CCI
Channel Management Solutions

FINANCIAL CONSIDERATIONS FOR GLOBAL CHANNEL PROGRAMS

Deploying and sustaining a successful global channel program requires careful consideration, specifically with respect to financial elements. Challenges posed beyond financial controls, such as local, legal and change management requirements, must also be carefully evaluated to ensure your program objectives and goals will be achieved when expanding your channel sales and marketing program into the global arena.

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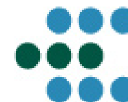


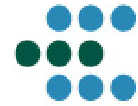
INTRODUCTION

Channel partner programs offer a scalable and cost effective model for expanding a manufacturer's market reach and have long been a critical component of the overall sales and marketing strategy for many vendors. Recent estimates indicate that many U.S.-based global marketers conduct 60% of their business outside North America, and many believe the growth in the global market will outpace the U.S. as the world's nations exit the current recessionary economy. The growth in both size and complexity of channel partner programs has lead to a corresponding need for increased business controls and visibility into this valued component of a vendor's business model. Growth often includes an expansion of any existing program's geographical footprint. As a result of this expansion, companies are evaluating how to manage their channel partners and program around the globe with the goal of achieving the same benefits gained through their domestic use of channel partners.

The same business drivers that guide domestic channel programs are applicable on the global stage. Moreover, additional business requirements are introduced as companies evaluate the degree to which they want to standardize or localize program operations across multiple regions. A current trend, for example, is to unify co-op and MDF programs across the globe through a common program infrastructure. This integration is motivated by a desire to improve program efficiency, centralize reporting, and provide greater control over what is often the largest portion of the sales and marketing budget.

Building a unified, channel program creates unique challenges which make it difficult for vendors to simply roll-out an infrastructure initially designed for a single market (e.g., the United States) to retail/reseller partners across the globe.

In this paper, we will define the market drivers for expanding your channel sales and marketing program into the global arena, and explore the challenges too. Specifically, we will evaluate the impact of exchange rates and multiple currencies on the design and management of an international channel program.



BUSINESS DRIVERS

The business drivers for expanding a channel program globally vary from company to company. A common thread, however, is that companies typically desire the same business controls outside the U.S. that drove their domestic program – primarily, process standardization, organizational efficiency, and data visibility. Specifically, some of the most common drivers for implementing a channel program are as follows:

- Common infrastructure to centralize and standardize program processes
- Roll-up reporting & ROI measurement
- Consistent branding & messaging
- Better goal alignment
- Program administrative efficiencies & economies of scale
- Streamline back office processes

In addition to the fundamental channel program objectives defined above, goals specific to global expansion include the following:

- Increased consistency in sales and marketing activities
- Rising cost of channel and trade marketing expenses
- Greater accountability of expense vs. contra revenue activities, as required by Sarbanes-Oxley and GAAP best practices
- Improved efficiency and visibility of marketing spend by consolidating disparate systems
- Standardization of processes
- Common application of best practices

GLOBAL EXPANSION

Strategically moving from a domestic to a global solution requires a detailed expansion plan. "Today the U.S., tomorrow the world" is a nice notion, but is impractical given the regional differences in business processes and culture. Experience shows that a pragmatic approach will be most successful, be it a country-by-country launch or a systematic and common phase-in of program content.

Meeting the business requirements of process and data integration across dozens of countries poses significant hurdles. Legal requirements, regulatory obligations, and cultural differences that vary widely from those to which U.S. organizations are accoustomed to frequently complicate the expansion of a global channel program.

Forces internal and external to your company must be considered when expanding your channel program globally. A global perspective will encourage and support consistency, scalability and collaboration across your enterprise. Similarly, participation of personnel from your local regions will ensure that the solution supports high user adoption. The need for central and local change management, and its impact on program success, cannot be underestimated. Further, the needs and objectives of multiple partner organizations, whose engagement and commitment is needed to achieve your company goals, must be carefully considered.

When looking to either expand an existing program into a new locality or normalize multiple existing channel programs across the globe, consider the following factors to local success:

- Partner awareness
- Adoption rates
- Local market challenges & opportunities
- Targeted branding & messaging
- Local/regional program ownership
- Flexibility & speed in making program changes

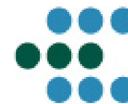
MULTI-CURRENCY

By definition, your global channel program will accommodate multiple currencies. This is particularly important for payments and reporting. Partners should be paid in their preferred local currency. Additionally, the reporting available to them should represent their currency, as that is their best and most intuitive indication of program participation and performance. As the program owner and custodian, you will want to see reports in multiple currencies to meet your specific business objectives.

Specific to multi-currency operations, consider the reasons you would choose a single base currency or multiple base currencies.

With a single base currency, all partner remittances are calculated from a single base currency before conversion and payment, regardless of the geographic location of the partner.

Multiple base currencies typically exist when companies assign different currencies as the basis for all partner transactions for varying regions, such as the Euro in EMEA or Australian Dollar (AUD) in APAC. Companies



that typically choose to operate under multiple base currencies are those who allow their regional headquarters to manage their own budgets and funds. This autonomy negates the need for roll-up reporting and enables currency-specific transactions to remain separate. The number of currencies used as a basis for reporting varies from marketer to marketer, but it is most common for U.S. manufacturers to standardize all transactions against the U.S. dollar (USD) using standardized exchange rates for currency conversion. Exchange rates are most commonly either set by the company at a periodic interval or received from a third party source and incorporated using a predefined frequency and method.

ACCOUNTING MODEL

A key component to program design is the accounting model. While often overlooked by global marketers and in-region managers alike, financial elements can have a far reaching impact on overall program cost and partner rapport. Often, the initial choice of financial model is made because of accounting mandates rather than channel marketing best practices. With the currency fluctuations we are experiencing today, a reevaluation of program financials is recommended. You may find that an alternative approach is preferred in today's economy and for maintaining a "win-win" relationship with your channel partners.

Exchange rates between the U.S. dollar (USD) and foreign currencies have been especially volatile over the past few years. At the turn of the new millennium, the Euro (€) was valued at 86 cents. In early 2008, a Euro cost in excess of $1.46 to purchase, representing a nearly 70% slide in the value of the USD within that time span. Even more erratic has been the subsequent erosion of the Euro within 2008 alone. Late into 2008, the Euro plummeted to roughly $1.20 USD, representing an 18% decrease in value relative to the USD within just one year. As the typical lifespan of the co-op or MDF program is often one year, some entity has to bare the brunt of this exchange rate fluctuation over the life of the program - either the global marketer or the channel partner.

In defining a channel program, an organization can elect to maintain a partner-centric or company-centric multi-currency accounting model as described below.

A partner-centric model is defined as having a channel program that fully operates in the local currencies of its partner members. All values in partner currencies are static and values represented in the manufacturer's currency are dynamic. As such, it is the manufacturer who absorbs the financial risk or reward of changing exchange rates. In this model, the channel partner's budget remains constant throughout the life of the program. When a claim is made, the manufacturer reimburses the full expense claimed by the partner in its preferred local currency, regardless of the actual cost to the manufacturer in USD. If the exchange rate changes between the date of transactional event (claim, for example) and payment date, the manufacturer is responsible for any shifts incurred over a program period.

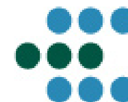
For the purpose of illustration, assume a partner is located within the European Union and is presented with an annual MDF budget expressed in Euros (€), and a manufacturer is headquartered in the U.S. and maintains a global MDF budget expressed in USD ($).

An example of a partner-centric model is provided below in TABLE A (below), and is based on a real-world example of currency fluctuation. In this example, note that the partner gets the full value of reimbursement expected, and the manufacturer absorbs all the risk of the resulting currency fluctuation. This example shows the manufacturer as having to pay $680 more for the activity versus the planned amount at the time the prior approval was submitted. This extra $680 incurred may not seem like a lot of money, but this near 7% change in payout after just 5 months quickly adds up with multi-million dollar budgets and hundreds, if not thousands, of claims submitted during the same period.

TABLE A: **PARTNER-CENTRIC MODEL**

TIME PERIOD	ACTION	COST $ (TO COMPANY)	COST € (TO PARTNER)
January 2007	Completed Prior Approval	10,000	7,800
March 2007	Complete Activity	10,450	7,800
April 2007	Submit Claim	10,554	7,800
May 2007	Approve for Reimbursement	10,680	7,800

In a company-centric model, however, a channel program operates in the manufacturer's base currency. To assure



greater stability and predictability across the life of a program budget, many global marketers opt for their budget to remain constant. All monetary values (including prior approvals, claims, payments, accruals and more) are static in the manufacturer's currency and corresponding values represented in partner currencies are dynamic, changing based on exchange rate. In this model, channel partners absorb financial risk or reward as their currencies depreciate or appreciate with respect to program currency at the time outflows such as payments are made. While partner may still be paid in their preferred currencies, the value of those payments will vary. Using the same exchange rates as presented in the table above, note that the partner's available balance actually declines over time to reflect the impact of the exchange rate of the Euro vs. the USD.

The example in TABLE B (below) spans the same transaction period and exchange rate as demonstrated in Table A. However, in a model based on the manufacturer's base currency, it is the U.S. dollar that remains constant throughout the life of the claim, thereby allowing the partner's balance to shift with the prevailing exchange rate. Upon initiating the activity, the partner requested, and was approved for, an activity with a planned cost of 7800€. Yet, when the time came to reimburse, there was only 7350€ available, a shortfall of 450€ versus plan, or roughly 6%. While this approach succeeds in making budgeting more predictable for the vendor, in a market where the USD is declining, the result may be a region of dissatisfied channel partners contending that they haven't received their allocation as originally presented.

Once a multi-currency accounting model is adopted, exchange rates become essential to program operations. Source, frequency and resulting impact on channel transactions and their values must be carefully considered. Expect fluctuations - and be sure your channel partners do too – by designing your program to account for them. If there are variances involved in the "net" payment amount due to exchange rates, the accounting model you employ (as discussed above) will prepare you and your partners to know who is responsible for the differences - the manufacturer or the channel partner.

CONVERSION

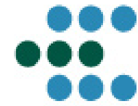
Fluctuating exchange rates are a reality, but there are ways to mitigate the risk for both sides. For all international programs initially funded with U.S. dollars, the simplest and perhaps most accurate way of assuring congruity between currencies is to buy the foreign currencies simultaneously with the allocation of monies to your channel partners. Essentially, this means you actually purchase the foreign currency at the time you approve the expense. This way, you know exactly how much your allocation is worth at the time of approval. This practice requires that you pre-fund accruals and maintain several accounts with balances in each currency. It also requires that an extensive cash balance be maintained for each currency - effectively tying up money while awaiting partner reimbursement. This approach may be more palatable for companies assigning quarterly allocations rather than annual—both because there is less money involved and because the money allocated will be dispersed across a shorter period.

A second method of assuring an equitable accounting of varying rates is through a daily reconciliation of exchange rates. This method keeps the reporting of accruals and balances accurate in the base currency while keeping claims and payments accurate in the partner's currency. Balances need to be (re)calculated constantly using daily exchange rates to represent fluctuations in a timely manner. Using this approach, veriablity still occurs but surprises are minimized because reporting is generally more accurate for partners and financial managers alike.

Yet another method involves a futures contract with your bank and/or program administrators to "guarantee" exchange rates for a specified period of time. In this scenario, it is the banks that are absorbing the risk by locking in exchange rates without the pre-funding burden. Of course, the bank is likely to apply greater

TABLE B: **COMPANY-CENTRIC MODEL**

TIME PERIOD	ACTION	COST $ (TO COMPANY)	COST € (TO PARTNER)
January 2007	Completed Prior Approval	10,000	7,800
March 2007	Complete Activity	10,000	7,500
April 2007	Submit Claim	10,000	7,450
May 2007	Approve for Reimbursement	10000	7,350



exchange rates as compensation for shifting the burden of managing the downside risk to them.

PAYMENTS

Once your multi-currency accounting model is in place, you can start planning the payment process. This process is more difficult than simply writing a check to distribute overseas, as checks authored in USD are generally not accepted as a standard means of remittance. Issuing payments in the partner payee's selected local currency is a best practice. In conjunction with currency, your channel program business process should guide whether or not your partners will be able to elect how they want to receive payments. To facilitate any type of payment, banking relationships need to be established to cover the geographies and currencies included in your channel program. Honoring partner currency and payment preferences need to be considered in accordance with which payments vehicles are freely accepted across all the countries you do business - bank draft, wire transfer, or other means. All countries do not offer the same freedom of exchange between currencies and their sources. For instance, due to the current political climate, sending money to countries such as Venezuela or Cuba is restricted. Still other countries, like Brazil, require unique declarations and process adherence to transfer money. Restrictions and special instructions for sending money from the U.S. abroad are in continual flux, but as of this writing some of the restrictions are provided below:

COUNTRY	RESTRICTIONS
Argentina:	Recipient must register in person at receiving bank and provide documentation for payment
Boliva:	Recipient must register in person at receiving bank and provide documentation for payment
Brazil:	Recipient must register in person at receiving bank and provide documentation for payment
China:	Beneficiary must provide reason for payment, telephone number and possibly visit the receiving bank in person in to sign approval, depending on receiving bank's policies
Cuba:	Currently restricted
Korea:	Beneficiary phone and payment reason required
Russia:	Wire instructions must be complete and include the beneficiary's name, address and telephone number. Also important: A complete description of the nature of the payment
Thailand:	Reason for payment required
Tunisia:	Beneficiary must provide reason for payment
Taiwan:	Beneficiary phone and payment reason required
Venezuela:	Currently restricted

LOCALIZATION

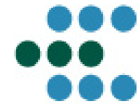
Localization considerations beyond currency must also be addressed to ensure your channel program is truly global and serving your entire partner community. Country-specific business requirements, laws and related limitations must be uncovered and evaluated prior to operating in impacted countries. Specifically, many countries regulate how programs may be conducted (if at all). When designing incentive programs in particular, local regulations have a dramatic impact on their legality or have unique tax implications. If you're planning a global program, this can quickly become very complicated.

In evaluating your go to market approach for a global channel program, consider the upside of programs focused on the needs of each locale:

- Greater partner awareness
- Higher adoption rates
- Tied to local market challenges & opportunities
- Targeted branding & messaging
- Local/regional program ownership
- More flexibility & speed in making program changes

Your program objectives and goals will guide you on establishing the best mix of centralization and local focus.

As you delve into the specific program elements - partner education, for example - regional needs become increasingly important. SPIF programs are another good example of where a local focus has proven to be most effective. Short-term incentive programs typically require higher engagement and responsiveness by partners and must be closely tied to local market conditions and behaviors. Even such programs, however, contain



elements that can be global in design and operation, such as payment processing or claim management.

CONCLUSION

Successfully expanding your channel program offering globally will enable you to improve processes, partner quality, visibility, and cost controls while increasing sales. With appropriate planning, partnerships and change management for your employees and local partners, the benefits realized domestically can be attained globally.

About CCI

Increasing program sales while simultaneously growing partner loyalty require a compelling mix of program design and management. CCI's multi-tier solution provides the automation, service and best practices essential to program effectiveness.

CCI provides enterprise software and services to help manufacturers manage, measure and optimize marketing programs for their distribution partners and retailers. CCI's client roster includes such blue-chip companies as Avaya, Autodesk, SonicWall, Sony Playstation, Qwest, Electronic Arts, and many more. Founded in 1983, CCI is based in Novato California. Learn more about CCI and their solutions for business at http://www.channelmanagement.com.