Success Guide for Designing Channel Incentives Programs

5 Factors That Influence Incentive Scheme Design
A critical element of getting mindshare from partners in today’s increasingly competitive landscape is offering them attractive incentives.

However with the wide range and complexity of incentive schemes being produced, vendors need well-defined processes, methods, tools and organizational structures to ensure they can design incentives both quickly and accurately.

This Channel Mechanics guide will outline the 5 factors that influence incentive scheme design and share some good practices in how you can streamline production of compelling incentive programs for your partners.
The Complex Business Landscape Incentive Designers Work In

Vendor offers incentives to their channel partners to drive the behaviour of their sales & marketing teams.

In a 2-Tier model distis use incentives to drive reseller selling behaviours.

Resellers use incentives in 2 ways:
1) To drive their GoToMarket teams “selling” behaviour
2) To encourage “customer buying behaviours” to select vendor offerings.

Competitors vying to get channel mindshare
Vendor offers incentives to their channel partners to drive the behaviour of their sales & marketing teams.

Tip for Designers: Begin with the end in mind
Think about your incentive design from the end customer perspective first. What would ensure their “buying” behaviour is directed towards your offerings and buying from your channel partner(s) vs your competitors?

- Manufacturing
- Distribution & Logistics
- Communication & Networking
- Software & Services
- Consumer Technology
- Aerospace & Defense
- Tourism & Hospitality
And It Gets Even More Complex...

Multiple Channel Partner Types To Design For

- Technology Partner
- Solution Provider
- System Integrator
- MSP
- Affiliate Network
- Master Agent
- Marketing Agency
- Cloud Provider
- OEM
- Distributor
- VAR
- Co-sell

Many Different Types Of Incentive Schemes To Design

- Reseller Discounts
- Referral Fees
- Training
- Spiffs
- Deal Reg
- Commissions
- MDF
- Rebates
- Pay per Click
- Development Funds
- Revenue Sharing
- Funded Head
- Cloud Provider
- VAR
- Co-sell
- Master Agent
- Marketing Agency
- Technology Partner
The 5 Factors That Influence Incentive Scheme Design

1. Human factors
   - Organization Structure to manage Incentive Schemes

2. Incentive Scheme Requirements

3. Incentive Scheme Workflow & Business Process

4. Incentive Design Methodology & Tools
1) Human Factors For Designers To Consider

In today’s vendor/channel business landscape, there is massive complexity in driving go-to-market motions. Therefore, designers must have a good understanding of all the stakeholders involved and make “human centered” design thinking core to how they construct incentive schemes.

This diagram highlights some critical design characteristics to factor into your incentive schemes to maximize adoption.
2) Incentive Scheme Requirements

If you are designing multiple incentive schemes for your channel, consider designing a common framework in which all the incentives can draw re-usable components from.

Components that could be included in the Framework include:

- Commonly used calculation formulas
- Dashboard report templates
- Calendar(s)
Example Common Component – Incentives Calendar

**Tip for Designers:**
It is good practice for vendors to publish and communicate an annual calendar for partners showing the key dates for when incentive program funds will be made available.

The example shown is a calendar for 2020 which also indicates the dates by which partners must make their claim submissions for the prior quarter.

The benefits of formalizing your calendar include:

1) Different business functions within your organization can plan ahead for the increased workload when partners start to submit claims. Finance teams in particular, will be very busy at month-end, quarter-end and year-end, so design your calendar to smooth the volume of claims processing and payments for them.

2) Your partners will have full transparency on when they must apply for incentive funds and clear milestones as to when they have to submit claims and can expect to receive payments for valid activities they undertook.

- Partner incentive fund activity submission and claim due dates (for prior quarter incentive program runs).
- Incentive funds will be loaded for approved schemes.
2) Incentive Scheme Requirements

Top 10 Design Considerations

01 Auditability / Traceability:
Incentive schemes ultimately cost money. Therefore, ensure you design workflows to allow easy auditing to show that all funds allocated can be matched to claims by your internal financial control teams, operations teams and external auditors, or any 3rd parties you work with. Your design should allow for complete traceability of end-to-end fund allocation, submission requests, claim reimbursements, non-claimed funds and outstanding payments/dispute items.

02 Ease of Use:
It is imperative that you make your incentive scheme easy for your partners to work with and that the performance reporting, claims management and payment processes and workflows do not create significant workload for them.

03 Ease of Administration:
For your own internal teams, design incentive schemes and internal workflows and business processes that make it easy for them to operate & manage. Ideally provide tools which automate performance reporting, claims management and payments.

04 Ethics & Compliance:
Ensure incentive scheme requirements can be designed within your company’s ethics, compliance and/or CSR policies. You may also have to validate that they comply with those of your channel partners too.

05 Global Rollout:
If you operate a global channel partner ecosystem, aim to standardize as much as you can for global roll-out. But be aware of any local, regional or geographic variations you might have to allow tailoring or configuration changes for.

06 Error Handling / Exception Handling:
Any scheme must be designed with error processing and exception handling in mind. Review the requirements with multiple stakeholder groups: finance, legal, sales operations, sales, marketing, IT, partner advisory board members, channel stakeholders and ensure you design workflows for any potential failures.

Tip for Designers:
Carefully review each of the requirements specified for the incentive scheme[s] you have been asked to design and ensure that key criteria outlined in these bullet points can be delivered in the final implementation.
Changing Market Or Business Conditions:
Incentive schemes, by default, are designed upfront and are usually geared to operate over at least one, and sometimes all four quarters of your financial year. Therefore, ensure incentives are designed to incorporate any unexpected changes in the market or your business performance, you might need to deal with. For example, you might have to reduce the funding available for certain programs post-launch.

“Grey Market” Behaviours:
A critical consideration for today’s designers is to ensure that incentive schemes are robust and that fraudulent claim activities are not possible or can be easily identified and stopped.

Testability Before “Go-Live”:
As incentive schemes become more and more complex, the financial implications of miscalculating the amount of money you have to pay out, could significantly affect your profitability. Designers should have a mechanism to test the operation of the incentives before any formal launch/go-live. Using prior financial year (or quarter) data can assist with this.

ROI Projections:
ROI is consistently reported as the No. 1 challenge for organizations trying to offer incentive schemes. It is difficult, but perfectly feasible to design formulae which use actual scheme usage data, to forecast the expected Return on Investment (ROI) for most, possibly all, of your incentive schemes.
Tip for Designers:
Map out the end-to-end workflow and business processes for your incentive schemes. Define who the “stakeholders” are at each step – internally, in your organization and externally in your channel partner organizations.

In this real-world example there are several steps from design to get to run & measure.

You need to carefully design your claim handling, claim rejection, claim dispute workflows & business process steps.
4) Design of Organization Structures to Manage Incentive Schemes

Vendor side

Tip for Designers:
You need to know the role & responsibilities of each of these "stakeholders" in your organization for incentive schemes.

Ensure your workflow and business process design steps engage the right people at the right time and design to make it easy for them to run the incentive schemes.

01 CHANNEL MARKETING
Define the scheme requirements, set the budget, allocate funds, define the scheme calendar(s), specify the metrics for success, review business outcomes, analyse ROI, communicate schemes to partners.

02 SALES OPERATIONS
Help with incentive scheme build/set-up, launch, scheme management, scheme performance analysis & reporting/tracking.

03 CHANNEL SALES
Contribute to scheme requirements, specifying the metrics for success, reviewing business outcomes, analyzing ROI, meeting partners to encourage scheme participation.

04 FINANCE
Approve the budget for incentive schemes, approve incentive payment models (e.g. cash vs points), process incentive payments, manage audits (or authorise 3rd party audit of schemes and claims). Review incentive schemes and assess for risks that might impact cashflow or create financial liabilities. Build new pricing books which include the incentives if required and/or update the quote tool prices.

05 IT
Buy, build, configure and/or manage tools to design/build/run incentive schemes. Act as advisors/supports to lines of business (LOB) functions who use specialist channel incentive platforms and assist with access (Single-Sign-On), API integration or batch data file loading.

06 LEGAL
Review and provide counsel on complex or global incentive schemes that may contravene company policies and standards, or may contravene corporate ethics & compliance rules.

07 HR
Can provide advisory support to incentive scheme design teams in regard to what types of incentives may appeal to certain worker demographics or geographic preferences. May also review complex or global incentive schemes to ensure they align with corporate social responsibility guidelines.
4) Design of Organization Structures to Manage Incentive Schemes

Channel Partner Side

**MARKETING**
Manage the allocated funds to launch incentives in alignment with the T&Cs mandated by the vendor. Track, manage and report on the business outcomes with well-defined KPIs/metrics and advise vendor of the performance of the incentive – is it working or does it need to change or stop. Communicate incentive offers to the target base e.g. if disti to resellers, if reseller to end customer and promote on all channels – social, website, others.

**SALES OPERATIONS**
Help with channel side incentive scheme build/set-up, launch, scheme management, scheme data collection, scheme reporting/tracking and performance analysis.

**SALES**
Drive awareness of the new incentive offers to the target base e.g. if disti to resellers or if reseller to end customer. Learn new pricing / offering constructs & sell to targets.

**FINANCE**
Review and assess the incentive schemes; specify what financial models will be used to roll-them out to resellers and/or customers e.g. are new prices to be released. Review incentive schemes and assess for risks that might impact cashflow or create financial liabilities.

**IT**
Buy, build, configure and/or manage tools to design/build/run incentive schemes. Act as advisors / supports to marketing, sales ops, sales, finance and also the vendor teams if integrations are needed to existing systems or batch data file uploads required.

**LEGAL**
Review and provide counsel on complex or global vendor offered incentive schemes that may contravene company policy; or may contravene company Ethics & Compliance rules.

**HR**
Can provide advisory support to incentive scheme design teams in regard to what types of incentives may appeal to certain worker demographics or geographic preferences. May also review complex or global incentive schemes to ensure they align with corporate social responsibility guidelines.

**Tip for Designers:**
You need to know the role & responsibilities of each of these “stakeholders” in the channel partner organization(s) you will offer your incentive schemes to. Ensure your workflow and business process design steps make it easy for them to use the incentives.
5) Incentive Design Methodology and Tools

Below is a classic lifecycle model, the V-Model, borrowed from the world of software development. We will use this model to explain the importance of “design” when you decide to offer incentive programs to your channel partners and what some of the key things designers should consider:

→ The essence of the V-Model is to ensure that formal reviews of the different deliverables on the left-hand side (scenarios, specifications, design and build) are conducted fast, with broad representation from all “stakeholders” in the vendor (and if necessary partner) stakeholder teams e.g. Channel Sales, Marketing, Sales Ops and where relevant Finance, IT, HR and Legal.

→ The earlier in the lifecycle errors/omissions/issues with your incentive scheme designs are found, the less costly it is for your business.
5) **Why You Should Have An Incentive Design Methodology**

**INNOVATION**
Take feedback from your live operational incentive schemes and create new scenarios for future launches. Do “what if” scenario planning of potential new schemes and “desk test” them before investing a lot of money.

**STAKEHOLDER AGREEMENT**
At every stage of the lifecycle process, all the business function owners who contribute to the incentive scheme requirements, design, build, launch, operation and use can review what is going to be included and can contribute ideas for change, improvement and spot errors. This has many benefits:

→ Faster time to “go-live”
→ Increased knowledge of how the incentives scheme works
→ Smoother go-live deployment
5) **How Incentive Scheme Designers can use the V-Model**

The role of the designer(s) is critically important and the V-Model informs us why.

Marketing teams specify the requirements for the incentive schemes...but the design team are responsible for:

A. **LOOKING UPSTREAM**

Analysing the requirements and making sure that the specified incentive schemes can be designed, built and launched in practice. Designers must therefore “proof” the specifications for different incentive schemes before the “build” stage.

The specifications will usually include requirements for a multitude of incentive scheme designs, with varying degrees of complexity ranging from rebates, to performance programs, to SPIFFS, to MDF & often more.

Designers must review the specifications in great detail and make sure that the actual ask can be met in practice. For example, if you are being tasked with designing a new incentive to ensure that certain partners maintain a minimum prescribed number of engineers certified on your platform, do you have a mechanism whereby you can get the data needed to support this?

B. **LOOKING DOWNSTREAM**

Design teams must ensure that any incentive scheme “designs” can be built and launched live. This means they must create incentive scheme designs that you the vendor can build and launch AND that your partner(s) can operate and use. Considerations for the designer include:

→ What are the T&Cs and scheme rules for the different incentives being designed? Can these be implemented in practice?

→ Is there a platform or mechanism that allows T&C’s/scheme rules to be configured easily and quickly by incentive scheme administrators in both vendor and partner organizations?

→ Can you build or buy incentive tools or a platform that automatically calculates and reports/displays the required performance metrics using live operational data to avoid manual processing by already overstretched marketing, sales, finance, operations, IT teams?

Designers must put themselves in the shoes of their partner community and answer the question “can we actually use the incentive design in practice?”. For example, incentive scheme designs often have specific metrics and proof points that partners must produce as evidence to the vendor before any claim is approved or performance payment made. If the metrics you require as a vendor are not practical or easy for the partner to measure and report back on, or your proof points are too unwieldy to submit then the take-up of your incentive offerings will be low.
C. LOOKING CROSS-STREAM
A key feature of the V-Model is that the "design" is verified or tested before any incentive scheme is launched live for your partners.

At the design stage it is imperative that the Incentive is verified for correctness e.g. if complex calculations are involved in the incentive scheme due to the specified T&Cs and business rules, then these must be “desk-tested”.

The design team has the responsibility to also ensure there is a mechanism available to “proof” (i.e. test) the design. Incentive program specifiers (usually marketing) are responsible for proofing it all works.

The testers must also consider the design from end user perspectives – or the “stakeholders” as we referred to them earlier in both the vendor and Channel partner organizations.
Example Use Case for Applying the “V-model”

Vendor Marketing team prepare incentive funding and approved activities plan for next financial year.

Plan is issued for review to key stakeholders (includes Channel Sales, Sales Operations, IT, Finance, Legal, HR, Product Management as required).

Vendor marketing team finalise the plan and get internal sign-off on the budget allocation and approved activities.

Vendor issues the next financial year incentives plan document to partners.
Channel Incentive Design Tools

Have you a channel incentive design platform?

Depending on the scale of your business i.e. if you operate in multiple geos/regions around the world and serve multiple industry verticals, having a platform will make the design (& verification), change management and adjustment of your incentive scheme designs much easier. Use the platform to orchestrate all your incentive scheme designs.

Does your channel incentive design platform ease your organization’s workload?

Having a platform is a great start but what does it allow you to do? Can it upload your different incentive program designs and allow you to segment the geos/regions, channel partners, industry sectors you plan to roll out to? Does it automate many of the key tasks you want? Does it also offer automated tracking of channel sales activity related to the incentive program such as rebates & back-end credits – which can be very complex and add workload on your sales operations and finance teams. Can your partners see their performance in real-time in easy to access, easy to understand dashboards? Does your design platform allow you to do “What if scenario planning”?

What if you don’t have any tools?

Many vendors are designing incentive programs manually using applications such as Word/Powerpoint to document their incentives program specifications and T’s & C’s and use spreadsheets (e.g. Excel) to design their incentive scheme calculation formulae. Designing incentive programs using such applications reduces the productivity of incentive design teams by up to 90%. Using Excel is very error prone and can lead to overpayment on incentives due to limits in checking actual partner achievement against pre-defined goal-based metrics.
Make sure all the relevant stakeholders in your organization participate in design lifecycle reviews. This could include marketing, sales, finance, sales operations, IT, Legal, Product Management and HR.

Ensure all “design constraints” are known and understood before you commence the design activity. For example, some vendors may only offer incentives to a subset of their partners, some vendors may restrict certain incentive schemes to certain geos / regions, vendors will specify rules around submission and claim timeframes, what’s eligible and what’s ineligible.

Design for change in market conditions e.g. new competitors enter the market, competitors offer a massive counter-attack incentive campaign, economic recession/ downturn.

Design for changes in your business performance – for example if during a particular quarter your financial performance is not on track and executive decisions are taken to cut back on non-essential spend. Oftimes the first things to get stopped are hiring, travel, expenses but certain budgets will also be next in-line such as marketing.

Automate automate automate your incentive program design stage as much as possible, especially the verification and validation of complex Programs such as Rebates.

Use a design methodology to plan and control your incentive program specification, design, build and test.

Invest in a channel incentive design platform to launch your schemes faster, with less errors and more predictable performance outcomes.
Making Channel Incentive Programs Frictionless

Channel Mechanics is the standard for ‘Ease of doing Business’ within the channel ecosystems. We enable vendors to easily deploy their channel programs, accelerate time to market and grow their channel revenues.

With our flexible and scalable channel automation SaaS platform, vendors have the ability to execute their channel programs and measure performance in real-time providing valuable insights.

Our digital platform provides the capability to:

- Design, deploy, track and change channel incentives in real-time.
- Rapidly execute incentives globally or regionally.
- Target incentives to specific segments of the channel.
- Provide partners and distributors with greater upfront incentives visibility.
- Deliver Channel sales incentives that align with your business goals.
- Measure and manage outcomes to ensure ROI is quantified.

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