

Sell In or Sell Out: A Unique Approach to Channel Incentive Program Design

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Well-designed channel incentive programs have consistently proven an effective means of combating downturns in distributor (channel) purchases, market share and shelf space allocation at retail. In most instances, organizations establish a channel program by setting goals around channel or distributor purchases in an effort to stimulate sales, improve market share, or increase shelf space. If the program participants meet the goals, they typically will be rewarded with points that can be redeemed for travel, merchandise, gift cards, or other experiential awards. In effect, supplier companies are using incentives to “sell” their channel partners into the program.

The problem with this “sell in” strategy is that program designers look only at their own company’s interests without considering the needs and challenges faced by their channel partners’ businesses. These needs and challenges may include:

- Inventory levels
- Quality or reputation of the product of service, relative to the market
- Days receivable
- Gross margins

The channel partners’ priority is their own business. No channel partner will risk its own success to gain additional points in an incentive program. That is why it is imperative to understand that program design must support the business needs of the channel partners. Programs that operate with the assumption that, “You get awards, we get sales,” become merely transactional, and never address the root cause of the downturn in business.

Here are a few ideas for designing a program that works:

Consider the whole supply chain when selecting the audience

A typical supply chain begins with the supplier that sells to resellers or distributors. Distributors in turn sell to small businesses that then sell to consumers. Distributor salespeople know their clients face-to-face.

To produce the best results it is important to include those distributors with the largest growth potential, as well as those most likely to support the program because their businesses stand to benefit from it.

Including the salesforce of these targeted organizations will provide the greatest opportunity to influence sales, particularly if these distributor companies are willing to identify the 20% of their clients with the potential of making 80% of their sales. That way you can support the dealer or distributor with a loyalty program that they in turn can use for their sales force and clients. Positive ROI must be assured by designing a program that will pay for itself through the incremental increase in sales.

Consider the channel partner's objectives when defining program goals

An effective program makes selling easier. Addressing the concerns and challenges of channel partners allows an organization to link their brand to the support, tools, and knowledge that not only make the sale, but also address other

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business issues. For example, if a channel partners has high inventory levels and a high number of outstanding invoices or receivables, the program can be designed with this in mind.

Program design can also target the behaviors of the distributors’ clients. It is possible to make a consumption table for this target audience and set purchasing targets whereby the more they purchase, the more points they earn.

As a condition for receiving points, however, these participants must not have overdue invoices at the end of each period. Providing channel partners with a program that addresses their problems, as well as access to product information, technical support, or better point-of-purchase materials, will increase the likelihood of success throughout the supply chain. A corresponding program for the salesforce will complete the connection between the organization and the success of the supply chain.

Not only does this approach improve cash flow by reducing inventory and decreasing receivables, it will also make the organization a valued partner in the channel.



Performance Improvement

What's in it for the supplier company?

When the supplier company offers a program that boosts the channel partners' likelihood of success through the building of business intelligence and a powerful client database, a true partnership is forged.

This kind of initiative not only demonstrates genuine concern for channel partners and their businesses, but also improves relationships and increases the ever-important mindshare. Never forget: When your channel partners know you are working for them, they will be more likely to work for you. ■

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