elevateHQ

Commissions For Channel Partners

The Math And Logic Behind It

Foreword

If you do it right, there's no revenue stream like channel partners.

But how do you do it right?

It is easier to justify the cost involved in building a partner program.

But how to decide the optimal commission rates?

At frequency should you pay your partners?

When do you pay - on contract closure or invoice collection?

This eBook answers such questions and more. If you are in revenue team and thinking about starting a partner program, it will help you think in the right direction.

Our success metric is if you find at least one insight by the end of this eBook. If you do, please don't hesitate to let us know.

The team at Elevate is grateful to **Karin Rainer, Rebecca Thachil, and Sunil Neurgaonkar** for sharing their experience and wisdom with us.

I hope you have a good read!

Apoorv Singh

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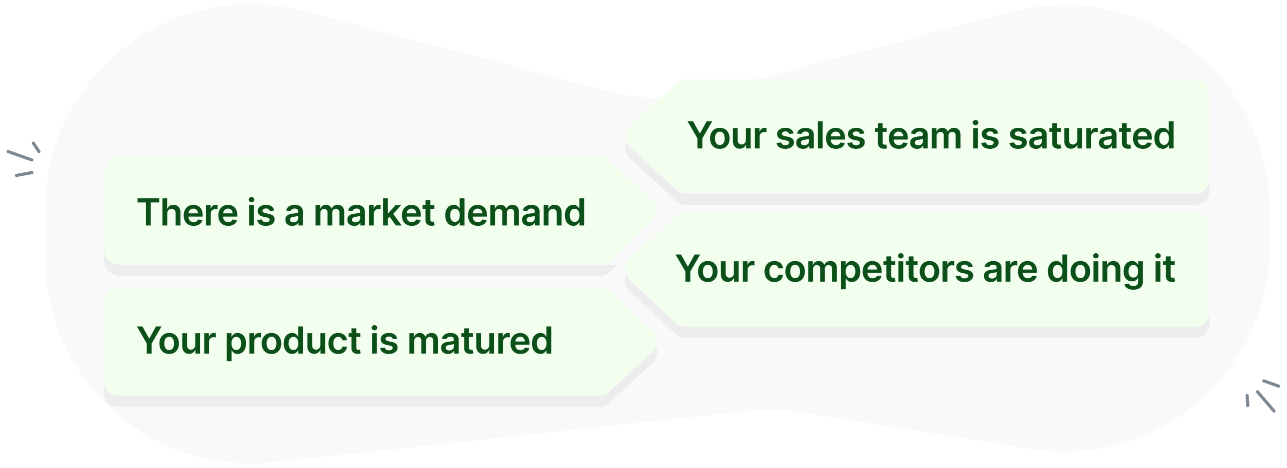
When should you start looking for partners? 😉

Working with partners can't be your first approach to sales. Many partner programs fail because the companies invest in them too early.

You will gradually reach a point in your business where you need to work with partners.

Here are some **green flags** that can indicate you are ready to start working with channel partners:



- **You are wanted:** There is significant market demand for your product or service, but you're struggling to reach all potential customers on your own.
- **Your inside sales team is saturated:** Your sales team consistently hits its quotas. It is challenging to scale or reach new geographic areas.

- **Your competitors are doing it:** They are successfully leveraging channel partners to gain market share or expand their reach.
- **Your product is matured:** Your product or service has reached a high level of maturity and stability to be suitable for distribution through channel partners who can effectively represent and sell it to customers.

What indicates maturity?

- **Stability:** Your product is reliable, with no bugs and frequent crashes.
- **Documentation and support:** Comprehensive solution documentation for both partners and customers. Communication with end-users is structured and responsive.
- **Self-serve:** Easy to set up and use and is also intuitive.
- **Feature completeness:** Has all essential features and functionalities for your target audience/customers.

Product maturity makes it easier for partners to instill confidence in prospects and sell your product with fewer hiccups.

> With a mature product, sales teams follow a standardized and refined sales process optimized based on past successes and learnings.

Product maturity also involves including predefined qualification criteria, sales scripts, objection-handling techniques, and closing strategies, leading to more efficient and predictable outcomes.

When you start working with channel partners, remember to start small. You may not need a full-fledged partner program to start. You can work with some partners, go through trial and error, and then build a program.

What are you compensating your partners on ❓

To compensate, you first have to define your partner's responsibilities. Different partners work in different capacities and offer multiple services.

The common services are:

- Bringing leads
- Making a sale
- Helping in implementation

After you define the responsibilities, you have to evaluate how much of the sales funnel your partner owns.

If you collaborate with a partner who only brings leads, you must spend resources on closing the deal. In this case, the commission will be less than that of a partner who brings you leads, closes deals, and does the implementation.

> "Define partner roles with clarity - what are the different activities a partner is expected to help with. Make sure the outcome is binary."
>
> Rebecca Thachil, Co-Founder, Reklik

How do you decide which services you need channel partners for?

Understanding the primary reason you are starting to sell via channel partners will help you prioritize the services you need.

Here are some instances to help you make the decision:

You have **a strong inbound and outbound channel**. Lead generation is not the problem, **but closing is** because of language constraints and lack of regional presence.

You need **partners who can take your leads and close.** This is a way to start partnership. Additionally, partners who can bring their leads and close.

You want to **increase your presence and expand the market** (in a different geographical location).

Use partners for lead generation and close the deal with inside sales resources.
You can also do this when your partner doesn’t have a sales capacity.
If you don't have resources to close deals then let the partner do.

You have **adequate resources** for implementation, and your implementation is simple.

You **don't need partners** to do implementation.

Your implementation team has **no bandwidth** for partner-brought customers.

Prefer partners to do implementation.

> A business primarily expects lead generation and deal closure from channel partners. Implementation is generally an add-on.

Commission models for partners 💰

The commission structure for partners should be straightforward. Keep all your commission complications for your in-house sales team.

Why?

Your sales team sells only your product or service, while your partners' sales team sells multiple products and services. They have finite bandwidth to make the sale and earn their commissions. They will subconsciously choose to sell the product that they believe will likely earn them the maximum commissions.

You must capture their mind share so they choose to sell your product instead of another one. If they sell to multiple vendors, they will also invariably choose the product/company with the simpler commission structure.

Common commission models

Revenue-based

A percentage of the total revenue a partner brings.

For example, 8% of a $50,000 deal that they close.

Flat-fee-based

Fixed commission amount for each sale or lead.

For example, $5 per lead a partner generates.

Let’s put commission models into a picture

For partners who own multiple responsibilities, here’s how you can use both flat-fee and revenue-based commissions:

Here's an instance of a $10,000 deal(ACV):

Deal stages	Type of commission	Commission
Lead generation	Flat fee	$30/lead
Deal closed (40% of $2000)	Revenue-based	$30/meeting set
Implementation successful ($10/hour, and it took 5 hours)	Flat fee	$800
Bonus (10% if it is a $10000 to $20000 deal)	Revenue-based	$200
Total commission payout		**$1060**

The above calculation is by no means set in stone. Many nuances go into deciding the flat fee (if paid at all), the commission per lead, the percentage of deal value that you pass on as commissions, the bonus component, etc.

You can learn more about the logic and math of paying appropriate partner commissions in in the following chapters" instead of "the chapters below.

When should you compensate your partners? ⏳

You can decide the frequency of commission payouts based on your sales cycle.

For a shorter sales cycle, you can pay monthly or quarterly. For a longer one, you can pay half-yearly or annually. The payout frequency will generally be similar to that of your sales team.

Criteria to consider to pay commissions

Leads	The number of leads brought, meetings set, demos done, etc. You can choose a metric that is best for your sales funnel.
Deals	Closed won and invoice cleared
Implementation (it is generally a fixed fee)	Upon successful completion

You should also define which stage is considered for a commission payout.

For instance, a partner does lead gen, closure, and implementation. The below is the status before the monthly commission payout:

The partner brought the lead	✅
The partner closed the deal, and the customer cleared the invoice	✅
Implementation (if it's a sub-contract and you pay the partner)	❌ (in progress)

Define if you will pay after the implementation is completed or consider what is completed till a specified date and pay. The latter is the suggested practice.

> Partners are commonly paid on invoices cleared and not deals closed.

Why? Even though they are your partner, they are less trusted (pun intended) than your sales team. To prevent unethical practices like bringing friends as prospects and closing deals, the preferred practice is paying on the settled invoices.

How much commission to pay your partners? 🤷‍♂️

You can base your commission rates for your partners on the following factors:

1. **> than inside sales:** If you offer 5% to 15% to your inside sales, you can offer 15% to 30% or even more to your partners. As you are not paying a fixed salary to your partners like you would for your sales team, you can offer better commission rates.

Metric	Inside sales rep	Partners
Sales volume/qtr.	$150,000/sales rep	$150,000/channel manager
Cost involved	Salary: $3,000/month	-
	Benefits: $500/month	-
	Training: $1,000/month	-
	Office space: $1,500/month	-
Total qtr. cost	**$18,000**	**$12,000**

There is a $6000 difference that you can put towards partner commissions. It is worth noting that a channel manager can handle any number of partners to achieve the sales volume. You can learn more about the logic and math of paying appropriate partner commissions in the chapters below.

2. **Consider customer retention:** If your product is highly sticky and there is little churn, it might be okay to spend more on partner commissions to acquire large customers.

"You can pay a commission for every customer you retain as partners nurture the relationship with the customers they bring for you."

Sunil Neurgaonkar, Founder, SaaS Sessions

Here, you compensate on LTV (Lifetime Value) rather than ACV (Annual Contract Value) For instance, if it's a 5-year contract with your customer, you can pay a commission every year for five years.

If your business is an annual subscription and you retain a customer, you can pay a commission annually to your partner.

3. **Keep it profitable:** Understand your margins and cost of sales to keep your partner programs profitable. Determine desired profit margins. Channel partner programs require less investment, and over time, you can double down on the partners that work best for you.

    - In a commoditized industry such as insurance, the commission rate is as low as 1-2%.
    - In hardware, such as solar installations, it is around 3-7%.
    - In SaaS, it goes up to 30-40%.

    You can also incentivize partners on profits gained rather than revenue generated.

4. **Consider brand awareness:** If you have a strong brand awareness and recall, you can choose the lower side of the commission range. Otherwise, a higher percentage is required for your partner to make the necessary effort to convince prospects.

5. **Benchmark with your competitors:** Partners will work for any company that offers them the best commission rates, whether for you or your competitors. It is critical to match your competitors or offer more. The only time it might be okay to offer a bit less than your competitors is if you are easier to sell, have a good market share and brand awareness.

You can also consider a longer return for your partners. For example, you can offer a percentage of your MRR (this is becoming common in the subscription business).

Here are some tips that can help you compensate fairly:

Lead generation

If lead generation is a responsibility, you should determine whether to compensate based on the number of leads your partner brings or the number of leads that get converted.

- If you are just venturing into a new market or your company is at an early stage, you can start by paying commissions for leads generated. At this stage, you want to get as many leads as possible and nurture your top-of-the-funnel.
- As you navigate through finding suitable partners and evolve as a business, you can pay commissions on leads that are opportunities or lead conversions.

The partner should provide leads that meet your ICP and how your company defines a **sales-qualified lead**. Your definition of a lead can include company size, industry, designation of the POC (Point Of Contact), location, etc.

How to compensate partners for leads?

Early Stage	Pay on the number of **leads generated**
Growth stage	Pay on **leads generated** and **opportunities**
Maturity stage	Pay on **opportunities and conversions**

- Leads are potential customers showing interest.
- Opportunities are qualified leads that you can pursue in a year.
- Conversion is turning opportunities into paying customers.

Deal closure

This can be a revenue-based commission between 10% and 40%. The partner's effort determines the percentage. If you rely heavily on partners to generate and close leads, lean on the higher percentage side of the scale.

Apart from deciding the commission rates, there are multiple edge cases you need to define for deal closure. We have pointed out a few:

Deal reopen: If you lose the deal, but a year later, the same lead comes back, or the deal reopens, would you compensate the partner for aiding in the previous deal with the same lead?

We suggest that you have a cut-off period for how long a lead is assigned to a partner. For instance, if it is two years, the partner gets compensated if the deal converts within two years.

Deal split: If a partner collaborates with the sales rep on a deal and the sales rep does most of the work, who gets what percentage of the commission, and how will you determine that?

This happens when your prospect wants to buy locally from a partner for tax or billing purposes or if they are the partner's customers. The suggested solution is to define the split between you and your partner based on the deal value.

> “If a deal is spilt between inside sales and a partner, it is fair to pay both of them their respective commissions.”
>
> Karin Rainer, Accountant at Additive

Cross-selling and upselling: How commissions will be structured if the channel partner engages in cross-selling or up-selling additional products or services beyond the initial deal.

You can have commission slabs for cross-selling and upselling, which are generally lower than for new business acquisitions. However, you can experiment based on business priorities. For instance, if a new product is launched and its adaptation is a business priority, you can give a good commission rate for cross-selling.

Deal lost due to external factors: What happens when a deal is lost due to external factors beyond the channel partner's control, such as market shifts or regulatory changes?

A deal lost is a deal lost. As you are not generating revenue, it is not suggested that you compensate for the partner's efforts.

Involvement of partner: Define your expectations from the partner and their involvement. Would they get paid the same percentage if they only sat on one meeting but your sales rep closed the deal?

Specify the activities required for a partner to be eligible for the commission. For instance, your partner should set up a meeting and conduct the demo can be a criteria.

Implementation

Clearly define what a successful implementation is for a partner and the charges for it.

> Implementation is generally not commission-based. You can give a sub-contract to your partner and pay them or let the customer pay the charges the partner directly.

You can also base the charges on how many hours it takes or how much you charge flat for implementation.

You can let the customers pay the partner directly if you have a fixed price. You can also subcontract it to a partner, where the customer pays you, and you pay the partner for their service.

Best practices to follow:

- Pay your partner for the deal closure rather than waiting until implementation is completed. This way, the partner feels compensated and trusted. Implementation charges can be dealt with later upon successful implementation.
- You can let the customer pay the implementation charge directly to your partner. This is very common among established partners. However, billing and legality must be ensured and supervised.

Now that you have an understanding of how much commissions to give and when to give, let's look at commission tiers.

Commission tiers for partners 📈

You can have commission tiers for a partner program in so many ways. The two simple decisions of tier-based commissions are deciding how much commission to give and what the payout tiers should be.

> The only way you can spice up commissions for partners is with tiered commissions.

It gives the better-performing partners extra motivation to continue selling your product, and the newer partners feel the need to do better and climb up the tier table.

Here are some tips from us:

- In general, 60% of your partners should be able to hit their quotas.
- Only 5 -15% of your partners should be able to reach your topmost tier.
- When a partner renews, they can retain the tier they were in. They don't have to start from base tier again. However, set up a criteria that they have to meet to not lose the tier.

Let's quickly look at different types of tier commissions:

Volume-based tiered commission

It is a commission structure where channel partners earn increasing commission rates as they achieve higher sales volumes.

Here, the volume can be the number of units of your product or licenses sold. You can tailor this to your industry. However, this only works when the price point is constant.

You can create different tiers for each product if you have different products at constant price points.

Tier 1 (0-50 units sold)	15% commission on total sales
Tier 2 (51-100 units sold)	18% commission on total sales
Tier 3 (101+ units sold)	20% commission on total sales

In general, partners are incentivized on the same factor that defines tiers. However, here, the tiers are based on units sold, and the commission is based on total sales which is common in this model.

Revenue-based tiered commission

It is a commission structure where channel partners earn increasing commission rates based on the total revenue they generate.

Here, you are incentivizing the same factor that defines the tiers (revenue).

Tier 1 ($0-$10,000 revenue)	20% commission on total revenue
Tier 2 ($10,001-$25,000 revenue)	25% commission on total revenue
Tier 3 ($25,001+ revenue)	30% commission on total revenue

We suggest keeping your commission tiers **incremental**. For instance, if a partner sells 97 units, then for the first 50 units, the partner gets a 15% commission, and for the 47 units, they will get an 18% commission.

Performance-based tiered commission

It is a commission structure where channel partners earn increasing commission rates based on their sales performance relative to set targets.

Performance-based commissions are quite rare and are generally used in very mature companies (read legendary) in their industry, such as Salesforce and Microsoft. The targets for partners are soft targets, and you may be unable to hold them accountable for not achieving them.

Tier 1 (0-50 units sold)	15% commission on total sales
Tier 2 (51-100 units sold)	18% commission on total sales
Tier 3 (101+ units sold)	20% commission on total sales

Companies name the tiers to motivate the partners. For instance, Bronze, Gold, and Diamond or Partner, Premium Partner, and Premium Plus Partner are commonly used. You can get as creative as possible.

Now you can do some permutation and combination with the models, tiers, and other elements such as bonus.

Automate partner commission calculation with ElevateHQ

Schedule Demo

What does it mean for you?

- Automate commission calculations
- Integrates with CRMs, PRMs and spreadsheets
- Centralize and streamline commission data of all partners
- You can restrict access to your partners to the platform
- Identify top-performing partners easily with our dashboard

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