Distribution Channels

Value Chain
- What is it?
- Why important?
- Role of distribution?

Suppliers
FIRM
Distributors

Value Chain Example

Key Aspects of Distribution
- Should be customer oriented
- Should be attractive in price for channel
- Should both create and fulfill demand
- Should solve the whole product problem

High Tech Distribution Channels
- Direct Sales
- Retail Sales
- Warehouse/Catalog Sales
- VAR or Resellers
- OEM
- Systems Integrators

Direct Sales
- Manufacturing
- Internal Sales
- Shipping
- Installation
- Service
Retail Sales

- Firm
- Distributor
  - Large
  - Will resell to retail outlet
- Retail outlets
  - Deals directly with customers

Warehouse/Catalog Distributors

- Firm
- Distributor
  - e.g., Programmers Paradise
  - e.g., MacWarehouse
- Problem: little support available

VAR/Resellers

- Firm
- Distributors
- VAR's (Resellers)
  - Adds value in the form of software and service to product

OEM's (2 tier)

- Firm - Direct Sales
- Manufacturer
  - e.g., Automaker like Ford
  - Combines software into product like an on-board diagnostic system
- Sells final product direct to customer

OEM (4 tier)

- Firm - Direct Sales
- Manufacturer
  - e.g., computer maker like Gateway
  - Bundles software into product (on hard drive)
- Distributor
- VAR's
- Sells final product to customer

System Integrators

- Firm
- Direct Sales OR
- Middle Folks (optional)
  - Distributors
  - VAR's (Resellers)
  - Retailers
- System Integrators combine products to solve problems
  - e.g., Anderson
Demand Creation vs. Demand Fulfillment

- Retail
- Warehouse
- DF
- DC
- Integrators
- VAR
- OEM's
- Direct Sales

Whole Product vs. Device

- OEM's
- Direct Sales
- VAR
- Integrators
- Retail
- Warehouse
- Device
- Whole Product

High vs. Low volume

- Integrators
- VAR's
- Direct Sales
- Retail
- Low V.
- High V.
- OEM's
- Warehouse

Channel Tradeoffs

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Other Retail Channels

- Super-VAR's
  - Provides legitimacy
  - e.g., Ingram Micro
- Affiliates
  - Use 'em if you can find 'em
- Partnerships
  - Co-sell with a business partner
  - Potential win-win if you can find it

Direct S/W Distribution

- Disk distributors
  - Grew out of user groups
- CD-ROM's
  - Make your own or call a service bureau
  - About $1-2 a disk now
  - What happens when you update the s/w?
- Bundles
  - Work with a hardware manufacturer
  - Make sure there are no bugs!
Direct (cont.)

• User groups and BBS’s
  - Post via Netscape
  - Keep in touch with your basic market this way
  - Don’t sell hard or you will be spammed

• Magazine ads
  - Expensive

Web based Distribution

• Create an attractive site
• Register your site
  - Use keywords like “free”; “download”
• Give something away to customers
• Change your site frequently
• Keep your files small -- about 1MB or less zipped
• Q: Is the whole product covered?

Pricing for the Channel

• Build in enough margin to be attractive for the channel
• Price in the marketplace near the industry leaders
• Adjust as necessary for different customers, in relation to competition, etc.

Role of Comdex

• It IS the marketplace
  - Brings buyers, sellers, VAR’s, integrators, OEM’s together under one roof
• See and hear industry gurus, CEO’s, “visionaries”
• Validates existing assumptions
  - does not show new solutions
  - helps identify gaps
• It is NOT theory driven

Role (cont.)

• A place to:
  - test-drive new products
  - meet people and network
  - exchange ideas
  - Learn “how to”
  - share stories
  - discuss solutions to problems
  - identify players and technologies
  - Do competitive analysis
  - Share market data; e.g., IDC, Dataquest
Summary of Distribution

- Should be customer oriented
- Should be attractive in price for channel
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