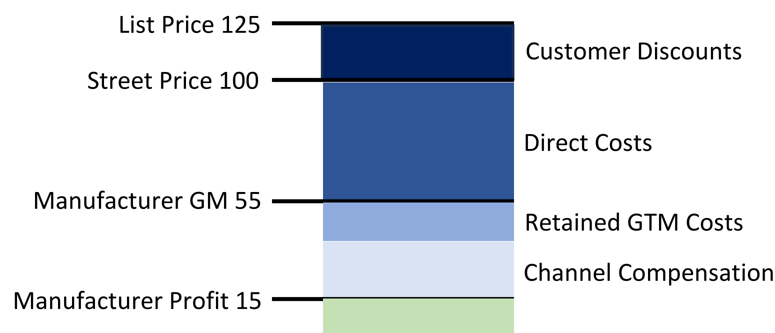
Go to Market Economics and the Importance of Channel Programs

Go to market economics are one of the most analyzed, yet least understood, components of a manufacturer's strategy. Lack of understanding often results in a company focusing on the least impactful component of economics rather than the highest priority one—channel programs.

Lynn Cullotta consulting teams have studied go to market economics in over 20 industry sectors. The graphic below depicts typical economics found in industrial and commercial markets.



The components of go to market economics include:

- List price—Suggested list price typically serves as a reference point. Few customers pay list; typically, these are "one off" or walk-in customers. Most recurring customers receive at least a nominal discount from list price, while new customers often receive a deeper discount that reflects the cost of acquisition.
- Street price—Street price represents the actual price paid by the end user and reflects the average discount from list price. While it would be attractive to use your street price as a tool to drive revenue and/or profit gains, competitive dynamics make it difficult to do so.
- Direct costs—Direct costs represent the cost of goods sold and enterprise G&A costs. Manufacturers strive to continuously improve these costs. However, they are typically outside the control of the sales & marketing organization.
- The remaining components of go to market economics are Retained costs (i.e., the resources and expenditures contained in sales & marketing line-item budgets) and Channel compensation (i.e., the portion of street price transferred to the channel partner, based on your channel program).
    - Retained go to market costs—Given direct control over these costs, manufacturers are keenly aware of the impact of changes in the internal sales/marketing mix. Most companies have optimized the use of internal resources, leaving little room for meaningful improvement here.
    - Channel compensation—This component consists of a wide range of elements that contribute to the channel partner's gross margin. These include the discount from list price, rebates & allowances, freight allowances, payment terms, market development funds, etc. When structured well, these payments reflect the roles the channel partner plays in your go to market strategy. When structured (or managed) poorly, the channel can be overpaid (or underpaid) for the roles they perform, resulting in inefficiencies or lack of support for the company's go to market strategy.

Channel Programs are the Largest Go to Market Expense

Channel programs and compensation are typically the largest addressable component of GTM expense. Yet our research suggests that manufacturers spend three times as much money and effort trying to "fix" their retained GTM costs than they invest in redesigning their channel programs. As most manufacturers have few meaningful gains left to capture by addressing retained GTM costs, the return on investment in redesigning their channel programs will be an order of magnitude better.

Here are two examples illustrating that the right channel program can be a powerful tool to drive desired financial results.

- A market share leader in industrial fluid handling (> 40% share) served the North American market via a network of 70 distributors. The company created a channel program based on a "pay for performance" model. Channel partner rewards were based on activities, investments, and results. With no substantive change in product mix or in direct sales/marketing activities, the company enjoyed growth at over 2X market rate, while *reducing* overall go to market costs.

- A leading plumbing products manufacturer had reached what proved to be a "market share ceiling" in their core product categories and market segments. Planners determined that the key to revenue and profit growth was a shift to a richer product mix. Channel programs and compensation were modified to align to this objective, resulting in market share gains and revenue/profit growth that exceeded objectives over a three-year period.

Consider the following questions regarding your company's channel programs:

- Can you articulate the roles you expect your channel partners to play in your go to market strategy? Are they creating customers? Maintaining customers?
- What specific functions, activities, and investments do you expect from your best performing channel partners?
- How do your current channel programs and channel compensation reflect these channel roles?
- How effectively do you manage the channel today? Are channel members that meet or exceed expectations rewarded? Are there consequences (economic or otherwise) for those channel partners who fall short?

If the answers to these questions are unclear or unsatisfactory, your channel programs and compensation models deserve a fresh look. If partners are being underpaid relative to expectations, this has probably created gaps in your promise to customers that will need to be filled directly. If channel partners are being overpaid, this has likely created a bigger risk of undermining your go to market economics and brand value in the market.

Lynn Cullotta Consulting has helped many clients optimize their go to market economics by structuring channel programs to reflect the roles the channel partner plays in their go to market strategy and aligning compensation to reflect them. If your team wants to be ready to roll out an impactful program in 2024, now is the time to start the redesign effort.

We would be happy 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.

Interested in more perspective on this topic? Find our channel programs series here.

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