



JSG RESEARCH REPORT

# MARKET DEVELOPMENT FUND (MDF) IN CHANNEL MARKETING

## CURRENT LANDSCAPE, TRENDS and CHALLENGES

JAN 2024

# TABLE OF CONTENTS

Foreword	3
Definition and Current Landscape	4
Critical Findings and Insights	
Allocation challenges and impact of MRR solution sales	5
Evaluation of approval process and responsible stakeholders	6
Strategies for optimizing MDF utilization	7
Developing ROI targets for MDF	8
Methods for tracking and reporting MDF utilization	9
Commonly used KPIs for measuring MDF ROI	10
Reimbursement and tracking practices	11
Obstacles in MDF utilization	12
Best Practices in MDF Utilization	13
Some future trends in MDF utilization	14
Conclusion	15
Citations	16

# FOREWORD

Ashlyn Szilva, PhD

VP Partner Ecosystem  
Strategies and Research



*In the ever-evolving channel ecosystem, the quest for growth and amplified revenue is ceaseless. Amidst this dynamic landscape, channel partner marketing has been trying to emerge as a formidable resource to help for decades – with varying degrees of success. Through strategic alliances with channel partners, successful vendors not only navigate the intricacies of the modern ecosystem but also use their marketing funds to help acquire new customer, thus fostering a culture of growth focused on expanding customer bases and channel ecosystem.*

*As such, Market Development Funds (MDF) should be crucial to the overall channel partners go to market strategy to support their and their vendor partners growth but in many instances that is not the case. That is because as the market continues to evolve and technology advances at an unprecedented rate, it has become increasingly challenging for marketers and channel professionals to make an impact. That gap is resulting in an increasing number of vendors and partners stating that MDF is not functioning at its full capacity in their business. What is happening? Why is MDF failing some partners and helping others?*

*This research report endeavors to answer these and many more questions by offering a comprehensive understanding of the current state of the MDF landscape, along with the latest trends, emerging opportunities, and potential pitfalls. The data analyzed in this report was gathered from surveys, online polls, and verbatim interviews with industry experts, providing solid insights into the future of MDF.*

## DEFINITION AND CURRENT LANDSCAPE

MDF funds allow vendors to extend marketing through partners without direct spending, which is advantageous for tech companies <sup>[11]</sup>. The MDF landscape is marked by several factors that shape its direction, such as awareness, planning, processes, compliance, skills, budget allocation, and return on investment (ROI) measurement.

As observed, some channel partners struggle with a lack of awareness regarding vendor MDF programs. On average, 50% of MDF budgets are typically used <sup>[11]</sup>. Thus, vendors must improve communication and offer proper education on the subject, especially with 90% offering proposal based MDF <sup>[12]</sup>.

Key players in the industry are increasingly exploring strategies to bolster marketing skills and knowledge for smaller partners while simultaneously addressing the challenges posed by limited budgets and intricate application and reimbursement processes and ensuring compliance with MDF guidelines.

Furthermore, the impact of AI cannot be overlooked. AI is making certain aspects of marketing, like MDF utilization, more efficient than ever due to its ability to generate content and data <sup>[9]</sup>.

ON AVERAGE, ONLY 50% OF  
MDF BUDGETS ARE USED

# CRITICAL FINDINGS AND INSIGHTS

## Allocation challenges and the impact of MMR solution sales

Typical MDF allocation can range from 2% to 5% of revenue but is often well below 1% <sup>[5]</sup>. However, it is essential to understand how the percentage is calculated, as marketing investments can vary, and companies all measure it differently.

Many of the interviewed industry experts believe that MDF should be allocated based on the percentage of expected revenue from the partner, program size, and percentage of the channel business it represents. This is why higher-tier partners who generate more sales will generally receive a large share of MDF over a smaller, newer company <sup>[4]</sup>.

Monthly Recurring Revenue (MRR) has also impacted marketing investments and MDF allocation in channel partners, possibly due to increased MRR solutions available. Kathy Mazza has been involved in MRR-focused sales for over 20 years, noticing changes in MDF allocation approaches, such as calculating MRR for allocation.

Mazza adds, “As suppliers and partners mature, considering MRR in MDF allocation is beneficial” <sup>[8]</sup>. There is less emphasis on traditional earned and co-op dollars, possibly due to the MRR shift. According to Kathy Amro, companies have been converting their sales teams to be more solution-oriented for some time, and MRR is a significant part of that <sup>[1]</sup>.

When using an MRR-based model, customer value will increase over time, and MDF supports and grows these relationships <sup>[4]</sup>. Additionally, Mark Rogers states that changes seen due to MRR emphasize customer experience and long-term client relationships. This can be due to subscription-based models focusing on multi-year contracts and renewals <sup>[10]</sup>.

*“As suppliers and partners mature, considering MRR in MDF allocation is beneficial”*

Kathy Mazza

# CRITICAL FINDINGS AND INSIGHTS

## Evaluation of the approval process and responsible stakeholders

A general theme across interviewees and outside research shows that a streamlined and simplified approval process is essential for vendors and partners. Managing MDF programs involves time-consuming processes, such as getting these approvals and proving that a streamlined process would be beneficial <sup>[1]</sup>. Kris Blackmon also agrees, adding that slow approvals can lead to missed opportunities for all involved <sup>[4]</sup>.

As we know, MDF will never be a one-size-fits-all approach, so it is important to remember that the need for approval changes is different across all organizations. Finding the best strategy for your organization and partners is best <sup>[5]</sup>. However, vendors must avoid changing the process too frequently, which can negatively impact partners. Kathy Amro recommends providing partners with a summary sheet outlining what is permissible and what is not. Using a visual format that clearly outlines the approval process <sup>[1]</sup>.

When making these changes, it is vital to keep all stakeholders within the supply chain informed <sup>[3]</sup>. This includes vendors, distributors, sales partners, and buying partners. They must be informed dynamically of any changes made to the MDF approval process. These stakeholders also include the CRO and CMO. Most industry leaders agreed that if they are involved in decisions, they should be involved in the MDF process.

*“Whoever holds the budget should review in detail, once per quarter, with the team to understand if the spend is working or not, and any additional details regarding MDF”*

Tina Gravel <sup>[7]</sup>

# CRITICAL FINDINGS AND INSIGHTS

## Strategies for optimizing MDF utilization

MDF utilization rates range from 50% to 75% <sup>[4]</sup>. According to JSG's Barb Goworowski, MDF utilization rules are one of the most common obstacles for channel partners <sup>[5]</sup>. When companies limit how MDF can be used, it negatively impacts its utilization. Therefore, fewer limitations may increase overall MDF utilization by partners <sup>[1]</sup>.

Besides fewer limitations and a refresh of governing rules, there is an overall lack of awareness around MDF—this lack of awareness results in insufficient time and marketing resources, resulting in underutilization <sup>[4]</sup>. If your partner does not have an established and dedicated marketing team, there is a lack of marketing expertise, hindering MDF utilization.

Some organizations create available MDF packages that allow partners without much marketing experience or a designated team to access pre-packaged solutions. These packages should be offered as a supplementation, not a requirement <sup>[5]</sup>. These can sometimes be referred to as “programs in a box,” but with each partner being unique, the option of customization is critical. “Partners should have the flexibility to tailor packages to their specific markets,” says Mark Rogers, “these company sourced MDF packages and partner support can benefit partners in lead generation, events, and opportunities” <sup>[10]</sup>. Rick Beckers states that “most vendors should have the capability and responsibility to provide these resources to their partners” <sup>[3]</sup>.

When discussing tactics and ways to utilize MDF, it is essential to recognize the role of AI and how it is making waves within the marketing sector. The ability to quickly and efficiently generate content and analyze data cannot be ignored <sup>[9]</sup>. The widespread availability of AI makes it appealing to organizations of all sizes. Automation and AI tools make it easier for technology organizations to create and share information within templated formats, adding to the use of pre-packaged MDF materials <sup>[3]</sup>. According to our most recent partner poll:

**56%** *of partners in the channel are dissatisfied with the current way MDF programs are being offered*

**67%** *of partners stated that the pay-to-play model of prior years' needs to be reevaluated*

# CRITICAL FINDINGS AND INSIGHTS

## Developing ROI targets for MDF

Although the classic ROI model of 8x-11x is well-known, ROI targets will not always follow specific models like this one. Various factors impact ROI measurement, such as the sales cycle duration. Heather Parr suggests basing ROI on specific goals within the MDF campaign, such as webinar sign-ups, event attendance, and actual purchases made after the event. When you emphasize an outcome-based measurement you can determine the ROI value <sup>[9]</sup>.

AI-assisted marketing changes the game, is expected to impact ROI positively, and should be encouraged. Although it hasn't changed the traditional 8x-11x ROI model, it is a new venture and should be treated as such.

Rick Becker states, "5x ROI is considered acceptable, higher ROI is desirable, and AI has the potential to achieve that" <sup>[3]</sup>. AI provides more profound and accurate insights into customer behavior and campaign effectiveness <sup>[4]</sup>.

On top of this, Kathy Mazza suggests that AI will help target the right partners and customers more efficiently, helping both the supplier and partner filter through information effectively <sup>[8]</sup>.

*"5x ROI is considered acceptable, higher ROI is desirable, and AI has the potential to achieve that"*

Rick Beckers



# CRITICAL FINDINGS AND INSIGHTS

## Methods for tracking and reporting MDF utilization (the feedback loop)

Most often, MDF utilization is tracked through CRM and Partner Relationship Management (PRM) systems, which can keep track of target markets and leads generated through MDF activities. PRM systems benefit MDF, as partners can submit their marketing plans, request investments, and even provide expenditure details.

Vendors then have the power to approve/deny pending requests, all while monitoring the MDF usage <sup>[4]</sup>. It is important to note that many of the interviewed experts stated that manual tracking through Excel spreadsheets should never be overlooked. Spreadsheets can be the best choice for smaller partners or those lacking resources but still looking to collect data.

When asked about a feedback loop in place to adjust MDF strategies based on the tracked data, there was a general theme. Although the feedback loop is crucial, many say the effectiveness varies heavily across organizations.

Traditional MDF programs will rely on post-campaign analysis when making adjustments, resulting in a less dynamic approach than active feedback throughout [3]. This is where CRM and PRM systems are beneficial, as they allow for real-time tracking and data analysis, immediate adjustments, and optimization during campaigns.

# CRITICAL FINDINGS AND INSIGHTS

## Commonly used KPIs for measuring MDF ROI

There are several commonly used key performance indicators (KPIs) to measure MDF ROI.

These include:

*NEW PROSPECTS AND PARTNERS*

*CONVERSION RATES*

*E-MAIL METRICS*

*REVENUE AND SALES*

*APPOINTMENTS SET*

*LEADS GENERATED*

*CONTACT FORM FILLS*

*PIPELINE MOVEMENT*

*NET RETENTION (RENEWALS, UPSELLS)*

"The KPIs used vary depending on the goals and needs of the organization and will depend on whether the organization is focused on growth, profitability, or acquisition," says Rick Beckers <sup>[3]</sup>.

Lead generation alone is excellent, but the most effective KPI shows the overall impact on the sales funnel and the leads' progression <sup>[1]</sup>. Barb Goworowski champions that the most important KPI for measuring MDF ROI is new revenue, as it directly reflects the impact of the investment on growing the partner's business <sup>[5]</sup>.

# CRITICAL FINDINGS AND INSIGHTS

## Reimbursement and Tracking Practices

As a consensus, the reimbursement process for partners seems challenging, as vendors require them to jump through hoops and provide upfront funding. This reimbursement process could often take over a year and included providing metrics and waiting for payment, posing cash flow challenges for partners.

The timing of reimbursement could be even more problematic during economic downturns. Adding to the complexity, the ease of reimbursement varied across vendors, making the process even more tiresome. Partners need clarity on approval processes and reimbursement logistics. The claims processes could also be complex, hindering partner engagement in programs.

Some vendors required 50-50 funding splits, but this approach risked inaccurate reporting and extra work <sup>[9]</sup>. However, many organizations rely on the 50-50 funding split, believing both parties will benefit from the MDF, so upfront costs should be split <sup>[6]</sup>. Simplifying the reimbursement process by removing unnecessary requirements was suggested. Clear expectations and transparency are essential in vendor-partner agreements. The best-in-class companies offer streamlined reimbursement processes with clear and transparent payment timelines <sup>[8]</sup>.

While there is no standardized approach to tracking, vendors should have tracking mechanisms to tie MDF utilization to performance and ROI. Without proper monitoring, partners are left guessing about their investment's ROI, making it more difficult to discern the success of their marketing efforts. To simplify reporting and gain insight into marketing effectiveness, vendors should use tracking tools for MDF management to measure ROI and make adjustments for future strategies.

For larger budgets with complex tracking needs, it is reasonable for partners to ask if vendors have tracking tools for MDF investments. Public companies may face regulatory challenges impacting their tracking of MDF <sup>[9]</sup>, so staying informed and up-to-date on regulatory changes is always essential.

# CRITICAL FINDINGS AND INSIGHTS

## Obstacles in MDF utilization

Obtaining sufficient MDF funding presents a challenge for many partners looking to make a meaningful marketing impact. Rick Beckers <sup>[3]</sup> and Kris Blackmon <sup>[4]</sup> stress the importance of education for agents on leveraging MDF for their business needs and objectives. This is commonly lacking, while the administrative workload is also a barrier for some <sup>[4]</sup>.

Meeting high-performance criteria to qualify for MDF awards and lacking marketing expertise and creativity can present obstacles for some <sup>[9]</sup>. In addition, many selling agents focus more on sales versus business operations or marketing, and smaller partners do not have the same marketing resources as more prominent distributors and resellers <sup>[9]</sup>.

Securing partnerships with less recognizable names results in minimal MDF funding and can prove challenging despite the potential for great success within the proposed campaign <sup>[8]</sup>. Barb Goworowski quotes, “It’s less about the size and more about the drive of your partners” <sup>[5]</sup>.

It's important to note that insufficient marketing acumen can pose challenges for partners' optimal utilization and tracking of MDF spending <sup>[8]</sup>. That is not the only issue with MDF funds as in our most recent poll:

**70%** *of participants say  
0-25% of their MDF  
will not be spent*

Our survey results show a slightly rosier picture than previously reported, which may reflect the current economy whereby partners are utilizing as much MDF as possible to offset costs. This is a trend we expect to continue.

# CRITICAL FINDINGS AND INSIGHTS

## Best Practices in MDF utilization

To consistently yield high ROI on MDF spending, there are best practices that should be followed. Focus on the overall sales process and engage with potential clients already well into their research and decision-making process <sup>[1]</sup>.

Kris Blackmon emphasized the need for up-to-date education, clear communication between vendors and partners, and flexibility and agility within the MDF program <sup>[4]</sup>.

Adding to that, Tina Gravel suggests that companies work with the partners to plan what they do with the MDF funding and closely monitor how their money is utilized <sup>[7]</sup>. In our recent poll,

**85%** *of participants responded with the belief that there needs to be more standardized reporting and accountability measures in MDF programs*

Heather Parr <sup>[9]</sup> and Mark Rogers <sup>[10]</sup> agree that simplifying the process and providing more freedom to partners is helpful. Some other standard best practices consisted of setting clear expectations, collaboration, networking, SEO optimization, social selling, and demand generation.

# CRITICAL FINDINGS AND INSIGHTS

## Some future trends in MDF utilization

### CONSOLIDATION IN MARKETING TECH

Barb Goworowski suggests that marketing stack solutions that target a consolidated approach will be successful <sup>[5]</sup>. This consolidation will affect the overall ROI and how MDFs can and will be utilized. Marketing Tech Stacks are the “secret ingredient” to streamlining business processes and using AI and machine learning will offer a high potential to optimize your existing process <sup>[2]</sup>. In conjunction, Mark Rogers suggests that legacy marketing is shifting to digital marketing technology and strategy <sup>[10]</sup>.

### EMERGENCE OF MARKETPLACES

The impact of digital transformation has resulted in the development of marketplaces where vendors allocate MDF to their partners. Mark Rogers <sup>[10]</sup> and Rick Beckers <sup>[3]</sup> touched on this trend and its significance as it opens up new avenues for value creation. Vendors can query partners’ success and calculate ROI more effectively. Additionally, marketplaces can encourage partners to share more information about their MDF strategies.

### PERSONALIZED AND TARGETED MARKETING

Kris Blackmon predicts that targeting customers with personalized content based on their preferences, interests, and past behaviors will continue to be a best practice <sup>[4]</sup>. Marketing automation tools are being integrated to streamline MDF spending and ensure it reaches the intended customers <sup>[3]</sup>. With this approach, the customer is more likely to act on a solution since the content appeals directly to them, thus efficiently using MDF funding.

# CONCLUSION

---

## Some future trends in MDF utilization

Market Development Funds (MDF) are not just an optional component; they are the lifeblood of successful channel partner marketing strategies, and their impact on a company's overall success cannot be overstated.

As we have delved into the intricacies, it becomes abundantly clear that the effective utilization of MDF isn't merely a desirable strategy, it is an imperative one. From allocation challenges to evaluating the approval process and dealing with various stakeholders, many factors must be considered when utilizing MDF for business growth.

Additionally, developing ROI targets and tracking KPIs are critical components in measuring the success of MDF investments. Companies can optimize their MDF utilization and drive tangible results by following best practices and staying current on future trends.

We must continue striving to improve our use of MDF, constantly seeking ways to improve our strategies and maximize our ROI. I encourage all businesses to act and implement these insights into their MDF programs for ultimate success. Let us work together towards a brighter future where MDF drives business growth and success.

# Citations

1. Amro, Kathy (JSG)
2. Analytics, T. B. (2023, March 2). A guide to building a marketing tech stack to scale business. LinkedIn. <https://www.linkedin.com/pulse/guide-building-marketing-tech-stack-scale-business-texasba/>
3. Beckers, Rick (XaaS1)
4. Blackmon, Kris (CompTIA)
5. Goworowski, Barb (JSG)
6. Graff-Radford, Daniel, and BY: Ali Spiric. "Channel Partners vs. Distributors - How the Two Relate." Allbound, March 1, 2023. <https://www.allbound.com/resource-center/channel-partner-vs-distributor/>
7. Gravel, Tina (Quantexa)
8. Mazza, Kathy (Ooma, Inc.)
9. Parr, Heather (Google)
10. Rogers, Mark (Impartner Software)
11. "Why Market Development Funds (MDF) Are so Important." Fielo. Accessed January 12, 2024. <https://www.fielo.com/why-market-development-funds-mdf-are-so-important/>
12. 360insights. "Maximizing the Impact of Market Development Funds (MDF) in a Changing Landscape." LinkedIn, August 15, 2023. <https://www.linkedin.com/pulse/maximizing-impact-market-development-funds-mdf-changing-landscape/>



## CONTACT US



[linkedin.com/company/jsknow](https://linkedin.com/company/jsknow)



[facebook.com/jsknow/](https://facebook.com/jsknow/)



[twitter.com/jsknow](https://twitter.com/jsknow)



908.566.7241



[www.jsknow.com](https://www.jsknow.com)



[info@jsknow.com](mailto:info@jsknow.com)

This report and its content is copyright of JS Group LLC.

© 2024 JSG - All rights reserved.

Any redistribution or reproduction of part or all of the contents in any form is strictly prohibited.

You may not, except with our express written permission, distribute or commercially exploit the content.

