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Partner Programs Guide

The MDF Dilemma

Vendors' tough rules lead to untapped funds

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Imagine buying a lottery ticket and never checking to see whether you got the numbers right. Well, that's not far off from what VARs are doing where market development funds (MDFs) are concerned--paying partner program dues but not reaping the benefits.

Amazon Consulting, a Mountain View, Calif.-based consultancy focused on partnership development, recently began turning its attention to MDFs, analyzing how vendors deliver and dictate the use of such funds and how solution providers leverage MDFs. What the consultancy found was discouraging, to say the least. For one, it discovered that a large percentage of vendors had employed ultra-stringent terms and conditions for MDF usage that went as far as prohibiting partners' use of the vendors' official logos. Even worse, officials at Amazon saw the negative effects of such practices on the channel, which, as a result, has led to disenfranchised solution providers passing on their rightfully earned marketing funds altogether.

Eileen Renner, director at Amazon Consulting, for example, says a large, prominent vendor her company worked with had more than $3 million in unused MDFs--for the third quarter alone.

"It's amazing to see some of the largest vendors in the industry with that much money lying around," Renner says. "I think there's a lot of frustration with MDF programs, and VARs are essentially pulling back and not trying for the funds at all in a lot of cases."

Virtually every major vendor partner program has some type of MDF offering to help its VARs go to market with the vendors' technologies. But when it comes to MDF usage--or lack thereof--in the channel, the numbers are simply staggering. Channel Intelligence & Analysis (CIA), CMP Media's Institute for Partner Education & Development research affiliate, found that 25 percent of vendors' MDF dollars go unclaimed annually. Instead, they are simply rolled back into the vendors' bankroll. That's roughly $2.7 million in MDFs per VAR that go untapped every year.

Unused MDFs represent more than just a missed opportunity. Failure to unlock or correctly use vendors' market development programs for advertising funds and co-marketing ends up costing solution providers a significant amount of money as well. John Gunn, president of Integrated Solutions Group in Salina, Kan., says he makes it a point for his company to leverage such programs with his closest partners, such as Hewlett-Packard, Cisco and IT distributor Ingram Micro.

"If you can work those programs right, you can save thousands of dollars," Gunn says.

Yet many VARs have found themselves in an unfortunate rut when it comes to MDFs, paralyzed by their frustration with vendors or unable to collect because they have run afoul of austere policies and uncooperative channel officials. So what's behind this MDF dilemma? And how can the channel better leverage the funds at its disposal?

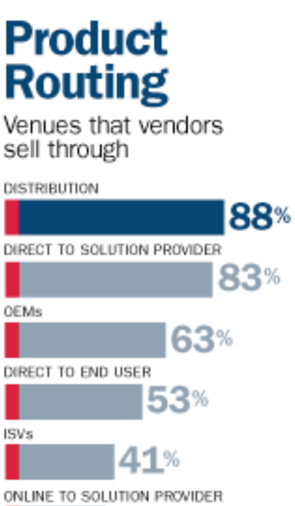
Leaving Out the Logos

Last year, a number of solution providers gravitated toward Dell, a one-time enemy of the channel. The PC maker had launched a white-box program for the systems-builder channel in 2002 and began making quiet inroads with solution providers, who were attracted to Dell's powerful brand and price points. But several VARs who had formed relationships with the company found themselves unable to take advantage of Dell's marketing clout because of the computer company's harsh terms and conditions for its Solution Provider Direct program.

For example, in Dell's Solution Provider Direct Welcome Kit, Version 1.3, released last July, the company states, "We do not allow solution providers to make use of Dell's trademark, including our logo." In addition, the document states that members of the Solution Provider Direct program cannot refer to themselves as an "authorized" Dell reseller. Such suffocating rules have irked many, including Networks Plus Technology Group, a solution provider based in San Diego.

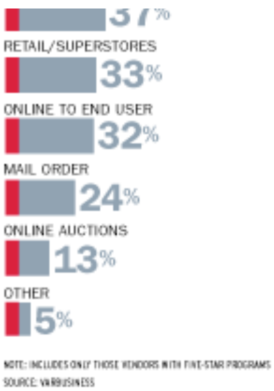
"Dell has a done fantastic job from a marketing standpoint," says Networks Plus CEO James Kernan, "but it's hard for VARs to take advantage of it."

Dell is hardly alone. Solution providers say a growing number of their vendor partners have employed such measures to keep a tight lid on MDFs. One such method criticized by VARs is the "use it or lose it" practice, which gives partners a limited time--usually 90 days or one quarter--to access the MDFs.



To be fair, Amazon Consulting says that many vendors have also found themselves in a pinch. For example, Renner says the well-known vendor that had $3 million in unused MDFs recently had instituted much stricter terms and conditions because of fraud; the vendor found that a number of resellers that weren't qualified for MDFs were dipping into the funds, and some of the qualified resellers were taking advantage of the company by filing false claims and using the cash for other purposes. In a sense, such bad behavior creates a chain reaction.

"A big reason the guidelines for MDF programs are so strict nowadays is because there can be a lot of fraudulent claims and false advertising with their MDFs," Renner says. "But because the guidelines are so tight, many VARs' expenditures aren't approved by their vendors."



So how tight is tight? With many vendors demanding precision, a misplaced corporate logo or inexact advertising language could result in a VAR spending several thousand dollars on a marketing campaign and expecting to be covered by a vendor partner, only to have its reimbursement claim denied because of errors. David Pashayan, a consultant at Amazon, says issues are becoming more commonplace.

"In most cases, solution providers are in a dire situation where they don't use MDFs in time and lose the funds, or they don't use them properly and fail to get reimbursed," he says.

Indeed, Amazon says stringent rules for MDF usage and a lack of guidance from vendors are the two most frequently cited complaints in the consultancy's research. In response, many solution providers, especially larger and more mature businesses, have found a new way of life that is independent of vendors and their partner program resources. Joel Ronning, chairman and CEO of Digital River, a software services company based in Minneapolis, says his company doesn't rely on vendor partners' MDFs, and it's none worse for the wear; the company generated $101 million in sales last year, a 30 percent increase from 2002, and net income of $17.1 million.

"Early on, it was tough to not have those vendor resources," Ronning says. "But we couldn't afford to be dependent on those software vendors."

Of course, Digital River's independent stance isn't feasible for a smaller VAR trying to make inroads in the market. So the question becomes, are solution providers giving up too easily on partner program resources? If so, it could be a regrettable move. Resellers can pay out thousands of dollars in annual membership fees for vendor programs, and even more cash goes to training and education costs. Thus, leaving MDFs on the table could make many partnerships unprofitable in the short term.

Beyond Horror Stories
Unused MDFs that are rolled back into the coffers isn't necessarily good news for vendors, either, according to Amazon. Renner says most vendors commit to MDFs with the intention of improving channel sales--rather than making a token effort to attract partners while secretly hoping the funds go untapped. But if the money is not being used, then it's unlikely a vendor will get the intended results. Clearly, idle MDF usage is detrimental to both parties.

Despite the woes, a number of solution providers have established relationships with supportive vendor partners, launching effective, if not impressive, co-marketing campaigns. For example, ePartners, a Dallas-based Microsoft Business Solutions partner, recently opened an office in London, which is the solution provider's first overseas expansion following 18 offices in North America. The company teamed up with Microsoft in January and piggy-backed the European promotion of Microsoft's CRM software, which featured a live appearance by Bill Gates at its London office opening. For ePartners, MDFs were the difference between making a major marketing splash overseas and launching a new office in the dark with no fanfare.

Alan Hopp, senior vice president of global accounts and director of ePartners United Kingdom, says Microsoft has been crucial in better equipping the solution provider to get its European business started. Hopp says coordinating ePartners' London office opening with Microsoft's mega-media campaign for its CRM product has already helped attract new business for the solution provider's U.K. operation.

"We're doing a number of co-marketing engagements with Microsoft to help get the business off the ground here," Hopp says. "Its marketing support has been a huge help."

A variety of solution providers today are also shunning typical advertising schemes, moving from traditional print and direct-mail methods to more effective co-marketing efforts with their vendors. For example, Perficient, a software solution provider based in Austin, Texas, has had a good experience using its MDF dollars to run local and regional seminars for clients, prospective customers and partners. Perficient chairman and CEO Jack McDonald says such targeted, face-to-face events are more productive and less costly than other shotgun marketing approaches.

"You can get the bang of a $50,000 effort for sometimes less than $5,000 with types of seminars," McDonald says.

McDonald says it also helps to have solid partnerships with cooperative vendors. Perficient's biggest partner is IBM Software, and McDonald says he hasn't experienced with Big Blue the kind of strict regulations and bureaucratic mandates for MDFs common to other vendors.

"If we have a new solution around WebSphere, we can easily put together a seminar or a series of events with IBM and get plenty of customers and line-of-business folks together," McDonald says. "And it costs a fraction of what it would normally cost without IBM's support."

Amazon Consulting concurs, saying that traditional advertising raises brand awareness but will rarely lead to new business leads or generate demand for solution providers.

"Targeted, regional seminars are some of the best and most cost-effective efforts we've seen today," Pashayan says. (For more on that topic, read "Seminar Savvy," Jan. 26, page 56.)

Renner says her company's studies show that many vendors are stepping up their efforts for channel marketing by implementing more creative options and ideas for MDF spending, financing terms and partner-satisfaction surveys. That's much-welcomed news for solution providers because as the economy improves and IT demand rises, MDFs--and the ability of vendors and resellers to work together on co-marketing efforts--will be crucial for the channel's success in 2004.

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