

## The channel can service the market shift

As giant vendors such as Hewlett-Packard and Dell go from strength to strength, the CRN Council, comprising representatives from SME resellers, discuss what effect this could have on the future of the channel. **Simon Meredith** reports

» CRN brought together a group of leading resellers to discuss whether or not we have finally reached the end-game in the PC market, and if it is now inevitable that major vendors will all sell direct to their biggest customers and anyone else who wants to buy direct, leaving the channel with small reward.

For some time now there has been practically no margin in the provision of desktop and mobile PCs and even servers. With prices and margins still coming down, and vendors under extreme pressure to maintain market share, is it time to accept that we should just take the cheapest route to delivering the boxes and make our money from services?

Is it time, with so few vendors left in the market and Dell's market share continuing to increase, to accept that hardware vendors must simply take the orders and whatever margin is left in systems sales, and find new ways to recognise reseller advocacy for their products? Wouldn't this, in the long run, be better for everyone, including the customer?

If this is not the way forward, what is? How can we help vendors to find the right approach? What do we need them to do? CRN brought together members of its Reseller Council to discuss this issue in depth.

While acknowledging that it is hard to make money out of PCs now, Gordon Davies, sales director at VAR Compusys, does not believe it is time to give up on the boxes completely

and simply accept that whatever fulfillment model users want and vendors choose to adopt.

"We don't think it's time to give up. We have re-engineered our business to provide a broader level of services and to do what we call 'selling glue'. We've been investing in that for three years now, and it's really paying off for us. Going to a fulfillment model just makes no sense. If anything, we see profit coming back," Davies said.

How will this happen with prices being so low? The answer, said Davies, is that the PC simply provides the touch-point with the customer. It is not the solution in itself.

"As long as that touch-point is a good experience there is a whole raft of other stuff you can do if you are flexible and good enough. You just have to understand what the customer wants to achieve, then deliver it. It is that simple: do that and you'll make a profit," he added.

Paul Barlow, who was managing director at VAR Equanet when the council met, and is now group sales director at PC World Business PCWB, following the buyout of Equanet by PCWB (CRN, 23 January), referred to a recent IDC report that showed low prices are not the strongest driver for customers. They expect a competitive price, but they want a decent level of service and more importantly, a relationship. "How can vendors have that relationship on the street as we do?" he asked.

Robert May, managing director at



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Ramsac, said that his firm has looked at pulling out of hardware completely and just selling services several times, but as yet, it always continued to sell the products. "Clients want to get the entire solution from us," May said.

According to Davies, there has been a profit-shift. And while the mix of what the reseller charges the customer for has changed, the actual margin has declined much less.

"We are making roughly the same margin but on a smaller sell-out cost and an average selling price. The profit has moved from the box to the services you can bundle around it," he said.

Customers will buy those services from resellers that they trust, said Davies. Resellers have had to invest in improving their skills to meet this need, but the demand is there because IT departments will often not have the means to deliver the desired end result.

"We are selling more services around the kit. Two years ago we would not have charged for the project management of a sale, but we do now," he said.

This element of the reseller's service is often overlooked, and it is something vendors can't do at all well, according to Barlow.

"If you want a vendor to ship 1,000 units in two month's time, that's no

problem. But to do a roll-out over a three-month period, of 20 PCs a week with an image on them, and it never works – we take the pain away from the vendors," he said.

Why then, have we all been so concerned about Dell? We shouldn't be, Davies contended.

"Dell continues to grow faster than the market, and you would be stupid not to be concerned about that or the underlying factors that allow it to do that. Once you start looking at that, you see some of the inequities there are in the market and you start addressing them," he said.

While certainly worthy of our attention, Davies said that the direct model Dell uses is not all that great when you start to dismantle it and address it in a sensible way.

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### THE CRN SME RESELLER COUNCIL

- Paul Barlow, managing director, Equanet.
- Gordon Davies, sales director, Compusys.
- Tony Davis, managing director, Elcom IT.
- Robert May, managing director, Ramsac.
- Phil Reakes, managing director, Selway Moore.
- Simon Aron, managing director, Eurodata.
- Kate Hembury, sales director, WStore.



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We should not, for example, take Dell or other direct vendors to customers as they will simply take over the account. Davies and other Council members hinted that this had been done too much by some major resellers which are now paying the price.

Another reason we should continue to be wary of Dell, said Tony Davis, managing director at Elcom IT, is that it is shaking the confidence of vendors which have, up to now, been channel-focused. However, the rumours that Dell will start a major reseller recruitment drive in the UK before the end of 2005, did not come to fruition.

Some council members admitted that they have already sold Dell kit themselves. One member of the panel asked: "If Dell had a channel programme today how many of us would sign up? I would." The argument here is if there is demand for the product, resellers need to meet that demand. Other council members said they would not consider being part of a Dell channel.

Selway Moore is a Hewlett-Packard (HP)-only reseller, so it would certainly be among the latter. Phil Reakes, managing director at the company, said that channel-friendly vendors had contributed to some degree to the noise that has been made around Dell.

"We live or die by HP, and we have direct experience. HP has helped to create a lot of the increased competition that a lot of us fear. We are a mid-market reseller, and HP had a clear objective to go direct into its bigger accounts. It actually worked directly

with SCC and Computacenter to push them down-market into the mid-market space. HP helped to create that problem because it was running scared of Dell."

Simon Aron, managing director at Eurodata, agreed that Dell has triggered off reactions from other vendors that were causing greater competition for resellers. But he added that Dell had also managed to turn the tables to some degree on its rivals by bringing services business to the channel. Aron added that Eurodata has won several contracts to service Dell-populated desktop estates in large firms. "Dell recognises us as a triple Gold Microsoft partner. Dell don't have the resources to handle the services side, but still need to fulfill this need in the market," he said.

Eurodata is about one of 20 Microsoft partners in the UK that Dell calls in to provide specialist consultancy. Maintenance and support for areas such as storage are provided by specialist third parties such as Getronics and Unisys. Other council members pointed out this is all well and good for the resellers that get the business, until Dell buys a services company, as is predicted by some observers.

But Aron is not so sure that Dell will do this. "Dell tried a few years ago, and it couldn't find anyone big enough. If you look at the market now, even though it's consolidated, Dell will still find it difficult. It's a fundamental problem that Dell has and it does realise at the upper echelons that it is a manufacturer. Dell knows what it is good at and not good at," he said.

Aron added that the services that are developed around a PC or laptop are only available for a short period of time, and most of those processes – even maintenance – are automated, or are being automated by customers. Rather than buying comprehensive maintenance contracts, corporate customers are simply getting rid of faulty systems now. Eurodata's strategy is to focus on processes that are not desktop-related.

"The more I can get away from hardware-related services the better. That is what we are working towards," Aron said.

Compusys' Davies said his company, is no different. Even though it is not yet ready to give up hardware sales, it has been making that play for three years or more now.

"The fact is every year when we look at doing our budgets, hardware has been returning a profit. We have just done our biggest server deal ever," Davies said.

Even so, other parts of the business



**Tony Davis:** Look at why people might want to use a reseller. Neither HP or Dell manages the customer experience well as a direct play and the channel overcomes a lot of these short-comings.

make much more money for resellers. Davies said being a Microsoft Gold partner had helped the company tremendously. It generated well over £1m worth of business for Compusys in the past year, close to half of which is profit, he told the council.

However, the hardware still has to be there. While members of the council seem to be happy and making money from servers, the PCs and laptops are harder work, Aron said. Sales people can make good commissions on selling consultancy, but virtually nothing on hardware. The drive to sell the boxes therefore is removed. The problem, Elcom's Davis pointed out, is it is very difficult to make the switch and replace the millions generated in hardware revenues with services. "If you do that how can you support 100 staff? All you can do is work towards it," he said.

Whether you can make a return on it or not, the hardware is often simply the door-opener, according to Barlow.

"The relationship is then there to introduce the other services. The communication between the two companies gets going because we provide the hardware," he said. "We are able to test ideas such as mobility, security, storage solutions and there is credibility, because we already have a reputation with that customer."

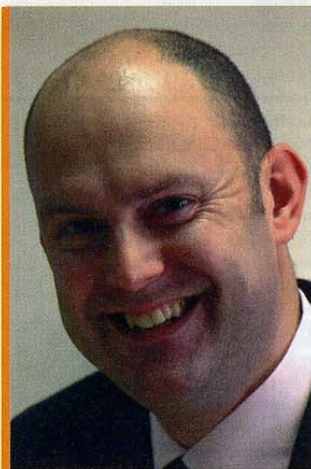
Once the case is proven, the trick can often be repeated and generate some profitable hardware sales, which effectively closes the loop for the reseller. One reseller on the council has recently won business with public services right across the UK with a

replicated solution that needed a lot of storage in every installation.

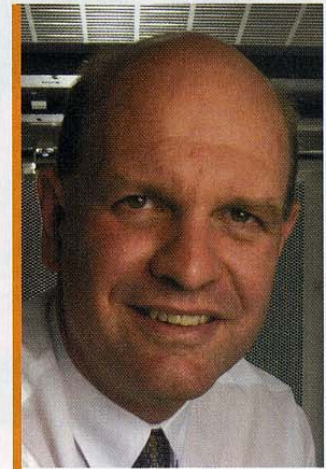
"It was a hardware-based problem which we were able to fix. We've run that out across the country and it has made us lots of revenue. It has managed to solve our customer's problems and do things they have never been able to do before," said the reseller.

Too many vendors have been distracted by Dell, Barlow said. According to Reakes, others including HP, have put clear demarcation lines in for the channel for the first time. This has, at least, made the competitive situation clearer. But other

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