



# Designing Channel Incentives for Success

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Channel or dealer incentive programs differ from other types of incentive programs in one important aspect: the recipients are not employed by your company. They either own their own businesses or work for dealers or distributors that resell your products or services. Naturally, this can complicate the effectiveness of any incentive program.

Many large companies sell through some form of a sales channel. Distributors generally take the billing for the products or services they sell to other companies. Dealers, which often buy from distributors or directly from manufacturers, sell products or services directly to consumers or businesses. Agents and independent representatives usually sell to distributors, dealers, or end users and receive a commission from the companies they represent. How your incentive program is structured should reflect the type of middleman you want to motivate and your relationship to the companies involved.

Many organizations leverage multi-layer sales channel organizations. It's important to create unique strategies that help each layer deliver success - with attainable, relevant program designs. And often success can be attained by a combination of push (incentives for sellers) and pull (end purchasers) strategies. In any case, incentives or loyalty structures must be rich enough to garner interest and gain mindshare in order to be successful.

## ***Step 1: Specify the Objectives***

As with any incentive program, begin by specifying your objectives, in measurable terms. Generally, you should have one primary objective and perhaps other related objectives. The primary objective tracks the specific results you want, such as increased sales. The secondary or "process" objectives measure the specific steps participants can take to achieve your primary objective. Some examples of primary objectives: Increase sales by 10 percent in the third quarter versus the same period last year; increase the number of dealer salespeople participating in product training programs versus the same period last year; obtain a 20 percent share for a new product in its first full year.

There needs to be a correlation with the goal and the reward. If the 10% growth has a 2 year ROI, then you'll need to raise the goal. Conversely, if the goal is too aggressive then it's possible it won't even be achieved. You should plan for worst case scenarios and what would be a minimum viability goal.

## ***Step 2: Determine Who and What is Most Important***

If your company sells through a channel, determine which categories or which specific dealers, agents, or distributors are critical to your business. In the consumer business, the role of agents and representatives has declined as the result of growing retail consolidation. Manufacturers no longer need hundreds of representatives when only a few retailers control a large market share. Also, it has become increasingly difficult for consumer-product manufacturers to influence the promotional practices of these giant retailers. Yet, many consumer and business-to-business suppliers still move considerable volume through middlemen, and no incentive program can succeed unless you determine the types of middlemen critical to your success.

In addition, identify precisely what these target audiences can do to help you achieve your objectives: stock more product, participate in marketing or training programs, put up displays, participate in co-op marketing programs, or provide customer databases.

Generally speaking, your top 20 percent of dealers comprise the bulk of your business. Thus, the objective of incentive programs isn't only to get the top performers to stretch a bit further, but also to get average performers to increase their participation with your company.

Many companies want to target the dealer salespeople who actually present the product to the end-user. Dealer principals can resist these programs, fearing that externally-sponsored incentive programs motivate their salespeople to act in someone else's best interest. If you want to target salespeople, you must do so in a way that will benefit the principal as well. Some dealers appreciate incentive programs as a way of providing employee perks they can't otherwise afford or as an opportunity to provide extra training.

## ***Step 3: Determine What Is In It For Them***

Unless you have a tightly controlled group of agents who are dependent on your company – still the case in many industries – you have to compete with many other companies for the attention of your middlemen. Everybody wants the middlemen to focus on their product and they're constantly trying to come up with good reasons for them to do so. In the end, most middlemen will do what is best for their customers and for their company, which is not necessarily what is best for you. Savvy suppliers know they have to offer programs that help middlemen meet their goals of increasing sales and profits.

Before launching any incentive program, consider holding a customer council or focus group. Invite top dealers, agents and distributors to an all-expenses-paid meeting designed to elicit their special needs and concerns. Most middlemen will say that sales and profits are their biggest concerns, but that doesn't mean that adding a percentage point of margin or commission will necessarily produce a significant increase in sales. Dealers and distributors often react more enthusiastically to strategies that help them address fundamental problems, such as fighting competition, improving the training and retention of salespeople, building consumer loyalty, or building sales of a product or service category.

Also remember that it does little good to motivate a dealer or distributor to stock a lot of product that never sells through. Consider a program component that promotes sell-through, such as a promotion aimed at end-users.

#### ***Step 4: Structure the Program***

Now it's time to determine precisely what you want your middlemen to do. Most companies want them to stock or sell more of a current product or participate in co-op marketing programs. But what's the attraction for the middlemen? All of their suppliers want them to stock more product and support it better in the marketplace. Based on your meeting with key distributors or agents, you should have come away with other ways to help them achieve their objectives. Note: You will get little response unless you set goals that are attainable to a broad portion of your target audience.

By keeping your program simple, you'll boost performance among the middle 60 percent of dealers that can generate the most incremental volume. Finally, make sure that your program doesn't artificially distort sales by getting middlemen to make big purchases or sales efforts during a program, only to do little before or after the qualifying period. Here are a few basic incentive program options, which in some cases can be mixed and matched:

- **Open-ended strategy.** Motivate dealers 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 communications 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.
- **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.
- **New product introduction.** Budget a small amount per unit of your new-product budget for an incentive program designed to get dealers or distributors 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.
- **Plateau programs** reward dealers or distributors in an increasingly significant way for making incremental purchases, say, at 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 that's just geared to an overall increase in sales.
- **Cooperative marketing programs.** Here you provide extra rewards to dealers 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.

- **Product-specific programs.** Companies offer bonus points for distributors that sell or buy more of a specific product. Caution: 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.
- **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 distribution partners.
- **Training for dealer salespeople.** Offer credits for special training for salespeople that addresses your dealers' needs, not just your own. This helps your middlemen by improving the caliber of salespeople and helps you communicate with the people who sell your product.
- **Customer-affinity programs.** Many companies simply invite top distributors and dealers to special meetings that blend training, motivation and entertainment. Selection of attendees may be based on a subjective evaluation by top managers.
- **Sales/purchase pushers** promote sales in a particular season to maximize results. If your business is seasonal, you'll want to make sure you profit as much as possible from the potential business in the strongest sales period. Similarly, you can use incentive programs to boost sales in normally slow periods.

### ***Step 5: Determine Your Award System***

Depending on your objectives and audience, you may want to use cash, cooperative marketing dollars, or non-cash awards, such as merchandise, travel and gift certificates. Mass merchandisers will make their needs known quickly.

They probably won't want non-cash awards unless offered as part of a joint promotion for consumers or as assistance in boosting the mass merchandiser's own business objectives, such as improving overall customer service. Smaller business owners and managers, however, often enjoy the benefits of receiving merchandise and travel awards, including the chance to meet with colleagues from other parts of the country.

In evaluating your choices, look at what competitors have done and try to determine what options will get the most attention. A professionally conducted customer council is often the best way to find this out. Whatever you do, change it for the following program. Variety is the spice of any ongoing incentive program. Experiment continually, and track results.

## ***Step 6: Develop a Tracking Plan***

The great advantage of incentive programs versus other types of marketing efforts is the ability to track results precisely. All of the structures outlined in Step 4 can be measured clearly if you track basic sales data. “End to End” incentive companies offer tracking programs that not only follow sales activity by dealer or salesperson, but also provide regular updates to the target audience (as well as monthly reports to you). Small companies can track a program with a simple spreadsheet into which is entered each salesperson’s invoices or reports.

## ***Step 7: Develop Your Budget***

If you structure your budget properly, the program will cost relatively little, unless performance exceeds your quotas or objectives by a wide margin. Most companies don’t mind rewarding dealers and distributors for incremental performance. Fixed costs, such as administration, communications and tracking may also factor in, depending on the sophistication of your program and the number of targeted dealers.

On top of that, you should allow for the cost of awards should performance exceed the quotas or goals. The closed-end program that selects the top performers is the easiest to budget, because you have a predetermined number of winners. However, you risk rewarding your top performers even when the company doesn’t achieve its overall goals. An open-ended program is more difficult to budget, since you can’t predict precisely how many people will achieve the goal and to what extent.

A general rule of thumb in crafting your program budget is to allow

- 80% of your budget toward rewards
- 10% toward program promotion and adoption
- 5% toward administration and
- 5% toward program measurement to prove it works and improve the program going forward.

## ***Step 8: Decide Who Will Run the Program***

As with any marketing campaign, you'll need someone in-house to coordinate things. Critical issues include administration, databasing, tracking, communications, training and award fulfillment.

Smaller organizations have the benefit of defining a simple internal coordination process from the ground up, or serve as the primary point of contact with a chosen third-party supplier.

Larger organizations often have ad hoc programs being delivered in various departments or divisions of the organization. Centralizing your programs can identify your spend, create programs in alignment with corporate goals and objectives, and help you measure, prove and improve the value of your program.

End to End incentive companies handle all these functions, and smaller specialists can take on one or two.

## ***Step 9: Write the Rules***

Now that you know the structure and budget, you have to write the rules that will be incorporated into all of the communications. It's imperative that everybody understand the reward structure in the same way, which means your program must be simple enough to explain with short sentences on a single page. People don't have time to wade through literature, even when they have a high interest level.

The rules should spell out all conditions for participation in the program. Have several people not directly related to your business read the rules to make sure anyone can understand them.

## ***Step 10: Establish a Communications Plan***

Getting the attention of your audience is a challenge, since dealers and distributors receive offers from many suppliers. 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 with it.

Launch the effort with an enrollment kit that asks for basic business address information. The kit should also prominently specify the program duration. Since 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 it to your marketing themes. This will help people remember it.

In addition to your launch kit, have your salespeople mention the program in their presentations. Hold regional kickoff meetings with dealers and distributors, and send regular updates to all enrollees providing them with their results to date plus useful information to help them improve performance. Use communications channels to motivate.

Progress-to-goal communications can push fringe performers over the top! How often you communicate depends on the duration of the program.

### ***Step 11: Consider the Role of Training***

Make sure the dealer salespeople have the knowledge to help you. Many dealers and distributors don't want suppliers having 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 information about your product.

### ***Step 12: Launch and Track the Program***

Have a formal date for the kickoff and try to stick with it. You will probably want to time the program to coincide with your overall marketing effort.

Measurement matters. You'll want an automated way to track registrations, communication open rates, bounce rates, traffic and other key communications effectiveness indicators.

Watch what happens month-by-month by checking your results and, depending on the results, make adjustments or send out additional information and tips to participants. Remember, you can't change the rules or qualification levels midstream without annoying your participants.

### ***Step 13: Conclude the Program***

When the qualification period is over, generate reports as quickly as possible to see the results. Waste no time in notifying all participants of their final standing. Many companies stop mailing reminders to dealers or salespeople who don't qualify on the grounds that people don't like to be reminded of failure.

And don't wait until the end. Email agents that are close to missing the mark, look at the chart mid-year, and continually communicate to move fringe performers into the award zone. This benefits you and your network!

Finally, send out constructive information to such dealers, naming the dealers that qualified along with information about how the non-qualifying dealers could perform better in the future.



### ***Step 14: Show Your Appreciation***

No matter what award options you've selected, you should pay close attention to how you present the awards. Much of the impact is derived from the degree of sincerity coming from the giver. Consider making the award in public, perhaps at a customer council, trade show, national sales meeting, or somewhere else where people can bask in the recognition and know that their accomplishments are appreciated.

### ***Step 15: Evaluate and Change***

Look carefully at the results, tracking precisely what happened to sales and other areas you're measuring. 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, communications and training on objectives you're attempting to achieve.

Utilizing these key steps will keep your program dynamic and, most importantly, ensure that it is always generating Return On Investment. And that is always the name of the game!