

Getting the Most from Your Channel Incentives

As new and emerging channels compete with traditional channels in today's marketplace, channel incentives will be one of the most important tools that companies can use to direct the efforts of their various sales channels and to ensure that product gets into the hands of end-user customers.

Channel, or dealer incentive, programs differ from other types of incentive programs in one important respect: The recipients are not employed by your company. They either own their own businesses or they work for dealers or distributors that resell your products or services. This can complicate the effectiveness of any incentive program, and it may take additional effort to engage and motivate those participants. How you structure your program is particularly important with channel incentives.

For sales vice presidents, sales managers, distributor sales managers, and others who oversee distribution channels, the key to managing and motivating these non-captive audiences is in building strategic alliances based on vision, communication, training and customer support.

An abundance of research suggests that communication and trust are the core elements of a lasting channel relationship. In fact, according to one study reported in the Harvard Business Review and summarized at

www.PerformanceForum.org, "When both sides trust each other, they are able to share confidential information, to invest in understanding each other's business, and to customize their information system or dedicate people and resources to serve each other better."

There are a variety of dealer or channel incentive programs, as you will see in the following examples. But bear in mind: An important way to reinforce that necessary communication and trust when developing a channel incentive program is through a total support package that will build a category of products rather than use price incentives, for instance, to support a single product or product line. Creating an incentive that encourages a dealer, or the dealer's salespeople, to sell more of your products versus a competitor's is not nearly as compelling as a program that gets the customer to buy more of all the products in a category. The dealer wants the rising tide that lifts all boats. Robbing Peter to pay Paul is not as valuable to your channel partner as their getting

more incremental sales or profits.

Know What Motivates Channel Partners and Involve Them in Planning

To successfully motivate their dealer networks, while maintaining communication and building trust in the channel partnership, sales managers must demonstrate that they understand the channel partner's business, and involve them in the program development process as much as possible.

Here are some ways to keep the relationship strong:

1. Possess a clear vision. Successful sales managers know that channel partners can be an integral part of the total sales and marketing strategy, and they have a strong vision of what their organization can do to help channel partners succeed – not just with your product or service, but with the entire category.
2. Make yourself an expert on your channel partners' business. You should have a complete understanding of what makes

distributors or other channel partners successful in the field you're going after. Look at how other successful manufacturers in your industry motivate dealers. The best way, however, is to ask the dealers themselves.

3. Make yourself an expert on the market you're addressing. This may seem obvious, but many companies work through distribution channels they don't understand. Companies often don't know their markets, and assume the distributor and other channel partners will do all the groundwork. Suppliers should have a complete knowledge of the market, including demographics, buying patterns and culture. In addition, sales managers must determine how important their product is to a specific channel partner. If your product or service accounts for only a small portion of a partner's potential, chances are you won't get much attention.

4. Involve channel partners in your planning. After identifying vertical markets and key players, sales managers must work closely with their channel partners to estimate the potential value of those markets, forecast sales and establish a priority plan.

The plan spells out who will do what, and when, in order to penetrate key markets: What roles will be played by the supplier and by the dealers and other channel partners? What will the dealer need in terms of promotion, sales support, training and joint sales calls?

5. Joint profit planning. Many sales

managers overlook this step. Joint profit planning with channel partners primarily concerns inventory planning, inventory control and communication. It includes working to cut sales costs and improve margins. Ask yourself: What can I do to help a channel partner reduce the cost of sales?

"Taxation was not clearly communicated at the beginning of the program."

Work with them to develop an optimum inventory level that will enhance turnover. Introduce better communications systems, including the Internet, to enable your partners to keep up-to-date. Explore co-op opportunities in such areas as media advertising, local promotions (signage, brochures, banners), rebate programs, incentive programs and trade show participation.

6. A strong "push" program. Many sales experts believe it's a mistake to rely on incentive programs that focus dealer salespeople on selling one product over another.

Incentives should reward not only better sales of your company's product, but better overall salesmanship, something every channel partner is eager to promote.

Design programs that reward salespeople for both selling your product and selling better.

7. Market-oriented training.

Ongoing supplier-sponsored training programs are critical to the success of partnering. Too many companies emphasize product training. Well-constructed training programs help distributors identify key decision makers, outline the sales cycle and underscore supplier resources

available to service the customer.

8. Stay active in your dealers' territories. Make joint sales calls with dealers and other channel partners.

Enlist mystery shoppers, if appropriate, to see how your product is presented. This will help you learn about your partners' sales priorities and give you knowledge of their customer accounts. It also will clarify why customers buy from certain channels. This information will provide a strong basis for sales training sessions.

9. Take advantage of technology. Easy-to-use databases, along with the Internet, are providing new ways to track channel partners and end-users. They also can help you regularly communicate with your channel partners. Sales automation and the Internet provide an invaluable opportunity to improve sales productivity and communications with all your channel partners.

What Type of Program Works Best?

Most companies want their channel partners to stock or sell more of a current product or participate in co-op marketing programs. But what's in it for

them? All of their suppliers want them to stock more product and support it better in the marketplace. Based on your discussions with key channel partners, you should have learned other ways to help them achieve their specific objectives.

In particular, however, make sure your program does not artificially distort sales – and undermine trust – by getting channel partners to make big purchases or sales efforts during a program only to do little before or after the qualifying period.

Here are basic incentive program options you can discuss with channel partners; these can be mixed and matched, in some cases.

1. Open-ended strategy. Motivate channel partners to stock or sell more by setting goals above the past year's sales quota. These programs are easy to budget because you base the award on incremental sales over a comparable period. Combine the incentive program with basic training and communication designed to make participants more effective. For new dealers, base the quota on a reasonable estimate of what they should be able to accomplish in a start-up year.

2. Closed-end approach. Distribute awards to the top performers in each volume category or region. This is easy to budget, but tends to reward top performers who would excel anyway.

3. New product introduction. Budget a small amount per unit

of your new product budget for an incentive program designed to get channel partners to increase their commitment to your product. Companies qualify in proportion to their level of commitment. To make this work, you have to provide these companies with an exciting program that will convince them the product will sell through.

4. Plateau programs. These reward dealers or distributors in an increasingly significant way for making incremental purchases at, say, 5, 10, or 15 percent above their quota or last year's performance. The idea is to push people to try harder than they would in a program geared just to an overall increase in sales.

5. Cooperative marketing programs. You provide extra rewards for channel partners for participating in your co-op marketing programs. For instance, they could get bonus points for utilizing co-op dollars, putting up displays or participating in a training program for salespeople.

6. Product-specific programs. Companies offer bonus points for distributors that sell or buy more of a specific product. But you might jeopardize the sale of other products with this approach, so your secondary measures might include a requirement to hit an overall sales target.

7. Database programs. Offer dealers and distributors a reward for providing customer names for co-op direct marketing or telephone sales solicitation on behalf of your company's product. This is a good way to collect valuable names in a cause that

ultimately should benefit your channel partners.

8. Training for dealer salespeople. Offer credits for special training for salespeople that addresses your channel partners' needs, not just your own. This helps your middlemen by improving the caliber of salespeople and helps you communicate with those who sell your product.

Communicate, Communicate, Communicate.

Getting the attention of your audience is a challenge because dealers and other channel partners probably receive similar offers from many suppliers. To get their attention, make sure your program is easy to understand and filled with benefits to your target audience. Throughout the program, provide participants with useful information to help them succeed.

Launch your effort with an enrollment kit that asks for basic business address information along with tax identification numbers, where applicable. The kit should prominently specify the program duration.

Because your program should support your marketing objectives, link it as much as possible to the overall marketing push. Develop a theme for the incentive program and try to relate that to your marketing themes.

In addition to your launch kit, have your own salespeople mention the program in their presentations to channel partners. Hold

regional kickoff meetings with dealers and distributors, and send regular updates to all participants, providing them with their results to date plus useful information to help them improve performance. How often you communicate depends on the program's duration.

Part of your communication effort should be to arm salespeople with the knowledge to help you and to help themselves. Many dealers and distributors don't want suppliers to have direct contact with their salespeople, so it's important to offer training that benefits the principals by improving the overall knowledge of salespeople, not simply imparting information about your product.

You also want ongoing communication with your program participants during the incentive program. Check your results month-by-month and, depending on the results, make adjustments or send additional information and tips to participants. Remember, you cannot change the rules or qualification levels midstream without annoying your participants and perhaps even violating the law.

Caveat: One attention-getting strategy you should be careful with is a sweepstakes. It's perfectly OK to have a dealer loader, in which

if you buy a case of something, you get something in return. But what's problematic is that a lot of dealer programs create a sweepstakes, or a lottery, in which every time a dealer buys a case of something, they get an entry into a sweepstakes. That is technically illegal. A critical element in avoiding legal action is the "no purchase required" provision in any sweepstakes-type promotion. In incentive marketing, if a prospective prize winner pays, purchases merchandise, sells merchandise in a trade promotion, or performs any act other than merely completing an entry blank, this constitutes a consideration.

It thus could transform a promotion into an illegal lottery, if chance is the determining factor in the selection of a prize winner. And only the government or charities can legally conduct a lottery.

Don't Neglect Presentation and Follow-Up

Don't neglect the award presentation just because it's difficult to gather channel participants in one place. Look for ways to enhance the value of the incentive award through communication to the media and to the trade, as well as through peer recognition.

In addition, no matter what award options you have selected, pay close attention to how you present the awards. Much of the impact is derived from the degree of the giver's sincerity. Consider making the award in public, perhaps at a customer council, trade show, national sales meeting or another event where people can bask in the recognition and know that you appreciate their accomplishments.

After the program, follow up with your channel partners to determine what worked best and what needs to be revised, and to brainstorm ideas for adding more excitement (and avoiding program addiction) to the next program. Look carefully at the results, tracking precisely what happened to sales and other areas that you measured. Isolate the factors that could have affected your program.

For the next program, consider changing your measures, but continue tracking the old measures as well. This will let you see what happens when your dealers aren't provided incentives, communication and training on objectives you – and they – are attempting to fulfill.

¹ *Survey on Incentive Awards Taxation, conducted for Marketing Innovators, 2007.*

² *Extracted from IRS Publication 525, as found at www.ossonline.com/incentive_tax_info.html.*

³ *George Delta, "A 2001 Tax Primer," Incentive Magazine, November 2000.*

⁴ *"Satisfying the IRS: Incentive Travel Tax Laws," No. 4030, www.info-now.com.*