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Selecting the Right Sales Channels

By Erik Sherman
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Selling products wouldn't seem like such a chore if it weren't for dealing with sales channels: the observation is both humorously contradictory and all too true. Whether dealing directly with customers, through retail or through partners, managing different sales channels is complex and expensive enough that **many OEMs would prefer to reduce the number of channels they support**. Not so fast, warns New York consulting firm AMI-Partners. OEMs have both more and less choice than they realize.

Sales models that work for one size of OEM could be inappropriate for other scale firms, says executive vice president Eric Shuster, who works in AMI's Houston office. And some approaches, like selling direct through the Internet, can be more expensive than it seems on the surface. The trick for OEMs is to understand what channels work best for their businesses and then **concentrate on profits, not simplification**. And the answer can be as simple as three letters: V, A and R. Otherwise known as value-added resellers.

Matching Customers with Channels

Sometimes the cost-cutting temptation of trimming channels is unrealistic. Customers "have shown a **propensity to buy in multiple ways**, depending on what they want to achieve," Shuster says.

Let's start with the basics. While we all know there are four types of sales channels that OEMs must consider:

Four Steps to Simplifying Channels

1. Identify your customers
2. Understand how your customers shop
3. Rank potential sales channels for compatibility with your customers
4. Put priority on compatible channels that maximize profitability for your company

Source: AMI-Partners

1. Retail
2. Direct Response
3. Value-Added Reseller (VAR)
4. Direct Sales

the variations are important to review in depth. Retail, for example, includes warehouse clubs, computer super stores, electronics retailers and office product stores. Each country has its own variations -- France has no warehouse stores, while **grocery stores in Germany sell PCs**.

Not only are there traditional value-added resellers, but some independent software vendors (ISVs) also act as VARs, selling the hardware that supports their applications. **Direct response sellers** might work through catalog and

the Web, and direct sales can include corporate account management, Web sales and even company retail stores, for some.

What makes for a necessary complexity is that customers, depending largely on their business size, will use a different mix of channels. Small firms tend to purchase from retail because they feel **comforted by the presence of a salesperson**, though some are comfortable purchasing direct from a company that does significant consumer advertising.

Medium-sized companies, large enough to have IT personnel, will be technically comfortable enough to order directly from the direct response companies, or from the OEMs that perform direct sales. They might also order from VARs, as could small companies, which will often provide machines at **little or no markup** to gain the software or integration services revenues.

Because customers might expect to use a variety of sales channels, an OEM effectively trying to maximize the potential

Sizing the Customer		
Category	Employees	Channels
Small	1-99	Retail, VARs, Direct
Medium	100-999	VARs, Direct Response, Direct
Large	1,000+	Direct, Large VARs, Retail (for convenience buy)

Source: AMI-Partners

revenue must participate in all those areas if possible, lest the customer choose another vendor that can support them **in a myriad of ways**. Unfortunately, developing a channel strategy is not easy. OEMs come in all sizes, just as customers do, and the channel strategies that may be possible for one vendor will break the bank account of another.

Large corporations tend to buy direct, but do at times deal with large VARs or even with retail channels. Large companies view **retailers as a "convenience"** purchase – for example, when a department has an emergency need for a plain vanilla desktop device on short notice.

Tallying the Channel Cost

Even with standard hardware and software, many channels are closed to all but the largest OEMs. "If you want multiple channels, you're going to need to be a tier one, or you'll need a **very strong relationship** with somebody who is pumping hard volume to support going into multiple channels," Shuster says.

Retail chains are interested in vendors that do enough marketing to **pull the end users into the store**, which narrows the list of qualified vendors. "When you look at tier two and tier three OEMs, what they're faced with is a retail channel that is not going to be really interested" in their brand names, Shuster says.

Also, any useful exposure in the store is bound to have its price. "You're going to **give up more margin** to the store because they're working harder to sell for you," he adds. "It's a high overhead environment."

One twist on the retail

The Five Types of VAR Channels
1. Network Integrators

that can help smaller OEMs reach the mass market is

2. System Integrators
3. Independent Software Vendors (ISVs)
4. Traditional Value-Added Resellers (VARs)
5. Internet Service Providers (ISPs)

Source: AMI-Partners

private labeling for retailers like department stores. By providing generic PCs with a store logo, an OEM with little brand recognition on its own can gain access to a broader audience. Because of the private labeling, the OEM has no responsibility for marketing, making the entire arrangement **financially viable**.

Not only is this possible with retail chains, but also with some distributors that are capable of buying thousands of units a month. Just remember that **simple is fine, but profitable is vital**.

Direct response sellers are similar to the retail channel in many respects. They typically depend on the marketing might of the OEMs to help create demand for product that will then attract customers. Without the appeal for the buyers, the **direct response company has little interest in the brand**. And, like retail, there is a cost for doing business, often in the form of paying for display space in a catalog category or on a Web site.

Going directly to the user might seem the obvious choice for most OEMs, especially with the power of the Internet, but it is **often a poor fit**. Although major OEMs have used the channel successfully, the difference between the large and small company extends to direct sales. A Web site requires resources beyond those necessary to create and run it. Given competition in the market, attracting customers requires marketing -- which, again, burns through money.

"Even a regional newspaper would cost you tens of thousands of dollars to run an ad," Shuster says. OEMs might be able to attract local sales, but they are **unlikely to be able to expand regionally**, let alone globally.

Go Far as a VAR

On the surface, that leaves VARs -- a valuable channel worldwide, with hundreds of thousands of organizations of all sizes, concentrating on different industries. Here simplification can actually work even for smaller OEMs. They **concentrate on particular industries** or geographic regions, avoiding channel conflict by choosing partners that don't directly compete with each other.

Private labeling for VARs offers good potential for sales. Says Shuster: "You're going to find **VARs in all their flavors** interested in selling PCs" with their names on them. To find VARs, check trade publications for vertical industries as well as such channel publications as *Computer Reseller News* and *VARBusiness*.

VARs also offer an opportunity for a different type of customization -- that of "private label Web sales." Instead of having to generate all the traffic for direct sales itself, the OEM can create a **series of direct sales venues**, using the Web, for any group that might be able to draw customers. That could be a VAR, an ISV, or even a professional or community group. Shuster found the practice by accident during a project where he was looking at the work of system builders.

"I found several different resellers who had **Web sites that looked exactly the same**," he says. "The white box

manufacturer was giving them a Web site so they could sell their stuff." It is difficult to get much simpler than a standard offering of machines and a Web template.

For More Information

[2002 Guide to Distribution](#)

The VARBusiness list of leading distributors.

[The Distribution Dilemma](#)

In the April 8, 2003 issue of *VARBusiness*, T.C. Doyle examines the current state of distributors.

[The Competitive Advantage of Sales Channels](#)

First chapter of "The Channel Advantage," which discusses how channel innovation can separate market winners from losers.

About AMI-Partners

[Access Markets International-Partners, Inc.](#) (AMI-Partners) specializes in actionable market intelligence, strategic consulting, venture capital and go-to-market solutions for the global small and medium business (SMB) enterprises market. AMI-Partners' mission is to empower clients for success with the highest quality data, strategic planning and investment resources possible.

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