

Understanding the Channel

A common myth about “the channel” is that the addition of “middlemen” adds cost. As surprising as it may sound, quite the opposite is true. The channel provides the value of an end cost that is less than or equal to buying computer wares directly, along with an increase in efficiency, expertise, and peace of mind. In large part, these benefits are the products of the many different distributors in the channel that meet the needs of solution providers, retailers and Internet resellers throughout the world. To understand how this works, you've got to understand what distributors and their reselling partners do, and how they do it.

When technology vendors, resellers or distributors talk about “the channel,” they usually mean the two-tiered (wholesale) distribution supply chain. In this chain, manufacturers sell technology products to distributors, and distributors in turn sell the products to end-user businesses and individuals, as illustrated by the following diagram.

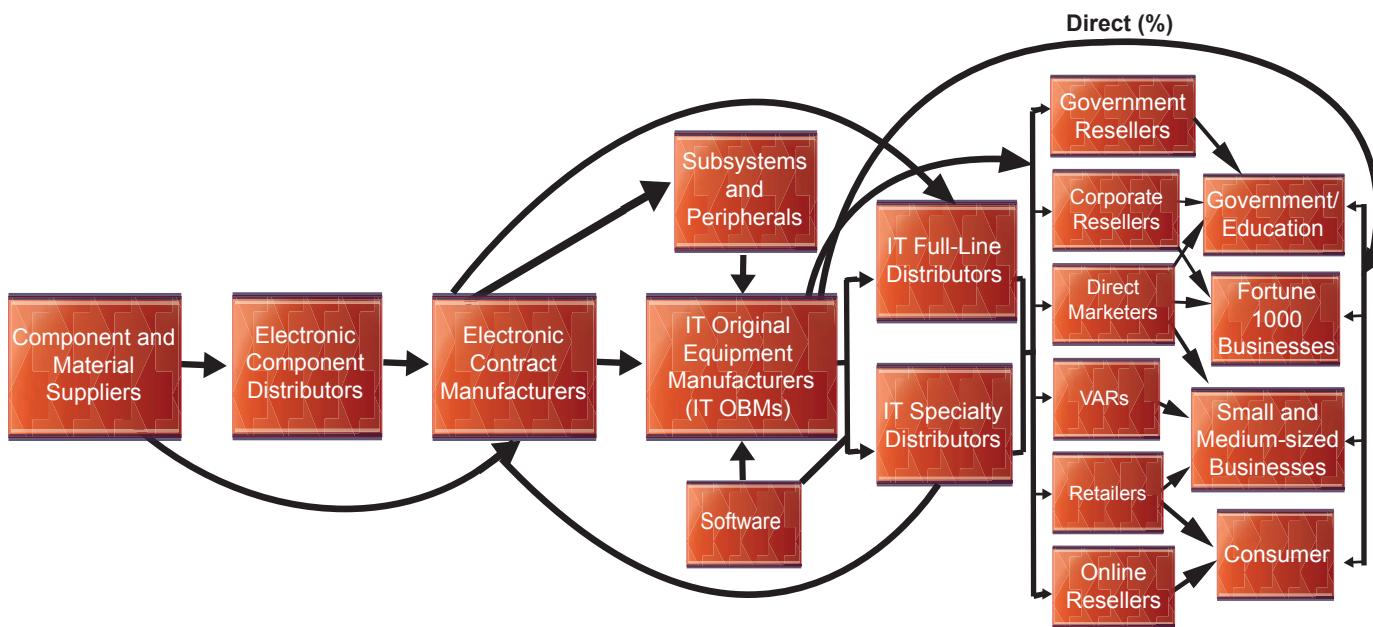


This linear supply chain model (“the channel”) is also called two-tiered distribution [Distribution’s Role] because two kinds of businesses — distribution and resellers — handle IT products as they flow from manufacturers to end-user customers. By most estimates, more than half of all IT products flow through the channel, perhaps as much as 60 percent.

A Diverse Value-Added Ecosystem

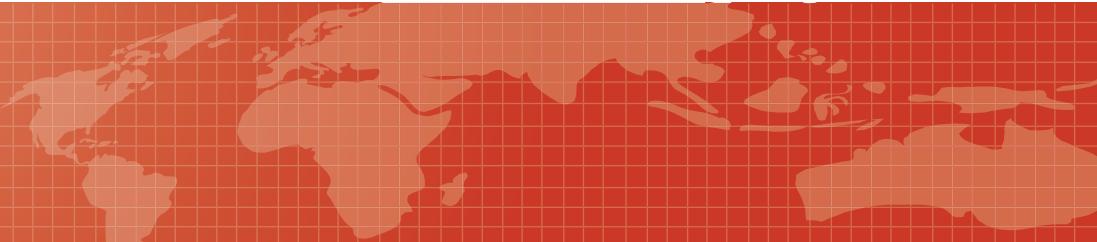
The IT supply chain, in reality, is far more complex than the linear channel model above suggests.

A more realistic picture is represented by the chart below from Raymond James & Associates:



As the chart illustrates, some distributors sell components to vendors as well as buy finished IT products from manufacturers. Some manufacturers and distributors sell directly to end-user businesses in addition to supplying resellers with their wares. Clear lines no longer distinguish one part of the supply chain from another. Any given product can take multiple paths to market. The question is, which path is best?

As the industry has evolved from a linear to a nonlinear marketplace, partnership and collaboration are more imperative than ever. Successful manufacturers, distributors, and resellers form and re-form teams and partnerships in response to market trends.



The Flexibility of the Supply Chain

The one constant in the channel has been change, as distributors and resellers continually discover new ways to take more costs out of the supply chain. See related [Costs of IT Distribution](#) study. When the Web became ubiquitous, distributors developed cutting-edge ecommerce expertise and passed that expertise along to their resellers. As technology has exponentially increased in complexity and capability, distributors have moved from a focus almost exclusively on product to an offering that includes a broad range of services, while always maintaining their position as the industry's channel experts.

While the distribution industry has seen some consolidation in recent years, distributors and reseller channel partners are more efficient than ever, operating on razor-thin margins to configure and efficiently deliver technology to their reseller customers.

Different Kinds of Resellers

Who are these “resellers?” Reseller, known as “solution providers” today, range from very small businesses staffed by a handful of technology experts, to giant discount sales operations that sell directly to end users through telesales and Web sites.

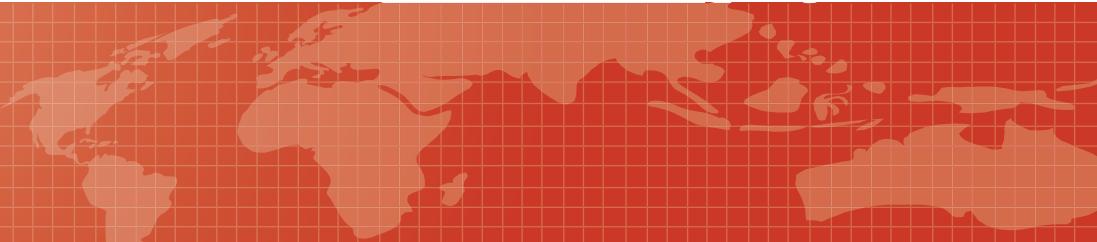
Corporate resellers specialize in Fortune 2000 accounts, delivering major technology implementations such as a corporate-wide hardware upgrade or a conversion to a new operating system. These corporate resellers often source products directly from vendors. However, most solution providers source their products from distributors. Solution providers specialize in tailored solutions for particular customer sets, from government to private enterprise. They add value by not only implementing hardware and software but also by ensuring that the technology solves a specific business problem for the customer. In addition, they are experienced with multivendor solutions, integrating products from more than one manufacturer into the best solution for the customer. Solution providers can sell to Fortune 2000 accounts, but more often focus on the small-to-medium business (SMB) and/or government markets.

The Channel's Sweet Spot: SMB

The two-tiered distribution channel is the most efficient sales engine for delivering technology solutions to industry, especially to the small-to-medium businesses that are at the heart of the nation's growth today. There is no more efficient sales force for this purpose than the thousands of solution providers supporting the businesses, government entities, and educational institutions across the world. The core competency of distributors is to aggregate the many products and services that help channel companies more easily provide total solutions to these businesses. For distributors, that also includes being a wealth of information for their channel customers.

With the continually increasing complexity of technological solutions, the channel today is as much about information as it is about products. Market research shows that resellers cite access to an informed distribution account rep as one of the most important pre-sales services distributors provide. Pre-sales technical information is crucial to a smoothly implemented solutions sale, and distributors can often be the only source of information about how to integrate a particular multi-vendor configuration properly. IT solution providers, therefore, use that distributor expertise to solve specific business problems for their end-user customers.

Knowledge is power in the technology business, and distributors — in addition to delivering the right products on time and cost effectively — in many cases also hold the key to delivering the knowledge needed to succeed. As a result, solution providers tap distributors as a resource for both products and information, and vendors tap them as their best, and most cost-effective, route-to-market.



A Closer Look at What the Channel Has to Offer



The channel provides a geographically dispersed, market-focused sales force at a lower cost than vendors can typically achieve on their own.



The channel makes it easier — and often less expensive — for businesses to acquire new technology compared to acquiring that technology directly from each individual vendor in a multi-vendor solution.



The majority of IT purchases include multi-product, multi-brand technology solutions ... the channel's specialty.



Distributors' low SG&A expense means no excess cost to the end user..



IT solution providers that comprise the channel prefer sourcing all their products from distributors who understand their needs while delivering value-added services as well as comprehensive hardware and software solutions.

IT Distribution by the Numbers

- ▶ **\$5 Billion+ of credit extended to the technology channel each year**
- ▶ **\$5 Million+ inbound calls annually**
- ▶ **\$2 Million+ configurations annually**
- ▶ **50,000+ individual customers monthly**
- ▶ **150 Million+ items shipped each year**
- ▶ **100 Million+ software licenses managed annually**