

VMCR—Designing Channel Compensation Programs that Drive Results

Volume Discounts... Functional Discounts... Growth Incentives... Rebates... SPIFFs... Commissions... Trade Funds... Market Development/Co-op Funds... Special Pricing Authorizations... Promotional Allowances... Loyalty Rebates...

Channel compensation includes the entire range of financial and non-financial benefits companies use to motivate their channel partners to invest, perform activities and functions, achieve target results, etc. on their behalf. When designed well, channel compensation plans:

- Clearly communicate what companies expect from their channel partners
- Foster productive relationships with channel partners
- Motivate channel partners to invest and perform on the company's behalf
- Strategically and productively invest companies' financial and non-financial resources and generate appropriate returns
- Differentiate the benefits channel partners earn based on their performance
- Help sales teams consistently, objectively, and productively engage with channel partners and realize better and more consistent results
- Communicate to market stakeholders the value the channel partners provide

Frank Lynn & Associates, Inc. (FL&A) designed the **VMCR** framework (Value, Measure, Communicate, Reward) 30 years ago to achieve these outcomes and guide companies through the channel program and compensation design process.

VMCR helps companies define the **Value** they want channel partners to contribute so they can collaborate to meet the end users' expectations and deliver an outstanding customer experience. Value defines "what good looks like" and describes the investments, activities, functions, etc. a channel partner should contribute.

The metrics a company uses to **Measure** its channel partners' performance determines whether and the degree to which each one meets the company's expectations. Companies select metrics that are objective and that they can systematically calculate to facilitate the evaluation process. Without an effective way to Measure, a company cannot effectively manage its channel partners.

Companies must **Communicate** how each channel partner performs relative to its expectations. Companies often use performance scorecards because they provide a structured and consistent method to share objective information. Scorecards also:

- Create a common format and language that management teams can use to understand and discuss the performance of the company's channel partners
- Facilitate structured and consistent conversations between a company's salespeople (channel managers) and its channel partners
- Tell channel partners how they are performing relative to the company's expectations

Companies **Reward** channel partners that create and deliver Value. Effective Reward designs include both financial and nonfinancial benefits and the payouts often vary based on a channel partner's level of investment, support, and performance. Companies design Reward programs to recognize different levels of achievement, motivate channel partners to perform at higher levels, and demonstrate that higher levels of achievement are worth the effort.

FL&A's VMCR framework facilitates the design of compensation plans that align with a company's channel strategy, efficiently deploy its resources, and facilitate its channel management process. You are welcome to contact FL&A to discuss how your company can evolve its current channel program and the design of its compensation plan to deliver these outcomes. E-mail Jim Fogarty at jfogarty@franklynn.com to do so.