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The key to survival

Channel leaders tell of their experiences in previous downturns. **Fleur Doidge** reports.

David Spate, sales director for the northern EMEA region at Overland Storage, was working in sales at IBM in the late 1980s after the Wall Street crash of 1987. "I had not been long in the workforce at that time, but in the early 1990s, IBM found it tough."

His overriding impression was that everything changed. The IBM he joined in 1988 was all about shifting tin, it was all about high margins and seemed wonderful, Spate said.

Big Blue rose to the challenge of change and today is a giant software and consultancy company, turning over billions.

"The IBM transformation was cathartic. It did a tremendous job. And at that point I ended up in a division of IBM called OEM, because we were going to sell IBM's technology to its competitors," he says.

That successful strategy saw Spate directing IBM's European hard disk drive (HDD) business in Europe at the end of his 11-year stint at Big Blue. Today HDD has become a major part of IBM's profit.

"Organisations that have the core capacity and the right people can come out a bit stronger," he says.

After 9/11, Spate was the European sales director at specialist VAD Bell Micro, which he had joined that year. "I had gone from a vendor to a small start-up and again, it just set out to do what it had to do."

However, two new areas, Ideal and European sales, brought several millions of dollars in new business growth over four years to Bell Micro. That helped balance out revenue declining in other areas of the business.

But the interesting thing, Spate says, was that large investments were needed for those returns.

"You need to ask what you do in other areas that is relevant as well," Spate says.

Ian Kilpatrick, chairman at security VAD Wick Hill, said his company, which survived recession in the 1980s and again in the 1990s, focused on working closer with its channel to grow business.

"We increased our marketing and pre-sales activity with reseller partners and for reseller partners, providing supportive credit lines for those partners growing their businesses," said Kilpatrick.

Investment is critical, but because each downturn is different, doing the same things each time will not necessarily help. The key is to develop agility in response to rapidly changing market conditions, he said.

"But today it is different. When you come into work, you do not know if your bank is going to be in business at the end of the day," he added.

Neil Robertson, chief executive of e-procurement and expense solution provider Vectra IT, has survived various downturns working for accountancy VARs.

"During the 2000 downturn, I was running Great Plains' European operation. But in 1990, I was a director at Misys," he says. "During 1988-89, Misys was acquiring other companies at a rapid rate."

Robertson warned that in 1988-1989 things seemed to still be business as usual, but a substantial time lag marked the downturn, with certain industries suffering well after the losses at the stock exchange.

"We were running maybe 28 companies across the UK and everything looked good. There was really no indication that anything was wrong," Robertson says.

"And when it finally happened, it happened quickly. Companies, irrespective of their budget, were saying they would no longer spend with the channel without special board sanction."

Those that survived had to act quickly to avoid being caught up in the storm.

Robert May, managing director of Surrey-based Ramsac, launched the consultancy in 1990 when he was in his 20s, but it has continued to thrive and grow.

"I do not know why I did it. If you were to ask me if it was a good idea to start a business in the middle of a recession, the obvious answer is that you would have to be mad," he said.

May remembers going to businesses and trying to persuade them that they should buy computers. May had been working for a software house, but in those

Moving on: A positive and proactive strategy has been invaluable for channel firms during previous economic downturns

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days was a Novell consultant and acted as channel manager.

The recession of the early 1990s pushed IT providers to start the rounds of margin slashing and value adding that are only too familiar today. May was selling expensive software with high profit margins, and getting away with it because nobody was doing it differently.

"Our software was the equivalent of buying a Ferrari. But if you write a cheque for £145,000 and then the dealer charges you for a tank of petrol on top of that the whole deal goes sour," said May.

The opportunity was there so May started Ramsac, although times were tough. Customers asked what they would do if he went bust, so May formulated an approach that he says has served Ramsac well ever since.

He ensured that all stages of a project or service are documented extensively in such a way that a third party could come in and take over, following Ramsac's detailed notes and explanations of processes.

"I told them if I am not here in 12 months' time, it does not matter because anyone else can do it," he said. "You can take our documentation to a competitor and they will be able to look after you."

He does not tie clients in to a 12-month contract either. May's plan is to make his customers so happy with him that they will not need to go to a competitor.

"Our ethos is to make IT simple and if you do that, customers stay with you," May claimed. "And we rarely lose customers."

Yet a firm's biggest challenge to growth is often access to credit – one of today's main problems.

In 1990, May simply told everyone up front they would need to pay straight away. Surprisingly, he found that people do not refuse such requests as often as one might think.

"Perhaps they do not pay for all of your time, but they pay for all the kit," he said. "And that goes back to what I said earlier about totally controlling your cashflow."

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