

Communiqué

September 2022

Difficult Travel Conditions Encourage Focus on Channel Partner Improvement

By: Stephen Martin, smartin@franklynn.com

The pandemic, increased fuel costs and political disruption have all combined to make business travel more difficult and more expensive. When travel is difficult, then vendors are increasingly reliant upon their local channel partners to deliver demand generation, customer support and overall local brand representation. As a result of these pressures, FL&A is increasingly being asked by vendors to recommend strategies to increase the quality of local partners.

A key tool in transferring cost and motivating channel partner behavior is the discount structure and the associated financial compensation tools. Many channel compensation programs only focus on sales volumes, but FL&A has found that a much broader value-based discount structure can be valuable. This structure can reward partners for a wider range of vendor value and can therefore motivate partners to increase their value and deepen their partnership with vendors.

Your existing channel compensation program should encourage your partners to become better partners for your business. A simple test of your compensation program is to check if the partner that is closest to your ideal profile of a channel partner is the one that receives the highest total level of compensation from your business. If your business does not have a clear picture of what 'ideal' looks like or your compensation program does not motivate your partners to become more ideal, then FL&A can help you.

An example of a value-based compensation structure that FL&A recommended is shown below. This is built upon a conventional tiered scheme that focuses upon product sales volumes and sales pipeline commitments.

Partner Performance Program: Benefits Summary	Silver	Gold	Platinum
Base Benefits			
Product Discounts			
Apply ABC's standard multiplier to current Trade Price Schedule	✓	✓	✓
Volume Rebate			
Percentage back to \$1 on net purchases in a calendar year	0.50%	1.00%	2.00%
Payment Terms			
Eligible for standard payment terms (2%/25, Net 30)	2.00%	2.00%	2.00%
Enhanced Benefits			
Growth Rebate			
Rebate back to \$1 for exceeding net purchase target	0.50%	1.00%	1.50%
Market Development Funds (MDF)			
Percentage of net purchases to spend on approved market development activities	0.25%	0.75%	1.00%
Complimentary Freight (>\$50K Order Value)			
Free freight on orders that exceed \$50K	1.50%	1.50%	1.50%
Annual Stock Rebalancing			
Percentage of annual stock rebalancing allowance	0%	0.50%	1.00%
Commercial Products Discount			
Incremental percentage discount on all commercial product purchases	4.00%	6.00%	8.00%
Scrap-in-Field Allowance			
Percentage of scrap-in-field allowance	0%	1.00%	2.00%
Loyalty Rebate			
Percentage rebate back to \$1 on net purchases in a calendar year	0.25%	0.50%	1.00%

Frank Lynn & Associates (FL&A) is a management consulting firm that designs creative, competitive, growth-oriented, profitable channel strategies and the supporting programs and management processes for clients across a range of business-to-business industrial, commercial, and technology markets. Please have a look at our website www.franklynn.com or contact one of our experienced consultants to discuss your situation.