

The MDF Conundrum – trends, challenges, and how to modernize for success



MDF is both a problem and an opportunity – for vendors, reseller partners, and distributors. Herein lies the conundrum.

What is MDF?

Market Development Funds (MDF) are monetary resources that manufacturers use in two ways:

1. MDF is granted by manufacturers to channel partners to fund mutually beneficial marketing and business development efforts executed by the partners.
2. MDF is used to pay for marketing programs with their distributors. Distributors will generally offer a catalog of services to promote the vendor's products and services to the resellers that buy from them. Sometimes MDF is treated like a "tax" where a percentage of sales is allocated to the distributor and the vendor can choose a selection of marketing services up to the amount of the allocation.

So, what's the problem?

For vendors, the problem is two-fold. First, partners aren't using the MDF they are given. That means that the marketing and business development activities aren't happening, and valuable budget is being left on the table. Second, the market has shifted and marketing programs available from distributors aren't keeping up. The opportunity, on the other hand, is enormous. The shift to a digital and an omnichannel path to purchase is opening up new opportunities to use MDF to reach more partners and more customers. Digital is also creating a new environment that can be measured and tracked.

For reseller partners, the problem has always been their ability to use the funds made available to them. Large value-added resellers (VARs) have marketing teams and regularly used the budgets they are given but have rarely been able to quantify return. Small (SMB) partners don't have the internal resources to implement programs themselves – not because they don't want to, but because they don't have resources or expertise. Additionally, and less often discussed is the fact that many partners use their MDF to simply pad their margins. Manufacturers know this and have reluctantly justified it to make their products or services more attractive.

For distributors, there are several factors at play. Distribution has thin margins and in the technology space, they count on their marketing departments to be a significant profit center. Vendors pay to have their products featured by the distributors to the partners via email, website banners, magazine placements, and access to distributor sales teams. Distribution has been slow to adopt modern, nimble, accessible, digital marketing options for vendors and this is causing a decline in vendor participation. There are tremendous opportunities for distributors to be the orchestrator of change. Both their vendors and their reseller partners would benefit from digital leadership that connects the value chain.

Let's look at the challenges in more detail.

Most partners don't have the resources to use the MDF that they're given

The numbers are staggering. A global survey by [Zinfi](#) found that 60% of MDF goes unused by partners. And, according to the [Channel Marketer Report](#), \$25 Billion in MDF and co-op funds go unused every year.

“The fact that the channel-focused digital publication CRN continues to ask in its annual partner program survey what percentage of MDF/co-op goes unspent on a quarterly basis is a good indication that many partners continue to leave money on the table.” - [Channel Market Report](#)

Why does MDF go unused?

It's simple, really. The vast majority of reseller partners are small or medium sized businesses (SMB). In the technology channel, it's as high as [90%](#). Partner management marketing statistics [report](#) that 84% of partners do not have a dedicated marketing resource and fewer than 15% of partners engage in the marketing programs their vendors deliver. That tells us that regardless of the quality of a vendor's or a distributor's marketing program, or how much vendors incentivize participation, partners cannot take advantage. They need help. [Jay McBain](#), Chief Analyst at Canalys [reports](#) that 66% of partners need help and are in the "Do it for me, or Do it on my behalf" category. They don't have the time, they don't have the resources, they don't have the money, [or] the skills."



One large vendor reported that even when they distribute MDF and provide "approved" marketing agencies to help partners, the money still goes unused. What vendors have started to realize is that they need to do the work. And it's to their advantage. Manufacturers generally have large marketing teams who generate content, pay for expensive research studies, and purchase rights to industry reports – and by taking a more active role on behalf of their partners, they will see more return on those investments.

Vendors are pulling back traditional MDF spend

For years, manufacturers have been asking partners (distributors and resellers) to report back on the results on their MDF spend. They want to know what they are spending and the specific business return on that investment. For years, most partners have been unable to account for the dollars and the activities. Manufacturers often see MDF as a "price of doing business", or a "tax" that is paid to the partner to promote their brand, and they've begrudgingly accepted that funds were spent on banners and logo placements that could not be measured, nor had visible return. But no more. "Companies are rapidly pulling these MDF programs for one primary reason: control. CFOs are paying attention to where every dollar goes, and if spend can't be justified by tracing it to a tangible return, then those funds get cut or reallocated." - [Forbes](#), "How to Stay Ahead of The Changes in Marketing Development Fund Management"

Vendors are asking their distribution partners for new, modern marketing strategies with measurable return. They want to reach the reseller's customers, not just the resellers themselves, and they want more control over how their brand, products and services are promoted to customers. The customer buying journey has changed. It's digital, and it's not

going back. According to [McKinsey & Co.](#), 100% of B2B customers prefer omnichannel, no matter the industry, country, size, or customer relationship stage. There are no exceptions.”



Vendors are also asking their reseller partners to participate more fully in the digital economy. Some manufacturers are auditing partner digital capabilities and tying scores to benefits – including MDF. Manufacturers are stipulating how MDF can and cannot be used. Less golf and more digital outreach is the trend.

Distributors and manufacturers cannot continue to rely on legacy marketing activities with partners that aren't digital, and that aren't enabling their partners to participate more fully in the digital customer journey.

Industry consolidation is shrinking MDF spend

In the spring of 2021, Tech Data and SYNEX announced they were merging, making the combined organization the [largest IT distributor in the world](#) with approximately \$57B in revenue and over 22,000 employees. According to [Keypoint Intelligence](#), this merger “reflects the consolidation in the North American IT distribution market, resulting in just a handful of players with more narrow specialties.” While this merger has garnered a lot of attention, tech isn't the only industry seeing consolidation. Tom Gale, CEO of Modern Distribution Management [recently discussed](#) the increased speed in which distribution – across sectors such as industrial, electrical, building materials/construction products, HVAC, plumbing, power

transmission/bearings, and fluid power and flow control - is consolidating, stating that “Consolidation is accelerating. It gives a pretty good picture that there’s a lot of room in most of these sectors for much more consolidation to take place.”

Consolidation is often promoted as a way for distributors to improve efficiencies and achieve economies of scale. Manufacturers, on the other hand, see this as an opportunity to reduce their MDF spend since they expect that marketing investments with the newly merged company will be less than the total of the previous two combined - a direct blow to distribution marketing revenue dollars.

To retain marketing revenue, distributors must offer more modern, compelling marketing options and value to manufacturers that helps them reach more partners, resellers, and customers.

Digital Native Vendors are holding on to their MDF dollars



Not only are MDF investments being pulled back, but new marketing dollars are sitting on the sidelines, especially from newer manufacturers who are digital natives. Many newer vendors have initially grown their business digitally – whether through their own digital promotion, or on marketplaces like Amazon. They are adept at modern digital marketing, and regularly measure things like SEO, CTR, Conversion rates, ACoS, UGC, and others. They are active on social media, have affiliate programs, and engaged online user communities. They are nimble and know how to rapidly respond to customer activity and market dynamics.

Why does this matter to traditional channels and MDF? Because they are expanding. As McKinsey explains, “Omnichannel is a path to share growth. The more channels a sales organization deploys, the bigger the market share gains.” We have seen many digital native vendors enter the traditional tech channel in an effort to reach new markets and extend their share. [Anker](#) and [Plugable Technologies](#) are two examples of electronics companies that have been wildly successful selling through Amazon and their own digital marketplaces, and are now seeing similar success vial traditional distributor/reseller channels. These digital native vendors bring a different set of expectations with them for their marketing spend. They are used to real-time results and deep analytics, and they use this data to continually tweak and improve their marketing strategy. In fact, Plugable Technologies’ founder Bernie Thompson literally [wrote the book](#) on how to be successful on Amazon, as well as founding well-known Amazon

Advertising agency, [PPC Ninja](#). When companies like these come to the traditional distributors, they expect efficient, modern marketing programs, with detailed analytics and measured returns. When they don't exist, these digital native vendors hang on to their valuable marketing dollars and implement their own digital marketing outside of the channel. They would invest more MDF if more digital programs were available to them.

Smaller (profitable) Manufacturers have unspent MDF dollars that really add up

Distributors offer an important service to their suppliers and vendors by aggregating products into categories and solutions and promoting them to resellers of all sizes. Manufacturers pay for the marketing and promotion of their products and services with MDF. They choose from a catalog or menu of services and hope that partners and their customers will see and choose their brand. Historically, these services are expensive. Big F500 tech vendors often pay hundreds of thousands, and sometimes millions of dollars every year to have their products promoted with banners, email blasts, and placements in tech magazines. They pay tens of thousands of dollars (sometimes hundreds of thousands) every quarter for the opportunity. These programs just aren't accessible for smaller vendors.

Smaller vendors have smaller MDF budgets. But smaller vendors are many, and they often contribute more than their fair share of profit. Compare a \$1000 laptop that delivers 1% margin to the distributor and the \$35 dongle/accessory that delivers 25% margin, and yet there are very few programs in which the smaller accessory manufacturer can participate.

Transitioning to more nimble, digital marketing programs by distribution enables many more vendors to participate, and to contribute.

How to solve the MDF conundrum

Choose Digital

There are no exceptions to buyers taking a digital, omnichannel path to purchase, so let's get that out of the way right now. A healthy chunk of MDF needs to be focused on digital marketing initiatives, and if your partners are not online, then quite frankly, neither are you. Your digital initiatives must include your partners. For many in the channel, this has been the tricky part.

- Manufacturers should be investing in digital marketing and business development leadership and enable their partners to participate with them.
- Distributors must pivot and offer more digital marketing options where manufacturers want to invest.
- Digital marketing from distribution must be nimble and accessible for all vendors to participate
- Reseller partners must be engaged in the digital customer journey

Include All Partners

MDF funded initiatives should be inclusive of all partners, not just the big ones. SMB partners are 90% of your channel. They serve local businesses and governments who rely on them to understand their unique small business challenges and local market requirements. And they have different needs from an MDF program. Large partners are more likely to use MDF. They will come to your portal, download your campaigns, load your content onto their website, and send out your emails. SMB partners (the ones without in-house marketing resources) just won't, and they certainly can't do it for every vendor that they work with. For most partners, you're not their only supplier. They need a different model.

Use Automation

The evolution of MDF management is not to build a better self-serve program, but instead, to do it for them. Instead of handing out MDF, expecting your SMB partners to figure it out on their own, and then struggling to understand why they haven't used it, take the burden off them completely. Use MDF funds to enroll them in an automated marketing program that does the work for them. Automation enables partners to "set it and forget it" while the marketing machine does all the work behind the scenes driving traffic, leads, and elevating the partners' overall digital presence.

How It Works

Through-channel marketing (TCM) is the intersection of digital marketing and channel marketing, powered by automation. It delivers sophisticated, integrated marketing initiatives to, through and with channel partners - at scale.

TCM includes dynamic web content, social media syndication (organic & paid), integrated email marketing, and co-branded search. It reaches through your partners out to their customers, and ensures brand compliance and message control.



How Does This Solve the MDF Conundrum?

When you take your MDF budget and invest it in marketing and business development *for* your partners, they get the full benefit of the initiative without the burden of the work. Partners don't need an in-house marketing resource to profit from it. The MDF budget is fully used to the benefit of you and your partners.

TCM is measurable. You can report on your MDF spend by campaign, program, and by partner. You can see exactly which campaigns generated customer engagement, activity, and leads, and you can report the ROI on the MDF spend out to your partners, and back to your own teams.

If you're a distributor, a TCM offering is attractive to all your vendors. You can capture those MDF dollars that are sitting on the sidelines, waiting for digital options. Not only is TCM valuable to your vendors, but it's a game changer for your partners. Through-channel marketing fronted by the distributor builds stickiness with your resellers. In a recent survey of partners participating in a distributor-led TCM solution, 50% of respondents reported that they felt like vendors were investing in their businesses, whereas 75% reported feeling that the distributor was investing in their business. Resellers said that they felt they were more competitive and exhibited stronger credibility with the syndicated content.

Don't Go It Alone

Through-channel marketing automation (TCMA) – the platform that powers TCM - is a relatively new element of the MarTech stack. Jay McBain [calls it](#) the “third stage for sales and marketing leaders,” and according to Forrester research, “only about half of brands have implemented TCMA, with only 17% fully satisfied that they are getting the most from the systems.”

The two main reasons for the underutilization of the technology are the heavy resource requirements to run it successfully and the lack of expertise. Choosing TCM as-a-Service, on the other hand, solves both. An aaS model delivers the full solution with the required resources that a marketing team would need to find, train, and pull together internally – such as platform SMEs, content writing, graphic design, html programming, social media managers, digital search marketers, and business analysts. Secondly, companies delivering TCMAaaS are experts. It's all they do. Your internal teams are almost never likely to be as up to speed on the technology or best practices as the experts delivering the solutions.



Additionally, TCMAaaS has other benefits like a faster time to market (~60 days), knowledge transfer for your team, flexibility, reduced risk, and better outcomes.

Modernize your MDF Strategy

MDF isn't new, and unfortunately, underutilization of MDF isn't new, either. But by taking a modern, digital approach that is automated and fully integrated with your partners, you can start to solve the conundrum and elevate both your position and your partners' presence in the digital customer journey.

AscendX Digital Inc. is the first and only TCM-as-a-Service marketing provider, and the only company with a revenue-generating model for distributors. Our team has many decades of technology marketing expertise, and we work with vendors and SMB partners every day. Whether you have a TCMA investment that needs some strategic and/or operational support, or if you are looking for a fully managed as-a-service solution, AscendX Digital can help. Contact us at sherry@ascendxdigital.com and visit us online at ascendxdigital.com.