

Channel Program Design—Lessons from The Best in Class

There are almost as many different channel partner programs as there are suppliers. We believe the “best in class” ones are pay for performance programs that directly link activities, investments, and results to qualitative and quantitative benefits. These pay for performance programs can take many forms (e.g., tier, menu, points-based, etc.). They contain a wide array of quantitative elements (e.g., multipliers, discounts from list, rebates & allowances, terms & conditions), and qualitative benefits (e.g., product line access, market support, logistics and customer service priority, etc.).

Ultimately, the goal of your channel program should be to deliver direction and motivation to your channel partners. To meet these objectives, we have observed that “best in class” suppliers share similar characteristics in program design. These characteristics include both channel program philosophy and channel program structure.

Channel Program Philosophy

The graphic below depicts a common philosophy that underlies the most successful channel programs. Adopting this approach ensures that your channel program is directed—aligning the channel’s effort with your strategy and market objectives. It also delivers consistency in applying the program across geographic territories and over time periods.



The philosophical approach to channel program design consists of four elements:

- **Value**— “Best in class” programs clearly articulate value from two perspectives. From the perspective of an “ideal” channel partner, what functions, activities, investments, and results will the ideal partner perform and deliver on behalf of your brand? Equally important, what value does your channel partner receive from you, their supplier? Understanding what your company can offer that channel partners see as most beneficial will help you build a strong, motivating program.
- **Measure**—The integrity of any program is based on the perception of fairness. Fairness is directed by consistent program management, and it is rooted in a clear set of objective measures of partner performance that are applied equally across the network.
- **Communicate**—Regular communication assures that the channel program is an integral part of your overall channel management effort. Communication keeps the channel apprised of performance in a timely enough manner to allow each partner to remedy a problematic situation, as necessary.
- **Reward**—Equally important to value is providing your channel partners with highly compelling (and motivating) rewards. This requires an understanding of the business model of each channel partner and the knowledge of what each model values from their suppliers—and why.

Channel Program Structure Is a Second Powerful Tool

Once you have settled on your approach to channel program design, it is critical to align a set of building blocks. Structure gives channel partners clear direction regarding what is expected of them and defines how channel partners can derive benefits. Program structure also supports your overall channel management efforts—making it easier for your field channel management team to do their jobs.

Channel Program Structure Is a Second Powerful Tool (continued)

The most effective channel program structures share four major characteristics:

1. **"Mandatory" Requirements**—This defines a set of mandatory performance requirements that must be met for a channel partner to have the right to represent you in the marketplace. These prerequisites ensure a threshold performance level across the network of channel partners. These compulsory conditions are critical to delivering on your brand promise to the end customer.
2. **"Elective" Criteria**—Elective criteria are performance criteria that channel partners have the option to self-select. Electives are typically associated with a specific reward and benefit, and they allow channel partners to reach higher reward thresholds. Electives are often structured to align with four components of the channel partner's business: *management* (e.g., business planning, succession planning, depth/breadth of team, etc.), *sales and marketing* (e.g., local marketing/visibility, account and/or segment targeting, product category expertise, etc.), *operations* (e.g., service levels, cost of doing business), and *finance* (e.g., payment terms, ability/willingness to support business growth, etc.).
3. **Clearly Defined Rewards**—Manufacturers often undersell the array of benefits their channel program provides to their partners. Beyond product discounts, rewards include financial incentives (e.g., rebates and allowances), and a range of qualitative benefits that help the channel partner win in the market and/or reduce their cost of doing business. The "best in class" programs draw a direct link between mandatory and elective requirements and the associated rewards.
4. **Well Defined Evaluation Process**—The structure of your channel program is only as strong as the evaluation process. "Best in class" programs provide clear guidance to the channel partner on how they will be evaluated (e.g., timing and frequency, who is involved, format and content, etc.). Additionally, these programs provide clear guidance with respect to escalation and remedies that address any major areas of disagreement or conflict.

We encourage you to realistically assess your company's channel program design:

1. Are the things you value from channel partners clearly articulated? What activities, investments, and results do you expect from your "ideal" channel partner?
2. Do you fully understand what your channel partners want from their suppliers? How do rewards from your channel program impact their businesses?
3. Are you willing to treat your largest and smallest channel partner "equally" based on their performance against your program criteria?

We have helped many clients examine their channel program structure and make small changes that yield big results. If your team wants to be ready to roll out an impactful program in 2025, now is the time to start the redesign effort. For more information or to discuss your channel program design, please contact Carl Cullotta at cpc@franklynn.com.