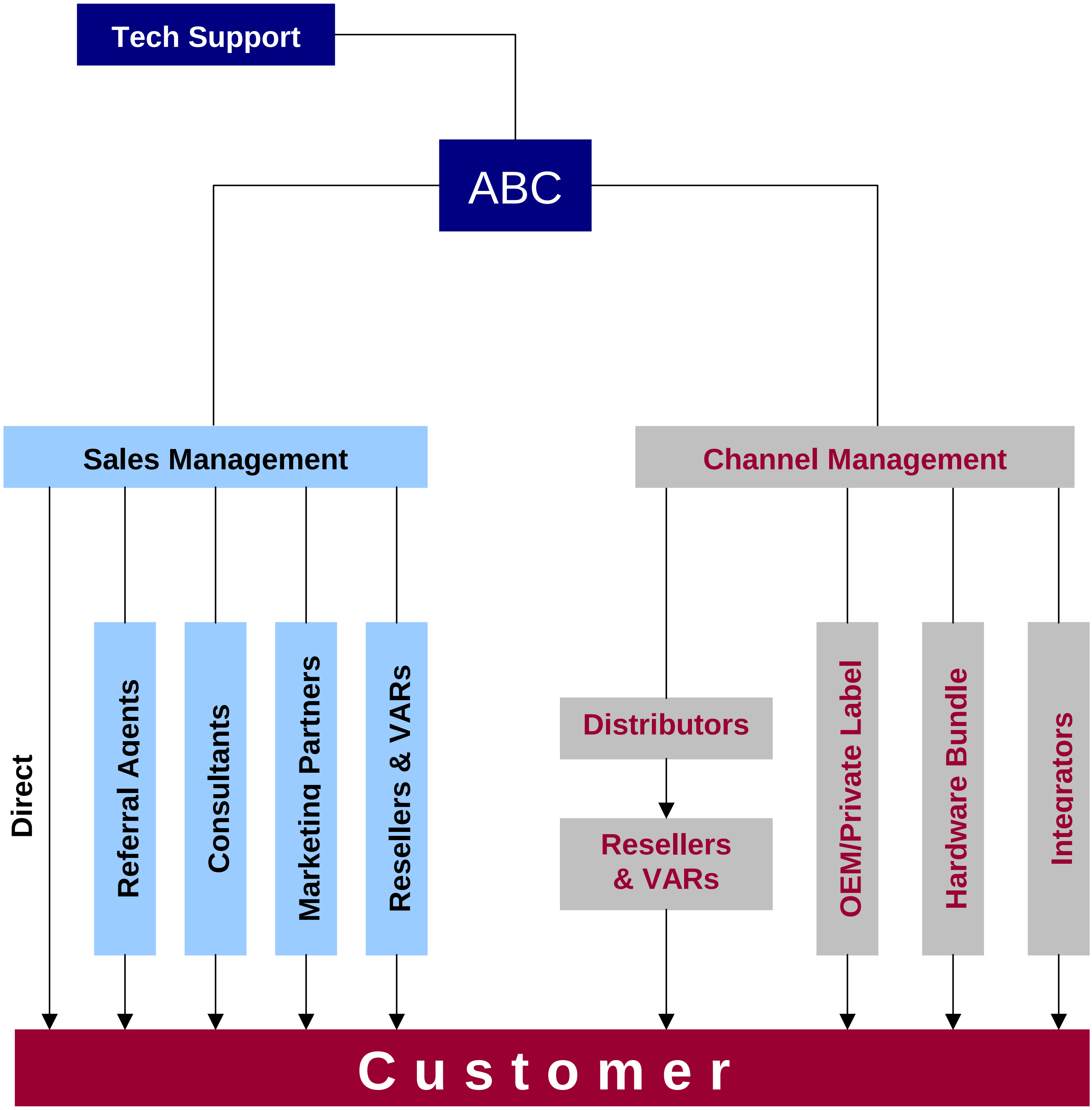
Channel Options



There are two ways for a developer to sell to end-user customers: either the developer sells to end-users directly (direct sales), or they have someone else sell to them on their behalf (indirect sales channel).

When a developer first launches a product, selling it themselves is often the only option. But, even after they have made those first few “missionary sales” most companies continue selling direct rather than pursuing other alternatives. This is because:

1. They don’t know how to get others to sell the product for them
2. They don’t have the infrastructure to support alternative sales channels
3. They don’t have a clear understanding of their true “cost of sales” and therefor believe it’s cheaper for them to sell direct
4. They see their solution as being a very technical sale that would be difficult for an “outsider” to sell
5. They don’t believe anyone can support the customer as well as they can
6. They want to have complete control over the sales process and the customer.

However, at some point most developers begin to realize that they cannot afford to hire the people they need to grow sales as quickly as they want. They then start to look at alternative sales strategies to either complement their direct sales efforts or replace their direct sales efforts altogether. From an internal perspective, those alternative sales strategies can be grouped under one of two general categories: Sales Management or Channel Management.

The Sales Management category relates to sales options whereby the developer is involved with, and can exert some level of control in managing, the sale to the end user. As a result, the developer will know who its end users are and can build on those relationships to sell more products and services in the future.

The Channel Management category relates to sales being made where the developer has little or no direct control over the process. Rather than managing sales to end-users, the developer must focus on managing and serving the organizations that are making the sales.

Sales Management

There are a number of different strategies that fall under this category. None of them are exclusive of the other. In fact, all can co-exist quite well as long as the developer pays close attention to the issues that will create channel conflict. Conflicts only occur when one sales organization takes away another sales organization’s sale as the result of inequitable developer pricing or other forms of unfair terms or conditions in the relationship.

Referral Agents

Beyond direct sales, the simplest step for a company to take expanding its sales efforts is to enlist referral agents. These could be companies, but more often than not they are individuals who provide consulting or similar services. Under this scenario, the agent finds an opportunity that would be a good fit for the developer’s solution and alerts the developer to the opportunity along with appropriate contact information. From that point on the developer’s direct sales team takes ownership of the lead. If the lead closes, the referral agent is paid a commission of between 10 to 15 percent. If it doesn't close, the agent receives nothing.

The challenges in this area lie in trying to identify, recruit and provide enough education to potential referral agents. Additionally, thought needs to be given to processes being put into place so agents are providing high quality leads rather than a large quantity of leads. In most cases active referral agents may generate 3 to 6 quality leads a year.

Consultants

Consultants are a step up from referral agents in that they actually meet with, educate and bring to the developer a customer who is prepared to sign a contract. Once the contract is signed, the developer owns the relationship as it relates to installing and supporting the solution. The developer will also invoice the end-user directly. Generally in this type of relationship a consultant will be paid a 20%-25% commission on all revenues generated through the end-user for specified period time (usually a year).

Marketing Partners

Some companies may want individuals or companies representing their products to have a higher level of commitment than a consultant normally provides. Some of that commitment may come in the form of:

- Completing an application form
- Some type of certification testing (which has to be matched with the developer's ability to provide some type of training – even if it is nothing more than stepping through slides on the company's web site).
- Development of a marketing/business plan
- Minimum investment annually in proactive marketing efforts

As with a consultant, a marketing partner would meet, educate and bring a "ready-to-sign" prospect to the developer. From the time an agreement is signed the developer would be responsible for delivering and supporting all company-related products and services to the prospect. The developer would invoice the prospect directly, and receive payment directly from the prospect. For this extra level of commitment a marketing partner would expect to receive 30 to 35% commission on all products and services sold by the developer to the prospect for a specified period of time.

Resellers and Value Added Resellers (VARs)

In a reseller relationship a company acting on the developer's behalf will be responsible for the entire process of marketing, selling, training and providing technical support to their customer and prospect base. Typically resellers expect at least 40% margins on product sales, plus all revenues from associated professional services that they provide to the customer. Depending on the technology and the competition in that market space, the margin to resellers can go as high as 60%. Generally a reseller relationship is much more formal than any of the other previously mentioned options. This includes completing an application form with references and the signing of a formal reseller agreement. A reseller's commitment should include:

- Sending at least one technical support and one sales/marketing representative for training

- Annual re-certification of at least one technical support and one sales/marketing representative
- Development of and adherence to an annual 12 month developer-specific marketing/business plan

If a reseller channel is to co-exist with a developer's direct sales effort some type of system must be developed whereby the direct sales force does not take business away from the reseller channel. This is often addressed by implementing a registration system, which allows a reseller the exclusive right to negotiate with prospective clients for a specified period of time, usually 90 days. If there are continuing discussions with the registered prospects, the 90 day period is usually renewed so that the reseller has enough time to close the sale.

Channel Management

Resellers/VARs/Distributors

Resellers can also be a part of Channel Management, but rather than having a direct relationship with the developer, the reseller has their relationship and buys their product from a distributor. This becomes common when a developer has so many resellers that it becomes too costly to deal with them directly.

Generally, distributors will look to a developer for at least 50% margin plus additional funds to help in the marketing and promotion of a product. Distributors will usually not take on a product unless:

- There is a significant existing or potential market
- Resellers are already aware of the technology and have a desire to buy
- The product offers features that substantially differentiate it from the competition.
- There is an effective marketing program in place
- The developer is able to provide technical support, training and merchandising tools

The difference between resellers and VARs is based primarily on the level of services provided with a sale. Resellers tend to be product-oriented, and VARs tend to be solutions-oriented. Resellers are expected to market specific products, be they hardware or software, while VARs will include those products in an overall solution that they are selling to their clients. VARs will rarely advertise or market specific brands, so they do not represent a direct conflict with traditional resellers.

OEM/Private Label

An excellent channel alternative is to have software bundled or integrated on an OEM (Original Equipment Manufacturer – a term that is now applied to software products as well as hardware products) basis into another company's existing software solution. The advantages to this scenario are significant:

1. The cost of sale through this partner is virtually zero
2. It does not consume any internal advertising/marketing efforts
3. Support requirements are minimal

4. The OEM already has a sales engine in place and most likely has a ready customer base
5. The sales and pricing strategies used by the OEM will have no impact on direct sales efforts or any other sales alternatives – thereby keeping all options open.

There are, however, a number of potential difficulties with this option:

1. Certain technologies do not lend themselves to being integrated with any other software solution
2. It is very, very difficult to find software companies willing to integrate another company's technology
3. There is a loss of identity, so building brand awareness is difficult
4. Contract negotiations have to be handled carefully, to prevent the developer's product being included as a low-cost add-on that could possibly undermine the ability to sell the product separately
5. If an OEM agreement is very successful, and the OEM partner becomes a large part of a developer's business, the OEM partner could be in a position to exert a lot of pressure on the developer.

There are no real pricing guidelines for this type of relationship. A lot will depend on the value of the software being integrated with, the competition in that market etc. A discount off list price is not really relevant. A developer should focus strictly on what they want to make off the relationship and base their price on that.

Hardware Bundle

By virtue of the technology, some software solutions may lend themselves to be bundled as part of hardware sales. However, it would be rare that a new technology could utilize this option. The only reason a hardware vendor would include software is if it helped to push the hardware. And in order to have that spin, either the market needs to already know the benefit of the software or the benefit of the software must be very obvious and compelling (i.e. doubles processing speed).

The advantages include:

1. The cost of sale are virtually zero
2. An implied (if not actual) endorsement of the hardware manufacturer
3. Will not have any impact on the company's pricing model through any other sales alternatives.

The disadvantages include:

1. May require supporting an uneducated buyer (potential high support costs)
2. May diminish the market's perceived value for the product
3. There may be very little contact with the end-user and therefor diminished opportunity for add-on sales.

Depending on the hardware, pricing will be very low. In many instances, software vendors will load a "lite" version of their product at little or no cost to the hardware manufacturer in the hope that the end-user will contact the developer in order to buy the full-featured version.

Integrators & Consultants

Like VARs, integrators and consultants work with their clients to provide a total solution, and do not focus on selling specific products or brands. However, integrators can approach the projects in a couple of different ways:

1. Project management. Companies such as EDS, Cap Gemini Sogeti and Andersen Consulting take on large projects for their clients, where their responsibility is to evaluate a problem, find a solution, and then implement it. In most cases they will design the solution, and then present product options to their clients, who are ultimately responsible for making the decision. For instance, if the project requires file transfer, the consulting firm might present three possible products, their technical specifications and pricing, and the client makes the choice. The challenge for a developer is to get visibility with consulting firms so that they are in a position to evaluate and possibly recommend their products.

2. Systems integration. Integrators are very similar to VARs, in that they integrate software and (often) hardware into a custom solution for their clients. A strong relationship with system integrators can be hard to achieve because they get called on by many software vendors, but once it is in place can lead to repeat business with a low cost of sales.

3. Facilities management/Outsourcing. There are some large IT companies, such as EDS and IBM, that take over the entire information systems management for their clients. This is often done on a fixed price basis for managing the current infrastructure, and cost plus for enhancements. In either case, the facilities management firm has a strong incentive to purchase products that reduce the operating costs or that make the environment they are managing more efficient. Since FM firms tend to be very large, with clients around the world, if a product becomes adopted as a standard, it is often installed at many other sites around the world, with both existing and new clients. Getting selected by an FM firm is difficult, but can be very profitable.