

IT Channel News:

When vendors get too big (and channel unfriendly), VARs get going

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Tech solution providers face a perennial quandary.

They like to be associated with brand-name vendors, but the flip side is that those vendors -- Microsoft, Hewlett-Packard, Symantec, McAfee -- tend to have lots and lots of partners. Their products are over-distributed and at that point it can make sense for VARs to look to smaller, nimbler, more channel-friendly vendors to work with.

"When is it time to look at new [vendor] partners? All the time," said Dave Dadian, CEO of PowerSolution.com, a Ho-ho-kus, N.J., VAR. Powersolution.com is always vetting four to six new vendors, he said. From those candidates it will cull potential new products and services to offer its own customers.

There are some gems out there. Dadian, for example, is very bullish on Eset LLC, a small Bulgarian security software provider with U.S. offices in San Diego. "We signed with them at the beginning of the year, and in over four months, we've probably gotten 20 leads and closed about 15 or 16 of those deals. They are a pleasure to do business with," Dadian said.

Smaller companies may not sell through broadline distribution, which can be a problem, but they're also hungrier and more open to partnerships, many VARs say. And they don't have big direct sales forces or services arms that end up competing with VARs in many accounts.

And then there is the issue of long-term viability. But the view seems to be if a company's technology is good, it will live on, either independently or as part of an acquisition.

Over-distribution bleeds margins

The simple fact is that as products -- Windows, Office, antivirus software, desktop

computers -- become commodities, margins thin and VARs must look elsewhere to add value and make money.

Paul Clifford, president of The Davenport Group, a storage VAR out of St. Paul, Minn., said his company aligned with Compellent rather than some of the bigger storage providers, specifically because of Compellent's channel outlook. Compellent, in Eden Prairie, Minn., claims 100% channel fulfillment. If there's a customer, there must be a partner involved.

"To me it's all about relationships," Clifford said. "At 60 thousand feet, what we do is develop, maintain and grow our relationship with the client. At the end of the day there has to be a profit margin that makes it worthwhile and important to stay with the manufacturers that help you grow that relationship and that show your value. Otherwise it's like selling in a supermarket."

He and other VARs point to NetApp, the storage appliance maker that recently dropped StoreVault, its key midmarket channel-focused storage product. "If we'd carried that product, we'd have had our legs cut off at the knees. It was their SMB play, and they have a lot of them out there. Now what?"

Another Midwestern VAR seconded the relationship mantra as an antidote to channel conflict.

"For us, it's a matter of trust," said Tracy Butler, president of Acropolis Technology Group in Wood River, Ill. "If we can't trust the vendor, it's time to look. That's regardless of size. Our core business does not make a ton of money on selling products, but when vendors violate the rules of the game that they set with us, then we look. It's one thing if we start with a vendor with a direct sales focus, then you know what you're getting. But when a vendor says one thing and does something else, that's bad and it doesn't matter what size they are."

All too often the problem is that a vendor, which professes channel love, ends up competing with its own partners for deals or, in some cases, favoring a few large partners at the expense of smaller VARs that may even be the incumbent partner in an account.

Virtually all of the vendors reserve some large "named accounts" for their direct sales teams or for select enterprise-class integration partners like HP Services or Accenture. This irritates smaller VARs that have previous relationships with large accounts that are being re-directed by the vendor to those select big integrators. These VARs say the vendors -- Microsoft and Cisco are two examples -- try to compartmentalize customer accounts by size when that may not necessarily make sense. Cisco lost a highly publicized lawsuit last fall in Southern California, where this was the case.

VARs want a piece of the software maintenance, support action

A common theme is that while VARs prefer higher-margin services and integration business, they still rely on product sales margin to fund their growth. They would also very much like to get a cut of the software upgrades and maintenance business, which Oracle, Microsoft and other companies keep in-house. Smaller vendors may be more amenable to sharing that wealth, VARs say.

Earlier this year, David Hiechel, president of Eagle Software Inc. in Salina, Kan., said the maintenance question makes vendor choices much easier.

"If we're not able to make margin on software renewals, we won't even look at the solution," he said. "We won't even consider it."