



Designing for Successes: Effective Design Patterns for Channel Programs

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With the majority of all U.S. businesses now using non-cash awards and the majority of top-performing businesses (those with the highest revenue growth, customer satisfaction, and employee satisfaction) also saying their executives support their non-cash recognition and reward programs as a competitive advantage, there is now an imminent need to understand how to create effective incentives and reward programs. To this end, the Incentive Research Foundation (IRF) compiled years of relevant research to identify noteworthy design elements for effective non-cash recognition and reward programs. This paper explores effective design patterns for Channel Programs.

According to a recent marketplace study conducted by the Incentive Federation, non-cash channel reward programs are used by 43% of all businesses.ⁱ Likewise, IRF case studies have shown that non-cash channel programs can increase total revenues by 32%, increase market share by 30%, and increase net operating income to 19% of revenue.ⁱⁱ

Channel Programs

1. Establishing the Design: Fairness and Connection are Paramount

There has been a great deal of work done in organizational psychology and neuroscience on the importance of fairness to human beings. A sense of fairness is tightly linked to our drive to defend the ideas and people to which we are connected. Likewise, our innate need to bond with those in our circles permeates much of our behavior.ⁱⁱⁱ The same is true for channel incentive programs. An IRF study found that while the product and interest in travel were important parts of program satisfaction, so were fairness and an opportunity to bond with leadership. In fact, 60% of channel participants' satisfaction with the incentive travel program could be explained by the following:

- Fair earnings criteria
- The opportunity to get to know the top leadership of the sponsoring company
- The dealer's willingness to recommend incentive travel to others (i.e., his/her positive feelings toward incentive travel)
- The dealer's likelihood of purchasing additional products during the earning period^{iv}

Clear and well-communicated criteria, as well as leadership visibility in the program, will contribute significantly to its success.

2. Establishing Program Objectives: Productivity as Important as Sales

Channel programs were traditionally established to do one thing: help push sales through the pipeline. However, in the modern era, smart marketers are using their incentives and rewards programs for a broader set of behaviors that drive performance. The top primary objectives for channel rewards and incentive programs in the United States in 2015 for organizations over \$1 million in revenue were *improving productivity* (97%), *increasing sales of specific product(s)* (63%), *increasing overall sales* (62%), and *gaining market share* (59%). Interestingly two other leading

i <http://www.incentivefederation.org/wp-content/uploads/2016/07/Incentive-Marketplace-Estimate-Research-Study-2015-16-White-Paper.pdf>

ii <http://theirf.org/research/roi-incentive-programs-a-case-study-for-channel-sales-success/1055/>

iii See: Nitin Nohria and Paul Lawrence "Four Drive Theory" <https://hbswk.hbs.edu/item/driven-how-human-nature-shapes-organizations>

iv <http://theirf.org/research/channel-incentive-travel-a-case-study/114/>

behaviors that also registered significantly were gain mind share for non-exclusive sales channel (40%) and reward training (19%).^v All of these objectives show a movement away from solely the sales activity itself to behaviors that drive bottom-line success.

3. Establishing the Rules: Quotas are Key

Once an organization has established the objectives for a program, it is important to ensure the rules are structured appropriately to achieve these objectives. Are there differences in how top performing businesses (those with the highest year-over-year revenue growth and engagement scores) structure their channel rules compared to all other organizations? Interestingly, yes. IRF research found that 73% of top-performing organizations use *sales quotas* (participants receive individualized quota targets and earn rewards upon hitting them) compared to only 51% of all other businesses. Top-performing businesses also readily use *top performer* structures for their channel programs, where 67% are setting goals among all participants and then rewarding top performer(s) at the end of the program (e.g., President's Club). Additionally, over half of top-performing companies used other goal-based earning, allowing participants to receive individualized targets (e.g., new product training or clearing inventory) and earn rewards based upon achieving them. These percentages all point to both a strong focus on goal-based structures as well as a willingness to use more than a single structure.

4. Establishing the Audience: Expand Your Focus

Organizations running channel incentive programs are naturally concerned with gaining mindshare and rewarding the correct individuals with their funds. Whereas many traditional programs were centered solely on top performers, rewarding the top 10–15% of earners, as shown in the objectives and rules for modern programs, “the right” earners have a much wider definition for most organizations. When IRF asked top-performing organizations if their non-cash channel program was structured to recognize only the truly exceptional performers (exclusivity) or if it was structured to ensure each participant receives a recognition or reward in the program (reach), top-performing companies were significantly more likely to say *reach*. Over two-thirds of top-performing organizations said they structured their programs to reach as many eligible participants as possible. But this does not mean all participants are eligible to earn a non-cash award. In fact, only 17% of top-performing organizations said all participants were eligible to earn. On average, only 53% of channel participants were eligible to earn non-cash incentives and 48% actually earned them in top-performing companies.^{vi}

5. Establishing Funding: Tie to Overall Sales

When establishing channel program budgets, both top- and average-performing businesses overwhelmingly use a bottom-up approach, tying their channel incentive programs to overall sales by allocating a percent of each product sold to fund the program. Top-performing companies were twice as likely as all other organizations to have their budgets influenced by operating income. 56% of top-performing companies said their budgets were most influenced by operating income, while 31% said it was most influenced by gross-profit margin. Non-cash incentives also received the largest portion of the overall budget. While rebates and marketing development

^v Incentive Federation Program Design Study 2015

^{vi} <http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/>

funds were each respectively allocated 29% of the channel incentive, non-cash incentives were allocated 37% of the budget in top-performing organizations.^{vii} The typical channel sales recipient can expect to earn over \$4,000 in non-cash awards from top-performing companies, but only a little over \$2,600 from average companies. Finally, top-performing companies were strikingly more accepting of risk with regards to budgets: a full three-quarters of top-performing organizations did not have a top stop on their programs' earning potential.^{viii}

6. Establishing Awards: Focus on the Participant

Channel programs can use one of many award types, including *recognition awards, recognition events, merchandise, symbolic awards, gift cards, logo merchandise, individual travel, group travel, group incentive travel, and cash*. On average, businesses use more than six types of awards for channel incentives. What was most interesting, however, is that top-performing organizations were much more concentrated on awards that allowed participants' choice, with almost 40% saying this was highly important. Only 10% of average businesses believed participants' choice was important in their channel rewards program.

Multiple award types in a single program are very common. 63% of U.S. businesses with channel incentive programs use *gift cards*, followed by 51% that use *merchandise*, 43% that use *award points*, and 30% that use *trips and travel*. Over 80% of U.S. firms use more than one award type.^{ix}

7. Establishing Number of Programs: Consolidation is Common

Top-performing organizations are very unlikely to have disparate, disconnected channel programs running across the company. In fact, only 3% said they currently do. The vast majority of top-performing organizations either have multiple programs designed and managed under a common purpose (48%) or a single program for the entire company (42%). It is important to note that while this consolidation is evident in top-performing organizations, it was not also highly prevalent in average businesses. Only 17% of average businesses said they had a single program for the entire company.^x

8. Establishing Support: Look Outside

While many organizations still run part of their channel programs internally, IRF findings show a trend towards outside support — with over 60% of top-performing companies going beyond their internal silos to run the program. Top-performing companies are also statistically more likely than average companies to engage outside partners for their expertise.^{xi}

Not surprisingly, awards are a key part of supporting the program. As shown by the Incentive Federation findings, half of top-performing businesses engage supplier expertise for best ways to motivate participants and over two-thirds use external award suppliers.^{xii}

vii <http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/>

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ix <http://www.incentivefederation.org/wp-content/uploads/2016/07/Incentive-Marketplace-Estimate-Research-Study-2015-16-White-Paper.pdf>

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xi <http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/>

xii <http://www.incentivefederation.org/wp-content/uploads/2015/10/Study-Final.pdf>

9. Establishing Administration: Communication and Tech Support

To execute a winning channel incentive program, organizations must invest in the program's design and operation.

IRF research indicates that 48% of top-performing companies' budgets generally go to *program administration* (design and operation) versus only 30% of average performers. Top-performing businesses were 86% more likely than average companies to integrate communications in broader company communications for their channel incentive programs.^{xiii} Likewise, over 70% of businesses use some level of program-specific technology to support their non-cash sales incentive programs, showing a distinct movement away from solely using common tools such as Excel or Word.^{xiv}

10. Measuring Effectiveness: Multiple Metrics

Results from an Incentive Federation study show that the performance metrics that are most often used to evaluate the success of channel incentive programs are *net new customers* (75%), *product sales in dollars* (70%) *product sales in units* (49%) and *market share* (49%). Other key metrics include *satisfaction surveys* (28%), *brand compliance* (27%), and *product knowledge* (22%).^{xv}

xiii <http://theirf.org/research/ten-things-top-performing-companies-do-differently/2229/>

xiv <http://www.incentivefederation.org/wp-content/uploads/2015/10/Study-Final.pdf>

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