

Vendors rethink traditional distributor strategy

Friday, 6 February, 2004

Jonathan Roe

FOR a vendor, deciding on the number of distributors usually means appointing two, and sometimes more, partners to satisfy the channel's appetite for competition on product price, availability and credit.

But IBM's decision in October to drop Tech Pacific and stick with Express Data as sole distributor of its software is making the channel question the "two is best" mantra — despite channel players telling *Reseller News* a number of times previously that two distributors should be the norm for the big brands.

"Compaq, IBM, Toshiba, Microsoft and Hewlett-Packard should be sold through dual distribution," one distributor said in May 2002.

IBM's decision has been well received by its partners, partly because partners say Express Data is continuing a job that it did better than Tech Pacific.

"As far as I'm concerned, ED is doing a fantastic job of looking after the reseller," says Ken Fairgray, sales and marketing manager for Crossware, an IBM Advanced Partner. "It's better to have one distributor doing the business exceptionally well than two doing it in mediocre fashion."

Other players say having one IBM software distributor does not mean price, stock or credit availability will suffer.

"We're pretty aware of what market pricing there is," says Gen-i procurement manager Stuart Alexander. "The last thing the vendor wants to have is a distributor that prices itself out of the market. The challenge for ED is going to be how it manages the volume."

Alexander says Gen-i and other IBM Premier Partners have enough buying power to choose other vendors' products if IBM's wares are too expensive or not available.

Novell is another vendor that has gone down the sole-distributor track.

With more ordering and licensing being done online, product availability is less of an issue in software distribution, Novell country manager Matthew Christie says.

"The issues are more around customer service: not getting an [internet] link, not being able to download, and those sorts of things." Novell kept Express Data as sole distributor when its other agent Sealcorp went bust.

The "added-value" distributor is a platitude in the IT channel but Christie says Express Data performs this function well because it gives the vendor information on market trends and the reseller base. "Otherwise there would be a lot of ground to cover [for Novell]."

"[The single distributor model] has forced a clarity of communication and change in behaviour."

Christie says Novell would consider a second distributor but not a third.

Mark Presnell, CEO of IBM Authorised Partner Convergence, says while ED gave better pricing than Tech Pacific, the market only warrants one IBM software distributor. "There aren't thousands and thousands of IBM software sites in New Zealand."

Despite this, Presnell says his margin on IBM software has increased to the 15% to 19% range. "Five to six years ago they were below 10%."

Yet it is hard to judge the clout of IBM's software in New Zealand because researcher IDC does not record market share and IBM does not give out sales figures. IDC says packaged software sales were \$524.8 million in New Zealand last year and it expects them to grow 3.7% this year.

Packaged software includes licence revenue and covers the primary categories of applications, system infrastructure, and application development and deployment.

IBM software manager Lisa Buchan says in a written statement that the vendor has a policy of choosing "value added distributors". Express Data was the only New Zealand company willing to make the required investment in technical and administrative resources, she says.

Copyright IDG Communications Ltd, 2004