

Dell's relationship with the channel is not proving as simple as its 'direct vendor' branding suggests.

Ken Young
reports

CHANNEL HOPPING

THE DELL STORY IS A MODERN DAY legend. Michael Dell started his company in 1984 with a simple business idea: bypass the channel and sell directly to customers, then reduce costs further by building products to order. Twenty years on he is running a company with a turnover of \$40bn - not bad for a business idea that fits on the back of a fag packet.

So how does a vendor that has made it big out of going direct feel about doing business with resellers? And how do resellers feel about working with Dell?

At Dell's recent pan-European press conference announcing the new range of blade servers, CRN asked Kevin Rollins, Dell chief executive, what is his message to UK resellers. His response was simple: "We believe in selling direct, but some accounts want us to work with traditional partners; some have a fulfilment house they want to keep working with. We don't think that's a good idea, but we will work

with that third party if that is what the customer wants."

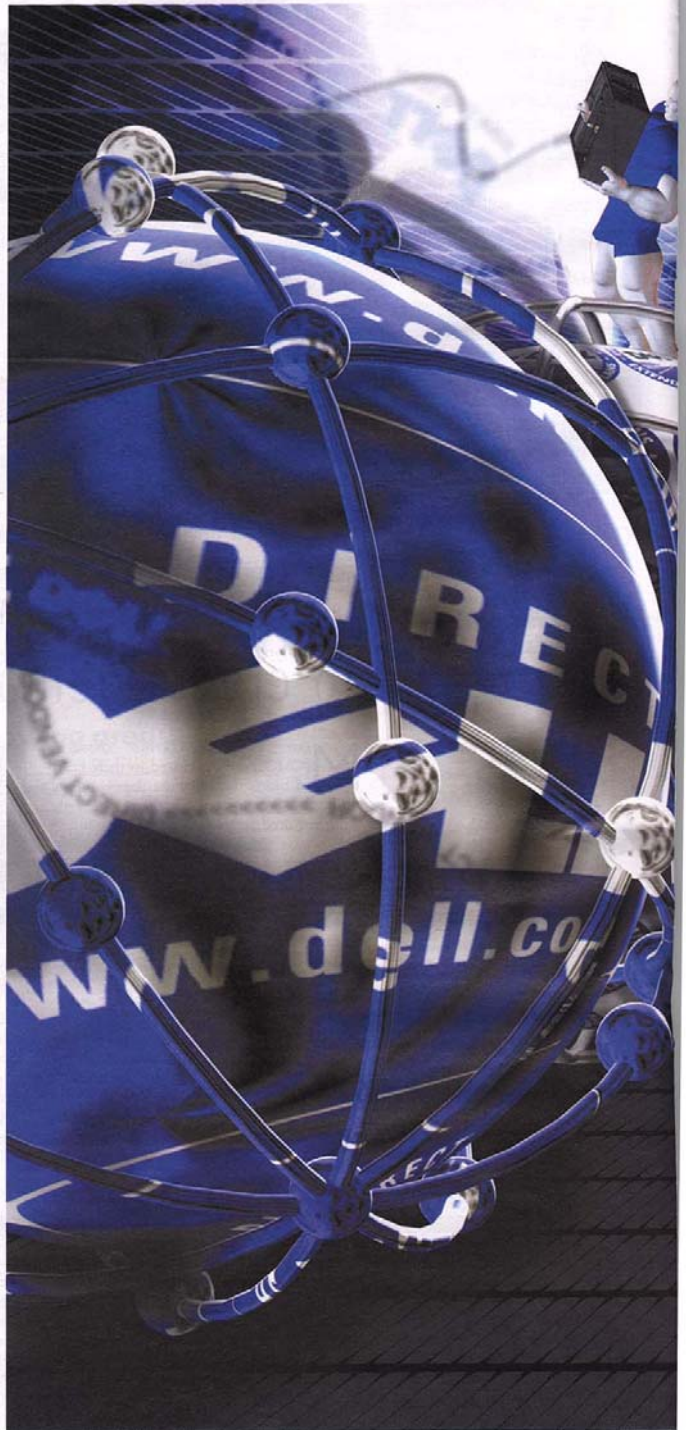
He went on to emphasise the role of the customer in driving any channel business. "Working with the channel is a customer-nominated option. I would say at the SME level we are 100 per cent direct, but for other customers we believe in what we call 'virtual integration'. We are often the prime contractor and we bring in other players, some resellers for example are our service providers and have a warm relationship with us. But the key is we own the relationship with the customer and we subcontract to others," Rollins said.

Since that comment, Dell's press office has added the following statement: "A small portion of Dell's business moves through the channel. We consider the channel to be a customer set, not a distribution mechanism. VARs receive similar offers and promotions to Dell customers and we do not run a specific VAR programme.

"While our VAR business has evolved and grown Dell is committed to selling direct. It's fundamental to who we are, how we relate to our customers and how we do business. We work with VARs that truly add value and are not just reselling a system; these VARs either have end-users that prefer the Dell brand or are typically unhappy doing business with our competition and come to Dell for the best value."

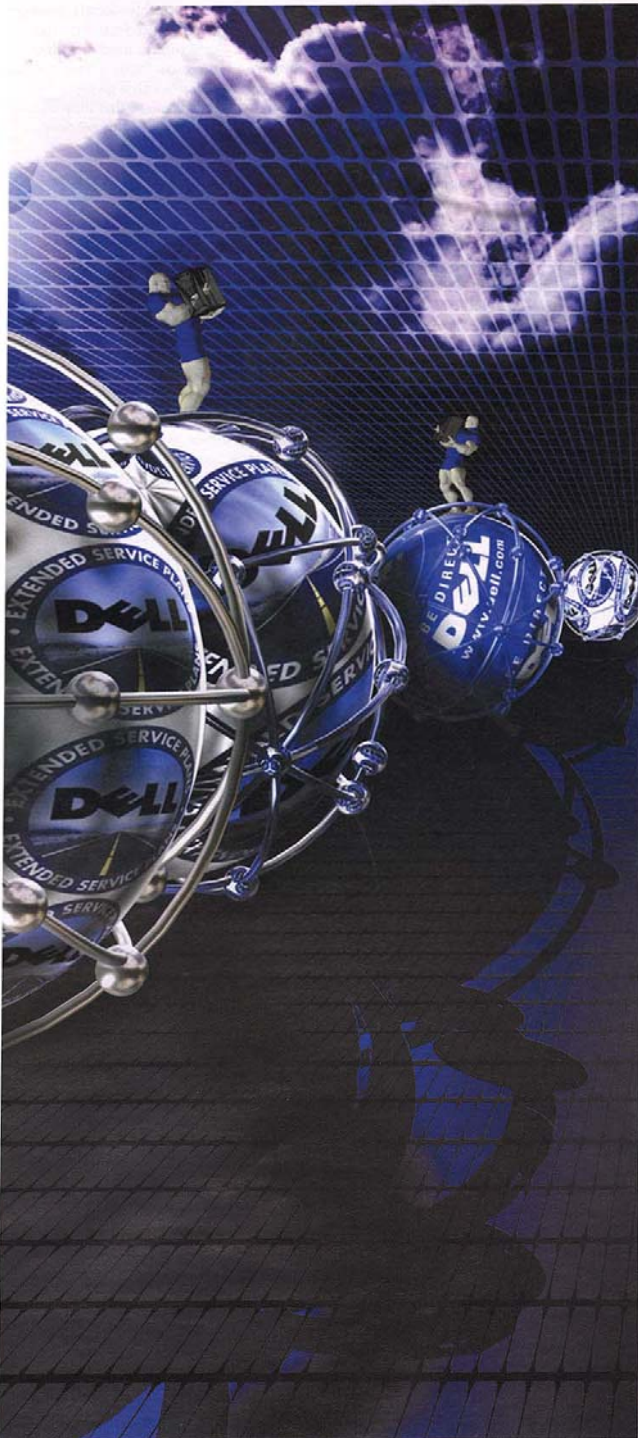
So as Dell continues its meteoric rise, is it increasingly developing a more pragmatic approach to the channel?

For competitors such as Fujitsu Siemens it is a matter of Dell facing up to the strengths of the channel. Ian Snadden, director of channel and SME sales at



CRN condensed

- ▶ Dell says publicly that it will work with the channel if the customer requests it, although it does not think it a good idea.
- ▶ Dell considers the channel a customer set, and does not run a VAR programme.
- ▶ But analysts say the firm has formal partnerships in some European Union countries.
- ▶ Canalis says between five and 10 per cent of resellers are currently selling Dell.
- ▶ Five per cent of resellers say the vendor they work with most is Dell, according to research from analyst Quocirca.



The Dell attraction

Robert May, managing director of IT Consultancy Ramsac

Why did you decide to partner with Dell?

"The Dell marketing machine is so fierce it is impossible to ignore. When submitting a quote for hardware, it is inevitable that the prospect will have received at least one piece of mail that week from Dell and will be making price comparisons.

"Because Dell doesn't use a conventional channel approach current prices are also only available from one place. Compare this with the Hewlett-Packard scenario where three different disties can quote three different prices for the same thing. We can quote Dell prices in the knowledge that if Dell changes prices that's what our end-user will pay, while we still make margin, and if a client has delayed on a buying decision they can check current prices for themselves on the Dell web site and then place their order with us.

"This works very much to our advantage for the many clients who like Dell equipment but don't like dealing with faceless telesales Dell personnel. We can offer Dell prices with Ramsac customer service, it costs the end-user no more, we make margin, sell our other services in addition, everybody wins."

How has it helped your business?

"It's made it easy to deal with the kit element of a project. If a client is happy to buy Dell - and most are - there's no arguing over prices. This certainly helps in accepting the other elements of a project or service portfolio proposal. Dell warranty services are also a very attractive element when costing cover for a server room and add additional value in our solutions."

Does Dell have a channel programme?

"Dell's channel programme is, to an extent, unofficial. However, it is most certainly a reality. We have an account manager, direct access to internal support and our Dell clients remain Ramsac-Dell clients. So if a client buys Dell equipment through us and then later calls Dell for a price they will be routed to our account manager and then back to Ramsac to actually get a price. Dell has also helped us with collateral and corporate promotional items for our seminars."

What is your advice to other resellers considering working with Dell?

"If you are going to work with a client to establish their exact networking needs [and qualified consultants sat in front of an end-user are much better placed to do that than a telesales operative] ensure that your client is registered with Dell as your client. In the same way that a client registered to a reseller remains exclusively theirs, if your client should call Dell and an internal sales person registers them on the system then they're a lost client. This is clearly one of the negatives of Dell, in that their internal sales guys are competing with their channel and are so hungry for commission that decency can often be lost."

Some resellers are concerned that Dell wants access to all their customer data. Was that your experience?

"There was a lot of industry talk about this when Dell first came to the UK market, rumours of Dell wanting copies of client databases for marketing purposes, but that was years ago and certainly not a reality now. Dell clearly has the details of the clients that have bought Dell kit via Ramsac, but that's all that is required for them to deliver Dell warranty services."

Fujitsu Siemens, comments: "It's not surprising that Dell is beginning to accept the channel has a role to play. Over the past few years it has seen enough of its products going through the channel - at its customers' specific request - to know they value the role the channel plays, and can cover for the failings of the direct model."

More importantly, Snadden also believes the channel is covering for any weakness in Dell's distribution system. "The channel is good at aggregating the complete solution and managing complex roll-outs to multiple sites in line with a project plan. And the channel is good at covering when Dell ships with missing items or part ships," he says.

According to analyst Canalsys, Dell has an ad hoc approach to the channel.

"Clearly, a proportion of sales are going through the channel," says Alistair Edmunds, senior analyst at Canalsys. "In some European Union countries it does have a formal programme and there is anecdotal evidence that Dell pays reference fees to resellers, which Dell denies."

Canalsys estimates that between five and ten per cent of UK resellers are currently selling Dell kit.

Edmunds believes that a lot of resellers are tempted to sell Dell kit. But he adds: "It's driven by what a lot of the other vendors are doing. If a reseller takes the service contract on, then Dell is less of a threat. It's also driven by customers. About one in four PCs in business are Dell, so some customers say they want to buy Dell but still want the reseller relationship. It's a great business model. It makes a lot of sense, but Dell cannot risk its unique selling point of being direct; it can't be perceived as doing both."

Meanwhile, analyst Quocirca recently polled 213 resellers, asking: "Which IT supplier does your company work with most?" Five per cent of them said Dell.

Bob Tarzey, service director at Quocirca, says the typical profile of those resellers is those selling in the SME sector. "They are not buying in huge volume, so

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they are used to small margins. Therefore they are less likely to be losing a good deal with other vendors. Typically they are system integrators, small consultancies and ISVs that focus more on service than hardware, but there is no typical size of company. You have to remember Dell has a strong relationship with Microsoft and the small business server is now pre-installed on Dell servers. IBM has only just started doing that.

But perhaps part of the key to understanding Dell's strategy is to look at its approach to service. Analyst Ovum Holway has been looking closely at Dell's service strategy.

"Its model is all about partnerships," says Kate Hanaghan, research analyst at Ovum Holway. "It sets up partnerships and takes responsibility for the supply chain. That's why it is winning large managed services contracts."

Indeed, Dell has just announced a massive five-year contract to supply and manage desktops and network systems to Dutch electronics giant Philips in a deal worth a whopping \$700m.

But Hanaghan also believes the approach can get Dell into conflict: "Mainly, it works through Unisys and Getronics to provide service, but there can be conflicts. For example, Getronics can win business from Unisys but keep Unisys on to service the customer, which is very strange. So understandably there is a strong feeling in the support services world of being threatened. You ignore Dell at your peril; it is ramping up [its presence] significantly over the next couple of years and is making no secret of that."

But as can be seen by press coverage in the past few years some of Dell's support has come under sustained attack, notably its services in India. In April this year the company admitted "learning a lesson" and announced cutting back some Indian services. A Dell representative defends the claim that Indian support is inferior: "In most cases Dell's customers don't care where they call or who they speak to.

Where Dell support 'falls short'

Dominic Connor, head of IT at City broking firm King and Shaxson

"We bought a significant amount of Dell kit up until two years ago. We bought high-end servers, laptops and desktops. Mostly we bought direct, but I would have been just as happy to buy through a reseller if the price was the same and I had a single point of contact.

"We now buy from Hewlett-Packard because Dell support just wasn't good enough. After dealing with their technical support in India, I have become a phonetic expert. The staff were not good enough and the quality of the phone line was poor. Even if I wanted to buy Dell now, I would find it hard to get management support for it.

"The low quality of Dell technical support is my reason for this. It just wasn't good enough; it was not professional. For instance, being told to format a hard disk and re-install for a problem that clearly wasn't due to that. Promises to phone back were never honoured. We could not get through to their complaints department. If we emailed we got no reply. The web site didn't work for an online form. Another problem was the support staff were forbidden to transfer you and they told us they could not talk to the couriers concerning the pick up of faulty kit. [In one instance the couriers had turned up at the wrong location.]

"The pricing was good, but the support was not professional. The thing about support is there is a lot of trust involved. Yes, there are service-level agreements, but who ever really goes to court? That's not what you want to do. What they say on the contract is one thing, what happens in practice is quite another.

"What I liked was that buying from Dell was easy. The pricing is there, and that is what you want these days. So many resellers want to come and talk to you and give you a price a couple of days later. That's not good enough today. You sometimes need an estimate price in an hour or so. With Dell you can do that."

They care about having any issue resolved. Our goal is to resolve issues quickly and we meet that goal with the overwhelming majority of our customers."

Not surprisingly, many resellers are pragmatic when it comes to selling Dell kit. Greg Carlow, managing director of reseller Repton, says it is a matter of facing up to customer demand. "There are customers who standardise on Dell so you respond to that," he says. "But the trouble is, Dell has no loyalty. We had a customer and Dell made promises, but later on they took the business direct. So they are principally a competitor, but it is seldom black and white in this industry."

But Carlow adds that existing relationships are powerful. "We have spent years hanging on to HP [Hewlett-Packard], so

we get attractive prices compared to list. With Dell I can't build a long-term business, so it's less attractive. We all moan about HP, Sun and IBM, but with Dell you just don't know where it's heading."

WStore is more critical. Stewart Hayward, commercial director at WStore, says: "It is a question of trust. We consider ourselves in partnership with the primary manufacturers. We would not be in the strong position that we are in now if we didn't trust our manufacturer partners to support and strengthen the channel. Then you have Dell. How many times have we read statements that they have no need for a reseller channel, that they will take services from the channel, or that direct is the only way they are interested in running their business?"

"We all moan about Hewlett-Packard, Sun and IBM, but with Dell you just don't know where it's heading."

"The truth is it probably doesn't need much help selling the product, but like every other manufacturer it needs resellers to support its product. From a resellers' point of view what does Dell give you? A slim margin and the promise that they will try to steal your business in future? Sorry, but we like to trust our partners."

Meanwhile, Tony Ruane, sales and marketing director at VAR RedStor, is more positive. "Dell has done a fantastic job at commoditising product. So we look at Dell kit where we or the customer thinks their kit forms part of the solution," Ruane says.

"It's not about making money out of the sale of the kit; it's about casing the implementation. Sometimes the customer wants Dell kit but prefers to work with a specialist supplier. The fact is the Dell brand is strong and they have a clear message to the upper end of the market."

Dell may never win the hearts and minds of most resellers, but few doubt that it will grow its channel-related business every year. What remains to be seen is how long it can continue to maintain such growth while holding on to its unique direct-to-market brand image.

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