THE CO-OP MARKETING DILEMMA

THERE IS A BETTER WAY

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Co-Op advertising dollars, if used correctly, are a powerful resource to help Brand Channel Partners reach local audiences.

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CO-OP MARKETING IS ONE OF THE MOST POWERFUL FORCES IN MODERN MARKETING BUT IT CONSISTENTLY FAILS TO REALIZE ITS FULL POTENTIAL.

Most national Brands share the cost of local marketing with the independent retailers, distributors, agents, and any other Channel Partners who sell the brand's products to enduser customers. It can be a win-win for both Brands and Channel Partners. The most effective Co-Op advertising programs not only offer money to local businesses to help cover media and production costs, but they also provide templates and tools so it's easy to produce and launch localized advertising campaigns.

Large marketing teams at major national corporations spend a lot of time, energy, and money to design and deploy Co-Op programs to entice Local Partners to promote brand awareness and drive sales. With an estimated $50 billion spent annually in the U.S. on Co-Op marketing programs, there is a whole lot of money flowing into the distribution Channel.[1] However, these funds often go unused because of the complex business processes involved in most Co-Op programs.

When funds are used, national Brand often don't have visibility to understand how marketing dollars were spent or which marketing tactics were successful. Without this information, Brand marketing teams are working blindly to develop creative assets with the hope that they are utilized, and more importantly, that they resonate in local markets. This lack of visibility means brands can't make intelligent decisions to fine tune Co-Op programs, better support Channel Partners, and drive local sales.

There is a better way to deploy and manage Co-Op advertising programs. With that said, many national Brands continue to fund shared local marketing efforts with primitive Co-Op strategies and tools. The net impact is a disconnect that breeds ambivalent Channel Partners, underutilized marketing campaigns, dormant Co-Op monies, weak local Branding, and sluggish Channel Sales.

THE OLD PARADIGM

CLAIM REIMBURSEMENT MODEL

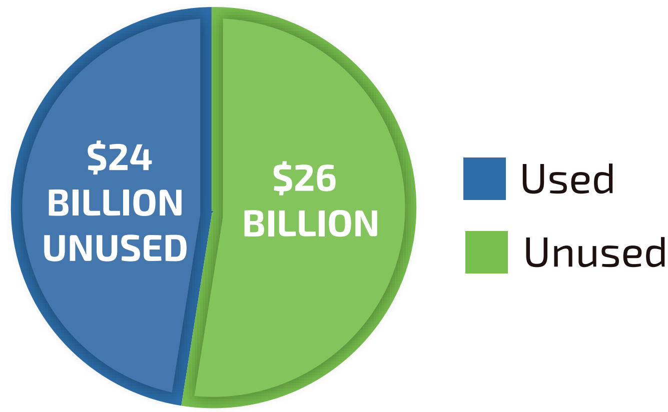
- No Clear Visibility
- Co-Op as Relationship Tool Instead of Sales Strategy
- Too Many Hoops for Partners to Jump Through
- Long Reimbursement Cycles

Most programs don't have a way to link sales lift to marketing spend. From the Brand's standpoint, claim reimbursement programs often give partners free rein to spend co-op money how they choose across various marketing mediums. Brands don't usually require Partners to report back in a standardized way about Co-Op marketing effectiveness or expenditures. What gets lost in this scenario is the Brand's ability to understand two key metrics—how is money being spent and how effective are marketing campaigns. When Brands can't answer these questions, it's very difficult to maximize beneficial programs and tweak unsuccessful campaigns.

To a large degree, Co-Op programs have become a relationship tool rather than a branding or sales strategy. Sometimes, Brands offer Co-Op advertising to Partners because they feel obligated as a means to maintain the partnership. Even if Co-Op programs are little-used or provide no confirmed sales payoff, Partners tend to like knowing the benefit exists. Therefore, if a Co-Op program goes away, Partners may stop buying Brand products and turn to competitors that offer Co-Op money.

With the old scenario, Partners create marketing materials according to the Brand's creative requirements—with rules that are often ambiguous. This can be very difficult or intimidating for small companies that don't have a dedicated marketing person. Once the artwork or creative content has been developed, it usually takes two or three rounds of reviews before the Brand finally approves the work. Then, Partners have to fund their marketing up-front and wait to get reimbursed later. Once the Partner gets the vendor invoices, they submit them to the Brand as part of a reimbursement claim. If the brand rejects the claim, the Partner has to go back to get more paperwork, resubmit, and wait for approval—or maybe another rejection. With all these steps, Partners can wait up to six months to get their money back.

CO-OP BUDGET UTILIZATION



A lengthy reimbursement process doesn't just hurt Partners. It also puts stress on Brands that devote lots of resources to review claims and process paperwork. With vast amounts of reimbursement documents submitted by many different Partners, corporate marketing teams can spend a lot of time verifying media rates and Brand compliance—often requiring back and forth communications with Partners, who also have to go back and forth with local vendors.

As a result of these challenges, $20-24 billion of Co-Op funds go unused every year.[2] Many Partners have become jaded by Co-Op programs because they have limited marketing resources and budgets. The strict and often ambiguous creative rules and cumbersome reimbursement processes can cause Partners to disengage. When Partners don't participate in Co-Op marketing programs, Brands often feel the pain with a low ROI on local marketing efforts.

TYPICAL CO-OP MODELS

CUMBERSOME FOR BRANDS AND PARTNERS

With manual processes, multiple vendors to coordinate, little support, or too much Brand control, Partners can become frustrated with shared marketing programs. As these traditional approaches to Co-Op marketing point out, the reasons for underutilized Co-Op dollars range from flawed reimbursement structures to rigid technologies or processes.

THE DIY CO-OP KIT

With the DIY scenario, Brands distribute Co-Op marketing kits to Partners and hope they work. It's the "build it, and they will come" mentality. Partners are given a physical or digital package with instructions, templates for creative assets, content common enough to fit any market, and perhaps a list of pre-approved advertising vendors in their local area. Typically Brands with large Partner networks use the this approach.

WHY IT DOESN'T WORK

Channel Partners have to interpret the instructions, formulate marketing plans, seek out local advertising firms, and negotiate rates. Even the most motivated Channel Partners don't usually have the skills to effectively perform all of these tasks. Less interested or operationally overwhelmed Channel Partners will shuffle Co-Op marketing to the bottom of the pile because it's too complicated. Compound that with a challenging or long reimbursement cycle, and Partners often ignore the Co-Op kit. Conversely, Brands often don't have a dedicated team to help Partners, and most don't have modern technologies in place to provide effective, streamlined support.

THE MULTIPLE VENDOR SOLUTION

Another method Brands use for Co-Op advertising activities is to contract with several preferred vendors that offer various marketing services to Channel Partners. Usually, vendors offer a single service, so Channel Partners have to work with different companies for Ad Builder tools, DAM platforms, PPC advertising, Social Media, and many other marketing functions. If it's done right, the multi-vendor scenario can take the burden of planning and media buying off of Partners, and it can also achieve purchasing economies-of-scale for the Brand.

WHY IT DOESN'T WORK

It doesn't centralize campaign management to effectively use creative assets across multiple advertising mediums, track comprehensive results, and maximize overarching Co-Op marketing impact. The resulting multi-vendor fragmentation can also make the Co-Op reimbursement process very cumbersome and labor-intensive for both the Brand and the Partner.

CENTRALIZED BRAND CONTROL

A third typical approach centralizes all creative development, marketing planning, and implementation efforts at the Brand level. While this does ensure consistent messages, purchasing economies-of-scale, and coordinated production schedules, attending to hundreds or thousands of Partners with any manual process can overwhelm corporate marketing departments.

WHY IT DOESN'T WORK

The administrative burden is usually too much for most Brands to manage.

EVALUATE YOUR EXISTING CO-OP PROGRAM

TAKE THIS OPPORTUNITY TO THINK CRITICALLY ABOUT HOW YOUR COMPANY MANAGES ITS CO-OP PROGRAM.

1. Are Channel Marketing activities increasing sales?
2. Are Co-Op marketing messages reaching target audiences?
3. Are shared Partner marketing materials Brand compliant?
4. Can you track the effectiveness of Co-Op marketing campaigns?
5. Is Co-Op program management too cumbersome and time-consuming for your Brand?
6. Do most Channel Partners understand the best way to spend Co-Op funds?
7. Do Co-Op approvals take too long and cause Partners to miss marketing opportunities?
8. Are your Partners frustrated with long reimbursement cycles?

THE NEW PARADIGM

CO-PAY INSTEAD OF REIMBURSEMENT

- Distribute Funds in Real-Time
- Partners Opt-In to Co-Op Programs
- Centralized Marketing Automation
- Immediate Visibility

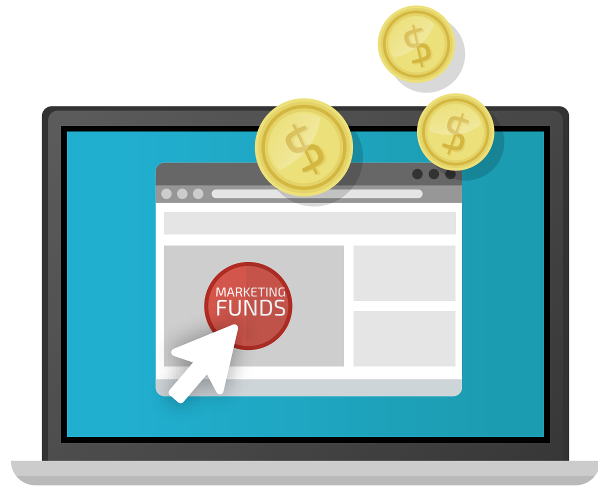
As we've explored the traditional approaches to Co-Op marketing and pointed out the challenges to both Brands and Partners, let's take a look at a new thought process for shared local marketing.

In this new scenario, Brands distribute funds to Partners in real-time, so Channel Partners use marketing dollars when they're ready to invest in a marketing initiative. By eliminating the cost and reimbursement challenges, Brands can immediately gain the attention of apathetic Partners and invigorate active Co-Op Partners. Often, the higher the co-pay funds, the more likely Brands can drive marketing behavior to increase program adoption and increase the perceived value to Partners.

To effectively distribute co-pay funds in real-time, Brands have to directly tie funds to marketing campaigns and advertising mediums. Partners essentially choose the campaigns or marketing tactics and "opt-in" to pre-approved Co-Op programs. To manage the end-to-end process, Brands need a centralized marketing automation platform to showcase the different marketing campaigns, track Partner participation and assigned funds, collaborate on deliverables and approvals, and analyze campaign effectiveness.

With an automated co-pay platform, Brands can drive Co-Op marketing program adoption rates by eliminating the up-front cost burden from Partners and at the same time take control of the back-end campaign execution. The net benefit to Brands is that they can collect and analyze the elusive data— across hundreds or even thousands of local markets—to understand how marketing programs are performing. Using the very data that is lacking with the old paradigm, Brands can improve channel marketing campaigns and correlate sales to Co-Op marketing expenditures.

The old Co-Op model expects Partners to pay all local marketing costs up front and wait for reimbursements, and it also expects Partners to plan and execute local marketing on their own.



The new model applies Co-Op marketing dollars on the front end to pre-approved, turn-key marketing programs. This eliminates the cost and execution burdens from Partners. It also gives Partners confidence that the marketing activities will work.

CRITICAL SUCCESS FACTORS FOR CO-PAY PROGRAMS

THE FOLLOWING BEST PRACTICES CAN LEAD TO SUCCESSFUL CO-PAY MARKETING INITIATIVES AND DRIVE PARTNER PROGRAM ADOPTION.

•**Centralized Software Platform**—Co-pay programs should be centralized on one actionable software platform that includes functionality to manage all aspects of campaigns, including approvals, execution, and cost management. Using a single cohesive platform can simplify and demystify co-pay marketing and entice Partners to fully engage in local marketing activities.

•**Dedicated Funds**—Brands that invest in co-pay activities gain the attention and loyalty of Partners. A steadfast commitment to co-pay marketing also gives Partners confidence to push Branded products and services over the long-term because they know there is a monetary commitment from the Brand.

•**Disbursement Flexibility**—If Brands can apply different pricing methods to co-pay funds, they can strategically structure pay-outs to encourage different marketing behaviors. Some marketing programs might best be served with a flat percent or dollar figure, and other programs may work best with tiered co-pay levels based on defined criteria.

•**Integrated Collateral Management and Delivery**—By unifying all of the moving parts to administer a complex marketing program, Brands can simplify processes, save time, and eliminate headaches.

•**DIFM (Do It For Me) approach**—Just providing the platform doesn't get you there. You must provide a "service overlay" that actually does the work for your Partners. The most successful programs today are offered with a concierge-style customer support approach that acts like the Partners' own advertising agency, complete with an acccount manager to build and run the programs for the Partners.

•**Dual Measurement**—Program results should be analyzed two ways:
-Partner participation in a particular marketing campaign—to understand what resonates with partners
-Marketing campaign analytics—number of leads or customers generate

ROADMAP TO A SUCCESSFUL CO-PAY MARKETING PROGRAM

OFFER VALUE AND EFFICIENCY TO YOUR PARTNERS

Many Brands think that by simply subsidizing local advertising campaigns, Partners will be incentivized to market a particular Brand. On the contrary, developing a co-pay program that will engage Partners requires:

- **Structuring funds to be attractive and instill confidence in Partners**
- **Communication, communication, communication**
- **Reporting and analysis**
- **Continual improvements**

STRUCTURE FUNDS TO BE ATTRACTIVE AND INSTILL CONFIDENCE IN PARTNERS

Eliminate Reimbursements - Brands should embed co-pay funds within the marketing campaign "ordering" process when Partners opt-in to a marketing activity. This way, Partners don't have to "front" the money. With the old reimbursement paradigm, Partners are usually "out-of-pocket" during the claim reimbursement process cycle. When there is a heavy cost burden for local marketing activities, many Partners won't engage at all. Instead, Brands can motivate Channel Partners to participate in local marketing activities with the co-pay model if there is very little—or no—out-of-pocket cost.

Assign Funds Strategically - By segmenting funds strategically, Brands can encourage a desired action by certain Partner groups or increase the usage of a particular marketing asset. Co-pay dollars can be allocated to top-performers, specific marketing programs or assets, or individual Partners.

Top Performers - Brands can reward top performers by offering them more marketing dollars. This strategy can encourage successful Partners to promote a Brand even more. Brands can also entice top performers with special coupons to opt-into additional marketing programs or purchase specific assets at a discounted rate.

Asset/Program Specific - Focusing co-pay funds on an individual asset or marketing program is a powerful method to guide Partners to engage in a particular marketing activity. For example, applying funds to a particular collateral asset can incentivize Partners to highlight a particular message to customers. Also, when Partners feel like they are getting a deal, they may feel compelled to participate in a particular campaign.

Individual Partners - At different points in time, Partners will have specific opportunities, needs, or circumstances. Dedicating funds to help Partners during these opportune times demonstrates support and instills confidence in the Brand. Also, allocating funds to a specific Partner is also a good way to test a new product or service, which can be exciting and enticing to a Partner.

Engage Partners with Flexible Disbursement Options - Brands can package different co-pay marketing activities in such a way that is appealing to all facets of your Partner network. Most Partners probably won't be able to readily understand how the different disbursement options will impact their likeliness to participate in Co-Op activities, and every network is unique. So Brands should test the various options below to figure out what works best to engage Partners.

Credit - Brands can assign a simple dollar credit amount in the co-pay accounts of Channel Partners. When a Partner places an order for collateral or opts-into a marketing program, the cost is deducted from the account. In most cases, the more generous a Brand is with credit, the more Channel Partners will spend on local marketing.

Percent - A discount incentive that gives Channel Partners a percentage off of a local marketing campaign "order" is a way to entice Partners to shoulder some of the local marketing burden. Brands can define the discount amount and cap total discounts. This gives Brands control over funds and prevents budget overruns.

Percent with Credit - This is a percentage discount incentive that deducts from the credit balance. When that balance is reached, the fund becomes inactive.

Number of Pieces - Brands can define the number of pieces, of a direct mail campaign for example, that a Partner can send to their customer list.

Total Dollar Amount - This is a "limited time offer"-type of funding to encourage Partners to act fast to use a particular creative or marketing campaign asset. When the total dollar amount for that asset has been reached across the Partner network, funding runs to zero.

COMMUNICATE OFTEN AND THOROUGHLY

As Brands define how to assign and manage co-pay funds, marketing teams also need to create offers and campaigns that Partners will value. It is equally as important to communicate with Partners to make sure they are aware of campaigns and they understand the messages, offers, and benefits to the end-customer.

Direct Contact - Brands can figure out how to motivate Partners by contacting them directly through email, phone calls, and direct mail. As Brands use these different tactics to communicate with Partners, they will quickly see what mix of communications methods work best for their network. Brands should make sure Partner communications are compelling and outline the value of a Brand-sponsored marketing op portunity. Testimonials from other Partners can be very convincing. Brands can also use their software provider to manage and deploy these communications. After all, they do this all the time.

Timeliness of Communications - Brands should ensure that communications give Partners enough time to opt-into marketing programs, especially those that coincide with peak sales seasons or work in tandem with national branding campaigns.

> "BRANDS WITH BETTER INSIGHTS ABOUT PARTNER BEHAVIOR CAN CONTINUALLY IMPROVE CO-PAY MARKETING PROGRAMS TO INCREASE ENGAGEMENT."

ANALYZE AND ITERATE

The final step to create an effective co-pay marketing program requires engagement, measurement, and fine-tuning. Brands must use analytics to understand Partner behavior and continually optimize marketing strategies and campaigns. Antiquated Co-Op programs managed with legacy systems and manual processes generally produce little to no analytic data, and the business intelligence that can be gleaned from old-style Co-Op programs is hardly real-time. Instead, modern co-pay programs that function on a marketing automation platform provide real-time analytic reporting, so brands can understand how Partners are utilizing Co-Op marketing initiatives. Brands with better insights about

GOOD REPORTING SHOULD CAPTURE

- Funds used by Partners
- Funds used by each marketing program
- Current unused fund balances
- Fund expiration dates
- Response rates by campaign
- Product sales by campaign

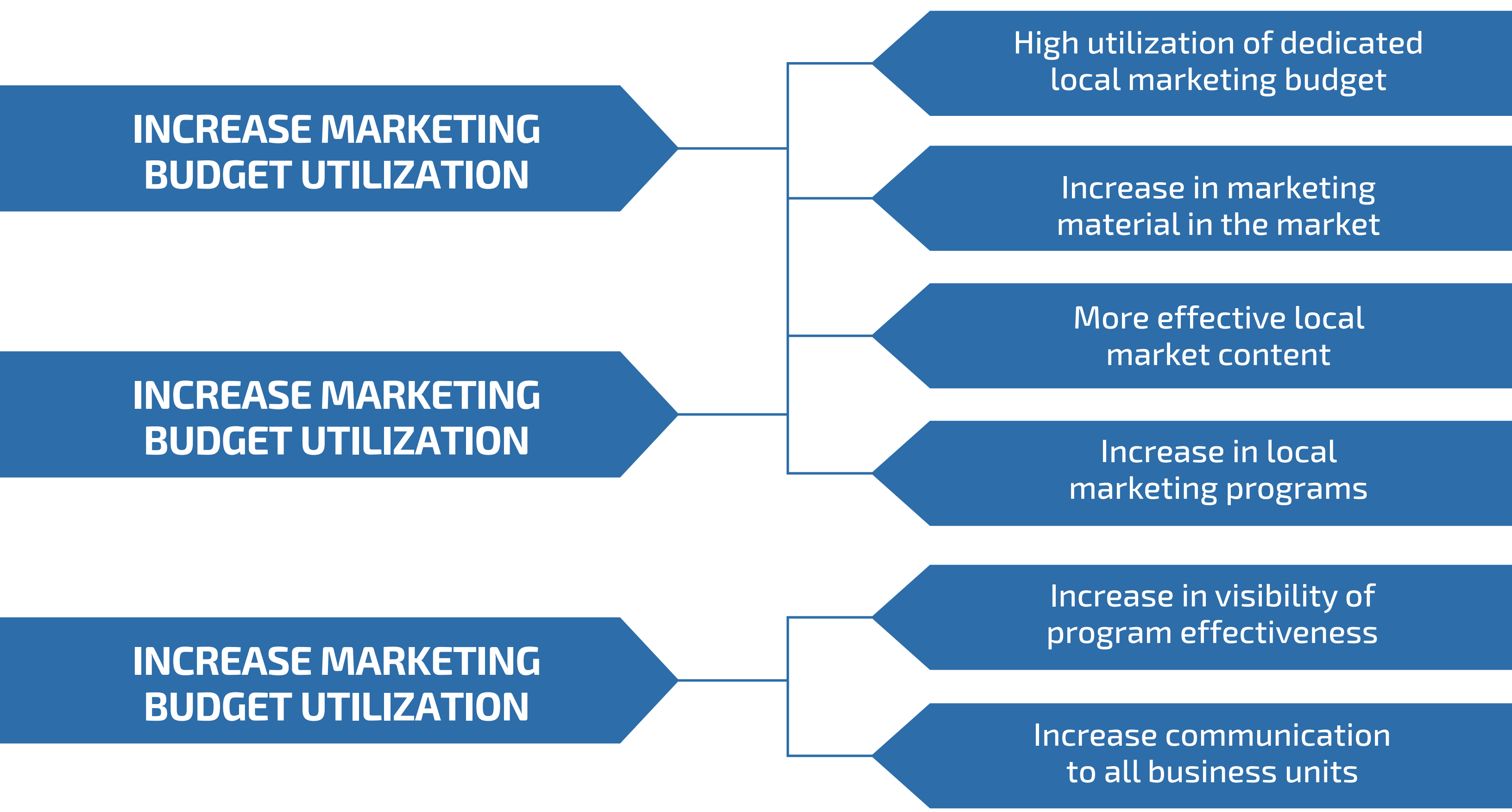
OPTIMIZE AND COURSE-CORRECT

WITH FLEXIBLE, POWERFUL ANALYTICS CAPABILITIES THAT SHOW HOW PARTNERS BEHAVE IN REAL-TIME WHEN INCENTIVIZED WITH CO-PAY FUNDS, THERE IS NO LIMIT TO HOW BRANDS CAN OPTIMIZE FUND DISBURSEMENTS. FOR EXAMPLE:

•If a Brand manager sees that Partners are disproportionately using co-pay funds to purchase marketing programs that aren't delivering results, the Brand manager can revise co-pays to make other advertising activities more attractive.

•If a Brand manager notices that Partners act faster when co-pay funds for an asset or program are limited, the manager can create urgency by limiting funds for an asset or program.

•When a Brand manager sees that Partners continue to buy certain assets even when co-pay funds run dry, they may choose to allocate less funds for that asset.



RETHINK YOUR CO-OP PROGRAM

TURN IT INTO A VALUABLE ASSET

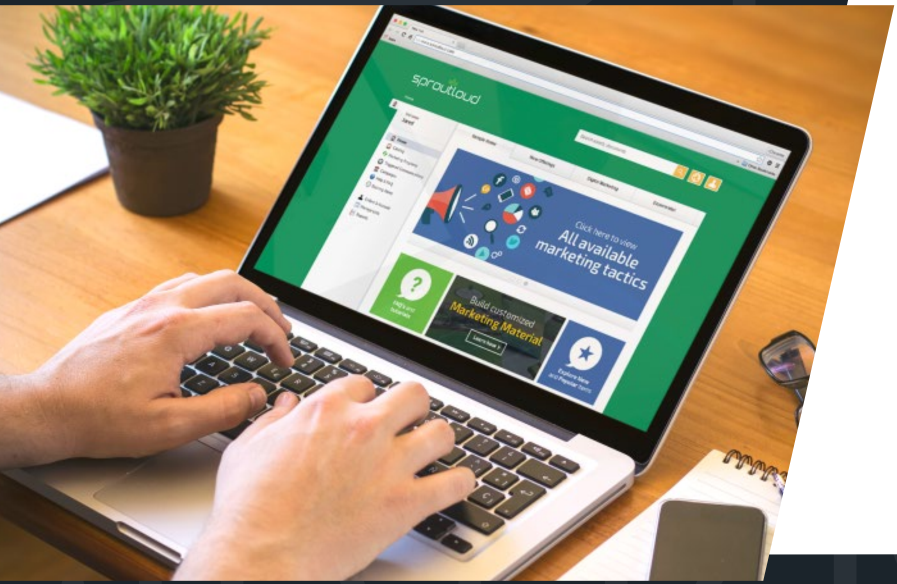
According to a recent study, top performing organizations that used distributed marketing automation technologies reported 300 percent or more increases in revenue growth within the first 12 months of investing in the technology.[3]

AT SOME POINT IN THE FUTURE, COMPANIES THAT RELY ON LOCAL PARTNERS TO SELL PRODUCTS TO END-CONSUMERS WILL BE FORCED TO EVALUATE WHETHER CHANNEL MARKETING PROGRAMS ARE REALLY WORKING.

If your company isn't realizing the full value of its local marketing program, it may be time to rethink your Co-Op program. By shifting to a co-pay model and integrating shared advertising dollars with marketing campaigns, Brands can effectively drive Channel Marketing programs. In addition, organizations will need to look to technology providers for guidance and best practices to automate processes, revamp legacy systems, centralize functionality, and gain visibility to make distributed Co-Op marketing more efficient, successful, and valuable.

According to a recent study, top performing organizations that used distributed marketing automation technologies reported 300 percent or more increases in revenue growth within the first 12 months of investing in the technology.[3] With the potential for triple-digit improvements, innovative companies will focus their attention on marketing technology solutions in the same way that they applied automation to sales with CRM solutions just a few years ago.

When all processes are centralized on one actionable software platform that can manage marketing expenditures and streamline campaign execution for Partners, companies can turn Co-Op marketing programs into a valuable asset.



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Research and analysis for this study was conducted by Mainstay, an independent consulting firm that has performed over 500 studies for leading information technology providers including Cisco, IBM, Oracle, Microsoft, Salesforce, Lexmark, HP, EMC, and NetApp. Learn more about Mainstay at www.mainstaycompany.com

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