

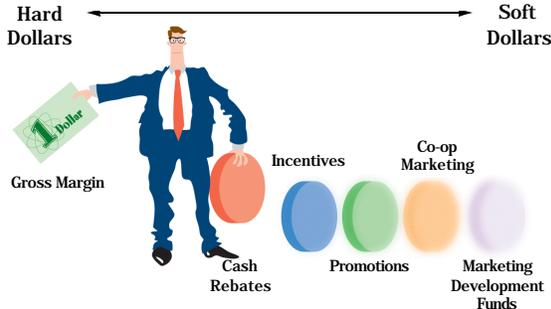


The CCI Journal

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Leading Practices in Soft Dollar Programs

Soft dollar programs such as co-op and MDF are universal. Virtually all vendors selling through reselling partners, and especially distributors, rely on them to encourage sales and support of their products. When implemented correctly, soft dollar programs can increase market share and help build important infrastructure for future success.

How much is being spent in the channel?

If you count all the basic rebates and all the soft dollars, not just those directed into marketing activity, the answer may surprise you. Depending on the vendor, product line and type of partner, soft dollars average around 1.5 percent, although they may go as high as 3.5 percent.

Three Soft Dollar Traps

Slicing it too thinly. Too many objectives, too many promotions, too many messages. Spreading the dollars over too many programs can fail to meet the bigger objectives of building the brand and ensuring reseller loyalty.

Making it too complicated. The message from most resellers is that there is just too much paperwork. There's too much administration, too much communication, too many ways of getting soft dollar programs out to the channel. Make it simple, make it work.

Wanting too much control. Don't dictate to the channel how to use soft dollars. Resellers don't want to be controlled. They want to volunteer their commitment. Take a look at what the channel really

needs and set up an environment where there is a real partnership and a desire to jointly grow the business profitably.

Enabling reseller partners to customize and execute co-marketing campaigns quickly and cost-effectively creates a win-win for both vendor and reseller.

What do vendors need from their soft dollar programs?

If it's easy and attractive for the reseller to use soft dollar programs to support its marketing activity, then the reseller will do proportionately more marketing on your brand than that of other vendors.

Of course, the value proposition varies from vendor to vendor. You'll get more soft dollars from a vendor with a strong brand and where the market place is highly competitive. So resellers need to evaluate and understand the total value proposition being offered by each vendor and the opportunity this represents.

What's Ahead for Soft Dollars?

The economic downturn that has slashed corporate budgets is far from over; therefore more money for the resellers isn't the simple answer, nor is more control for the vendor. Look to create a mutual understanding of the role of soft dollars and how these programs contribute to developing reseller business and to building the manufacturer's brand. ☐

Avoiding Secondary Liability

The following is excerpted from a presentation by Robert B. Bell of Wilmer, Cutler & Pickering at the 2003 NAPAA Annual Conference. It is excerpted with permission.

The last issue of *The CCI Journal* discussed the recent FASB ruling regarding proper accounting for channel promotion expenditures. The following guidelines will help you avoid "secondary liability" as it relates to trade promotion programs.

Audit Confirmation Procedures

Develop policies and procedures governing how the company will respond to requests to confirm transactions to your customers' outside auditor.
Consider involving the finance and/or control function in the process.

Don't Deviate from Written Contractual Terms

Requests to deviate from a contract's specified terms—particularly when involving advance payment or early deductions against amounts otherwise due—may be an indication that a counterparty is treating the payments in a manner at odds with the agreement.

Requests that account managers or sales representatives sign documents characterizing a payment or transaction in a manner at odds with the governing contract may also be an indication that a counterparty is treating payments or expenses in a manner at odds with the governing agreement.

Beware of questionable requests

Requests for significant up-front payments, undisclosed rights of return, back-dating invoices, and the like may signal that a customer is seeking to advantage itself improperly. When misleading documents are created or signed by the employees of one company for the benefit of another company, there is a significant risk of secondary liability.

Don't Engage in Transactions with Little or No Economic Purpose

Transactions in which the economic positions of counterparties

(*Secondary Liability," page 2, column 1)

These fantastic results may be hard to duplicate . . .

Measurement	Improvement	Budget Impact	
Errors in payments	72.0%	\$144,000	
Over-expenditure of funds	53.0%	\$306,000	
		Savings to Budget:	\$450,000
Claim processing time	20.0%	\$3,200	
Report preparation time	50.0%	\$7,680	
Telephone support	20.0%	\$12,000	
Pre-approval authorization	50.0%	\$64,000	
Reconciliation (end of month)	75.0%	\$14,400	
Reconciliation (end of year)	75.0%	\$2,400	
		Operational Savings:	\$103,680
		Total Annual Benefit (Value) to Client:	\$553,680

*Actual analysis based on operational data gathered from client's pre- and post-implementation of ProgramsPro. Annual trade promotion budget was \$3 million.

. . . but are you interested in exploring a similar solution for your co-op or MDF program?

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The way I see it...



Bill Kelly is VP of Business Development for CCI and helps companies define objectives, evaluate strategies and implement programs that achieve measurable results.

Points from Europe

We've been hearing a lot of talk lately from our European partners about "taking a fresh look at co-op and soft dollars." European companies have frequently pointed the way to innovative thinking about soft dollar programs and ways to design them to benefit everyone. They are looking very closely at how they spend soft dollars. And what they've learned is leading them to make some drastic changes to the way marketing funds are spent in their channels.

Points Rewards

One European company has implemented a new channel incentive sales program that uses Points to make sales more rewarding.

The new program is a business-to-business sales incentive program targeted at partners, not a SPIF program for salespeople.

The new program resulted from a reassessment of prior MDF programs. These older programs were too complicated and inconsistent, and there was too much paperwork. The company needed to strike the right balance between control and flexibility for partners.

How Points Programs Work

The Rewards program is both simple and effective, a straightforward points system. Resellers and partners first sign up on the partner extranet. They then accumulate Rewards points for every piece of equipment they sell. The exact number of points for different products and certain promotions varies. There is also a quarterly performance target that's calculated as a percentage of revenue if the firm hits its sales target for the quarter.

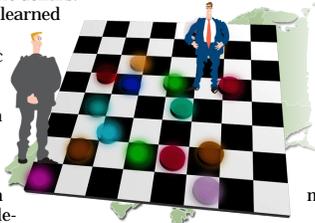
Exchange Rates

The points can be exchanged at any time for cash or for a better rate on approved marketing activity. The company varies the exchange rate on points according to the value of the reseller's activity. Either way, there's no paperwork, just the extranet site.

And points have to be used within six months of being earned or they expire.

The company also found that the best way to manage a Rewards system like this was to outsource to a specialist agency like CCI that can do the website, provide the technical know-how and interface, and even handle the redemption claims and help desk.

The whole system is designed to encourage business owners in the channel to share the benefits of the program with their salespeople. And it seems very likely that we'll see similar kinds of programs springing up all over the US. ☐



Setting Expectations:

What IT Vendors and Resellers should expect of each other in today's marketplace

There is a new reality in the channel today. Technology vendors have dramatically pared down their number of resellers, MDF has been cut and orders are significantly harder to come by. The landscape has changed, as have the expectations that vendors and resellers have of one another.

Resetting expectations on both sides is key to a profitable, long-term vendor/reseller relationship. So what should vendors and resellers expect of each other? What are the new tools that can help deliver more value to both vendors and resellers?

What Vendors Should Expect of Their Resellers

Training. Vendors should expect resellers to fulfill training requirements since this is step one to delivering incremental revenue. Resellers need to understand the vendor's solutions thoroughly and to position them within their regional practice. Resellers with a strong training commitment often get the most attention from vendors.

Best Practices: Offer online certification programs augmented by regional live training. Segment training programs by partner type and business requirements in order to achieve the highest compliance. By mapping training programs to the type of reseller practice and the reseller's vertical specialty, vendors will attract and train the right people.

Demand Generation. Resellers have the local knowledge and relationships. Vendors should expect resellers to proactively launch marketing campaigns to their end users. Most demand generation programs are funded via vendor co-op.

Best Practices: Provide automated online marketing tools that shorten the development time and decrease the cost of launching professional marketing and demand generation campaigns. Tools are available today that offer resellers established yet customizable campaigns as well as the ability to manage, track and report on these campaigns.

Commit to a Plan. Expect each reseller to commit to developing and maintaining a Channel Sales and Marketing plan that extends beyond just a pipeline forecast. The plan then becomes the foundation and roadmap for all quarterly activities, including new product launches, co-op budget planning, and all outbound end-user activities such as seminars, trade shows, direct mail, and advertising.

Best Practices: Keep it simple — develop a mutually agreed upon plan

with each reseller. Clearly outline the objectives, strategies and tactics that directly align with the revenue plan and forecast. Make it a living document with modifications to reflect actual business conditions. Analysis of the results and campaign modifications is critical to success. Commit to regular business reviews so progress is tracked.

What Resellers Should Expect of Their Vendors

Clear Market Segmentation. Resellers should expect vendors to clearly define the market space into which they can sell. Clear market segmentation will minimize channel conflict and help both the vendor and reseller sales forces to stay focused in their areas of strength.

Best Practice: The Channel Partner Program should clearly articulate where resellers should focus — including regional focus (by geography) and company demographics (e.g. industry vertical or customer size). Online resources available in most PRM (Partner Relationship Management) tools allow resellers to both register deals and/or to be assigned leads.

Consistent Communication. Expect regular communication from Vendor Executives and Channel Managers.

Best Practice: In addition to regular live business review meetings, permission-based E-mail marketing communications (in the form of newsletters, announcement or promotions) help keep the reseller informed. Enhance the effectiveness of email communications by offering individual interest categories that allow resellers to customize the information they receive. With this offering, vendors' email communications are established to filter information to relevant reseller representatives based on their individual topic/category selection.

Packaged Marketing Programs.

Resellers focus their resources on sales and service and rely on vendors for marketing support. Vendors should outline what, how and where MDF can be used.

Best Practice: Offer marketing programs and pre-packaged marketing campaigns that can be easily customized, executed and managed. Invest in web-based automated marketing tools and services that help manage the flow of co-op, leads, ad content and development. By investing in these tools, vendors enable their reseller partners to easily customize and execute co-marketing revenue generating campaigns quickly and cost effectively — it's a win-win for both the vendor and its resellers. ☐

This article was submitted by Shane D. Wedge, President & Founder of Channel Bridge Marketing, Inc., an authorized CCI reseller.

Secondary Liability

(continued from Page 1)

do not change and whose only apparent purpose is to generate accounting advantages are suspect.

- 1 Overpayments and related givebacks—regardless of the accounting consequences—may themselves be illegal.

Watch Out for Inordinate Pressure Being Placed on Relationship Managers and Sales Personnel

- 1 The need to keep a customer or client satisfied can provide a powerful incentive for an employee or a business—wittingly or unwittingly—to engage in misconduct that facilitates financial misreporting.

Use Care in Drafting Press Releases

- 1 Any characterization of a transaction should be accurate
- 1 Press releases should be treated very seriously and checked for accuracy.

Avoid Side Letters

- 1 Agreements governing commercial transactions should include all of the governing terms.

- 1 Side letters carry with them significant risks by presenting an opportunity for the parties to account for the same transaction differently.

- 1 The SEC has recently warned that side letters can mislead auditors. ☐

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