Market Volatility Exposes Any Weaknesses in Your Channel Programs

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Channel partner programs are among the most important relationship management tools available to a manufacturer. As market volatility increases, any weaknesses in these programs will be exposed.

Since 2020, market volatility has been at unprecedented levels: both in degree and scope. Most projections suggest that these factors will define the market into 2024, or beyond. This is not going away.

So there has never been time when there is a more compelling need to reassess the weaknesses (and strengths) of your company's channel programs. Here are the facts:

Drivers of Market Volatility	
Material Costs	Up 20%
Labor Costs & Availability	4.4% increase in real wages across the board High turnover, and significant open positions, in distribution
Supply Chain	21% increase in material or supplier related delays in 2021, compared to 3% increase in shortages in 2020
Product Mix	Many manufacturers have reduced SKU count because of supply chain disruptions
Market Demand	1.595M housing starts, up 15.6% from 2020 25% increase in home prices compared to 2019 levels

We see two major flaws in our clients' channel programs. The first is a failure to keep pace with changes in the company's goals and strategy. The second flaw is the failure to keep pace with changes in market dynamics. When these gaps occur, channel partners perceive the manufacturer's channel programs as misaligned and inflexible. In too many instances, these flaws are not addressed until there is undeniable evidence that the programs aren't working:

> "My program costs went up 40% last year and we lost market share." (Supplier)
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> "I won't even order from (Brand) after Thanksgiving because they won't be able to ship product and their program penalizes me." (Wholesaler)
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> "Decision makers have changed. Builders are now making decisions, but my program pays my channel partners to capture contractors. No surprise that we are losing market position." (Supplier)

Five Factors Can Restore Channel Program Effectiveness

If you haven't examined and refined your channel programs in the last three years, trust us: it contains big flaws. Now is the time to make adjustments to assure that your company will have a relevant and effective channel program in place by 2023. Where should you start? Look at these five factors to immediately restore channel program effectiveness.

STRUCTURE. A strong program structure has a clearly defined set of criteria which articulate your expectations of your channel partners. The cause and effect relationship between channel performance and earned rewards is easy to understand. Is your channel partner's role well defined in your company's go-to-market strategy? Do your criteria reflect your expectations of the channel partner?

FLEXIBILITY. An ideal channel program provides your channel partner multiple paths to achieve rewards. This allows the partner to self-select into the electives that best fit that partner's local market conditions and their business model. Are your expectations broad enough to allow the channel to make decisions on what is most important for their business and market? Is there enough flexibility to assure a level playing field? (i.e., gives every channel partner the opportunity to earn benefits?)

ALIGNMENT. The most effective channel partner programs reflects company goals and go-to-market strategy, as well as market conditions. These programs are regularly updated (e.g., annually) to assure this alignment. How often do you review your channel program? What factors do you use to design the program? Do you reassess the impact of the program as your goals evolve?

RELEVANT INCENTIVES. In the most effective programs we see, rewards and incentives are meaningful to the channel partner. They provide financial benefit, support the partner's competitive position in their local market, reduce channel partner risk, and improve ease-of-doing business together. Similarly, in the most effective programs, rewards and incentives are both aligned to the manufacturer's goals and impactful to the channel's business. Can you list the rewards your program provides to partners? Can you define how/why each is meaningful to your channel partner's business? Do you have any rewards that are not financially-based?

OBJECTIVE REINFORCEMENT. An objective set of metrics to assess and determine rewards based on performance is essential to maintaining a strong program and eliminating bias. Do you regularly communicate with channel partners on how well they are performing relative to specific program criteria? Do you have a scorecard? Do many channel partners qualify for benefits on an exception basis? Do you rely on your field salespeople to assess channel partner performance?

Volatile market conditions represent a call to action for suppliers, as flaws in their channel programs become more apparent. Manufacturer complacency, by not reviewing and updating their channel programs, exacerbates the issue. By addressing the five factors outlined above, manufacturers can create a program structure that strengthens, not weakens, channel relationships in highly uncertain times. By aligning goals, expectations and incentives in a flexible, objective program structure, you can provide channel partners a pathway to jointly drive business growth in a way that reflects channel and customer needs and your go-to-market strategy objectives.

We've helped many clients restore effectiveness and returns from channel programs. If your team wants to be ready to rollout an impactful program in 2023, now is the time to start the redesign effort.

We would behappy to discuss your situation and our experience. We look forward to talking with you soon. Please contact **Carl Cullotta at 224-239-2525 or cpc@lynncullotta.com.**