

Practical Guidelines for Improving the Impact of Your MDF/Co-op Programs

A White Paper

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MDF/Co-op Programs

Many hardware and software manufacturers offer Market Development Funds (MDF) to their partners, but by some estimates, as much as 50% of all potential funds go unused. Here's why—and what you can do to increase the uptake on your own MDF program.

Three out of four leading partner programs today offer Market Development Funds to their partners. In the United States, nearly 60% of software and hardware manufacturers report that they spend at least 5% of their channel marketing budget—well over \$1 million annually—on MDF and Co-op marketing sales support. Yet industry estimates suggest that for every dollar of MDF available, at least 50 cents goes unused. Why? The reasons why partners choose not to use MDF and Co-op programs are as diverse as partner business models, but several common themes prevail. Many partners, for example, do not make use of these funds because they simply do not know they are available. Other partners feel that the burden of complying with program terms and conditions outweighs the benefits of co-marketing funding subsidies.

This paper explores best practices for MDF programs and suggests ways that manufacturers can increase program use and effectiveness for both partners and manufacturers.

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About MDF and Co-op

Manufacturers use Market Development Funds to extend their reach through the channel and stimulate the market in advance of sales. By offering resellers designated dollars, they hope to build awareness for their brand and reach new customers. Resellers, in turn, use MDF to extend their own marketing budgets.

MDF programs are similar to Co-op programs. In fact, many companies use the terms interchangeably. In the strictest sense, Co-op, or co-operative advertising allowances, are funds distributed to partners based on a percentage of their product sales. MDF, on the other hand, are funds distributed to partners in advance of product sales. While both kinds of programs provide funds to resellers for marketing activities, Co-op and MDF serve different purposes and are best targeted to different kinds of partners.

Co-op programs work best with partners whose primary focus is product fulfillment. These include partners who do not specify brand or sell services, but pull products through the channel, usually in large volumes. A good Co-op program builds upon and extends the manufacturer's demand generation effort, often in the form of advertising or other marketing activities that touch the end user directly. Partners earn Co-op dollars based upon a percentage of their trailing product sales.

MDF programs work best with partners who derive a sizable part of their revenues from selling services. These partners often take responsibility for specifying brand and are instrumental in helping develop a market for products, thus pushing products through the channel. Because MDF is distributed independent of product sales, these kinds of funds are also appropriate for agents or other partners who do not sell products directly. Marketing activities that build product awareness such as seminars and workshops are good candidates for MDF, although most MDF programs offer a wide range of reimbursable activities for partners to choose from. Partners are granted these funds on a discretionary basis, often after completing a co-marketing plan.

In particular, partners suggested that MDF/Co-op can be improved as follows:

- ◆ Clear processes with easy-to-understand rules
 - ◆ Faster payment processing
 - ◆ Online status/tracking and updates
 - ◆ Claims paid in cash, not credit
 - ◆ More flexibility for activities—trust the partner to know their space and how to market to it
 - ◆ Vertical-friendly options
 - ◆ Solution-friendly options
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Legal Considerations

Whether Co-op or MDF, manufacturers operating in the United States are required to account for the use of funds as outlined by the Financial Accounting Standards Board (FASB). Manufacturers are also required to abide by anti-trust and other legislation such as the Robinson-Patman Act that requires manufacturers to treat like partners in the same way and by the fair trade practice laws of other countries.

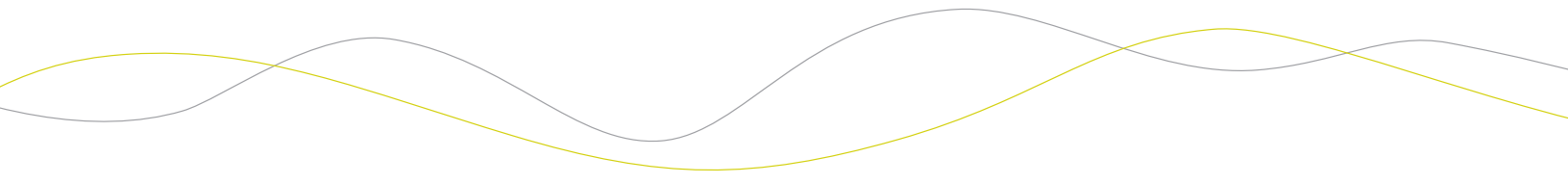
For Co-op, which is usually based on a set percentage of sales-out data, this means that partners in the same tier must receive the same percentage of Co-op funds as other partners in the same tier or classification. For MDF, the manufacturer must be able to show that the funds were applied to a specific marketing activity and did not go directly to the bottom line. This documentation requirement places a considerable burden on both partners and manufacturers and thus makes it all the more important to make the effort worthwhile.

MDF and Co-op: The Partner's Perspective

In a recent survey, partners and vendors were asked to select the most important partner program benefits from a list of 22 common offerings. While overall partners and vendors were in agreement about which benefits mattered the most, the research revealed a big gap between how partners and vendors perceive MDF and Co-op programs. While partners considered MDF/Co-op in their list of top ten benefits, vendors ranked MDF/Co-op as the benefit that mattered least to partners. (Partners, on the other hand, ranked business planning as the least valuable benefit to them.)

When asked about their attitudes toward MDF/Co-op, partners indicated that they were either unfamiliar with specific programs or that they had tried them in the past but were inclined not to continue using them. Partners who did use MDF/Co-op expressed a strong desire for simpler, easier-to-use programs that better fit the way they do business. They cited complicated programs with Proof of Performance requirements that did not engender trust. They reported long delays in getting activities and claims approved and even longer delays in receiving payment.

Partners who use MDF/Co-op also report participating in as many as five or more programs at any one time. Given their concerns about complexity and delay, this administrative burden grows exponentially each time a partner qualifies for co-marketing funds with another vendor.



Best Practices

So what can manufacturers do to better meet partner needs and maximize their investment in MDF/Co-op programs? The following best practices are based on our experience with designing, building and managing MDF programs for leading high-tech manufacturers as well as feedback we have received from partners who have given us insight into best practices.

Make Programs Easier to Use. Because partners report that many programs are simply too difficult to use, the first step is to review your program from the partner's point of view. Is the process to gain approval for projects and qualify for funding clearly documented? If someone has questions, are there easy-to-find resources for help? If your program is web-enabled, are program guidelines easy to download and print for reference?

A common frustration point for partners is a 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 partners don't have to re-enter key data. Better yet, look to provide an integrated marketing dashboard or summary at-a-glance feature, so partner fund administrators can find status information for all co-marketing activities in one place.

Another common partner complaint centers around Proof of Performance (POP) requirements. Partnership, after all, is about working together toward a common goal in a spirit of trust, so when manufacturers ask partners to submit multiple documents to prove that an approved marketing activity actually took place as planned, it understandably 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.

To head off this conflict, review your POP requirements to ensure they are as minimal as possible and easy to comply with. One manufacturer we know began their POP audit by rewriting their program documentation to make sure partners understood the reason behind the POP request—to build an audit trail for accounting purposes and not to question the partner's veracity or judgment. Next, they reviewed the requirements for each activity and determined the absolute minimum number of POP required. On average, most marketing activities required no more than two pieces of POP documentation. Finally, the company provided a list of options for POP, so partners could choose what to submit for review.

Make the Process as Transparent as Possible. Don't leave partners in the dark about the status of requests, claims or payment. Set clear expectations about how long it will take to approve a request, approve a claim or receive payment. Better yet, automate the process, both to reduce processing times and close gaps on the manufacturer side and to enable an online account statement view where partners can see at a glance where they stand with their projects, claims and payments.

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Pay Out as Quickly as Possible. The operational benchmark, from claim approval to payment in hand, is three to four weeks. While regional requirements can add complexity and time to this process, the key to tightening the payment timeline is to deposit funds directly to the partner's designated account whenever possible. Deploying an electronic funds processing solution can reduce time to payout by as much as 66 percent. The benefits of going digital are multiple:

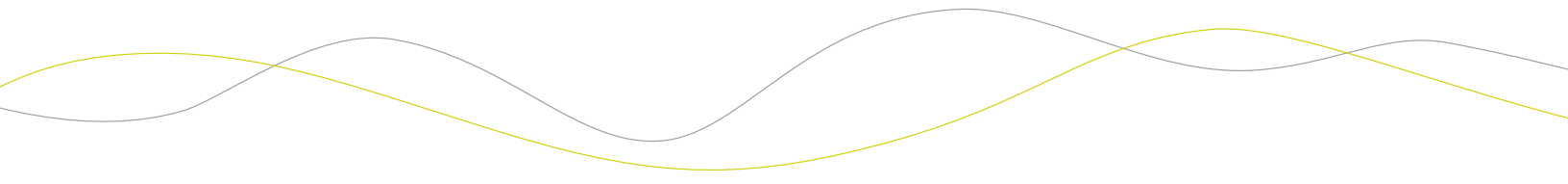
- ◆ Going digital provides an audit trail for partners and administrators alike.
- ◆ Going digital makes it possible for partners to choose the currency and bank account for deposit.
- ◆ Going digital makes it easy to measure the performance of funds disbursement for reporting, metrics and remediation.

Sell the Program to Partners. Communicating the benefits of an MDF/Co-op program is an ongoing process. Treat your program like a product—develop a value proposition and messaging that clearly describes why partners should participate in the program. Demonstrate the value of the program to them in terms of greater ROI, increased sales and ease of use. Consider incentivizing partners to share their success stories. Push out communications about program updates—new features, new co-marketing opportunities and so on—to ensure that they keep up-to-date on what's new and useful to them. Last but not least, provide a range of training materials, from Flash-based demos to webinars and online help tools. If your application supports online account statements, consider using alerts, RSS or other push communication strategies to drive partners to it.

Ensure That Communication Goes Both Ways. Conduct call-downs to find out how the program is working for partners. Survey partners to find out what they think about your program. Use partner advisory councils and other established venues to gather feedback on your MDF program and take action on their advice.

Sell the Program to the Field. Make sure channel account managers and field marketing representatives understand the value of the MDF/Co-op program, too. Evangelize the benefits of the program to them, including how it will save them time, reduce inefficiency and increase sales. Create training materials geared to the field, and make sure they receive regular updates about program performance and updates.

Measure, Analyze and then Measure Again. Like all marketing activities, metrics are critical to understanding what works and what doesn't. Different program stakeholders—from partners and program managers to marketing directors and executives—need different kinds of information. Closed-loop reporting, which requires partners to estimate the results of activities when seeking project approval and then revisiting their estimates during the claiming process, can help partners refine spending and activity assumptions for future investment. Program managers, in turn, can use these metrics to focus on those marketing activities that provide the greatest value and reduce funding levels for those that don't.



Program directors can look at metrics that measure the efficiency of processes and performance, such as what percentage of funds go unclaimed, how long it takes to resolve customer support issues and how many qualified partners participate in the program. Website analysis can further reveal abandonment rates on specific pages which in turn can point to areas for improvement. Executive management will want to analyze return on investment for the program overall.

In a world awash in data, it's important to remember that metrics are most valuable if they help determine trends rather than focus on past performance. Choose no more than a dozen or less key metrics to track and revisit on a regular basis (quarterly, for example) to identify issues and take action. Make sure each metric has a clear process and stakeholder.

Go Global. While there are efficiencies and organizational advantages to be gained from deploying a global MDF program, taking a cookie-cutter approach to activities, funding levels and even customer support can hinder success. Engage regional program managers and field marketing staff to review and comment on global program guidelines and supporting business processes. The goal is to create a global framework that can be easily tweaked to best fit local needs. Ensure that there are people and processes in place to communicate and deliver on local business requirements. And, as always, remember that localization means more than just language translation. In addition to heeding local governmental regulations and requirements, ask (and listen to) the in-region experts on how partners like to receive communications, training and ongoing support. Monitor messages and images for cultural appropriateness. One way to tip the balance in your favor—if you are piloting a new program, consider doing it beyond your own backyard so regional considerations are built in from the ground up.

Automate! With the trend toward offering channel-based applications as a service rather than a stand-alone software application, automating the MDF/Co-op process has become affordable. If it's done right, making MDF/Co-op available to partners online can simplify submitting project and claim requests with step-by-step processes, drop-down menus, data and funding level validation, and prompts to provide required information in a user-friendly way. MDF/Co-op applications can be integrated with other co-marketing processes such as online business planning tools, collateral builders and payment processing platforms. Push communication techniques and online status reports help clarify internal processes and timelines so partners aren't feeling left out of the co-marketing process.

For program administrators, going digital can also result in increased efficiencies, reduced timelines and improved partner satisfaction. Online applications can provide regional control over funding, approvals and back-end processes. Program metrics are also easier to track and measure.

What to Look for in an MDF Solution

Today's channel marketing organizations have many options to consider when choosing an MDF/Co-op solution. The choices range from enterprise application suite modules to stand-alone applications and from custom-developed solutions to subscription-based services that offer pay-as-you-go flexibility. In addition to features and functionality, here are a few things to keep in mind when looking for an MDF/Co-op solution:

- ◆ **Time to deployment.** From start to finish, launching a new MDF/Co-op application can take as long as two years—or as little as eight weeks. Factors to consider include the availability of internal resources, the time it takes to customize out-of-the-box solutions and the time-consuming but necessary legwork of gaining buy-in from internal stakeholders such as accounting and IT. Be realistic about how much time you have to devote to implementation and what resources you will be able to commit to the project.
- ◆ **Total cost of ownership.** Some solutions offer low up-front costs, but require additional integration work to link to back-end systems. The cost of subscription solutions can increase exponentially if the provider's pricing model charges per person. Who will handle customer support issues? Does the solution support the entire MDF/Co-op process from planning to funds disbursement or will you need to supplement it with additional applications and resources? And what if your process requires additional functionality? Will the application be difficult to customize or upgrade? If changes are required, who fits the bill—you or your provider?
- ◆ **Market fit.** Consider not just how many partners currently qualify or use your MDF/Co-op solution, but your future needs as well. Will a better process increase the number of partners who want to participate in the program? Are you looking for a global solution that can be deployed in multiple regions? If so, does the solution support multiple languages and currencies?

The hawkeye MDF/Co-op Solution

For companies large and small that are considering launching an MDF/Co-op program or automating an existing program or application for greater ease of use, hawkeye offers unparalleled flexibility and support. Companies can work with the hawkeye team of channel marketing experts to develop a customized solution that best fits their needs and IT infrastructure. Or they can leverage hawkeye's expertise and knowledge to launch a market-tested platform plus services solution for a fixed monthly price. Whether custom or turnkey, hawkeye MDF/Co-op solutions include integration and consulting support, as well as global program management, help desk and claims-processing services.



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About hawkeye

At hawkeye, we create innovative channel marketing strategies, programs and applications for leading technology companies with the goal to build indirect sales, mindshare and channel margin contribution. We are a leading marketing agency with offices around the globe. With our channel expertise and global reach, we're able to deploy robust marketing services that address both international and regional audiences. Our aim is to help companies deliver a strong ROI and optimize their channel spend through end-to-end solutions using best-in-class practices.

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