

## Are You Overpaying the Wrong Channel Partners?

**If so, your channel compensation structure may be funding the competition and rewarding the wrong behaviour.**

Indirect channels are built on a simple economic principle: the vendor effectively “buys” channel value through discount, margin, rebate, or other financial compensation. In practice, this transfers part of the vendor’s cost base to the channel in exchange for market access, selling effort, supply capability, administration, and often credit risk.

This transfer only makes sense when two conditions are met:

**First, the vendor must not pay more than it would cost to perform these functions itself.**

**Second, the level of compensation must be proportional to the value the channel actually delivers. Compensation should be a payment for measurable contribution, not a concession to secure agreement.**

In reality, this discipline is often missing. Many vendors are unclear about the specific value they require from different channel partners. As a result, compensation levels are frequently shaped less by economics and more by negotiation strength. The partner with the greatest leverage often secures the highest compensation, regardless of the value it creates. This often means that bigger channels get higher compensation regardless of the value they provide.

### A simple diagnostic exposes the issue.

Identify your ideal partner — the one that best delivers the access, sales, supply, and support you need. Then compare that partner with the one receiving the highest compensation. If they are not the same, your compensation structure is unlikely to reflect actual channel value.

That matters because channel economics drive behaviour. If a partner is not properly paid for the value it delivers, it will not sustain that investment. It may reduce effort, coverage, or service. More often, it will redirect that capability to a vendor that rewards it more effectively. The result is clear: you are not just misallocating compensation, you are enabling competitors to capture the value you depend on.

If you believe that value-based compensation is important to your organization and would like a review your channel compensation in line with the value you receive, then FL&A can help. Feel free to contact Stephen Martin at [smartin@franklynn.com](mailto:smartin@franklynn.com) for further discussion.

