Key Guidelines for an Exceptional MDF Program

Channel MDF

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INTRODUCTION

Industry standards suggest many companies spend more than five percent of their channel budget on Co-op & MDF programs—often upwards of $1 million. With this significant investment at stake, it is vital to ensure that partners are utilizing joint marketing funds. This eBook provides guidelines to help you maximize the funds you invest in marketing enablement.

The vast majority of technology vendors today offer co-marketing subsidies in the form of market development funds (MDF) or cooperative (Co-op) dollars to their partners. In the United States, nearly 60 percent of software and hardware manufacturers report that they spend at least five percent of their channel marketing budget—well over $1 million annually—on joint marketing programs. Yet, industry estimates suggest that at least half of every dollar goes unused. Why is so much of this valuable marketing support going unspent? The reasons are as diverse as channel business models, but several common themes prevail. The most common reasons for unused funds include:

Partners are simply unaware of the programs available to them

Program administration and reimbursement process are too cumbersome

Partners are not equipped to optimize their marketing efforts

Program Foundation

Many vendor companies describe their Co-op & MDF programs differently. For the purposes of this document, let's define the funding models this way:

MDF is based on a specific plan or campaign

Co-op funds are earned or accrued based on percentage of partner sales

The differences between Co-op & MDF programs

In general, partners view Co-op programs as more of an entitlement because the reimbursement amount is earned and available to them without submission of a business plan or special requests, as long as the program guidelines are followed. The main benefit of the Co-op model is that it often requires less administration by the channel partner to access the funds, thereby improving the overall ease of doing business (EODB). Alternatively, access to MDF usually requires special requests be submitted in advance, or that a joint marketing plan be completed and approved prior to funding. For these reasons, many marketers prefer the MDF approach as it gives them more control over how program funds are spent. However, more administration is required on behalf of both the channel partner and vendor.

It's important to structure your joint marketing program to target your key business and promotional objectives. Some marketers use both models and distinguish them by activity types or channel partner segments. Regardless of how you choose to structure your program, you should ensure that your partners are aware of their allowed reimbursement amounts. The table below provides a good summary of each application:

	Co-op accrual model	MDF discretionary model
Activity types	Marketing (e.g., advertising, direct marketing)	Business development (e.g., demo equipment, incentive programs, events)
Products	Volume (short sales cycle)	Value (long sales cycle)
Channel types	DMRs mature channels	VARs developing channels
Source of demand	End user "pull"	Reseller "push"

Consider the unique needs of each channel segment

As a rule, your promotional allowance programs should deliver mutual benefits for both you and your channel partners. It is not uncommon for companies to offer unique promotional allowance programs for each channel segment or sales region. The differences between programs may allow for variations in funding models, activity types, or administrative requirements for each unique segment. While this seemingly adds complexity, today's MDF systems simplify the management process, and your channel is rewarded through programs that are more tailored to their unique needs—rather than a one-size-fits-all program that reduces the effectiveness through compromise. In any case, always consider the perspective of your channel community when designing your program.

Best practices

Designing and deploying a new Co-op or MDF program—or strengthening an existing one—can be a significant challenge. But, the benefits are tremendous for both vendors and partners. Below are several best practices we've found to be present in successful marketing enablement programs.

- A clear process for partners with easy-to-understand rules
- Fast payment processing
- Online status/tracking and updates
- Payment of claims in cash, not credit
- More flexible activities that align with Go-to-Market practices for each of your channel segments
- Vertical-friendly options
- Solution-friendly options

Keep it simple

Because partners report that many programs are simply too difficult to use, the first step is to review your program from the partners' point of view. Is the process to gain approval for projects and qualify for funding clearly documented? If partners have questions or need assistance, are there easy-to-find resources? Are program guidelines easily accessible via the web to download or print for reference?

Partners are commonly frustrated by the lack of integration between the steps in the co-marketing process. For example, if your program requires that partners develop a marketing plan using an online tool, consider integrating that application with your MDF application so they don't have to re-enter key data. Better yet, look to provide an integrated marketing dashboard or at-a-glance summary feature, so partner fund administrators can find status information for all co-marketing activities in one place.

Another common partner complaint centers on proof-of-performance (POP) requirements. Partnership, after all, is about working together toward a common goal in the spirit of trust. So when manufacturers ask partners to submit multiple documents to prove that an approved activity actually took place as planned, it can lead to dissatisfaction. From the vendor's point of view, documentation is critical for audit purposes. From a partner's point of view, documentation is a hassle.

Resolve this conflict by reviewing your POP requirements to ensure minimal usage and simple compliance.

Be transparent

Don't leave partners in the dark about the status of requests, claims, or payments. Set clear expectations about how long it'll take to approve a request or claim, and receive payment. Automate the inquiry process to enable partners to easily view where they stand with their projects, claims, and payments, as well as reduce the perceived inquiry response time. This transparency also helps minimize support costs resulting from excessive claim status inquiries.

Sell the program

Communicating the benefits of a Co-op or MDF program is an ongoing process. Treat your program like a product—tell your partners what's in it for them. Demonstrate the value of the program in terms that resonate with them—greater return on investment (ROI), increased sales and ease of use—and consider incentivizing them to evangelize the program to others. Keep partners updated on what's new and useful—new features, new co-marketing opportunities, etc. And provide a range of training tools, from webinars and virtual demos to online help tools.

Go global

Deploying a global MDF program offers efficiency and organizational advantages, however, taking a cookie-cutter approach to activities, funding levels, and even customer support can hinder partner success. The goal is to create a global framework that can easily be tweaked to best fit local needs. If you are piloting a new program, consider going beyond your own backyard so regional considerations are built in from the ground up.

Automate

Online access to Co-op & MDF programs simplifies project and claim submissions with step-by-step instructions, drop-down menus, real-time validation, and prompts to serve information in a user-friendly way. You will streamline processes through integration with other co-marketing programs and resources, such as online business planning tools, collateral builders, and payment processing solutions. Triggered communications and online status reports help align expectations by clarifying processes and timelines so partners aren't feeling left out of the co-marketing process.

Program administrators will experience increased efficiencies, reduced administrative costs, and improved partner satisfaction. Futhermore, automated program management often yields additional savings by reducing payment errors due to duplicate claims or inaccurate claim data.

Funding

An easy-to-use online MDF solution optimizes results across the entire co-marketing process. Let's look at each step of the process:

Fund allocation

Partners can participate in multiple fund categories based on their characteristics. The important decision is how you want funds allocated to a program.

Is the program strictly Co-op, in which partners are pre-assigned dollars?

If using MDF, how do you want MDF fund categories assigned?

Many options exist, but you can create funds by:

Business plan

A business plan is an important tool that can be used to change the partner relationship from tactical to strategic and long-term, allowing the partner to gain your approval on a series of marketing activities. This provides for a more holistic view of the desired marketing objectives. Once a business plan is accepted, it should feed the execution of approved tactics and improve the overall partner experience.

Project request

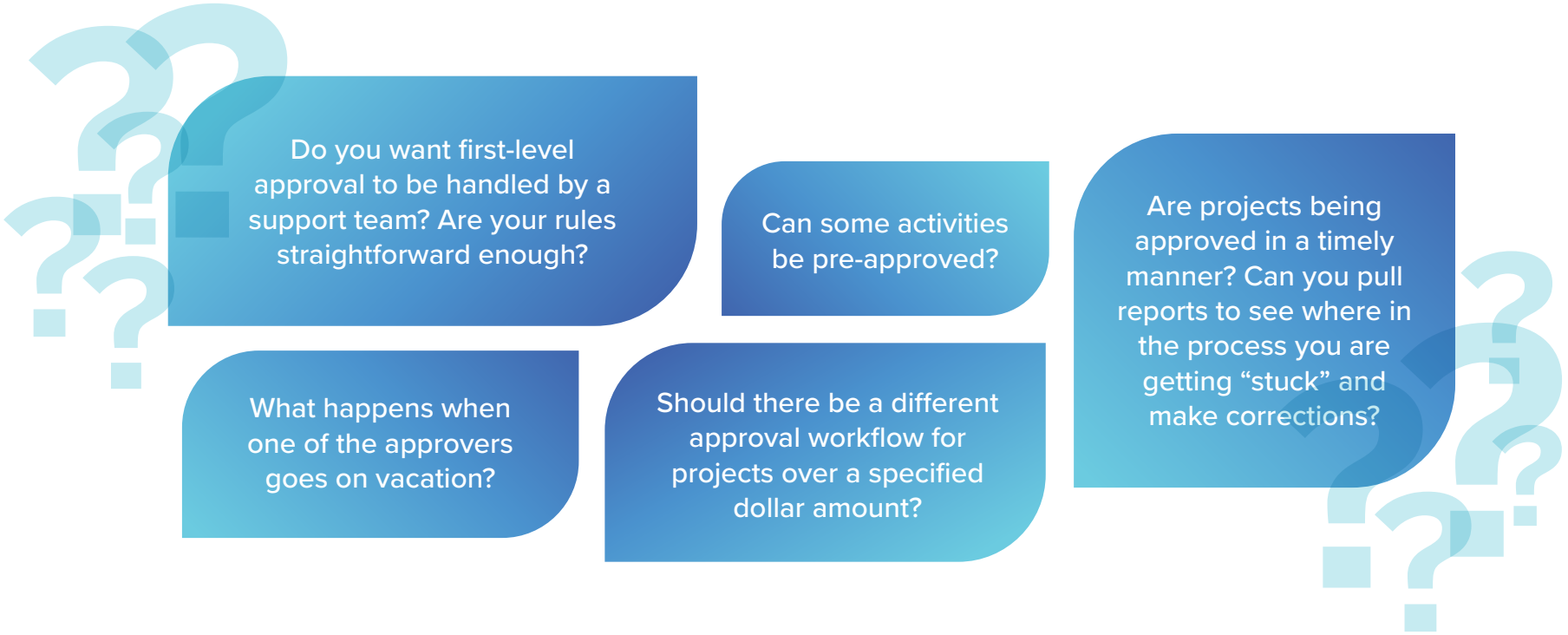
If you are not using a business plan or the partner chooses not to complete a project plan, the project request is the first step to request funds. Some things to think about:

- Are you making it easy for partners to complete appropriate, mutually beneficial marketing activities?
- Can they easily order these activities on your MDF solution?
- Do you have a network of vendors to help them run successful marketing programs?
- Do you fund activities using pre-approved vendors at a higher rate than other activities?

Partners should calculate and enter their ROI at this step. It doesn't make sense for them to spend time on an activity that won't produce revenue. An ROI calculator is a great way to address campaign viability.

Approval

As you think about your approval workflow, consider the volume that will run through the tool. Make sure you set up an approval project workflow that is sustainable for the amount of activity you'll need to manage. A common mistake many companies make when designing a program is requesting too many approval steps—particularly company's move from a manual process based on emails and spreadsheets to an automated system. Best practices allow for no more than two approval steps—one from a field-level person and the other at a headquarter level. More steps mean increased complexity and longer response time. If you believe you need more, consider the needs of the role—do they need to be approvers? Or do they just need access to information? Automated MDF systems provide access to information on demand so stakeholders can run reports or check the status of an activity or partner account. Don't over engineer the process. This will simplify things for you and your channel community. Some additional considerations are:



Project execution

Consider providing partners with pre-approved (maybe even pre-funded) programs that are managed through approved third-party vendors to ensure successful campaigns.

Payment

The partner completed the project, submitted the POP, and you approved the claim. Now what? It's payment time. Managing cash flow is the heart of every business, and it's no different for your channel partners. Payments should be expedited—no more than 30-days from claim submission. The faster, the better. Longer wait times will discourage use of the program and cause ill-will between you and your partner community (not to mention higher support costs resulting from increased payment inquiries). Also, consider streamlining administration and optimizing cash flow by making payments directly to approved third-party vendors for pre-approved programs.

Legal Considerations

Both Co-op & MDF carry some liability for vendors. However, once you understand the guidelines, you can build simple programs to streamline and automate processes, while ensuring compliance. Regardless of funding model, technology manufacturers operating in the United States are required to account for the use of funds as outlined by the Financial Accounting Standards Board (FASB). They are also required to abide by anti-trust and fair trade practice laws—such as the Robinson-Patman Act—mandating that manufacturers treat all partners equally.

In the United States, if a court finds evidence of discrimination, it can result in penalties of up to three times damages. Fair trade practice laws in other countries carry similar weight. Per the fair trade laws expressed in the Robinson-Patman Act, these funds must be available to all channel partners on a proportionately equal basis. Failure to make them available to all partners is a direct violation of that act. So, MDF funds are not truly discretionary in that technically, you cannot make those funds available disproportionately for favored channel partners.

Contra-revenue or operation expense classification

The classification of funds is an important distinction to consider when planning your program. Promotional allowances can qualify as an operational expense per the FASB ruling 01-9, if certain conditions exist. However, in general, promotional allowances are considered contra-revenue by default. Classification as operational expenses is desirable for companies wanting to maximize income reporting. The following conditions can qualify funds as an expense classification:

- The payment covers a service by the partner that offers a clear benefit to the manufacturer
- The benefit is clearly separable from the sale of the product
- The benefit could be purchased by the manufacturer from a source other than the partner
- The manufacturer has obtained POP and is able to reasonably estimate true costs

POP documentation that qualifies an activity as an operational expense can be easily uploaded to each claim by the partner so it remains with the claim for future audits. As mentioned earlier, in the United States, Co-op & MDF must be accounted for based upon the guidelines outlined by the FASB. This list shows which activities can and cannot be expensed.

Contra-Revenue

- Product discounts
- Payment terms
- Volume rebates
- Sales incentives and rebates
- Deal protection
- Price protection
- Trade-in programs
- Return policies
- Training & certification
- Demo equipment
- Funded headcount

Operational Expense

- Advertising (web, print, TV)
- Catalogs
- Direct mail, email, and e-newsletters
- Seminars and webinars
- Telemarketing
- Customer events
- Sales and channel meetings
- Sponsorship

Measure, Analyze, & Adjust

For all marketing activities, metrics are critical to understanding what works and what doesn't. From partners and program managers to marketing directors and executives, different stakeholder programs use different kinds of information to measure success. Closed-loop reporting, which requires partners to estimate the results of activities when seeking project approval and then revisiting those estimates during the claiming process, can help partners refine spending and activity assumptions for future investment. In turn, program managers can use these metrics to focus only on the activities that provide the greatest value and reduce funding levels for those that don't.

Improving MDF utilization

Why do funds go unused? The reasons are varied, but through our analysis, we've found the most common one is lack of program awareness. Correct this by doing the following:

- Sell the program—to the field and partners
- Engage channel reps from the start
- Demonstrate the value
- Increase adoption with training, education, and incentives

CONCLUSION

Whether you're building a brand new program or modifying an existing one, keep these guidelines top-of-mind for success. There are many reasons Co-op & MDF programs fail to generate the results you expect, so by taking our advice, you're able to avoid the common challenges that cost you additional time and money.

With such a significant investment being dedicated to joint marketing programs that utilize Co-op & MDF, it's imperative to increase your program's operating efficiency, as well as ensuring funds are utilized by partners.

About channelConduit

The channelConduit Suite from Vistex is a solution set designed to engage your indirect sales channels and equip you and your partners for program success. From marketing enablement and incentive management to channel payments, the channelConduit Suite provides companies with strategic insights into channel activities while optimizing the partner experience, and facilitating global program administration.

Marketing Enablement

Manage Co-op & MDF, marketing planning and campaign execution easily and efficiently to measure the impact they have on overall revenue.

Incentive Management

Obtain valuable insights into rebates, rewards and promotional program performance to increase engagement and channel satisfaction while improving ROI.

Channel Payments

Make global payments in more than 135 currencies accurately and on time while reducing operational costs.

About Vistex®

Vistex provides enterprises with solutions that manage pricing, incentive, rebate, rights and royalty and channel programs to enhance business performance while reducing labor and infrastructure costs. The software and services provided by Vistex are optimized by industry to deliver an end-to-end solution for the design, management and administration of the entire spectrum of Go-to-Market programs. Enterprises are empowered with unprecedented visibility into program performance, and gain deeper insights to better enable fact-based decisions that drive revenue, control cost, minimize leakage, and streamline processes.

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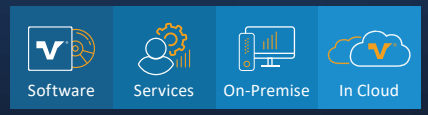

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