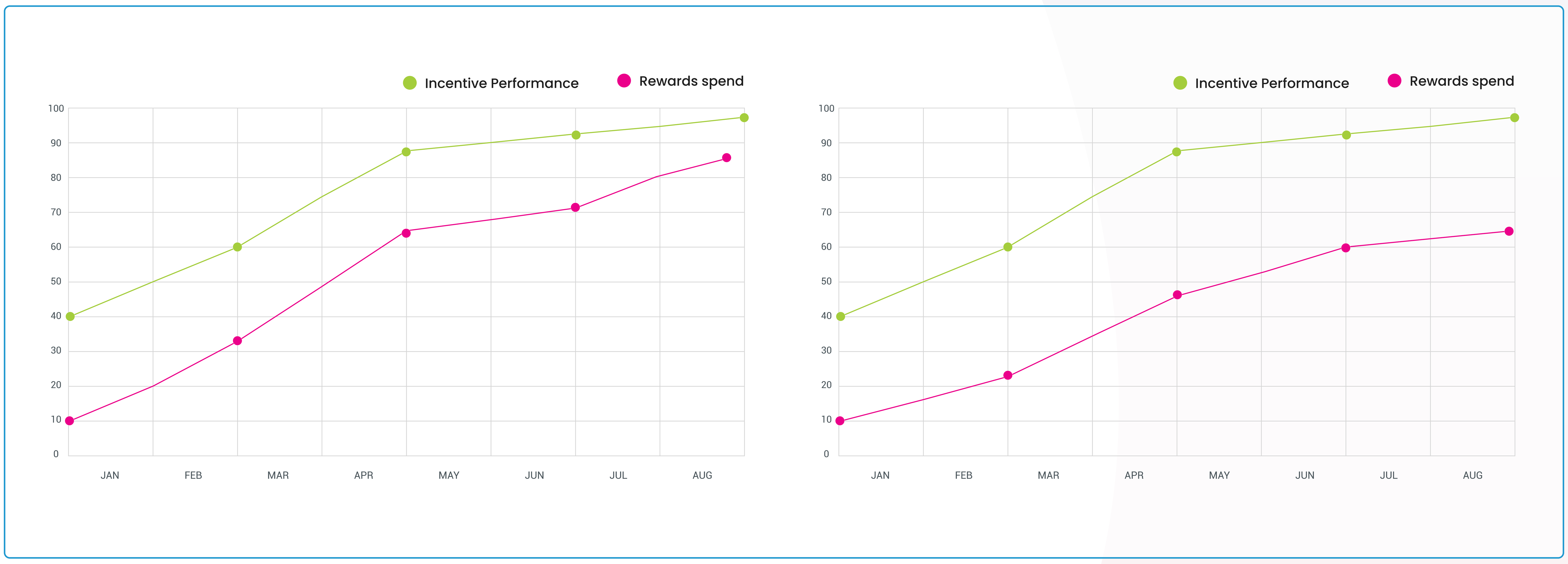


In this eBook, we explore how technology companies can drive greater revenue and reduce their reward spend, in effect growing their ROI from their channel incentives. Specifically, we will discuss each reward “currency” (or reward “type”) individually and their budgetary impact, and then give examples of how you can use them in combination to reduce your reward spend:

- Reward Catalog Points
- Rebates
- Market Development Funds
- Business Benefits and Virtual Currency
- Level Points

So, while an increasing reward budget feeds increasing performance results, your reward spend doesn't have to grow at the same rate to meet higher demand and reach higher goals.

Using reward types to decrease reward spend and increase ROI



Leveraging reward types to cut your incentive program costs

Reward catalog points

Reward catalog points are one of the most popular and traditional rewarding mechanisms of incentive programs. Historically used as a type of currency that could be exchanged for merchandise, trips, gift cards, and the like, this reward type has its origins in the B2C Customer Loyalty space, where points were awarded to individuals. In the B2B space, these individuals are the partner companies' employees (most frequently, partner companies' salespeople).

How do they work?

Channel partners earn and accumulate points for their actions and achievements, and are presented with a catalog site similar to an e-commerce site, where they can scroll through a number of products. A catalog has a sea of merchandise for the channel partners to choose from. The only difference is that instead of money, they can redeem their accumulated points.

Maxing spend reduction for catalog points – Most tech companies that employ points-for-merchandise as their reward mechanism miss out in not leveraging reward volume margin.

1. Build a margin into your reward spend

As noted, channel partners assume a certain dollar value for every point that they earn (1 point = $1). But that dollar worth of perceived reward value doesn't have to cost you a dollar. You can work out volume deals with reward merchandise suppliers to your benefit.

For example, let's say you purchase laptops and tablets as catalog rewards. You can negotiate to purchase them at a volume discount and make them available at the list price to your channel partners. So when your channel partners redeem 1000 points for a laptop, you pay only $750 to get them $1000 of value. That represents a 25 point margin for you.

They get the same value, you save money.

Best practice: Don't overpopulate your reward catalog. Overpopulating your catalog dilutes your negotiation value with your merchandise suppliers. Stick to fewer products and you can drive bigger discounts.

Note - Large companies with a large number of channel partners have a better chance of driving better bargains at volume deals. These are, say, $100m companies with 3000+ channel partners on their roll.

But what's a smaller/midsize company to do?

2. Liaise with other tech companies to create a coalition

Say you are a $50m security tech company, with 500 channel partners. Your channel partners not only sell your security technology, but also sell hardware servers, virtual infrastructure solutions, and cloud services. You can go to these companies and propose to share reward catalogs – and expense (and volume discount benefit!).

Channel partners can earn and pool points earned from you, and the hardware, virtualization, and cloud services companies. You've formed a coalition of tech companies that will act as an even stronger attractant for your collective channel partners.

Best practice: Choose reward coalition partners that have complementary technologies.

Pros of reward catalog points

- Widely used and easy for channel partners to understand, since they've been around for a long time in the B2C world.
- Offer greater competitive advantage because earning and reward thresholds can be easily adjusted.
- Flexible and targeted.
- Can be allocated to both channel partner companies and individuals (channel partners' employees).
- Reduces costs by leveraging the difference between points redemption value and acquisition cost.

Cons of reward catalog points

- Essentially "cash out of the door" because these point redemptions – merchandise, trips, prepaid cards – hold no Ecosystem Recursive Benefit (ERB) for the tech company *<Check out the Super Value Add segment after MDF to know more>*
- Managing fulfillment can be expensive - the tech company might have to get a reward fulfillment provider and embed that in their incentive program software.

Rebates

Rebates can be a powerful motivator for channel partners when they are an element of a strategically developed channel incentive strategy. They are cash – specifically, cash paid as a reward for the sale of a product.

How do they work?

Rebates are considered a cash reward for selling or buying a product.

Historically, the 2000s ushered in the “rebates era” as replacement of the “points era” because:

a. Governments cracking down on merchandise reward as taxable income that required reporting

b. Channel partner company CEOs started complaining that points subverted the strategic direction of the company and bypassed their executive scrutiny, and went directly to their sales employees.

Pros of rebates

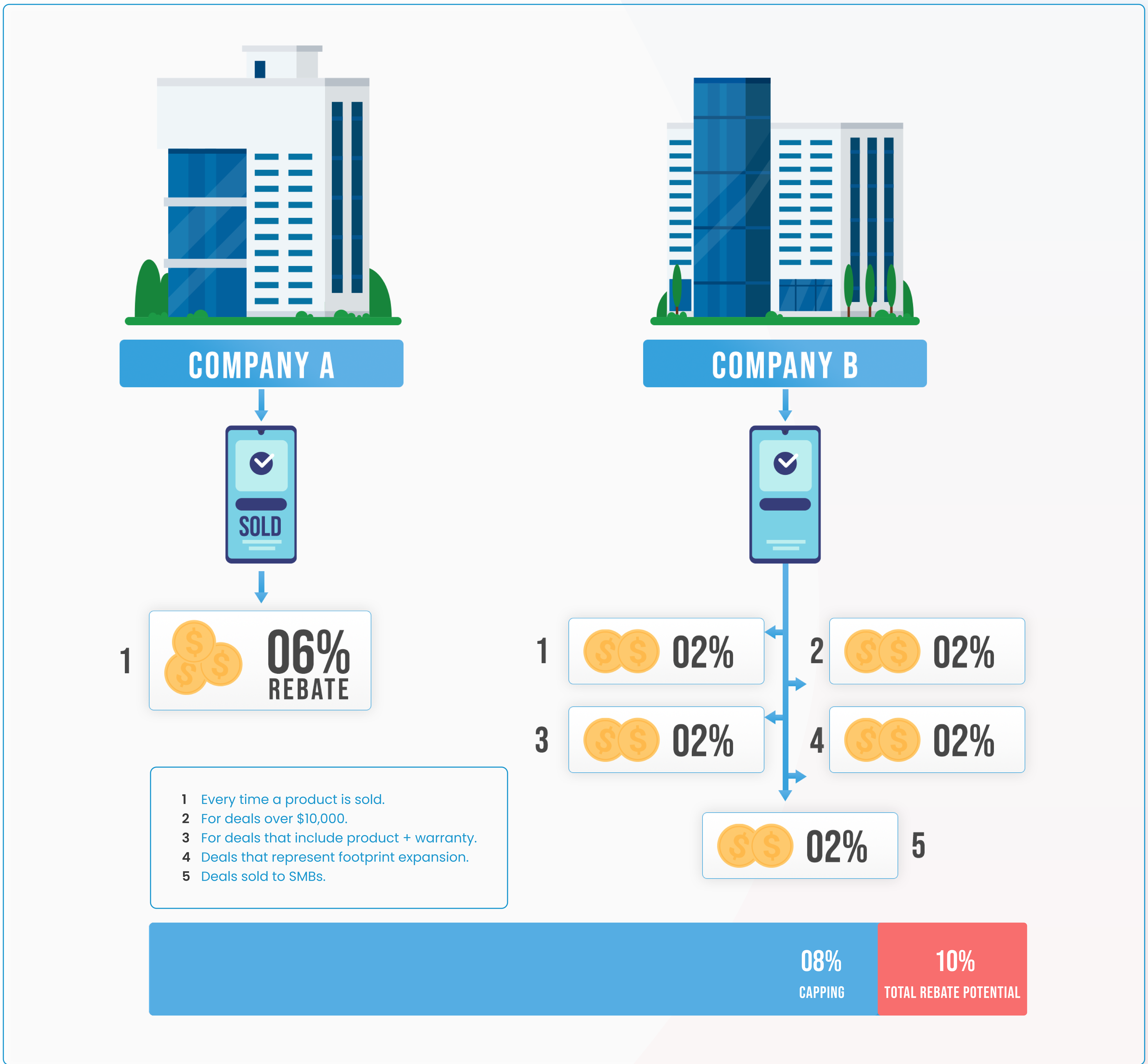
- Not treated as taxable income.
- Can be accounted for as a cost of sale.
- Can be stacked by the channel partner for greater reward benefit *<Check out the Super Value Add segment at the end of this segment to know more>*

Cons of rebates

- Are rewarded only to the company, and not to the individual.
- Because of the high potential payout, mandates audit oversight.
- Rebates have no ERB, hence, the rebate cash can be used in any way the channel partner deems fit.
- Rebates cut into the products’ profit margin.
- Without capping, channel partners can stack multiple rebate incentives to cut into the tech company’s profit margin even more, to the point where profitability may be eroded.

Super Value Add Segment

A case study in stacking and capping rebates



With stacking, Company B offers up the chance of getting a rebate of 10% while ensuring that channel partners do several things such as get you a bigger deal size, penetrate the SMB market, sell services along with the product and such.

Stacking is a very attractive opportunity for channel partners.

However, it might not have been Company B's intent to give away 10% margin as a rebate. They are okay with channel partners using more than one rebate that qualifies for particular opportunities - but capping it at say 8% protects the interests of Company B too.

Market development funds

Some technology companies provide funds as a reward currency, usually taking the form of market development funds (MDF), where cash is given to partners to subsidize their marketing activities. MDF is a part of an organization's channel marketing strategy. These funds enable your channel partners to develop local marketing channels. This is most advantageous for tech companies to further their local marketing opportunities – channel partners can do the field marketing aspect for you (and at a much lower cost).

How do they work?

For the most part, channel partners have to earn market development funds. For every incentive goal achieved by the partner, the partner "banks" MDF as a reward. Those funds can be used as long as the vendor approves what they are being used for.

Super Value Add Segment

MDF

Ideally, channel MDF accounts for 10-15% of the entire marketing budget and can be extremely effective. But there are quite a few challenges and misconceptions when it comes to their execution.

- How much is enough? What is the correct amount of MDF that should be allocated to channel partners?
- What am I missing out on by not using MDF?

How can you develop an MDF budget?

- Tech companies can solicit their large partners to submit annual business plans, involving their planned investments in hiring, marketing, training, infrastructure, etc. From this, you can extract marketing spend, which – when aggregated across your partner base – will be a clear estimate of what your MDF budget needs to accommodate.
- MDF can also be demand/growth-based - How much was used this year, and for what was it used? What is the expected growth in channel revenue next year? What are the projections for various marketing channels/ activities effectiveness next year ?

The entire objective of MDF is to hyper- personalize the local reach of the brand. It's a great way of ensuring reach while playing to the channel partners' strengths.

Pros of Funds:

- *Ecosystem Recursive Benefits* - Like rebates, a fund dollar is always a dollar – but it's a dollar that is invested in your own ecosystem, bringing you a second return. But funds are dollars that can be directed at a specific intent i.e., you can direct how those dollars are to be used - for marketing, POCs, etc. And how they are used is of benefit to the tech company (extending the marketing voice/brand, getting early customer successes/references, etc.)
- Not treated as taxable income.
- MDF represents dollars paid out, but those dollars accrue benefit back to you, in the form of expanded brand reach and increased revenue as a result.

Cons of Funds:

- These can only be rewarded to the company entity, not to the individual.
- Requires an MDF system and program design skills, which can be expensive.

Super Value Add Segment

Economic recursive benefit

"Economic recursive benefit" -- a mouthful, but a concept worth knowing.

Every company has an ecosystem – its customers, and other companies with which the company interacts and partners to deliver value to those customers. Think: resellers/retailers/dealers, suppliers, service & support providers, etc.

Now let's look at channel incentive rewards. Most people think of an inventive reward as a "dollar out" – you pay a channel partner a reward for completing an action or hitting a goal. That reward dollar certainly has merit – you got the channel partner to do what you wanted it to do – something that will impact top or bottom line, short term or long term. But that dollar – in the form of a virtual dollar, e.g., a redeemable catalog point, or a real dollar, e.g., a rebate – can be used any way the channel partner sees fit. You hope that they invest that dollar back into their business, but they're just as likely to use that reward dollar for, say, a trip.

Catalog points and rebates represent dollars given for a partner's achievement, but dollars that can be used any way the channel partner wants. But there are other reward types that are directed – i.e., they can only be used for a specific purpose. Let's take a look at a couple of these: funds (e.g., market development funds (MDF)) and business benefits.

A MDF dollar, like a rebate dollar, has the value of a dollar. But a MDF dollar must be used by the channel partner to fund marketing activities. And marketing to customers, which leads to increased customer revenue, represents value that stays in your own ecosystem – it has an ecosystem recursive benefit.

Likewise for business benefits. Let's say you build a reward catalog, not of consumer merchandise, trips, and gift cards, but of discounts on your conferences, premium support, and packaged consulting (e.g., analytics/SEO review of the partners' website). Those business benefits have a dollar value, too, and like funds, they pay back directly to you (dollars spent on your conferences, on your support provisioning) – they have ecosystem recursive benefit.

Business benefits and virtual currency

Many B2C companies offer business benefits as part of their customer loyalty program. For example, hotels reward customers upon reaching a certain loyalty level, with business benefits like free wifi, access to their business center, and a bonus stay package. These business benefits can be likened to virtual currency that the customer accrues and uses as per their will. While customers feel on top of the world, the hotel gains them as loyal customers. All the hotelier has to do is offer their already-existing amenities as reward that the customers can use for free.

How do they work?

Business benefits in a B2B world

So, what does this mean for a B2B company involving their channel partners? The same concept applies here too. There are products/services that a tech company already has that would prove valuable to a channel partner.

For example, tech companies could provide a discount to their channel partners for advanced training classes — or, say, the annual partners' conference or a regional users' conference. All of this, the tech companies already have or co-own. Another not so obvious ask could be those channel partners who need help with their website design, their SEM strategy, their digital advertising, and such. Tech companies can package ways to consult with them in the form of a reward. This could be an hour of consulting each month or sometimes to actually help them do these things.

Another important business benefit is leads. Tech vendors land good leads, and they give them to the channel partners to turn them into opportunities. Tech vendors could provide these leads at a price. They could hold back the high-quality leads and offer them to those partners that have met a particular incentive goal.

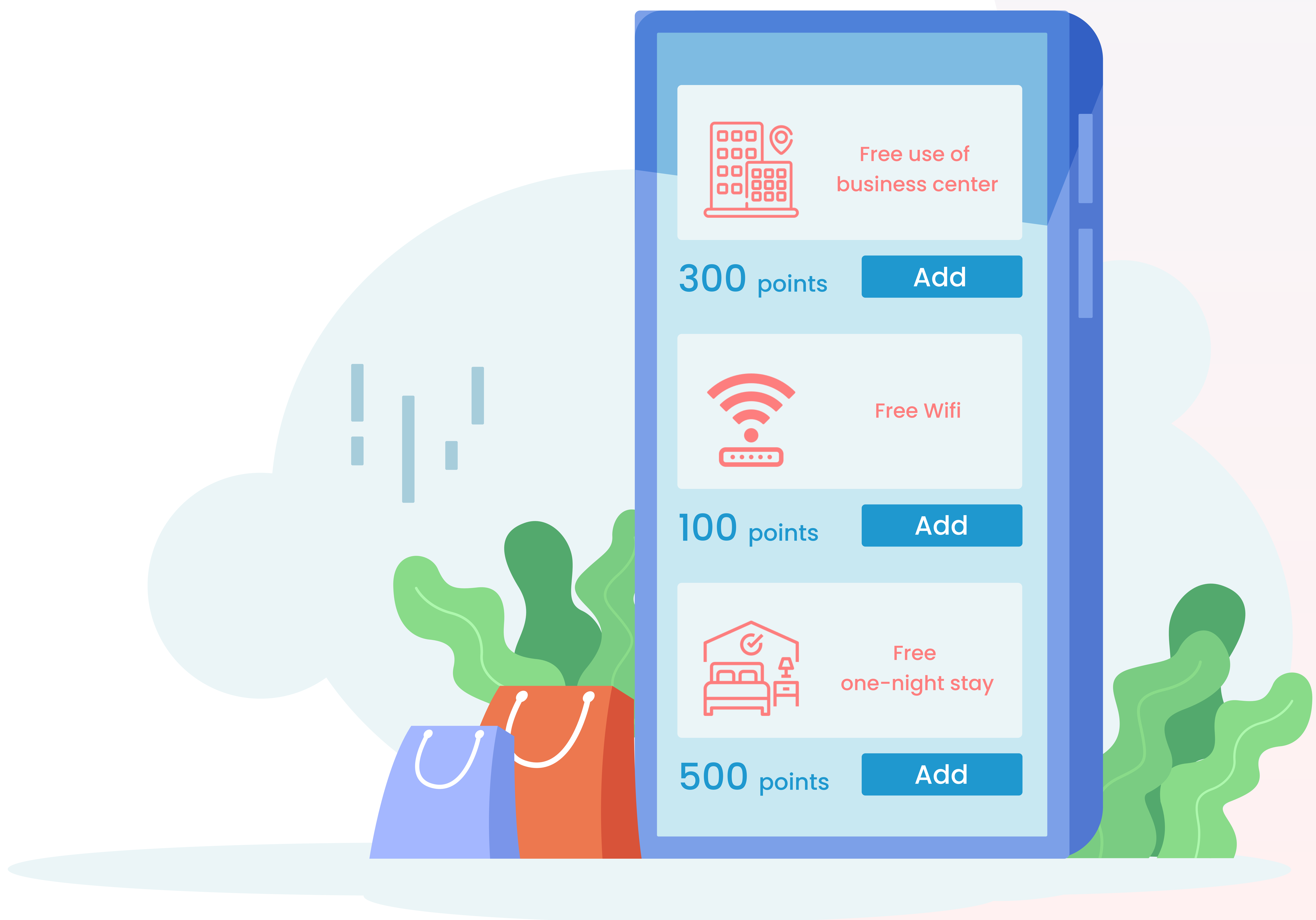
Business benefits redeemed through virtual currency

Now, all of these business benefit reward examples are already in your portfolio. They're already paid for. They don't call for an extra reward budget that you need to ask for every year. It's literally a zero dollar reward budget.
How does this relate to virtual currency?

You can choose to deliver business benefits both directly and indirectly.
Directly implies if you achieve the goal per a particular incentive you get a specific business benefit — say, premium support for 6 months. Or, if you achieve a certain marketing incentive goal, you get a package of premium leads for 6 months.

In the indirect scenario, channel partners have the opportunity of choice. What if the company wanted to offer all these benefits to their channel partners for achieving an incentive and let them choose what they wanted? That implies a reward catalog made up of a plethora of business benefits – premium support, high-quality leads package, advanced training class discount, website design consulting, user conference fees discount, etc.

Going back to the B2C hotel example, the hotelier can give as a specific business benefit reward for a specific behavior/goal, e.g., free wifi for the remainder of the year once the customer has spent $1000. Or they can offer a collection of business benefits in your catalog. In the latter case, you would institute a virtual currency as your reward type.



In tech company terms, these benefits can be in the form of: free or discounted product, discounted training, discounted event attendance fees, premium support, marketing placement/spotlight (e.g., on the partner locator, as a joint press release, or as a featured guest speaker at an event or webinar), premium leads, or packaged consulting (website/SEO consulting, digital marketing consulting, support or MSP business model coaching), etc. Again, either specifically (a free conference pass for every 10 opportunities closed this quarter), or as catalog items purchased with your virtual currency reward:

Note:

You could use points for channel partners to redeem for business benefits, like you do for merchandise. But the power of a virtual currency enables you to grow that virtual currency's use – so that any entity in your ecosystem can use it for any monetizable purpose.

Pros of business benefits and virtual currency:

They offer Ecosystem Recursive benefits - business benefits and the virtual currency employed as a redemption vehicle are one of the most powerful incentive reward types you can implement, not just because of their essential no-cost basis, but because of their direct relevance (high value) for your and your channel partners' business.

Cons of business benefits and virtual currency:

Requires cooperation from business units for fulfilment.

Level Points

Many technology companies group their channel partners into tiers, or levels - for example, Gold, Silver, and Bronze partners, based on “macro” performance criteria, the most common criterion being total revenue generation for the past year. In the last few years, this annualized revenue model has begun to evolve. To incentivize (at a “macro” level) more than just revenue, tech companies have become innovative with what they are rewarding and have started using a different criterion for leveling, e.g., investment or CSAT[1]; or use multiple criteria in some sort of combinatorial fashion.

How do they work?

Let’s say you want to use two criteria – revenue and investment. You could implement these criteria using a rules engine:

Gold	Silver	Bronze
		
IF revenue > $20m AND investment > $20K	IF revenue > $10m AND investment > $10K	IF revenue < $10m AND investment < $10K

But this approach can get a little awkward – particularly if using more than two criteria. To employ a simpler, more flexible level program using multiple criteria, a level points model is the way to go:

Tech companies start factoring in behaviors like the customer satisfaction the channel partner delivers and the channel partner’s investment in the tech company. To factor multiple behaviors/goals into a partner-level program, you should consider moving to a flexible points system.

[1] CSAT scores are easy enough to understand, right? But what’s this investment?
It is basically how much a partner has invested in the tech company in terms of –
How much marketing they did on behalf of the tech company
How much training they took to become experts at the tech company’s solutions

Revenue	CSAT	Investment
For every $1000 in revenue, the channel partner is awarded 1 point	for an average score of 10, the channel partner is awarded 2000 points for an average score of 9.9, the channel partner is awarded 1800 points	for every $100 invested, the channel partner is awarded 1 point

Then your model might look something like this:

- To become Gold, partners must earn more than 10000 points.
- To become Silver, partners must earn 3000-10000 points.
- Bronze partners generate less than 3000 points.

The power of level points is that it offers your channel partners the power of choice. Channel partners can choose which aspects of their business to develop.
As for the tech company, in terms of reward budgeting, how much does it cost them to designate a channel partner as gold or silver?

Absolutely NOTHING.

Pros of level points

- Contributes to the long-term relationship (loyalty): An increase in channel partner loyalty leads to increased channel partner LTV (lifetime value), and therefore increased revenue. Moreover, increasing the loyalty of current channel partners is significantly more cost-effective than acquiring a new customer.

- Level and level benefits are rewarded in the form of bigger up-front discounts on products and add-on business benefits like premium support so that the reward capital stays within the ecosystem of the tech company and channel partner, which is inexpensive.

Cons of Level Points

- Similar to rebates and funds, level points can be rewarded to the company entity, *not the individual.*

Reward Currency Summary

	Catalog Points	Rebates	MDF	Virtual Currency	Level Points
ERB	No	No	Yes	Yes	Yes
Reward Entity	Channel partner company / Individual	Only Channel partner company (can be stacked for greater reward benefit)	Only Channel partner company	Only Channel partner company	Only channel partner company
Taxable income	Yes	No	No	No	No
Hard Cost / Soft Cost	Hard cost	Hard cost	Hard cost - require a MDF program software and design skills	Soft cost	Soft cost
Other	Managing fulfillment can be a daunting task and expensive.	They are cut into the product's profit Without capping, channel partners can 'stack' multiple rebate incentives to cut into the profit margin, losing profitability.	MDF are 'directed' funds i.e., tech companies can direct how these funds can be used - for marketing, POC, etc. MDF stay within the ecosystem, bringing tech companies a second return.	They require cooperation from business units for fulfillment.	Contributes to the long-term relationship (loyalty).

Blending reward types for greater partner value at reduced spend

You can reduce your reward budget and overall spend by combining rebates (for companies) and points (for individuals) with soft-cost and ERB reward currency.

Consider this here -

Criteria	Before	After
Sales transaction incentive – for selling a product	Rebate – total $1 million	Rebates ($500,000) + virtual currency (for business benefits) ("$0") + level points ("$0")
Sales behavior incentive – for closing on time	Catalog points – total 100,000 points	Catalog points (75,000) + business benefits ("$0")
Marketing behavior incentive – for number of leads generated	Catalog points – total 75,000 points	Catalog points (50,000) + MDF ($100,000
Training behavior incentive – for number of classes completed	Catalog points – total 50,000 points; $200,000 in redeemable catalog merchandise reward	Catalog points (50,000) (and volume discounts on catalog reward of 20% = $160,000)

Bottom line

- Channel incentive programs, when designed right, have the potential to produce a high ROI. However, higher achievement = higher reward budgetary impact. Tech companies need to reevaluate their reward spend with respect to each reward currency, their pros & cons, and how they can reduce their reward spend while growing their ROI.

- Reward catalog points – the oldest in the playbook – can be utilized with minimized spend by doing two things: (a) building a margin into the reward catalog, and, (b) liaising with other tech companies to create a coalition.

- Rebates, when coupled with catalog points, have a positive impact on the budget. Both catalog points and rebates have no 'Ecosystem Recursive Benefits' i.e., rewards don't stay within the ecosystem of the rewarding tech company and are essentially "cash out the door".

- MDF accounts for 10-15% of the entire marketing budget and can be very effective when budget is developed right. Like rebates, they are a fund dollar but have the Ecosystem Recursive Benefit that brings a second return to the tech company.

- Virtual currency is a "pull-back" from the B2C world and is rather a "soft cost" to the companies. They offer Ecosystem Recursive benefits too i.e., Business benefits and the virtual currency employed as a redemption vehicle are one of the most powerful incentive reward types you can implement

- Level points group channel partners into tiers – Gold, Silver, and Bronze partners based on a "macro" performance criteria. Reward currency contributes to the long-term relationship (loyalty) which leads to increased channel partner lifetime value and therefore increases revenue.