

Evolving Trends in **Channel Rebate** Programs



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Channel Rebates

info@vistex.com | www.vistex.com

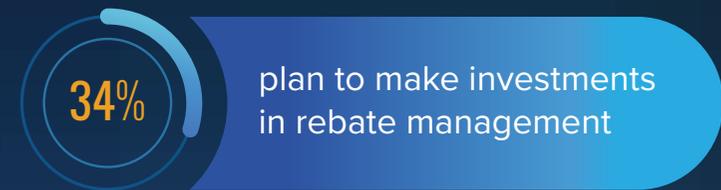


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Introduction

The whole is greater than the sum of its parts. That's certainly true with channel rebate programs. In the past, rebate programs were often managed as stand-alone initiatives. But dynamic changes in the marketplace and partner profiles have motivated vendors to treat rebates as part of an integrated suite of incentives, with each component linked to a specific phase of the buyer's journey.



The spend associated with channel rebates can be hard to measure because vendors tend to use terminology inconsistently. One vendor's rebates are another vendor's incentives or rewards. Some vendors consider product discounts to be part of their rebate program, while others don't.

Rebates can have a measurable impact on a company's margins. They also influence market share while affecting many financial processes, including accrual of liabilities, payment approval, ASC 606 revenue recognition and SOX controls.

The inconsistent use of terminology causes confusion which can leave both the vendor and their partners vulnerable to misunderstandings that ultimately reduce the effectiveness of their channel incentive programs.

So, let's start with a common understanding and define rebates. Rebates are amounts paid to channel partners who have reached a pre-determined business target within a pre-determined timeframe.

When a partner achieves their goal, the vendor issues a rebate payment within an agreed-upon timeframe. Rebates are often reserved for top-tier partners and typically average between 2% and 2.5% of sales. Loyalty programs average 1% to 2%. Volume incentives can be as high as 5%, depending on the goal achievement.

Rebates are a powerful motivator for channel partners, but they're even more powerful as part of a strategically developed channel incentives strategy. This eBook explores the current state of incentive best practices and the role rebates play as part of an integrated incentives strategy.



Key Drivers and Barriers of Today's Rebate Programs

Over the last several decades, channel rebates have been a blessing and a curse for most organizations. They are a powerful tool for driving change, but can also get complex and difficult to manage.

Rebates are often viewed by sales and channel sales managers as a necessity for conducting business. Finance departments often view rebates as a major headache that involves cleansing and reconciling mismatched data and complicated accrual of liabilities with implications on fund management and financial reporting.

There are sound business reasons why companies engage in the practice of rebates.

Primary rebate drivers include:

- | Avoiding up-front discounts and paying out only against attained performance
- | Driving top-line dollars and increasing market share by:
 - Rewarding channel partners for larger market share
 - Rewarding volume and value tier attainment
 - Leveraging cross-sell opportunities to push new and old products
- | Improving channel sales efficiency through:
 - Fast and accurate POS data reconciliation to be validated against rebate programs to ensure fast and accurate payment
 - Standardizing processes to resolve claims and disputes
 - Enabling visibility into progress towards attaining rebate tiers
 - Masking end customer prices from multi-tiered reseller chains to avoid price abuse in the market



There are additional business and financial reasons why more and more companies are investing in rebate management solutions. With the right processes and tools, companies can more effectively track how many funds have been consumed by rebate claims.

When we analyze barriers to effectively managing and measuring the impact of rebates, we find the following:



Analytics Drive Value. Providing rebate programs are a standard practice, but it's surprising to see how few companies consistently analyze the yield of these programs. Some programs are very effective and should be pursued further, while other programs produce very little and are a cost burden. Without systematic capabilities to intelligently analyze the impact of these programs, companies lose the ability to create programs that drive real value.



Rebates Impact Net Pricing. When analyzing gross-to-net pricing and margins, rebates are an important factor. Yet few companies have the processes and tools in place to effectively factor rebate information into deal management and deal analysis processes.



Automation Amps up Efficiencies. Without a comprehensive, automated rebate platform, the process of setting up programs and then collecting direct sales data and channel sales data to be validated for rebate eligibility and reconciling this information with claims that are submitted is an error-prone and labor-intensive process. In addition, the risks it introduces to accruals and potential overpayments can be very costly. Automating some of these processes simplifies the workflow and reduces operational costs, guaranteeing fast, accurate payments that improve customer and channel satisfaction.

Channel Rebate Best Practices

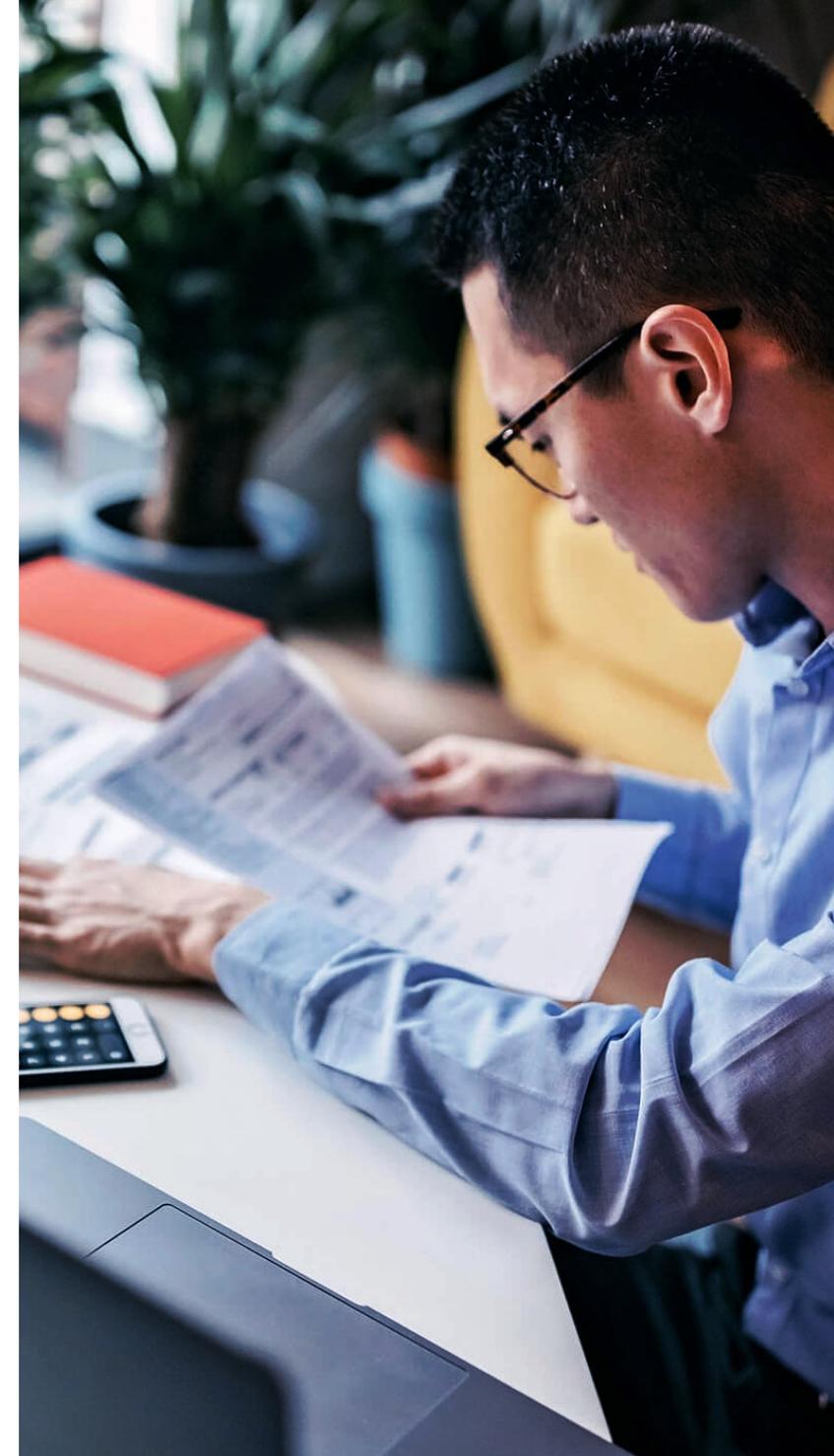
Channel leaders want to know their rebate programs are motivating the right partners in the right ways. And often, their biggest challenge is finding the right level of investment that will optimize partner sales and marketing performance, without overspending.

Incentive programs maximize outcomes when goals are aligned with business drivers, your partners understand and adopt your rebates, and payments are made promptly and correctly. Complex rules and processes, misalignment and large claim volumes often limit results.

Let's look at some rebate best practices:

Move Away from Revenue Attainment Rebates

While rebates for achieving overall quarterly revenue targets are still quite common, they are typically extended to remain at par with the competition. This type of rebate is increasingly replaced by programs with an emphasis on rebates that generate net new business, rather than repeat orders with existing customers. In addition, vendors will pay out for creating net new business in designated vertical markets, with pay-outs based on achieving revenue goals with net new customers, and rebates for adding value such as attach rate goals for services. Vendors will also pay out rebates for partners that achieve certain expertise and/or skill sets.



Use Clear Incentive Plan Terminology

Vendors must ensure they have well-defined and easy-to-understand channel incentive programs in place and that the terminology is clear and precise. Following are widely accepted terms and definitions:



Revenue/ Performance Achievement

Rewards for reaching predefined revenue or performance objectives



Managed Business Objectives

Reward for achievement of specific supplier-defined objectives



Rebates

Monetary rebates earned upon reaching specific goals or targets



SPIFs

Sales performance incentive funds earned by reaching specific sales goals

Clearly Communicate Objectives and Benefits

Plainly communicating objectives and benefits using clear and precise incentive terminology is crucial. To ensure partner engagement and compliance, you should clearly communicate the target, rules of engagement, promotional periods, and possible earnings by partner type before the start of each quarter. Record the partner's acceptance of these rules and terms and conditions, and keep partners current on their standing against goals through interactive dashboards, and frequent online account statements.

Optimize Your Rebate Strategy

In today's channel, the emphasis has shifted from pure rebate pay-outs to vendor support and vendor-partner collaboration. While cash is king for many channel partners, there are non-cash rewards that many organizations find useful. The fact is that cash has a limited value in promoting loyalty at the company level, whereas non-cash programs allow you to target your incentive budget to the promotion of your products and solutions. Partners will use the dollars to generate more demand, and that's exactly the type of behavior you want.

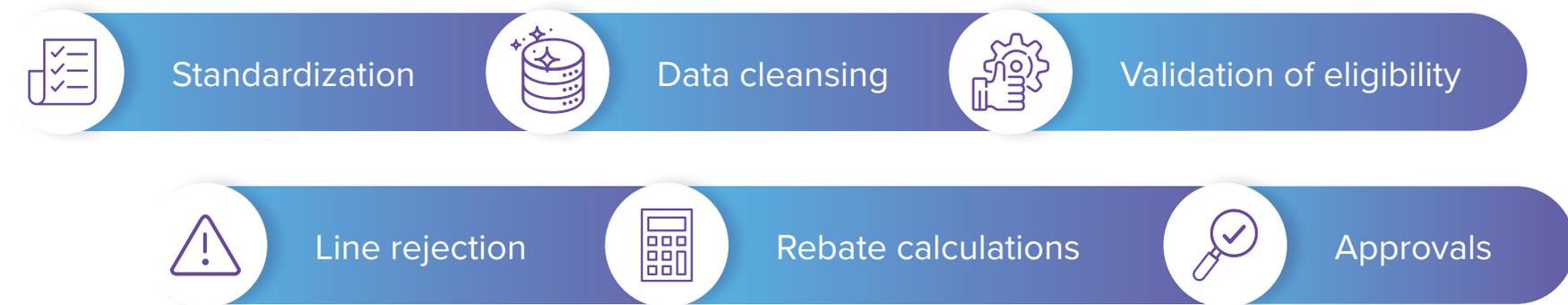


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Making Rebate Management Solutions Add Up

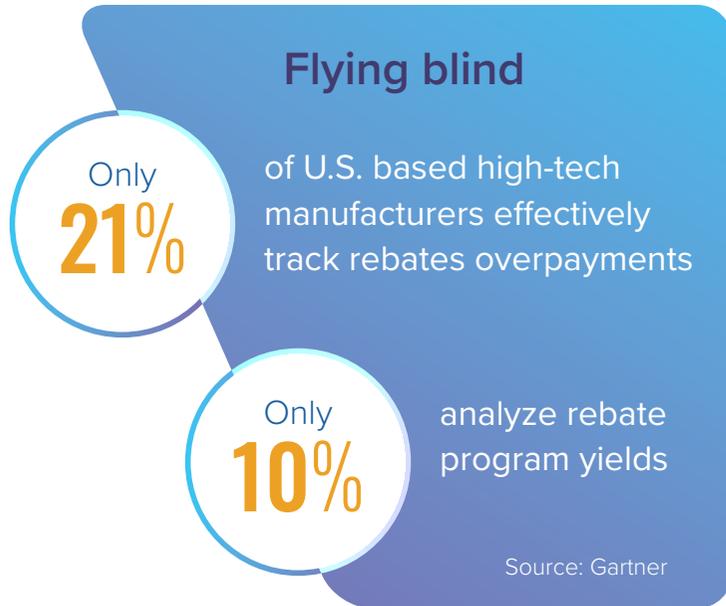
When a company embarks on the quest for an effective rebate management solution it needs to prioritize, based on business needs, what capabilities the system should have. Below is a summary of the requirements companies should consider when evaluating rebate management solutions.

Proven Scalability: For companies with a significant number of transactions eligible for rebate payments and/or many reporting entities, e.g. channels and partners who submit POS data and rebate claims, proven scalability can be critical. The process of loading hundreds of thousands and sometimes millions of sales lines in potentially different formats into a rebates system requires:



When applied to large data sets, this can introduce many architectural bottlenecks that can cause systems to “freeze” for hours during a calculation. Companies that select rebate management solutions based on feature sets or ERP integration without verifying the ability to manage extremely large data sets, often find themselves saddled with a low-performance solution.

Financial Processes Support: Rebate programs have many downstream financial implications, so it's critical to ensure the solution can support the key financial processes impacted by rebates. These include:



- **Managing Amendments and Adjustments**
Terms of rebate programs and related contracts may change over time. These changes must be automatically applied to rebate validation and calculations. Additionally, various scenarios may require a rollback and reversals on rebates that have already been paid, so it's important to provide financial managers with the tools to manage this process with the appropriate audit trail.
- **Accruals Calculations**
Accurate bucketing of rebates and calculating the impact on accruals
- **Payment Approval**
Supporting multi-flow conditional reviews and approvals
- **Funds Release**
Connecting to the ERP system to release funds once a program has expired

Analytics and Reporting: In addition to transactional-level reporting, analytics offers the opportunity to achieve intelligent rebating. By analyzing partner and program performance, market share, and growth, companies can make data-driven decisions on which programs are delivering the best value. Generic business intelligence tools are one way to go, but usually require a significant set-up effort, from establishing the right data exports to extensive configuration and customization to provide the most useful views. By having these reports built-in as a standard part of the rebate management solution, companies can increase time to value and lower upfront costs.



Connecting Programs to Contracts: Some rebate management solutions treat rebate programs and contracts as two separate entities, which in turn requires two systems and two processes. Linking a rebates program to contractual terms and commercial conditions enables companies to manage the process on one platform and benefit from all the contract life cycle management capabilities applied to rebate programs, e.g. expiration, renewals, amendments, and termination.

Flexible Program Modeling: Marketing and channel managers can be very creative and devise a wide range of programs that may not only be driven by dollars and units but also by market share, penetration levels, and other nonmonetary conditions. This requires a flexible environment in which these programs can be modeled by business users without dependencies on code writes and IT personnel.

Rebates and Pricing Methods: At a minimum, a rebate management solution should support the following rebate methods out of the box: volume, revenue, growth against base, price differential, market share, tiered step programs, and multi-conditional performance tiers. The solution should also support pricing methods such as fixed price, discount off list, dynamic discounts off list, tiered with dynamic discounts, and product bundles.

Integration: Integration with ERP is critical. Mapping customers and products is a baseline requirement. Additionally, the ability to review and validate sales lines, check credit memos, approve payments, accrue liabilities, and release funds on programs that have expired all require standardized integration with ERP systems.

Conclusion

The world of channel incentive and rewards management has become more complex over the past few years. Drastic changes in the marketplace have led vendors to abandon the piecemeal approach to rebates and instead to integrate them into a suite of incentives. Channel incentives are usually performance-based and aim to improve the yield, reach, or mix of a group of partners and solutions. Common incentives include volume rebates, new customer bonuses, sales performance incentive funds (SPIFs), market development funds (MDFs), embedded headcount, and activity-based rewards.

In recent years vendors have become more discerning about the partner behaviors they want to influence. This trend is driven by the need for partners to update their business models and for their teams to acquire new skill sets due to business model transformation. While rebates for achieving overall quarterly revenue targets are still quite common, they are typically extended to remain at par with the competition. This type of rebate is increasingly replaced by programs with an emphasis on rebates that generate net new business, rather than repeat orders with existing customers.

Finally, vendors must have an incentive framework in place, designed to have a systematic approach to incentive plan design. When done effectively, you'll find that the whole adds up to much more than the sum of its parts.



The Critical Role of Software

High-tech companies supported by software that manages the full lifecycle of their rebate program have a strategic advantage in the marketplace. The ideal rebate management software solution enables the organization to analyze, track, report and respond nimbly to a wide variety of market factors. It's all about having the best insight into your data, because better insight leads to better profits. Vistex provides leading-edge software solutions to supercharge your rebate management program.

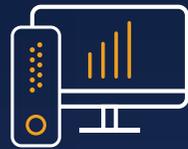


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Deployment Options | Run it your way

Whether you decide to run your systems on-premise, in the cloud or in a hybrid environment, with Vistex solutions your organization is empowered with unprecedented visibility into any program and performance. Gain deeper insight and enable fact-based decisions to drive revenue, control cost, minimize leakage, and streamline processes. With a range of deployment options for all your programs, you choose the way that works best for your business needs.

Add the right option for your business



On-Premise



In Cloud



Hybrid

How Vistex Adds Value

With the rising cost of customer acquisition, the rapid pace of innovation and intense competition for market share, high tech companies must monitor program performance, drive demand and protect margins for critical revenue growth. Vistex enables high tech companies through an integrated solution that manages the full breadth of direct and indirect channel management including CDM, contracts, pricing, ship & debit, rebates, Co-op & MDF, incentives and IP royalties. High tech companies can now improve profitability through automation of complex programs, insights into program performance, incentive calculation accuracy, overpayment avoidance, increased compliance, streamlined reimbursements, and better manage the entire revenue management lifecycle.

About Vistex®

Vistex solutions help businesses take control of their mission-critical processes. With a multitude of programs covering pricing, trade, royalties and incentives, it can be complicated to see where all the money is flowing, let alone how much difference it makes to the topline and the bottomline. With Vistex, business stakeholders can see the numbers, see what really works, and see what to do next – so they can make sure every dollar spent or earned is really driving growth, and not just additional costs. The world's leading enterprises across a spectrum of industries rely on Vistex every day to propel their businesses.

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