2018 REPORT

WorkStride

The State of Channel Incentive Programs in the Manufacturing Industry

Executive Summary

A channel incentive program is used to foster specific behaviors within the channel—specifically, motivating, engaging, and incentivizing indirect sales representatives (including contractors, dealers, distributors, retailers, resellers, etc.) who are not directly employed by the organization running the program. These programs usually involve various promotions that are focused on a specific product, region, or time period.

In the fall of 2017, WorkStride partnered with Wakefield Research to survey 250 mid- to large-sized North American manufacturing organizations that go to market via indirect channels. The results of the survey exposed a number of trends among manufacturing organizations with regard to channel incentive programs, including:

- the prevalence of running programs in-house versus outsourcing to a professional channel incentive provider;
- challenges in program administration;
- the impact of channel incentive programs on positive sales results; and
- issues arising from a lack of customization within programs.

Overall, the survey results show that manufacturing organizations rely quite heavily on channel incentive programs to boost sales, increase mindshare among channel reps, and gain the upper hand against competitors. However, numerous areas of improvement are apparent amongst the respondent set.

This report will detail the trends relating to promotion types being run, segmentation of program audiences, costs associated with running programs, the impact of communication on program success, and the areas within existing channel incentive programs that can be improved, and how.

Promotion Trends

Channel incentive programs are typically run with one or more promotions designed to drive a particular sales goal. These promotions come in a variety of forms:

77% of manufacturing organizations will run more than 10 promotions each year.

- **Rebates**, or volume-based discounts, are used to offer prices that are lower than standard based on the promise of a channel partner, distributor, reseller, or contracting company to buy a large volume of a certain product.
- Providing **market development funds (MDFs)** to assist channel partners in marketing goods or services, creating additional awareness about the brand. These funds are typically rewarded to the distributor, reseller, or contracting company in advance to provide marketing support in meeting targeted sales goals for a particular period of time.
- Making **co-op funds** available to channel partners based on the sales already made by the partner organization in a certain time period, usually a full fiscal year. Channel partners receive their share of the co-op funds once all sales have been reported.
- Leveraging x-for-y or tiered **sales performance incentive funds (SPIFs or SPIFFs)** to accelerate the sales of a particular product or service by individual sales representatives. Sales representatives get a set amount of rewards for every unit sold; with the tiered-SPIFF approach, the sales representative receives a higher amount for every unit sold once he or she hits a sales threshold, as determined by the program administrator.

Of the survey respondents, 77% of organizations will run more than 10 promotions each year—a considerable number, especially if a program is being run manually and in-house. (See Figure 1.)

Figure 1. Number of promotions run per year

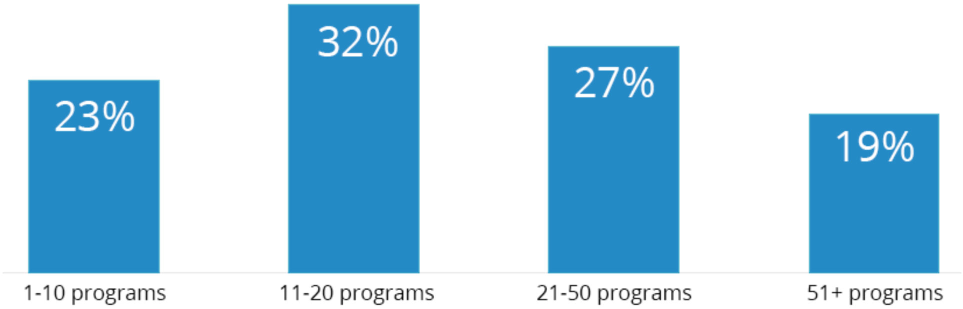
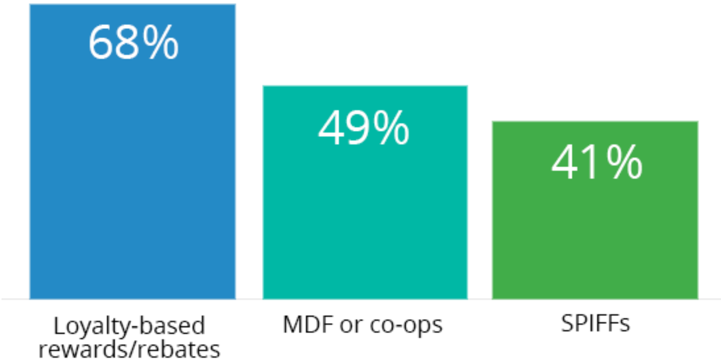


Figure 2. Types of promotions being run



The types of promotions vary as well: 68% of manufacturing organizations are most likely to offer loyalty-based rewards/rebates, versus 49% offering MDF/co-op promotions, and 41% offering SPIFFs. (See Figure 2.)

Segmentation and Tailoring Promotions

80% of the manufacturing organizations surveyed failed to meet their sales goals at least once in the last year. The problem seems to lie with customization of the channel incentive programs and the audience segmentation of the promotions themselves.

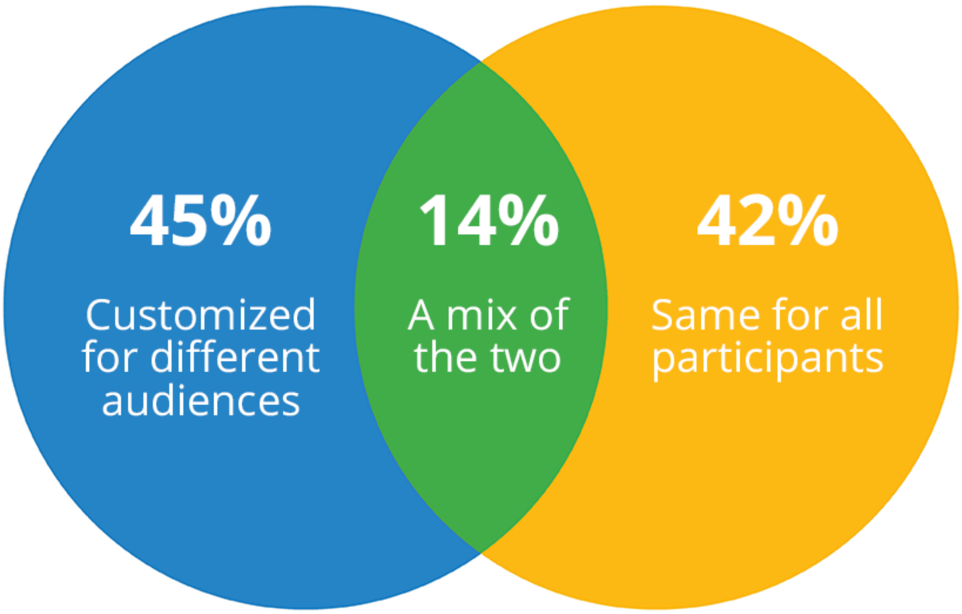
Often a given product will be more in demand in a certain region than in others. By segmenting the participants in an organization's incentive program, the organization can ensure that they're getting the best performance for the right expense. The campaigns should run concurrently and target audiences on a national, regional, store, or individual level.

64% of channel incentive programs reward the same sales reps every time.

For the majority of the manufacturing organizations that were surveyed, flaws clearly exist in the current setups of their incentive programs; namely, the same sales representatives—usually the top 20%—get rewarded with every promotion, reducing the morale and productivity of the lower 80%. In this survey alone, 64% of organizations agreed strongly or completely that this was the case, meaning that not all participants in their programs were getting recognition for their efforts or improvements. This could be due to the fact that organizations with in-house channel incentive programs not managed by a third-party provider simply lack the tools or specialization required to be able to segment their promotions' audiences appropriately.

Of the survey respondents, over half run promotions that are the same for everyone, regardless of region, performance level, or product type. 42% of organizations only run promotions that target all participants at the same time; 45% of them only have promotions that are tailored to specific audiences. Just 14% of organizations have a mix of the two types. (See Figure 3.)

Figure 3. Segmentation of promotions



In fact, many organizations surveyed are unsatisfied with how these programs are currently run. Out of the organizations that do not completely customize each program for different audiences, 4 out of 5 of them strongly or completely believe that their incentive programs would be more successful if they were able to deeply customize promotions to different audiences.

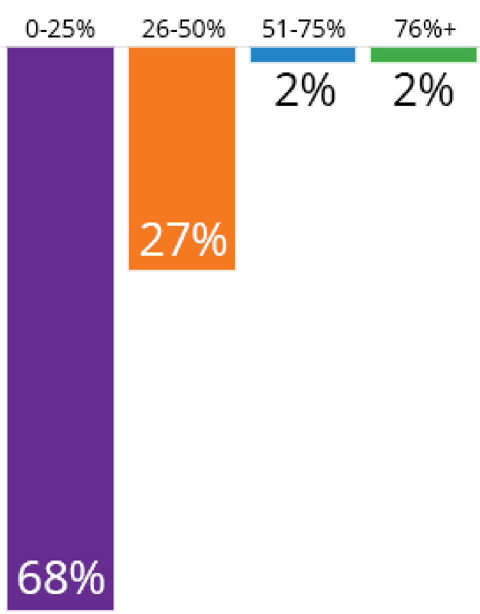
In a study featured in *Marketing Science*, researchers found that the ideal promotion mix is structured around each individual sales representative's performance;[1] that is, the top 20% of sales representatives are more motivated with incentives that reward them for selling beyond their annual quotas, while the lower performers require more frequent incentives, such as reaching a specific quota each quarter.

Organizations also have the opportunity to incentivize the lower-performing 80% of their indirect sales representatives by rewarding based on overall improvement month-over-month or quarter-after-quarter, or by providing team-based challenges, such as pitting specific stores in a region against each other for a “grand prize” type of reward for all representatives at the winning store.

It’s All About the Money

For marketing and sales leaders who are interested in launching a new channel incentive program, the breakdown between how much it costs to run the program versus how much budget is available for payouts to sales representatives is key. In this survey, respondents reported spending an average of 23% for administration and 77% of on payout; however, the split does vary. 27% of organizations will spend between 26% to 50% of their incentive program budgets on administration. (See Figure 4.)

Figure 4. Administrative spend for programs



This implies that many organizations are using their budgets on higher-cost initiatives, such as printing materials to promote their incentive programs. The challenge with this method of creating of creating tangible assets by which organizations publicize their promotions is the ability to track engagement with said pieces; while many sales representatives may see these flyers or posters, how many of them participate as a direct result of reading them? One can argue that a far more cost-effective method of communicating with indirect sales representatives should include both face-to-face interaction with an organization’s own field sales representatives coupled with digital methods of communication, including email.

Figure 5. Detractors to channel programs

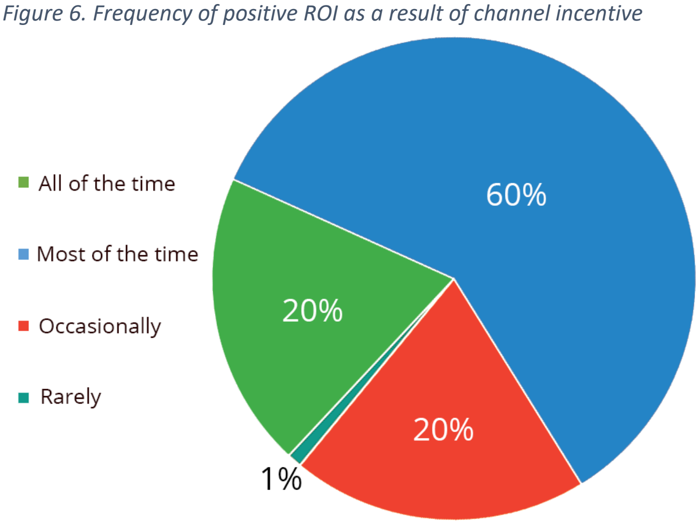
As enthusiastic as channel marketing and sales managers may be to build, launch and execute their channel incentive programs, they do not always have full control over their incentive programs.

In getting the necessary approvals for channel incentive programs, organizations face obstacles due to the interests of various departments. In fact, based on this survey, 30% of organizations find the Finance & Accounting department to the biggest detractor to their programs. Another 30% finds the Production department to give pushback as well. (See Figure 5.) Regarding the former, there is always going to be a limit on spend without guaranteed proven return-on-investment (ROI). Concerning the latter, those who are actually building the products realize that if these programs are successful, they will actually have to build more products, which is a stress on the department and is, therefore, a deterrent from supporting large-scale channel incentive programs.

83% of organizations spent more on incentive programs this year than last year.

That is not to say, however, that these detractors have a detrimental effect on the execution of channel incentive programs; rather, they seem to be a temporarily roadblock, an area wherein the channel program administrators need to use more persuasion to push the program through the approval process. In fact, 83% of survey respondents said they spent *more* in 2017 versus 2016. One reason for this is the fact that 80% of organizations believe they achieve a positive return on investment from their programs all or most of the time. Of these, 18% saw a *significant* increase in year-over-year sales. (See Figure 6.)

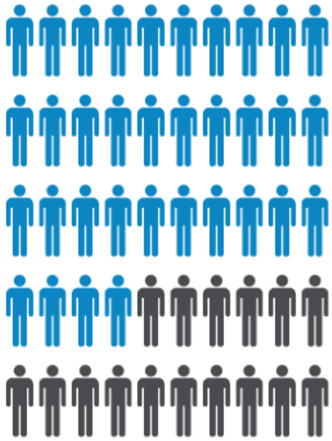
Figure 6. Frequency of positive ROI as a result of channel incentive



Communication is Key

Most manufacturing organizations do not have direct access to the sales representatives who are actually selling their products unless they have a platform that allows for direct registration. Traditionally, organizations would send their field sales representatives to the retailers or send resellers in their respective regions to spread the word of the promotion—usually in the form of a flyer—in the hope that the sales representatives at the store would notice it and be motivated accordingly.

Figure 7. Channel incentive programs would be more successful with field sales involvement.



Of those surveyed, 68% of channel incentive program managers strongly or completely agree that their programs would be more successful if their field sales organization was more involved in communicating about promotions. (See Figure 7.) Having field sales representatives actively engaged with the channel partners in their respective territories increases the awareness of an organization's channel incentive program and the promotions that are being run that impact the various channel partners directly. Through this face-to-face contact, coupled with email, printed materials, and training, the participation levels amongst indirect sales representatives in the incentive programs are highly likely to rise—and, with continuous communication, will increase the overall engagement levels within the program.

Rewards and Payouts

According to the Incentive Research Foundation, American businesses, across all industries, spend $24 billion on gift cards and $23 billion on merchandise for their incentive programs.[2] But, specifically, what types of rewards should be offered to those who meet the sales targets in each promotion? Of those survey respondents that offer loyalty-based rewards/rebates, or those who provide promotions via the SPIFF approach, the rewards of choice are tied at 63%: gift cards and merchandise. These are followed by reloadable Visa or Mastercards (54%), checks (50%), and travel- or experience-based rewards (46%).

The most popular reward types are gift cards and merchandise.

Given full control over what rewards they would *like* to offer, however, there is a slight difference. Gift cards remain at the top of the list at 57%, but are then followed closely by reloadable Visa cards or Mastercards at 56%. (See Figure 8.) This implies that indirect sales representatives desire freedom of choice in their reward types; namely, that they are given the option of spending money where they feel like doing so. In many cases with manufacturers, the individual who is rewarded from a promotion is one who owns his or her own business, such as a contracting company, and therefore wishes to re-invest the rewards earned back into the business itself for further growth.

Figure 8. Current and desired reward offerings

Taking Advantage of the Platform Approach

Many manufacturing organizations have traditionally relied on in-house tools to assist with their channel incentive program initiatives. In fact, 72% of the survey respondents confirmed having run their channel incentive programs internally. As a result, program administrators tend to spend a fair amount of time on tasks like reporting, promoting new campaigns, and ensuring the rewards get to the indirect sales representatives in a timely fashion (or even if they get to the representatives at all, having to deal with the middleman that is a particular store or reseller/distributor's management team).

Of all survey respondents who run channel incentive programs in-house, 80% of those believe that their programs would be more efficient if they were managed by a third-party provider that focused entirely on channel incentive programs.

Figure 9. Areas of improvement in in-house programs.

For those with in-house programs, four areas of improvement stand out:

- more participation required (44%)
- more accurate sales tracking systems are needed (44%)
- program costs need to be reduced (40%)
- less time should be spent managing or administering the program (38%).

For those with in-house programs, 57% believe that two or more of these areas require improvement. (See Figure 9.)

For small manufacturers, managing a channel incentive program in-house might be relatively simple. However, once a company becomes mid-sized and over (250 employees or more), the benefits to using a platform for the program outweigh those for doing the same with an internal team and internal tools, and can speak directly to the four areas of improvement mentioned above.

Area of Improvement #1: More Participation Required

Using a platform for your channel incentive program, administrators have the opportunity to speak directly to the indirect sales representatives who have registered to participate. A platform also makes it easy to personalize the communications for each sales representative. Regular communication with these individuals, sent via email, text message or notification, increases the likelihood that the sales representatives will not just register and never visit the platform again.

A platform also ensures that only the promotions that are relevant to a specific sales representative show up for him or her. That way, he or she does not get lost in a sea of promotions that are available to other regions or for products he or she does not sell. In addition, most platforms allow for integration with learning management systems (LMS) or for the upload of training materials; taking these courses and successfully completing quizzes in exchange for rewards can be a solid incentive for sales representative. Plus, it benefits the organization when the sales representatives have a deeper understanding of the products that they are selling.

Offering new, different promotions regularly can also increase engagement with the program overall. If the sales representatives know that they may see a new promotion each time they log in, or at least that a new one is available every month or quarter, they are likely to come back to see what the offer is—and are therefore more likely to participate.

Area of Improvement #2: More Accurate Sales Tracking Systems Needed

Distributors, dealers, and contracting companies are typically hesitant to share their sales representatives' personal information. By providing a platform for the channel incentive program, end users self-identify and provide the information directly to your organization. Registration can be verified on the back end, ensuring that only those who should be allowed to participate can do so. In addition, the data that is required via the registration process can help organizations tailor their promotions (and the rewards offered) to various audiences based on specific stores, contracting companies, location, or more.

For an organization using Microsoft Excel to manage its program data, sales claims submitted by participants can be tedious to sort through and are more prone to human error or even fraud. Using a professional channel incentive platform ensures that sales claims submissions are automated and secure, especially when the platform is integrated with a retail point-of-sale (POS) system, and can allow for rigorous approval and validation processes that prevent false or erroneous claims from being submitted.

Area of Improvement #3: Program Costs Need to be Reduced

With a channel incentive platform, administrators have full control over setting the amount of money that should be spent on each given promotion. If an organization uses gamification, for example, such as a "spin-to-win" or lottery function, the administrator can set a cap on the number of top prizes to be won. Additionally, promotions can be set up to reward not just "sell x, get y," but also for year-over-year or quarter-over-quarter growth, which ensures that sales increase alongside a limited reward model.

Organizations can overspend on their channel incentive programs by as much as 10%.

A platform also provides data validation tools and processes that limit the number of duplicate or erroneous sales claims, which can equate to up to 10% of total channel incentive program spend.[3] By limiting the false claims being submitted, this saves an organization money—money that can then be spent in other areas to drive sales and improve the bottom line.

Area of Improvement #4: Less Time Should be Spent Managing or Administering the Program

While the planning involved in developing a solid, effective channel incentive program should never be automated, most of the other processes regarding execution can be. Using a channel incentive platform, when integrated with existing payroll, POS, or CRM systems, provides seamless, real-time data transfers, negating the tedious and repetitive tasks associated with administrating program in-house in its entirety.

Additionally, many platform vendors offer 1099 reporting at the end of the fiscal year for all rewards paid out to indirect sales representatives. By enlisting a vendor to do this for the organization, the organization's finance department can focus on the countless other year-end tasks that it is required to undertake.

Conclusion

At this point, manufacturing is one of the fastest-growing industries in the United States—and competition grows more fierce. As such, most manufacturing organizations have some sort of channel incentive program in place in order to increase sell-through with they're distributors, retailers, or contracting companies. The majority, however, run these programs in-house, which can be tedious to maintain, prone to error, and costly.

A channel incentive program, when executed properly, has countless benefits. By fostering positive behaviors, organizations can see increased sales, improved brand awareness, and more engagement from the channel in general.

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1 "Do Bonuses Enhance Sales Productivity? A Dynamic Structural Analysis of Bonus-Based Compensation Plans." *Marketing Science*, 2013.
2 "IRF 2017 Trends Study." Incentive Research Foundation, 2017.
3 "Improving the ROI of Indirect Channel Incentives." Accenture, 2015.

About the Author

Ingrid Catlin is Director of Marketing at WorkStride, a company dramatically changing the world of employee recognition, sales incentives, engagement, and company culture. Ingrid has spent the last decade working with B2B software and consulting organizations on marketing strategy, demand generation, marketing automation and marketing operations. She has a Master's degree in International Relations from the University of St Andrews, and is currently pursuing an MBA in Global Business and Strategy from Rutgers Business School.

WorkStride®

WorkStride (formerly CorporateRewards) enables the world's most dynamic companies to harness a shared purpose through a proven, people-driven software platform. WorkStride's channel incentives platform is a fully customizable software-as-a-service (SaaS) solution that helps you motivate and manage your sales organization's performance with quick and easy contest creation, sales entry, configurable reporting, and rewards fulfillment.

Fully scalable, WorkStride meets your current needs and adapts to where you need to grow, all supported by an experienced team wholly committed to energizing your workforce, enhancing their impact, and reinforcing a unified pride of purpose.

Established in 1999, WorkStride serves clients of various sizes, including Fortune 500 organizations, from a wide range of industries. The company is based in New York City and is owned by The Riverside Company, a global private equity firm.

For more information, visit www.WorkStride.com.

WAKEFIELD

The study was conducted by Wakefield Research from October 10th to 24th, 2017. Wakefield Research surveyed 250 sales and channel marketing managers who use indirect sales and distribution channels.

Wakefield Research is a full-service market research firm that specializes in helping brands use research to develop products, identify new customers, increase sales among existing customers, and increase awareness of their brands. The company works closely with some of the world's most exciting and iconic brands. The company's research is frequently featured in *The New York Times*, *The Wall Street Journal*, *USA Today*, NBC's "TODAY Show," and other leading media.

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