

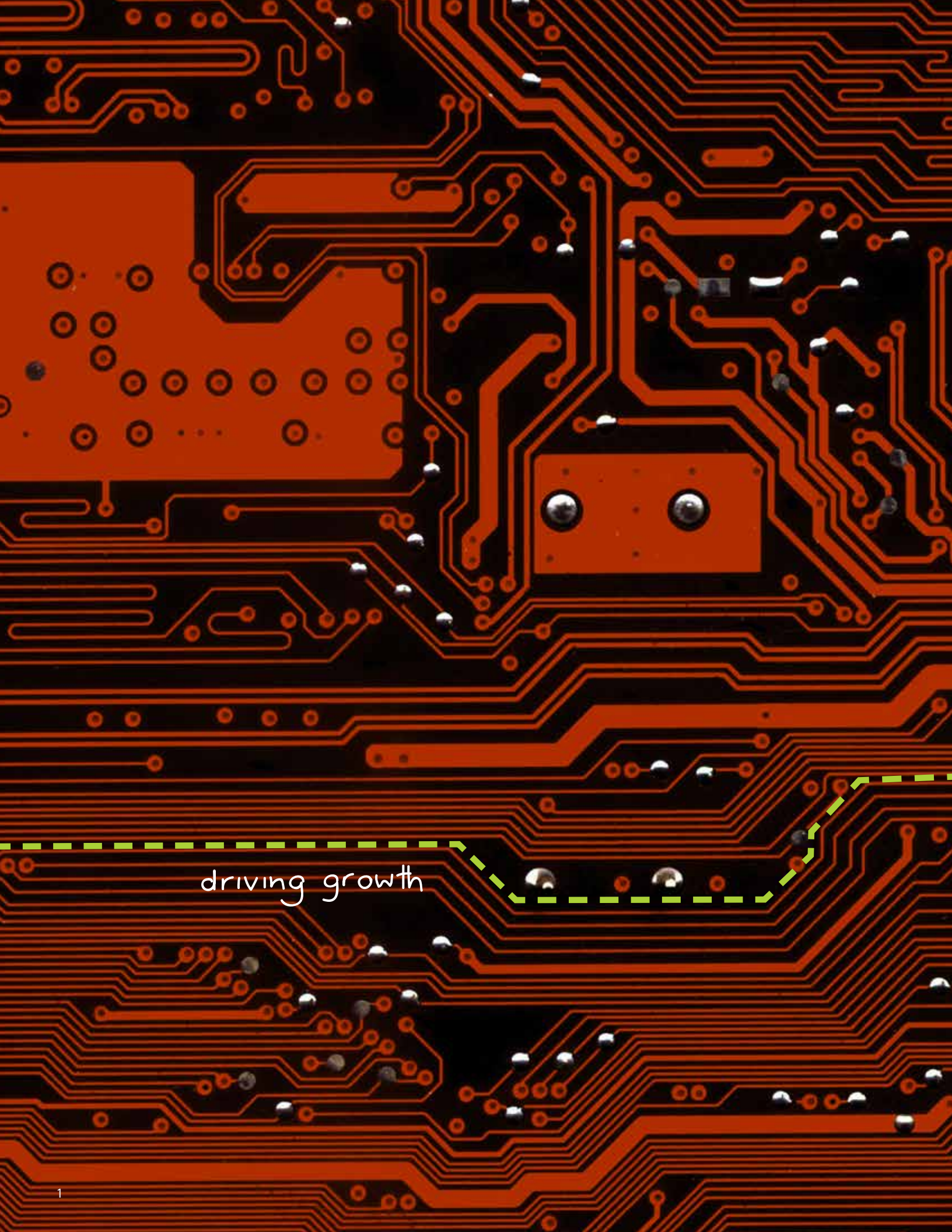
# Improving the ROI of Indirect Channel Incentives



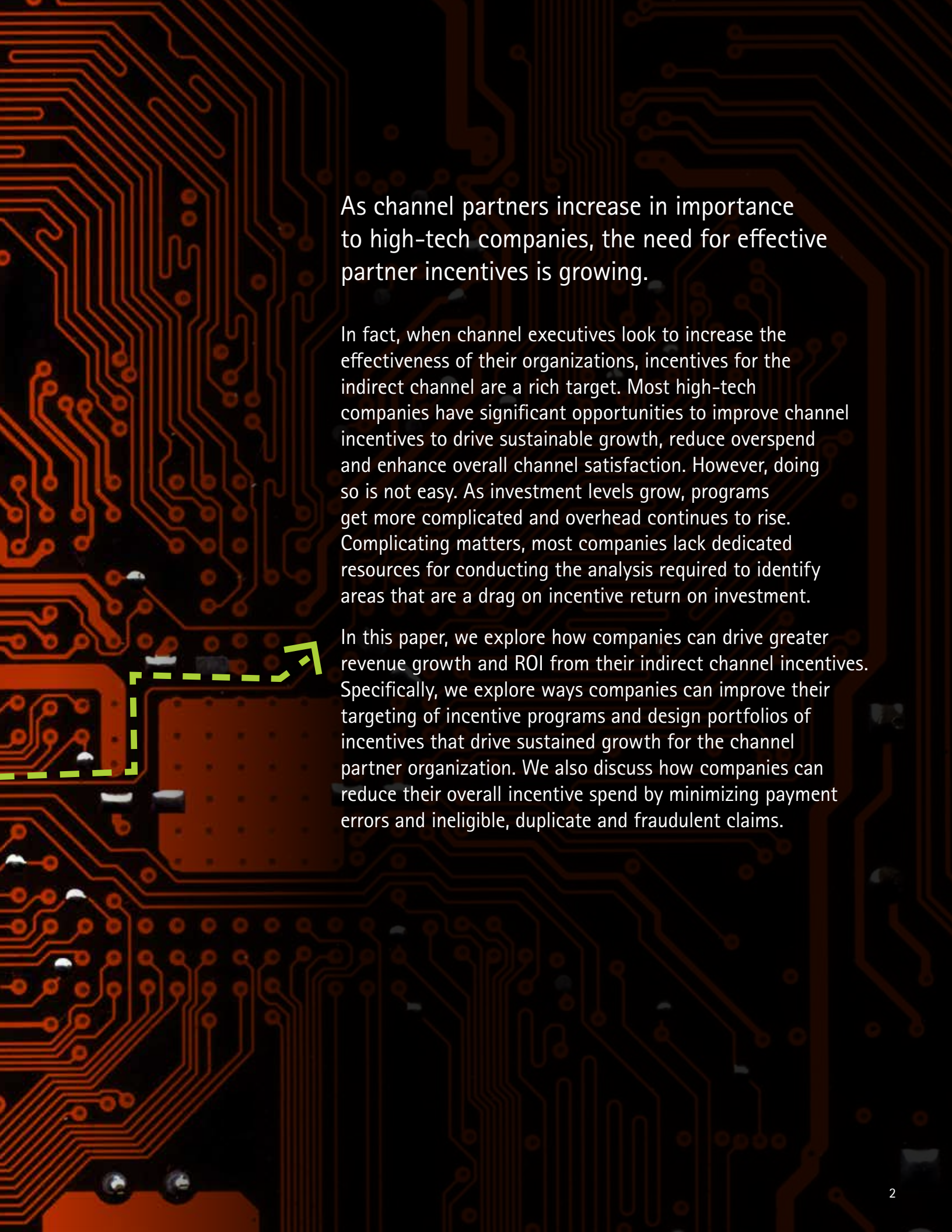
reducing  
complexity



High performance. Delivered.



driving growth



As channel partners increase in importance to high-tech companies, the need for effective partner incentives is growing.

In fact, when channel executives look to increase the effectiveness of their organizations, incentives for the indirect channel are a rich target. Most high-tech companies have significant opportunities to improve channel incentives to drive sustainable growth, reduce overspend and enhance overall channel satisfaction. However, doing so is not easy. As investment levels grow, programs get more complicated and overhead continues to rise. Complicating matters, most companies lack dedicated resources for conducting the analysis required to identify areas that are a drag on incentive return on investment.

In this paper, we explore how companies can drive greater revenue growth and ROI from their indirect channel incentives. Specifically, we explore ways companies can improve their targeting of incentive programs and design portfolios of incentives that drive sustained growth for the channel partner organization. We also discuss how companies can reduce their overall incentive spend by minimizing payment errors and ineligible, duplicate and fraudulent claims.

Under intense pressure to grow, high-tech companies are finding the indirect channel is an increasingly important part of their business. However, often money spent on partner incentives is not delivering an appropriate return and, in many cases, is even undermining high-tech companies' ability to generate profitable growth. Consider the following hypothetical scenario.

ABC Technologies, a high-tech company serving multiple technology solution categories (including servers, storage and networking), faces a big and growing problem: Despite the company's best efforts, it has difficulty coordinating and synchronizing the sales efforts of its various business groups, which use the same partners to market, sell and deliver their offerings. The company tries to define a common set of programs to drive "new business growth"; however, each business group defines "new business" slightly differently and publishes their different programs to the partner community. Additionally, the company established value programs to incent value-added support during the selling process, but again, eligibility was slightly different. And each business group features its own set of product promotions to drive sell-through during different periods in the fiscal year, further adding to the complexity of the company's partner programs.

Not surprisingly, ABC Technologies' partners are often confused. When a partner is in the process of selling, it has to determine which promotions are applicable to its individual deal and apply those to the opportunity. However, because the number and type of programs ABC offers make it too complicated for the partner to come up with the right answer, the partner decides to apply all of the promotions ABC offers and let ABC determine if the partner is eligible for them or not. Unfortunately at ABC, like most vendors, program complexity has made it increasingly difficult to reconcile all the potential combinations of promotions and incentives so, in an effort to quickly turn around an eligibility response to a partner, ABC does a cursory "eligibility scan" and either approves or denies the incentive request. Because the "quick scan" is manual, it is fraught with errors and omissions. The result: incentive overspend due to ineligible stacking, double-dipping or fraudulent submissions that ABC is virtually powerless to identify, let alone stop.

While hypothetical, the preceding anecdote is based on what many high-tech companies experience. It illustrates just some of the difficulty companies have in creating and applying incentives that meet the needs of critical partners while driving sales and maintaining margins.

As much as 10 percent of the typical high-tech company's indirect channel partner incentives are overspent, or are generating an insufficient return on investment.

# Partner Incentives

## A C-Level Imperative

It's not a stretch to say that channel partner incentives are a C-Level imperative. First, incentives are crucial given the importance of the indirect channel. In Accenture's experience, on average about 70 percent of the typical high-tech company's revenue comes from the indirect channel, and that share is expected to grow to 80 percent or more by 2015. Second, incentives typically are a high-tech company's largest marketing expenditure, with high-tech companies investing on average 3 percent to 5 percent of revenues in indirect channel incentives.

Several new technology and macro-economic trends will further heighten the importance of engaged and motivated partners in the coming years and, in turn, likely will require fundamental changes in how one structures, manages and allocates spending on channel partner incentives.

For instance, new delivery methods (especially cloud and anything as a service (XaaS)) are shifting the way companies consume software and hardware products—from capital purchases to subscription-based services. As customers switch to subscription-based models, technology companies find they need to encourage different sales behaviors in their partners. Examples of such new behaviors include managing recurring "annuity-based" revenue and focusing on reducing customer churn—in other words, emphasizing ongoing customer satisfaction and understanding the lifetime value of the deal.

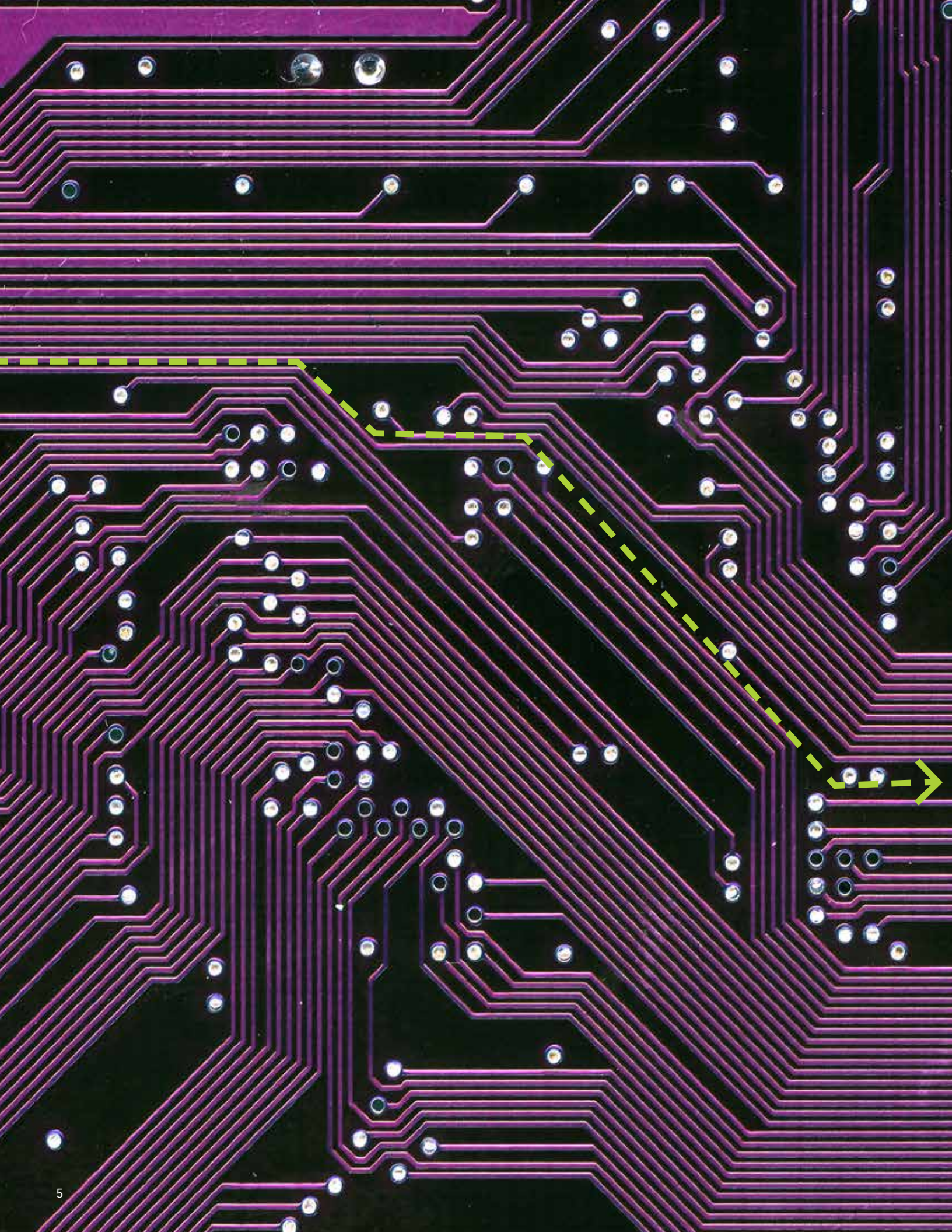
Furthermore, increasing purchases from Line-of-Business (LoB) owners is making business relevance and knowledge more important in buying decisions. This means high-tech companies will have to encourage partners to shift from selling products on the basis of features and functions to selling solutions by rewarding partners' competencies in joint opportunity management and value-added selling, as well as partners' business acumen and focus on business outcomes.

Additionally, as high-tech companies sharpen their focus on penetrating new markets—especially middle-market enterprises and firms in emerging markets—they likely will have to add new partners to the mix that have the knowledge of, and the skills to sell to, those markets.

Combined, these trends will require high-tech companies to boost or reallocate their incentive spend to influence behaviors in the pursuit of new services, business solutions, and market segments.

The trouble is, rather than carefully managing investments in partner programs as they would other critical business functions and activities, many high-tech companies have allowed partner incentives to become simply a cost of doing business. That's evident in the fact that, despite increasing investment levels, companies are getting diminishing returns on that investment due to rising program complexity and declining effectiveness of partner program administration capabilities.

The bottom line: Based on Accenture's analysis, as much as 10 percent of the typical high-tech company's indirect channel partner incentives are overspent, or are generating an insufficient return on investment. Failure to address the situation likely will cause the situation to worsen as incentives continue to grow without delivering appropriate business value and, consequently, impede companies' ability to achieve profitable growth.



# The Drivers of Overspending

While the situation tends to be different from company to company, three common factors are responsible for high-tech companies' struggles to make their incentive spending more effective.

## Complexity

The biggest driver is the significant complexity that has accumulated over the years in many companies' partner programs.

As companies have continued to add numerous programs and incentives and countless Terms and Conditions to respond to partners' demands and marketplace changes, it has become increasingly difficult and time consuming for partners to identify which available incentives apply to a specific deal and determine whether the deal will be profitable. In fact, as illustrated in the opening anecdote, the typical partner must sort through dozens of programs, huge sales playbooks, and multiple documents that communicate (often unclearly) promotional and registration incentives and price breaks.

Worse, when a partner asks its vendor for clarification, the vendor itself is often stymied by its own complexity and can take far too long to reconcile all of the variables and provide an accurate answer (if it can do so at all).

So the partner is often faced with a choice: either simply apply for all of the promotions and make the vendor determine which are eligible; or apply for nothing and move on to another vendor that is easier to do business with. Neither option is a good one for the vendor.

## Decentralization

Partner program complexity is exacerbated by decentralized accountability for incentive spending.

In most companies, incentive spending is spread across siloed business units or geographies, which makes it impossible (and cost prohibitive) for a single entity to even get a handle on the full scope of the spending problem, let alone take action to address it. These siloes also make it difficult to implement proper process controls and incentive program governance that, for example, help rationalize the myriad programs across the business or prevent a partner from receiving excess incentive payments by stacking multiple program benefits against a single deal (as ABC Technologies' partner did).

Furthermore, because there is no single entity in charge of incentive spending, a company generally ends up with duplicative programs and the costs to run them, which erodes incentive spend ROI and, ultimately, overall margins.

## Infrastructure limitations

The third major driver of ineffective incentive spending is infrastructure limitations—including ad hoc collection, cleansing and use of point-of-sale data and insufficient investment in analytics that are key to optimizing spend. Such limitations make it difficult for high-tech companies not only to have visibility into the true ROI their incentives are delivering, but also to gain insight into which specific programs and partners are performing the best. Without such knowledge, companies can't target programs and partners with incentives to get the best return.

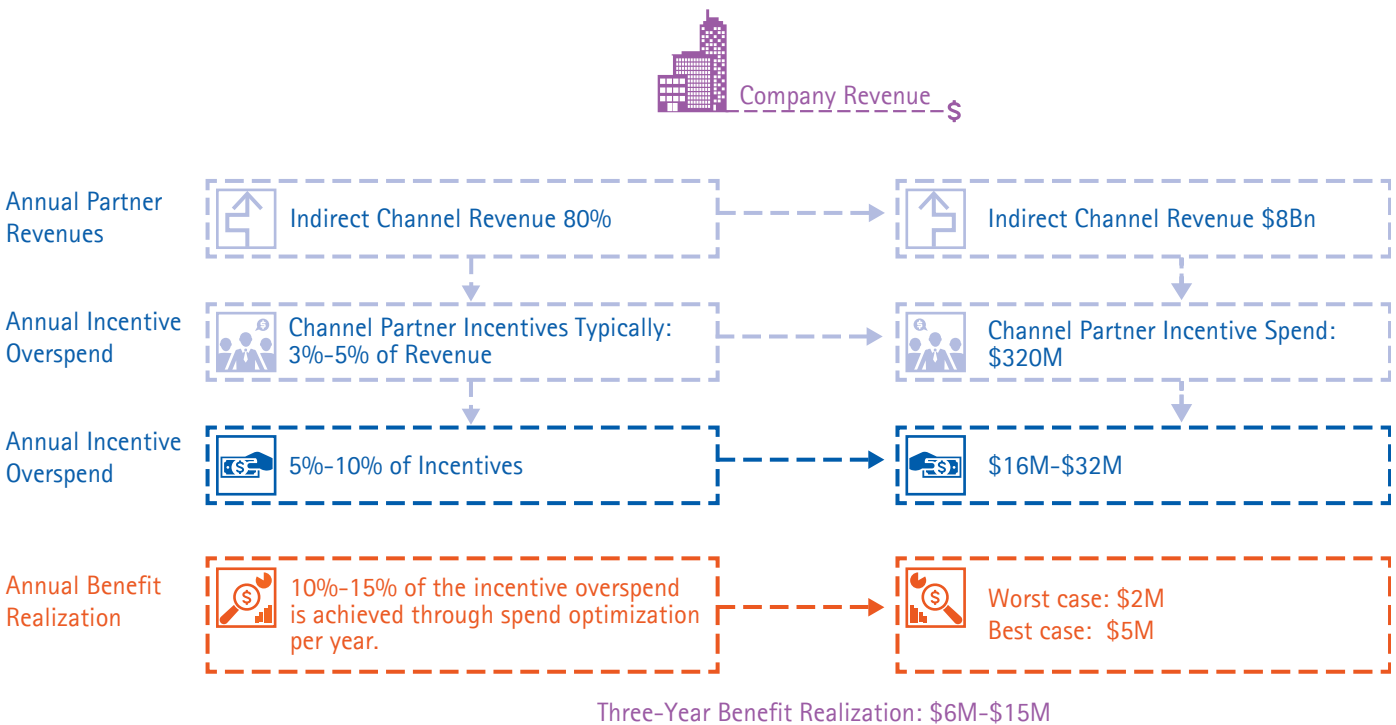
# Sizing up the Opportunity

The challenges just discussed can be significant in many companies. But overcoming those challenges, while hard work, can be well worth it, as optimizing channel partner incentive spend can deliver significant bottom-line benefits for a company in the short and long term. Consider the example below and illustrated in Figure 1.

A \$10 billion company generates 80 percent of its revenue, or \$8 billion, through its indirect channel. As mentioned earlier, channel partner incentive spend averages 3 percent to 5 percent of revenue—which, in this case, would be approximately \$320 million—and 5 percent to 10 percent of that spend is wasted in some way. That means this company has the potential to save \$16 million to \$32 million simply by getting a better handle on its partner incentives. Even if the company only captures 10 percent to 15 percent of that opportunity

by taking aim at the low-hanging fruit, it still can save \$2 million to \$5 million every year, which it then can invest in other areas of its partner program to help drive growth, such as adding support for existing partners, extending partner coverage in promising new markets, or adopting more robust analytics to gain a deeper understanding of partner program effectiveness.

Figure 1. Illustrative business case benefits of optimizing indirect incentive spend.



Source: Accenture analysis



Where is the opportunity? Most companies find it in five areas, where overspend tends to be most prevalent (Figure 2).

**1. Partner compensation**, which involves benefits for aggregate sales against predefined targets based on sales made.

**2. Deal registration programs**, which involve partners registering individual sales opportunities for additional benefits (e.g., new business growth, value-added support, or targeted sales based on eligibility of the deal).

**3. Market development funds (MDFs)**, which are given to partners to spend on cultivating new markets based on proof of execution or market development performance.

**4. Cooperative advertising**, which are funds high-tech companies and partners use for joint advertising or marketing efforts.

**5. Sales promotions**, which include incentives used to promote the sale of new product introductions, push excess inventory, or promote the sell-through of end-of-life items for qualifying products/solutions.

There's also significant opportunity in administrative costs—for instance, consolidating and improving partner data management and operational processes, which can enable a company to reduce its headcount dedicated to such things as channel spend management and channel operation support.

Figure 2. Five common areas of incentive overspend



Source: Accenture analysis

# The Path to Optimizing Incentive Spending

To begin capturing these opportunities, companies should deploy a new end-to-end process for developing, implementing and managing their channel incentives, as illustrated in Figure 3. This process will help companies unravel the ball of complexity that has built up across the business over time and break down the organizational siloes that prevent companies from gaining a holistic view of—and ultimately optimizing—their incentive spending. This process has three main stages: Plan, Execute, and Evaluate.

## Plan

In the Plan stage, activities are geared toward identifying clear objectives that can direct channel behaviors and intended outcomes with the appropriate allocation of budget to those programs. Plan activities typically include designing the overall channel incentive strategy and modeling/budgeting the specific incentives.

Three main capabilities are critical to driving effective Plan activities:

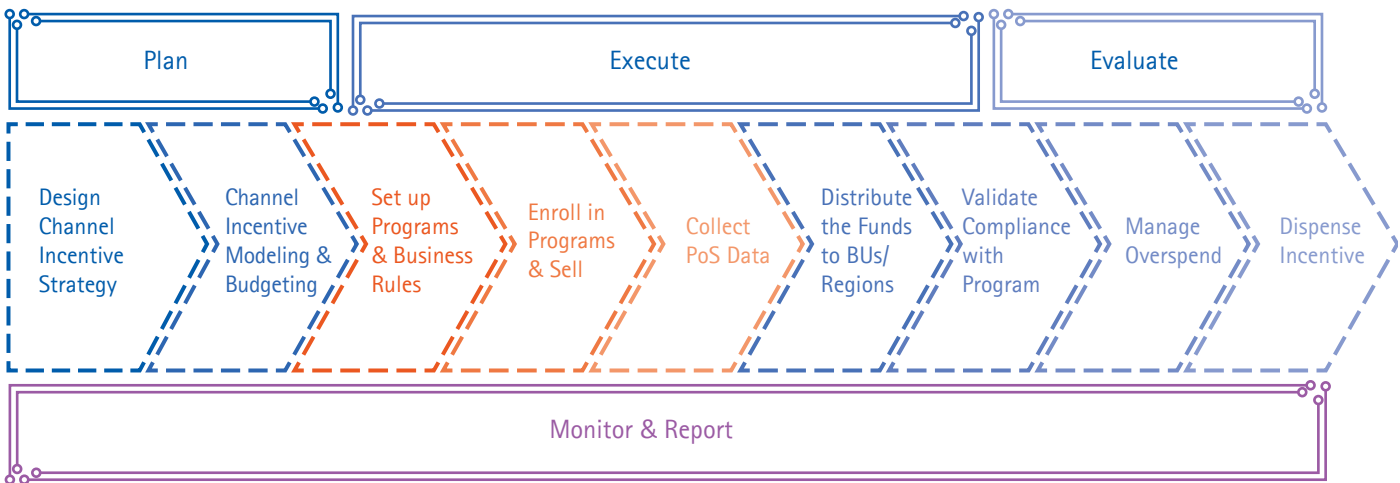
**Target management**, which helps a company establish and maintain individual partner performance targets that align

with both overall company objectives and incentive program objectives.

**Incentive Modeling**, through which a company demonstrates the target partners, products, geographies and time periods in which incentives will execute and the expected overall and solution-specific uplift the incentives will generate.

**Product/offering maintenance**, which enables a company to maintain product and offering information for incentive management purposes and leverage product and offering data for incentive accrual and payout.

Figure 3. End-to-End Channel Incentives Process



Source: Accenture analysis

## Execute

In the Execute stage, activities are focused on developing clear, intuitive programs that are easy for the partner community to understand and use. The result of such programs should be the ability for the technology company to apply the right incentives to the right partners at the right times, and for partners to improve their own sales and profitability based on what they are investing in the technology company's business.

Execute activities form the "meat and potatoes" of the process: setting up programs and business rules, enrolling partners in the program, collecting key POS data, and distributing incentive funds to the appropriate entities (e.g., business units or regions). These activities rely on capabilities centered in four main areas:

**Program setup and maintenance**, which involves the management of program configuration (for instance, eligibility, expiration, and "stackability"), communications, readiness, change management, and ongoing maintenance.

**Partner management**, through which a company handles all core partner activities, including enrollment, agreement management, partner data management, and partner self-servicing.

**Incentive processing**, which supports the core processing of performance data (i.e., source transactions) against applicable incentive programs and the production of overall incentive program results.

**Disbursement processing**, which enables a company to accurately manage funds disbursement and partner credit balances.

## Evaluate

In the Evaluate stage, activities are focused on ensuring payments are on time and accurate by identifying and reducing or eliminating overpayments, and that the company is investing in the right programs and partners—those that will generate the biggest return and drive systemic, sustained growth for the technology company.

Evaluate activities include validating partner compliance with the program; managing overspend stemming from duplicate payments, ineligible stacking of incentives, or fraudulent submissions; and ultimately understanding if dispersing incentives to partners is generating the optimal return on investment (ROI).

Key capabilities for supporting/enabling Evaluate activities—of which analytics is a foundational element—include the following:

**Sales performance reporting**, which enables partners and sales management to evaluate sales performance across the channel in detail.

**Operational reporting**, which helps the channel operations teams understand overall sales operations performance.

**Management reporting**, which aggregates sales and financial performance data for sales and finance senior management.

The process just described, implemented and operated effectively, has the potential to dramatically improve the ROI on a company's incentive spending—which is precisely what it did for one high-tech company. This company was making a \$2 billion investment in more than two dozen incentive programs for its sizable

partner network. However, due to myriad issues—including siloed programs, lack of transparency, program complexity and overall inefficient operations—the company found it extremely difficult to know what kind of return it was generating on that \$2 billion. Knowing the situation had to change, the company embarked on an ambitious effort to uncover the hidden value in its incentives programs.

Working with Accenture, the company adopted a more scientific approach to incentives in the form of a comprehensive cross-enterprise solution supporting all programs, partners and geographies. Widely praised by the company's largest partners, the new solution has helped the company significantly reduce claims processing times, gain greater visibility into the performance of its incentives, and gradually move its partners to a "pay for performance" model. As a result, the company is well on its way to capturing the \$500 million in net present value identified in the project's original business case, including more than \$100 million already realized in a single division of the company.

# Getting Started

In many companies, getting a handle on the incentive spend problem can seem a daunting challenge, leaving executives unsure of even where to begin. Based on our experience helping a variety of companies address the issue, we have identified six key steps companies can take now to put them on the road toward optimizing their incentive spend.

## 1. Decide on—and explicitly state—one's indirect channel incentive strategy

The strategy should, at a minimum, communicate which channel incentive performance metrics the company wants to influence (such as program effectiveness, incentive spend optimization, or portfolio/program performance) and which behaviors the organization wants to incent. While it seems intuitive, an explicit channel incentive strategy is often missing at even the more sophisticated high-tech companies.

## 2. Define a common channel spend taxonomy

Companies should create a common vocabulary so they can speak the same language with their partners. For instance, the parties need to agree on definitions of such core terms as "programs," "incentives," "benefits," and "promotions," which can mean different things to different people. Other foundational terms include "new business" or "value add." What constitutes "new business"? Is it a new logo, a new product at an existing customer, or a new opportunity in the sales pipeline? What constitutes "value-add"? Is it deal origination, sales leadership, solution engineering, or all of the above? Agreeing on such basic terms can eliminate a lot of confusion between a company and its partners.

## 3. Consolidate and prioritize "voice of partner" input

High-tech companies should ask partners what's most important to them and why, and then align that input with the behaviors they want to encourage to drive desired outcomes. Enlisting partners' participation early and often in designing and structuring the program can help ensure the program meets their needs as well as the company's, and that it's as "user friendly" as possible.

## 4. Create a channel spend waterfall and channel sales use case inventory

To understand the changes companies should make to their channel incentives, they first need to know how current incentives affect the top and bottom line. To that end, it's helpful to create a channel spend waterfall by identifying all categories of spend—such as deal registration, market development funds, up-front promotions, back-end rebates, and partner program compensation—and documenting the flow from gross revenue to net revenue to gross margin and profit, and what percentage each channel spend category contributes. Additionally, companies should document the channel incentive scenarios their channel partners support (seek to capture 80 percent to 90 percent of business) and identify end-to-end process steps (e.g., from program setup to payment). Aligning these “use case” scenarios with the waterfall allows the team to position new opportunities accurately. Similarly, it's important to identify owners within companies for such use cases and/or processes. By defining the data/activity flow, companies can identify traceability from a partner payment to the program/channel spend that drove the desired behavior.

## 5. Identify hypotheses for optimizing channel spend

To create an action plan for change, it's useful to create a list of likely areas of opportunity and quantify them (at least directionally). What would one need to know to prove change is needed? What is the potential value of making that change? With that list, companies then can do “triage” on potential changes, assigning opportunities and resources to categories that can help prioritize how they are addressed—for instance, operational or process quick wins, policy or program changes, technology, or enablement. Importantly, companies should make sure they view the impact of these changes through both their own and their partners' lenses.

## 6. Create a partner total rewards statement

It's important to start with the “end in mind”: Companies should consolidate their various data sources to consistently measure the performance of their channel partner programs and demonstrate to partners how they are earning money (ideally, through an online “rewards statement”). By integrating the necessary data (program characteristics, sales, spending, etc.), companies can begin to identify key performance metrics for each program—such as incremental sales, incremental profit, and return on investment. More important, once these metrics are calculated and tracked on a regular basis, companies then can compare performance across program types, products, partners, and markets—thereby allowing for more optimal reallocation of program spending.



Improved ROI

# Conclusion

The pressure on high-tech companies to grow is intense, as are the challenges companies encounter in their pursuit of growth. That's why high-tech companies can no longer afford to be content with incentives that fail to help them achieve their objectives—or, worse yet, impede their efforts.

Many opportunities exist to streamline and improve the ROI of incentive spending. But capturing these opportunities will require companies to think and act far differently than they are used to. It means taking bold steps to break bad habits that preserve the status quo, knock down intra-organization barriers that drive inefficiencies and waste, and significantly reduce the complexity that makes it all but impossible for companies and their partners alike to understand which incentives to use and when.

By adopting a new, more effective approach to developing, implementing and managing their channel incentives, companies can reclaim millions of dollars per year in overspend, improve their incentive ROI, and more effectively leverage their partner network to drive growth in today's competitive global economy.



## About the Authors

Paul Neumann is a managing director for the Communications, Media and Technology practice. He can be reached at [paul.j.neumann@accenture.com](mailto:paul.j.neumann@accenture.com).

Ron Ref is a managing director for the Communications, Media and Technology practice. He can be reached at [ron.ref@accenture.com](mailto:ron.ref@accenture.com).

Gary Singer is a managing director for Accenture Sales & Customer Services. He can be reached at [gary.e.singer@accenture.com](mailto:gary.e.singer@accenture.com).

Sam Aborne is a senior manager for the Communications, Media and Technology practice. He can be reached at [samuel.l.aborne@accenture.com](mailto:samuel.l.aborne@accenture.com).

## About Accenture EHT

Accenture helps electronics and high-tech companies seize the opportunities of the digital world and bridge boundaries to create the future. Accenture has been bringing suitable approaches to electronics and high-tech suppliers, manufacturers, distributors and retailers for more than 20 years. Follow our Twitter Feed @ AccentureHiTech.

## About Accenture

We are one of the world's leading organizations providing management consulting, technology and outsourcing services, with more than 323,000 employees; offices and operations in more than 200 cities in 56 countries; and net revenues of \$30.0 billion for fiscal 2014.

Our four growth platforms—Accenture Strategy, Accenture Digital, Accenture Technology, Accenture Operations—are the innovation engines through which we build world-class skills and capabilities; develop knowledge capital; and create, acquire and manage key assets central to the development of integrated services and solutions for our clients.

## About Accenture Sales and Channel Incentive Services

Accenture Sales and Channel Incentives Services, an Accenture Business Service, helps Electronics and High Tech companies tap the full potential of their multi-billion dollar investments in sales and channel incentives to power profitable growth. Our analytics powered, management consulting-led approach helps companies improve sales and channel incentive spend return on investment by 10 percent or more, boost sales between 3 and 5 percent, and reduce related operational costs by 40 to 50 percent. Accenture works with clients to quickly identify value, reinvest it into their business, and self-fund top line growth. Our home page is <http://www.accenture.com/sales-and-channel-incentive-services>.