

CO-MARKETING WITH CHANNEL PARTNERS

EXPAND YOUR MARKETING REACH
WITH CHANNEL MARKETING FUNDS

White Paper
SAP Customer Relationship Management

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Overview

As organizations seek new ways to increase brand awareness and generate demand in more complex market environments, there has been a renewed interest in co-marketing programs. But this time around brand owners have a new focus: they are moving away from viewing these funds – often referred to as market development funds or co-op funds – as simply an expense for the benefit of their partners. They are increasingly looking at their channel marketing funding programs as a way to increase their overall available marketing budget by augmenting and leveraging the marketing budgets of their channel partners. Thus, brand owners can expand their own marketing reach in a cohesive and strategic fashion.

While co-marketing programs can provide substantial benefits for both brand owners and channel partners, their implementation entails significant challenges regarding the effectiveness of the funded activities, the efficiency of the funds and claims process, as well as legal compliance. Information technology plays an important role in coping with these challenges and maximizing the benefits.

GENERATING DEMAND WITH CHANNEL MARKETING FUNDS

A WIN-WIN VALUE PROPOSITION

Channel marketing funds are typically provided by brand owners to their distributors or channel partners for joint activities to expand marketing reach, increase brand awareness, and stimulate demand. Originally simply viewed as an expense to pay for partners' marketing activities (for example, by sharing the costs of a partner advertisement that sports the brand owner's logo), innovative companies have turned this practice into a powerful tool. They have developed sophisticated programs for their partner ecosystem by combining marketing dollars and marketing power to jointly develop direct marketing campaigns, participate in trade shows, set up "co-logo'd" Web sites, and much more.

The Purpose of Channel Marketing Funds

As organizations in many industries increasingly rely on channel partners (and their local domain expertise) to sell and distribute their products and services, they also look at marketing to support these efforts. Funding the marketing activities of these partners can be an effective way to stimulate demand and engender partner loyalty. Depending on accrual and reimbursement practices, these funds are called co-op funds, channel marketing funds, market development funds, or simply MDF. In its simplest form MDF reimburses

the partner for advertising the brand owner's product in order to drive sales. While co-marketing activities have traditionally been used largely on advertising (to tell the consumer what to buy and where to buy it), today these activities are much broader and include events, direct marketing campaigns, product seminars, Web sites, or telemarketing.

Obviously, organizations should focus on those activities that are most likely to succeed in driving sales or creating brand awareness, and determine the amount of support based on their tactical and strategic needs. Fundamentally,

the concept of MDF acknowledges a common interest of the brand owner and the partner to drive demand and leverages the domain expertise of both parties (see Figure 1). Through co-marketing programs, brand owners and their partners can creatively synthesize new marketing initiatives; coordinate the variables of timing, message, and medium; and achieve greater visibility and insights into the market.

Done right, co-marketing programs will not only increase the total marketing budget but also increase market penetration through better-aligned marketing efforts.

Two Brands Are Stronger Than One

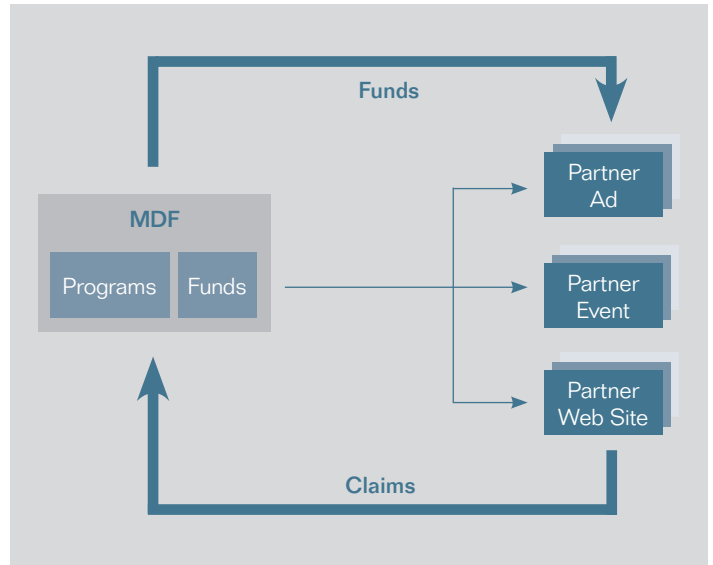
Striking the right balance between brand owner's and channel partner's goals can create a win-win situation increasing their combined marketing power and marketing impact. While brand owners seek to increase the effectiveness of marketing spend, expand their marketing reach, and ensure consistent branding, channel partners can benefit from the brand owner's much bigger marketing budget, brand image, and know-how as they create marketing programs.

Key Challenges of Co-Marketing Programs

While co-marketing programs can provide great benefits for both brand owners and channel partners, organizations are faced with a number of challenges regarding effectiveness of marketing dollars spent, operational efficiency, and legal compliance.

- First, brand owners face the challenge of ensuring that expenditures are effective and aligned with their corporate objectives. They need to ensure that marketing activities – as agreed with channel partners – achieve desired outcomes. Many times partner mar-

Figure 1: Leveraging Channel Partners to Expand Marketing Reach and Multiply the Marketing Budget



keting activities are not aligned with the brand owner's strategic goals, and brand owners lack visibility into how the funds are actually spent by their channel partners.

- Second, brand owners and channel partners have to deal with interaction difficulties and transactional inefficiencies. Both sides are often dissatisfied with cumbersome and inconvenient claims and approval processes. Partners, in particular, are frequently frustrated with slow and inaccurate payments. Brand owners must guard against fraudulent claims, and seek

to streamline the entire reimbursement process to reduce operational costs and overpayments – while making life easier for their partners.

- Third, it's crucial to comply with legal requirements, including fair trade practices and financial regulations, that apply to co-marketing arrangements. Governments around the world are putting these statutes in place. For example, a brand owner that has no transparency into how funds are allocated, used, and paid can unwittingly be out of compliance with the law.

INCREASE EFFECTIVENESS OF MARKETING FUNDS

CLOSED-LOOP CHANNEL MARKETING PROGRAMS

Reaping the benefits of channel marketing is neither guaranteed nor simple. Brand owners should take specific actions to improve the likelihood of successful co-marketing programs through a closed-loop process, as follows.

Intelligent Planning – Derived from the Brand’s Strategic Goals

In the past, co-marketing program reimbursements (such as for co-op programs) were often based on a fixed percentage of the channel partner’s sales, and brand owners didn’t exert solid control over actual channel marketing activities. To be truly effective, marketing funds management programs should first be established based on the strategic goals for the brand, such as growth in geographic markets or sales targets for a new-product introduction. And the flow of funding and permitted marketing activities should support such objectives.

The programs should be planned through a core process of collaboration between the brand owner and the channel partners, since each brings valuable insights. For example, while the brand owners are responsible for and have knowledge of the brand characteristics, the partners understand the needs of local markets and how certain types of campaigns would be received.

Finally, performance objectives should be established and monitored. During the planning cycle, the brand owners and channel partners should negotiate metrics connected with the strategic objectives for the brand, and align channel reimbursement policies with appropriate measurable outcomes. These targeted results may need to incorporate the fact that marketing processes may cross channel lines. A Web-based marketing campaign established by the brand owner, for example,

may generate demand in specific channels – and performance planning might incorporate metrics only indirectly related to sales, such as leads generated.

Aligned Execution – Leveraging Brand Identity and Best Practices

Brand owners should provide tools and expertise that enable partners to be effective in their execution and to sustain alignment with the high-level goals for the brand. These companies need to control and disseminate product collateral, campaign templates, and best-practice information that the channel partners will find essential as they execute the marketing plan. Also, brand owners should establish processes covering compliance, putting in place checks and balances to ensure that logos are properly presented, product photos are appropriately displayed, and corporate and brand identity messages are

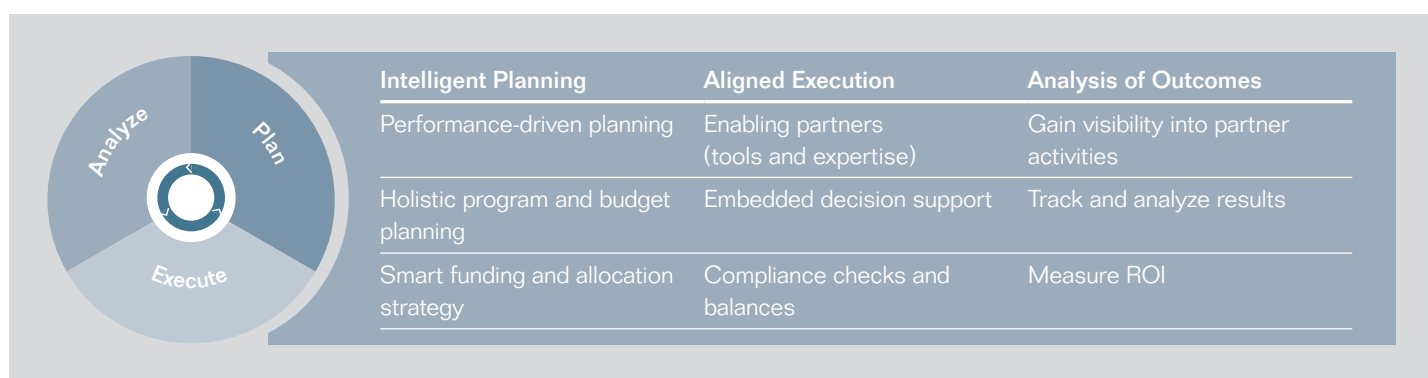


Figure 2: How to Increase the Effectiveness of Channel Marketing Funds Budget

consistent. Finally, brand owners need to put in place processes covering approval for activities and reimbursement of funds, ensuring that the right people are involved and that decisions are made efficiently.

Analysis of Outcomes – to Enable Data-Based Decision Making

By monitoring the established metrics, the brand owner can gain visibility into partner activities, determine the extent to which strategic objectives for the brand were fulfilled, and understand which partners performed as expected. Doing this will help resolve whether the funds expended yielded a favorable ROI (see Figure 2). Through an analysis of these metrics, the brand owner and channel partners can collaborate to increase creativity of their joint approaches and continuously improve the co-marketing programs.

Striking the right balance between brand owner's and channel partner's goals can create a win-win situation increasing their combined marketing power and marketing impact. While brand owners seek to increase the effectiveness of marketing spend, expand their marketing reach, and ensure consistent branding, channel partners can benefit from the brand owner's much bigger marketing budget, brand image, and know-how as they create marketing programs.

IMPROVE INTERACTION AND TRANSACTIONAL EFFICIENCY

STREAMLINE COLLABORATIVE PROCESSES AND INCREASE PARTNER SATISFACTION

Besides making sure you spend your marketing dollars on the right activities, it's essential to streamline the collaborative processes with your channel partners. This will save time and money, increase payment accuracy and speed, and improve your partners' satisfaction.

In fact, many brand owners have found the need to limit the amount of channel marketing they undertake because of the volume of paperwork that needs to be processed. By leveraging automation, brand owners can vastly increase the amount of co-marketing they can handle effectively. And through use of appropriate software solutions, brand owners can speed up the entire funds and claims process, reduce operational costs, and provide convenient self-service features to partners.

Automate Processes from End to End

During execution of co-marketing programs, brand owners and channel partners are engaged in a network of interlocking processes. The brand owners, for example, initiate the programs,

approve partner activities and claims, issue reimbursements, and track performance. The channel partners perform counterpart processes, including requesting funding, submitting proof of performance, and receiving payment (see Figure 3).

Through automation, these processes can be executed more quickly and with fewer problems; and of course, productivity can be vastly improved for all involved. Metrics such as cycle times and error rates can be measured and continually improved, enabling the achievement of best-in-class status. Moreover, control of funding approvals and reimbursements through rule engines can be established, which can incorporate logic based on partner status in the channel program. (For example, a premium status may permit higher reimbursement levels and more flexibility for funded marketing activities.) Such automation can incorporate alerts, which can be distributed to ensure quick approval and much better audit control. Also, transactions can electronically flow through to financial systems, improving productivity in inter-organizational processes.

Driving Efficiency of Channel Marketing Programs

Increase speed through automation of manual processes

- Rule-based funding and reimbursements
- Faster approvals and payments to partners

Achieve operational excellence through end-to-end processes

- Fewer errors in payouts
- Reduce administrative costs

Provide convenient self-service features for partners

- Make life easier for partners
- Support more partners with fewer resources
- Reduce interaction costs

Implement Online Self-Services

Brand owners can make life easier for their channel partners by offering self-services to request approval for selected marketing activities, view available funds, and submit claims online. This enables the brand owners to support more partners with fewer resources and improves accuracy because the partners are directly entering data. Further, use of self-services allows partners to submit documentation such as proof of performance electronically, and reduces interaction costs as a result of the partner's direct involvement.

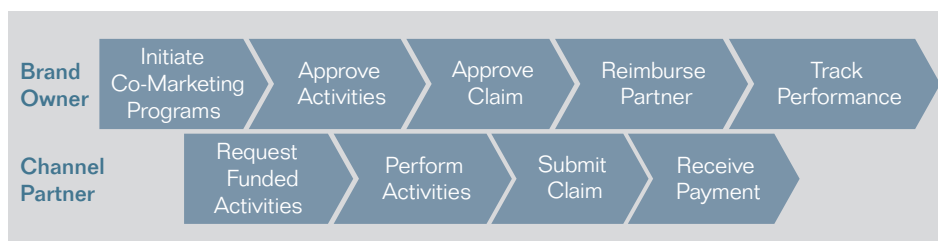


Figure 3: Managing Co-Marketing Programs on a Parallel Track

COMPLY WITH LEGAL REQUIREMENTS

ENSURE COMPLIANCE THROUGH END-TO-END FUNDS MANAGEMENT

While achieving a favorable ROI from co-marketing programs is essential, ensuring compliance with legal requirements is also crucial. This is an area often overlooked by brand owners. It's become more and more important to abide by what are becoming increasingly uniform regulations in countries around the world – driven by commonly recognized needs to ensure fairness, protect investors, and establish financial accountability.

Consistency: Ensure Fair Treatment of Partners

To ensure fair treatment of partners and legal compliance, co-marketing programs should clearly define partner eligibility for reimbursement – and they should manage rules for consistent reimbursement. To achieve this, brand owners should establish a tiered partner structure, which provides a documented rationale for differentiation of benefits. Applicable laws include Fair Trade Practices Acts in Europe and Australia and the Robinson-Patman Act in the United States, which were established to prevent company activities that have the effect of reducing competition.

Transparency: Provide Visibility into Processes

It's important to make sure that the logic for allocating co-marketing funds is documented and that the rules are being executed in the ways originally defined. Companies need to be able to provide visibility into the fund allocation logic and the dollar amounts (identified by marketing activities) received by individual partners. Moreover, companies must be able to provide traceability of individual transactions. The legal regulations covering this area include Sarbanes-Oxley in the United States and similar laws in other countries.

Auditability: Drive Financial Accountability

Facilitating accountability and ensuring reliability requires that processes are standardized and repeatable. Uniform co-marketing processes are more readily proven to be compliant with Sarbanes-Oxley and related regulations, and are more likely to pass audits with relative ease. In addition to legal compliance and smoother audits, process standard-

Legal compliance is often overlooked when organizations are running MDF and co-op programs – and the consequences can be bitter.

ization better positions co-marketing transactions for integration into a company's core financial systems, thus improving productivity and helping the bottom line.

DRIVING TOP-LINE GROWTH AND BOTTOM-LINE SAVINGS

ENABLING END-TO-END CO-MARKETING FOR MAXIMUM BENEFITS

The Need for an Integrated Solution

On the surface, well-run co-marketing involves the closed-loop process of planning, executing, and analyzing marketing campaigns involving the brand owner and its channel partners. From this vantage point, channel marketing funds management is a relatively complex inter-organizational process. Like any other multifaceted process, marketing funds management can benefit from integrated business solutions enabling the multitude of transactions involved – from initial planning and budgeting to processing claims and reimbursing funds to tracking and monitoring outcomes.

Co-marketing programs expand well beyond the realm of marketing. Thus, they require a software solution that tightly integrates channel marketing funds with back-end financial processes. This way, companies can maintain tight control over promotional spend, make sure payments are timely and accurate, and stay compliant with financial regulations. The software needs to support brand owners in setting up and managing performance-driven funding practices (including funds allocation and accruals), and automating co-marketing operations. Partners need easy access to view their available funds and the ability to review program details and submit claims (see Figure 4).

Co-innovating with companies that have pioneered MDF programs, SAP is in a unique position to provide a comprehensive software solution that supports end-to-end channel marketing funds management. The SAP® Customer Relationship Management application enables planning and management of channel marketing programs, self-service fund requests and claims, and automated accrual and payment processes. SAP solutions help companies make the most of co-marketing programs while ensuring compliance with Sarbanes-Oxley and other legal requirements.

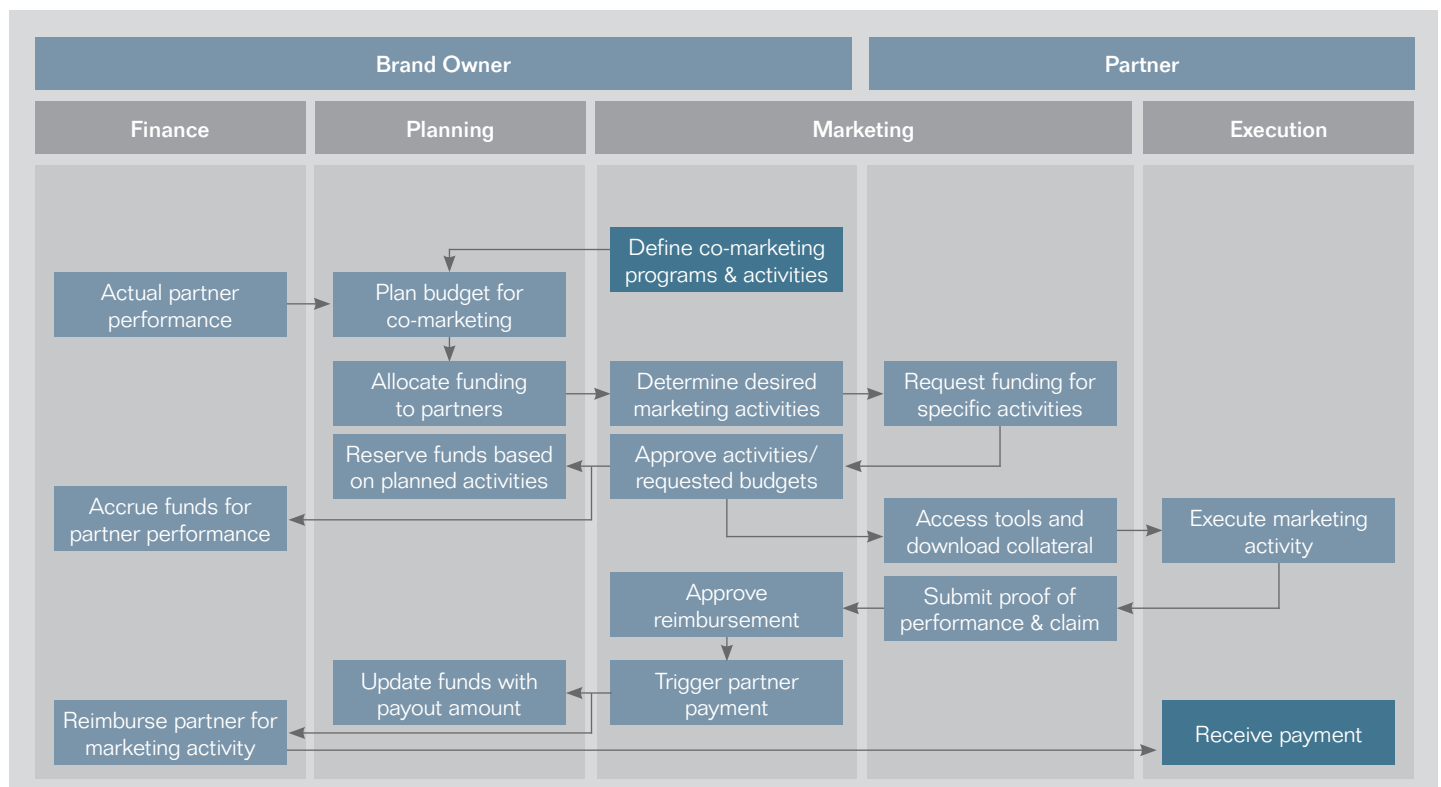


Figure 4: Supporting an End-to-End MDF Process with an Integrated Solution

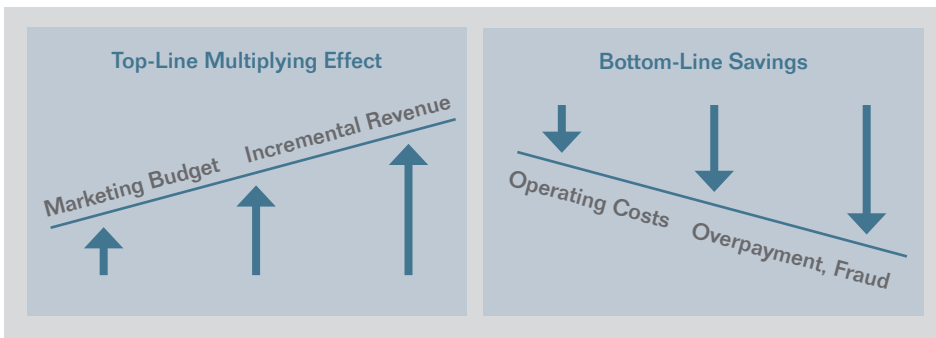


Figure 5: Driving Growth and Savings Through Marketing Funds Management

Marketing Cooperation for Mutual Benefits

Brand owners engaged in well-run channel marketing programs are able to drive top-line growth and bottom-line savings by continuing to collaborate with their partners. These firms are able to multiply available marketing dollars by sharing the funding contributions, generate greater revenue thanks to increased demand and better market penetration, reduce costs by streamlining operations, and minimize overpayments and fraud (see Figure 5).

Both the brand owner and its channel partner can gain substantial benefits from well-run co-marketing programs. If done right, the brand owner is able to gain market power, improving its ability to sustain price levels – as well as to specify the terms and conditions covering indirect distribution.

To learn more about how SAP can help your company enable and leverage co-marketing processes, call your SAP representative today or visit us on the Web at www.sap.com/crm.

Key Benefits of an Integrated Solution for the Management of Channel Marketing Funds

- Extend your marketing reach and make life easier for your partners.
- Increase your marketing budget by incenting your partners to engage in co-marketing activities.
- Promote brand awareness and consistency by aligning marketing activities.
- Achieve efficient execution and improve partner satisfaction through automation and online self-service.
- Ensure legal compliance through auditable end-to-end processes.

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