Partner Payments for a Changing Channel Landscape

An XTRM White Paper

The Critical Role of Channel Technology Service Providers

The prognosticators can make whatever projections they like as to how rapidly these trends will take hold; this much appears certain – as these new models continue to evolve and mature, both the data and value exchanges between entities in these new ecosystems will be embedded within the systems and business processes. Meanwhile, the primary use cases for transactional channel payments – incentives, MDF and rebates – aren't likely to go away.

But new partner types and new business models will spawn new use cases for exchanging value monetarily as well as relationally. The channel technology stack will continue to mature and although there will likely be a lot more consolidation in the coming years, the channel agencies, ISVs and consultants, or collectively, channel technology service providers, will need to incorporate the data, relationship and payment needs of their clients to compete.

In the past decade, channel partner programs have evolved rapidly to serve multiple industries as have the channel automation software applications that support them. Beginning with PRM and related technology solutions designed to support partner recruitment, enablement and motivation, channel automation has matured – just as the business models they serve are now experiencing the most dramatic shift in decades.

Recently Forrester reported that for the first time in 38 years, the percentage of revenue flowing through indirect channels has flattened. And they forecast that the trend will be for that percentage to decrease for the next decade.

The traditional reseller, or the transactional channel, as Forrester's Jay McBain describes them are but one partner type in the new world of ecosystems. He cites an Accenture survey in his recent blog that "76% of business leaders agree that current business models will be unrecognizable in the next five years — ecosystems will be the main change agent." With the rise of non-transactional channels – influencer channels such as affinity partners, affiliates, advocates, ambassadors, alliances and referral partners and retention channels including consultants, integrators, adjacent ISVs, accountants, digital agencies, etc. – what do these trends portends for companies making channel payments?

Payment technology continues to evolve, and the channel technology service providers will continue to lead the push to streamline operations by embedding payments functionality within their solution architectures to improve partner experiences. An intelligent payments platform is designed for use by any company—or their agent/service provider—that needs to make payments to anyone, company or individual, anywhere. That extends to present day use cases as well as new use cases as they emerge.

This paper details how an intelligent payments platform embedded within partner automation tools can lower operating costs, improve speed and efficiency in the flow of partner payments for current industry use cases and how its digital wallet architecture and account management tools are poised to support the payments needs anticipated in the next wave of use cases that new channel realities will require.

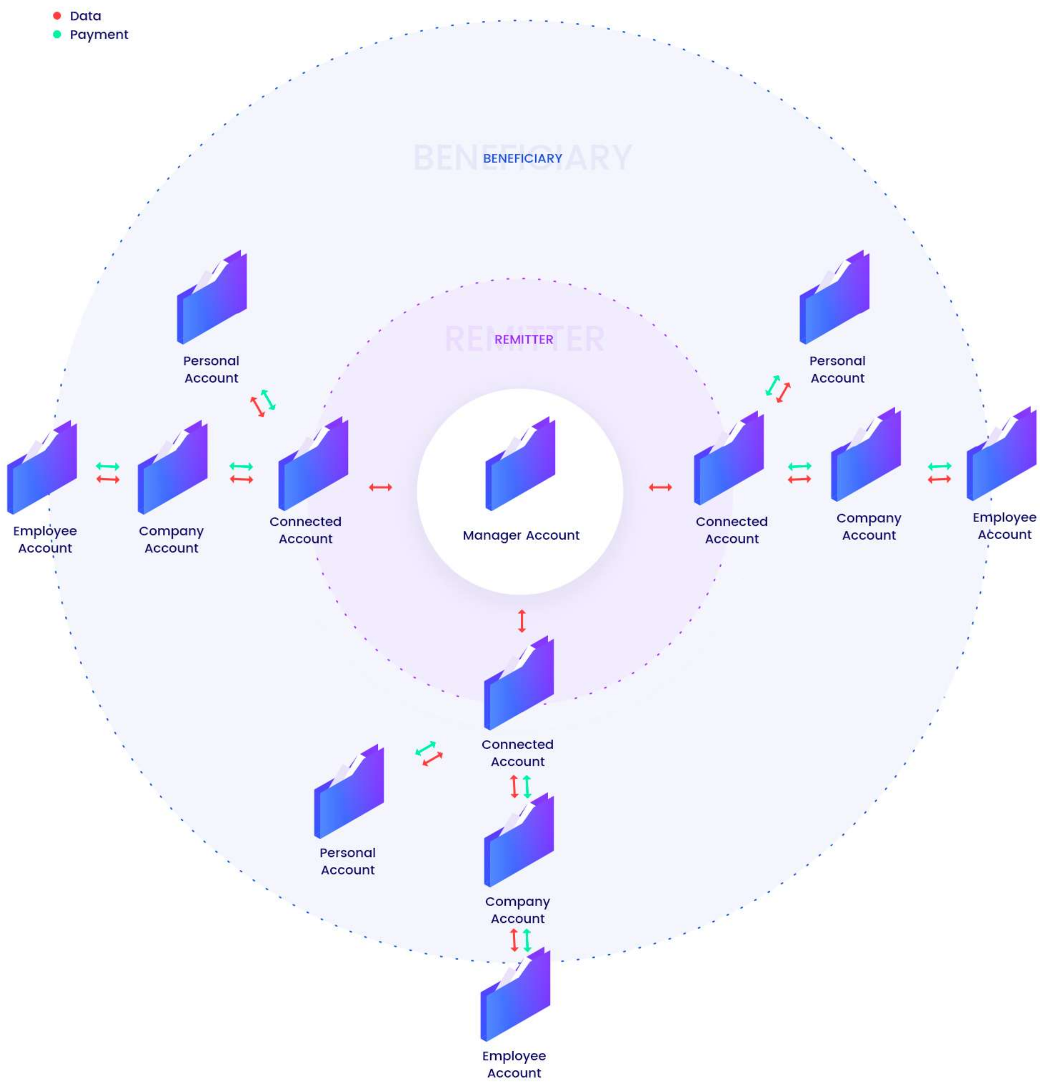
Managing Accounts & Payment Transactions

Payments expertise isn't required to embed payments capabilities within channel automation software using an intelligent payments platform and APIs. But understanding the challenges unique to managing global partner networks is critical to designing and implementing solutions that meet the regulatory, compliance and tax reporting requirements of global channel marketers.

Channel automation, of course, is often as much about managed services as it is about software. Agents and service providers, need additional payment management functionality. Manager access provides transactional-level visibility that enables them to manage payments on behalf of their clients including access to connected accounts information to provide first-line customer service:

- Customer Level (Remitter)
    - Customize notifications using customer logo
    - Submit customer mass payment files
    - Add/link/delete customer banks
- User Level (Beneficiary)
    - Edit personal account emails
    - Edit personal account employer

An intelligent global payments platform is part software and part automated business process combined to provide an all-inclusive payments capability that complements its ability to send/receive payments using its digital wallet architecture with robust security, automated KYC and AML compliance rigor, and accessible data for tax reporting including automated 1099s.



The **digital wallet architecture** supports global partner programs to make specialized payments more efficient today as well as for use cases as business ecosystems evolve.

Simplifying Global Incentives: Partner Rep SPIFS

The *transactional channel* has traditionally relied upon partner rep sales SPIFs to keep top of mind with front-line employees, paid to the partner sales rep directly or indirectly. While these SPIFs were usually simple transactions (do X / get Y) that rewarded a specific dollar amount for each sale or objective target, they have evolved to reward more behaviors than simply closing the sale.

Improve The Partner Experience

Designing a rewards program that meets the needs of your global channel partners and their sales teams while meeting the ROI expectations of your executive team – CFO, CMO and CRO – can be a challenge. And while the first concern addressed in a SPIF program is behavioral impact, ultimately, the critical success factor for program execution is the partner experience. This includes offering choice of payment methods and the ability to convert to payments to local currency using digital wallets. Meanwhile, global channel incentive automation has made managing such programs much more operationally efficient, improving partner/partner rep ease of use and speed of payment, resulting in higher levels of partner sales rep engagement and partner satisfaction.

Implement Flexibility on a Global Scale

Channel incentives, particularly SPIFs aimed at individual or team members that are employees of the channel partners, operate differently in different regions and countries. Cultural, regulatory and market differences often create the need to alter program rules structures regionally to allow, for example, the flow of SPIF funds through partner firms to partner employees rather than making direct payments to partners' sales or technical reps.

Managing connected accounts with the ability to pay directly to individuals or aggregate funds at the company level becomes important in the EU and other countries where rewards directly to individuals can run afoul of co-employment laws. Using digital wallets to provision employee accounts that roll-up to the partner company account facilitates the flow of funds easily while serving the compliance requirements as well.

Simplify Compliance and Tax Reporting

Participant tax reporting is also simplified through the ability to easily download all the individual and/or company activity at any time. Taxpayer ID information can be captured as needed through the payments process for taxpayer use at year end. In North America, where it is standard practice to issue SPIF payments directly to individuals, an intelligent payments platform can also generate 1099s automatically.

Enable Payment Choice

For many partner programs there can be issues surrounding the use of *cash* and *non-cash* incentives. In some cases, the funding source (e.g., OpEx) or the local market may not permit or desire cash payments. Non-cash reward alternatives include closed-loop prepaid cards with limited redemption options or digital gift cards. In other use cases, cash and/or cash equivalency is an issue so program managers can either decide to issue all payments in cash directly via EFT to a bank account and/or a debit card (virtually bypassing the digital wallet user experience). The rewards payment platform should accommodate both cash and non-cash options.

While use cases may vary due to regulatory considerations and legal advice, incentive program design is best structured to offer participants *choice* whenever possible. By placing funds directly into a participant's digital wallet, and allowing them to choose how to transfer funds out – to cash in their bank account, a Virtual Visa, digital gift cards or to another family member or perhaps a team member who helped them earn the reward– the incentive becomes even more attractive.

As new channels emerge, the need to understand the *partners journey* will be key to how new channel programs and partner payments *to* and *through* partners evolve. Managed, connected accounts and digital wallet architectures designed and configured to support both multi-tier and multi-currency operations will enable far greater flexibility to meet the partner payment needs of these new channels, empowering channel technology service providers to integrate myriad new use cases as demands arise.

Influencer channels and *retention channels* rely on differing channel revenue mechanics that reflect the needs of new buyers and new markets, but the ability to offer incentives to reward positive behaviors are almost certain to involve new use cases for the specific behaviors required to create success.

Global Partner Incentives

In the current landscape of channel partner payments—ones paid to the partner firm rather than to an individual sales rep—the primary programs beyond SPIFs requiring payments include MDF and Rebates. Both also serve the purpose of making clear why managed connected accounts and multi-currency digital wallet constructs are important both now and in the future.

MDF

MDF is used both as an acronym, Market Development Funds, and as a generic term for many types of contingent development funds such as Joint Marketing Funds (JMF), Business Development Funds (BDF), etc. In most cases, these funds are matching funds where the vendor matches the partner investment in the specific marketing activity. Typically, the matching is $1: $1 or 50%-50%. However, the match can be a variable to encourage certain types of marketing spends. What is common to all these funds is that they are likely to be performance based at both the 'approval' stage and at the 'disbursement' stage.

Accrual based MDFs are based on the prior period's performance (e.g., sales revenue in a fiscal year quarter) and therefore they are effectively pre-approved based on the accrual earned. The funds typically are available only if used in the following period and only for specific, qualifying purposes. Hence, they also require a proof of performance prior to the release of payments to show that expenditures were made for qualifying activities within the qualifying time period and for a specific amount not to exceed their accrual.

With accrual MDF, expenditures are pre-approved up to the limit of their accrued funds. From the vendor's perspective, the accruals are based on a percentage of revenue; thus, if revenue grows, then the MDF accruals grow as well – and if revenue is down the accrual budget falls in sync.

Some vendors, however, prefer to allocate their marketing budgets as a fixed amount so managing MDF as a variable expense is problematic at best. To manage their marketing budget, many set a quarterly or annual budget and track approved and paid claims against the budget, declining new requests once all the funds have been accounted for by approved activities.

Proposal based MDFs are based on proposals submitted by the channel partner to conduct a qualifying activity subject to approval by their account rep for qualifying activities. Each request is approved for a specific amount and once the qualifying activity Is completed, a claim for reimbursement is submitted with the required proof of performance. Many vendors operate a combination of both accrual and proposal based MDF.

The common practice for either type includes a matching funds component for some or all activities. For example, most activities may be subject to 50% / 50% funding between vendor and channel partner. However, some activity types may be promoted by changing the matching fund percentage, e.g., 100% vendor funded. And many, if not most, vendor programs require additional reporting to include measurable results, calculated MROI, lists of attendees, lead and deal data, etc.

MDF Disbursements

MDF payments are claims based, often requiring proof of expenditure in order to reimburse the channel partner. Reimbursements, by definition, mean that the partner is out of pocket until they receive the MDF payment. Cash flow is extremely important to most partners. So, speed of payment - from approved claim to partner's account is very important. By using digital wallets, payments can be made immediately. That's the first step. Unsurprisingly, there are different approaches to keep the partner whole as possible:

- One way is to use the payment platform capabilities for wallet-to-wallet exchanges. The partner can, at their discretion, use their digital wallet to pay their suppliers directly so they are not out of pocket or elect to transfer the funds to their bank account while paying suppliers using their accounts payable routines. Wallet-to-wallet exchanges are unrestricted giving the partner complete autonomy in selecting their suppliers.

- Another way would be to use connected accounts to allow the vendor to directly transfer funds to the supplier on behalf of the partner. While this approach requires more effort by the vendor, the trade-off ensures that they can promote the use of preferred suppliers and makes it a bit simpler for the partner.

These are but a few examples. Channel technology service providers, to be sure, have many more variations on these processes.

Partner Rebates
Channel Partner Rebates have been a common practice in technology channels for many years and their use has expanded to other industries as well, albeit in differing forms. Arising from the stated need to protect partner profitability, rebates were offered in lieu of deeper discounts which were nearly always passed along to the end-customer in a highly competitive market. Rebate frequency and values vary widely, however, the most common implementations are based on quarterly sales activity and often tiered based on volume and/or a channel partner's medallion level (Gold, Silver, Bronze, etc.) in a vendor's partner program. This enables the vendor greater leverage in assuring partner engagement by placing non-revenue criteria such as training and certification, deal registration, etc.

Cross-border Payments and Global Payments Flexibility

Service providers can configure rebate programs so that their client vendors can create and fund digital wallets in as many currencies they need - USD, euro, British pound, yen, yuan, etc. In the past, creating currency-specific accounts has been limited to the vendor's legal structure and where they do business.

While legal, finance and corporate accounting requirements continue to be key program design/configuration consideration, the ability to create multi-currency digital wallets gives the program designer choices in how to accommodate cross-border payments in manners not previously available:

- Handle currency exchange at the partner level by creating two wallets—one in the vendor's payment currency, e.g. USD and one in the partner's local currency, e.g., euros. The vendor then pays the rebate in USD into the partners USD wallet and the partner converts to euros via wallet-to-wallet exchange.

- Handle currency exchange at the vendor level by creating as many currency-specific wallets as needed to pay their partners in their local currency. The vendor then funds the rebates using the vendor's payment currency, then the vendor converts to partners local currency via wallet-to-wallet exchange, prior to sending to the partner.

One would think that most vendors will elect to continue the practice to make rebate payments in their currency and leave the currency exchange to the partner but as partner experience heats up as a competitive differentiator, stay tuned!

No matter the use case: global, instant and mobile payments are the new norm. Encompassing digital payments in a platform that surrounds them with the security, privacy, tax and regulatory compliance needed to conduct global channel business enables channel technology service providers to focus their service and technology innovations in a rapidly changing marketplace.

Typically, banks and traditional financial institutions create a full customer profile as the first step in building a business relationship, prior to conducting any transactional business. While this is important for their business and essential to complying with regulatory considerations including KYC, AML and tax reporting, it also creates a significant administrative burden (and cost).

Payment networks make e-commerce transactions more convenient for both customers and merchants by eliminating the need for KYC at the transactional level. In these networks, there is an Issuing Bank (Customer) and a Merchant Bank for each transaction; each has an already vetted, KYC-compliant relationship with anyone on either side of the transaction. Payment gateways, however, may be needed which adds considerably to the transaction processing expense.

An intelligent Payments Platform, however, can perform the functions of a payment gateway. More importantly, it operates in a manner that is somewhat analogous to the payment networks albeit with more choice in payment methods, inbound and outbound. What is similar to the payment networks is that transfers out of the platform are typically made via ACH, SWIFT or wire transfer, meaning that the recipient is a customer of the bank that has also taken responsibility for KYC and AML compliance. These methods include transferring via direct deposit into a recipient's bank account via ACH, SWIFT or wire transfer or to a prepaid debit card, digital gift card or other non-financial payments platforms such as PayPal.

And it also enables the ability to complete any currency FX fully within the platform allowing for much lower FX rates than those available through the banks as well as the ability to design for either party to absorb the FX expense. Companies can then pay in their preferred currency and recipients can receive money in theirs.