A Step Beyond Technology

An End-Users Guide to Understanding and Successfully Leveraging HP's "Channel Partnerships"

by

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Abstract

As the name Hewlett-Packard indicates, Hewlett-Packard Company was founded as a partnership. Today, almost six decades later, HP has elevated and recognized partnerships as a new and emerging "core competence," complementing its traditional competency in making complex measurement and computing products. In 1996, about 50% of HP's Computer Systems are expected to reach end-users through an HP Channel Partner. That is why the author - a channel partners program manager - explores the changes and challenges of the HP's Channel Partners from the end-users' perspective.

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The separate, yet synergistic role of HP's channels such as VARs, DARs, SIs, and Distributors will be examined and explained. The end-users will understand how each channel can deliver a compelling value proposition to them, specially in assisting them in their endeavors to derive value and productivity from the technology and in developing an effective Enterprise Computing Strategy. The paper is intended to be an effective end-users guide in understanding and hence, utilizing all the opportunities available to them with the channel partners. In other words, empowering and encouraging end-users to take a step beyond the technology itself, by allowing the power of partnerships to virtually go to work on their behalf.

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Partnerships: A Modern Reality and a Way of Life

During the past ten years, the computer industry has been hard at work aligning its sales and distribution channels with the new waves of technology and consequent shifts in its target markets. Growing demand for networked open systems and associated downward price and profit pressures are among the latest trends that have been driving vendors to rethink both their product and channel strategies. The unanimous industry reaction and response to these new waves of change can be characterized by one word: Partnerships!

Despite the fact that partnerships and strategic alliances have very much become a way of life in the IT industry, "they are neither natural, nor easy things to do," according to Lew Platt, HP's President and CEO. Most companies find it hard enough to manage across their internal organizational boundaries, let alone trying to manage across the boundaries of two or more companies. However, the powerful industry forces and trends strongly mandate partnerships as a requirement for competitiveness and survival in today's business environment.

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Here, we first attempt to discuss the partnership concept from both product and channel perspectives. Later, we focus on how end-users and customers can turn these partnerships into opportunities for a more comprehensive, timely, and cost-effective access to desired solutions and services.

Product-centric Partnerships

All successful companies have core competencies - areas of developed or acquired expertise that provide them with a competitive advantage in the marketplace.
In order to successfully compete in today's tough business environment, companies need to return to their core competencies. However, to meet the growing diversity of customer needs, companies seek alliances and partnerships to supplement their core offerings. In other words, the era of DECs and IBMs of the 70s and 80s, who tried to be all things to all customers, is over.

Hewlett-Packard company has many examples of returning to it's core competencies and finding partners whose different competencies complemented HP's, resulting in excellent offerings and solutions for our customers. The relationship HP has with

Canon for building the LaserJet print engines, and the more recent strategic alliance with Intel are both good examples.

In the case of Intel, they have a widely demonstrated competence in semiconductor and CPU design. This is something that complements HP's core competence in the areas of systems design. This way, each company focuses on what they do best, leading to greater benefits and value for the ultimate beneficiaries of the alliance - the end-user customers.

In the context of technology and products, the term "Strategic Alliance" usually refers to the partnerships that require significant technology transfer and sharing of core competencies as well as significant joint investments that may expand from product design to manufacturing, and sometimes even to sales and marketing. However, the term "partnership" necessarily does not have all the above connotations, and refers to less complex arrangements that are less binding and require a lower level of joint and long-term investment commitment, yet pursue the same objective of focusing on each party's core competencies in order to produce a greater value for the end-user customers.

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In contrast to strategic alliances, "partnerships" usually do not require significant technology transfer, but focus on product compatibility and creating bundles of superior solutions for the target customers. A good example for this is HP's obsoleting of many of its vertically integrated software application products and moving to a horizontally integrated business model of working very closely with a host of Independent Software Vendors (ISVs) whose core competency is software and applications development. This way, HP focuses on designing and manufacturing the best-in-class systems, while each ISV focuses on developing the highest quality software. The partnership, here, on the other hand focuses on ensuring the highest degrees of fitness and compatibility between the systems and the applications in order to provide the best possible total solution for the end-user customers.

Channel-centric Partnerships

Understanding channel dynamics is key to understanding different dimensions of channel partnerships. Generally, the product supply-chain consists of R&D, manufacturing, sales, and distribution activities. Depending on the context, the word "Channels" often refers to all of the activities following the manufacturing of the

product. In other words, the channel begins where the production line ends. Finished goods inventory, order processing and fulfillment, extension of credit and financing, as well as lead generation and qualification, pre-sales support, integration and installation are all part of the channel-related activities.

"...the 'channel' begins where the production line ends"

At the highest level, channels can be divided into direct and indirect categories. Indirect channels are typically called channel partners. Here we briefly discuss each category and for specific descriptions refer the reader to the channel value-chain table (Figure 1) and the attached glossary of channel terms.

The direct category, is a sales and distribution channel owned by the product manufacturer. It may include a field sales force, telesales, or a combination of the two. Traditionally, a direct sales representative would initiate the sale cycle by approaching a client, and eventually sign the sales order that would complete the sale and would result in the products being shipped directly to the customer.

The indirect category, on the other hand, consist of different types of third parties that take over one or more of the channel-related activities, hence the term channel partner. Depending on the type, channel partners may provide warehousing, initiating and closing the sale, order processing, extension of credit, shipping, as well as installation, integration and training.

The very same driving forces that are behind product and technology partnerships, are also driving and directing channel partnerships. The fragmentation of the vertically integrated business model mentioned earlier, also extends itself to the unbundling of the channel. The two specific trends that have accelerated the shift from mostly direct to mostly indirect channels are: the phenomenal growth of the computer industry as measured by the number of units shipped and the number of clients, as well as the phenomenal drop in price and therefore tremendous pressures to increase efficiencies and streamline costs.

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Shifting to indirect channels would help with both. On one hand, these channel partners increase the bandwidth and the exposure of a manufacturer's product to its target markets by acting as a virtual direct sales force for the manufacturer; on the other hand, since their core competence is focusing on specific elements of the total

channel value-chain, their specialization would provide them with higher levels of efficiencies, and lower costs that a large manufacturer - whose core competence is making complex computing systems - may not be able to attain. Once again, each party focuses on what they do best, leading to greater benefits and value for the ultimate beneficiaries of the channel partnership, the end-user customers.

HP's Indirect Channels Value-Chain

Channel Partners \ Value-Chain	Lead Genert'n/ Qualifict'n	Pre-sales Support	Close of Sale	Logistics / Inventory Managmnt	Credit / Financing	Systems Installation	Solution Integrat'n	Training	Post-Sale Technical Support
Distributors	Limited	X		X	X			X (DARs)	X
DARs	X	X	X			X	X	X	X
VARs	X	X	X			X	X	X	X
SIs	X	X	X		X		X	X	X
OEMs	X	X	X	X	X	X	X	X	X
CORPORATE RESELLERS		X	X	X		X	Limited	X	X

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Figure 1.

During the past five years, Hewlett-Packard company has diligently and consistently reengineered its direct sales force to complement its very strong channel partner franchise. Besides continually increasing the productivity of its direct sales force, HP has dramatically evolved their mission to increasingly aim up at developing relationships and enhance the visibility of HP's products and solutions within the largest national and global accounts. The actual sales and fulfillment of the products are increasingly becoming more synergistic with the indirect channel than ever before. Additionally, HP's field sales force, is responsible for developing and fostering relationships with the best in class members of both product and channel-partners leading to greater degree of affinity and mind-share for HP within these companies. Therefore the direct sales force is not going to go away, however, it is no longer as

direct as it once was, and its new mission is to focus its resources on delivering compelling value propositions complementing the value propositions offered by the indirect channel.

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The Indirect Channel: An End-users Opportunity or a Threat?

Some users express concern about buying form the indirect channel because they have questions about the proficiency and competency of the channel partners regarding the manufacturer's products. Our contention is, however, that the end-users can turn this market-directed shift to indirect channels into an opportunity for themselves. The availability of several channels with a spectrum of experiences and competencies enable users to benefit from a more competitive environment and a wider choice of options. Here, we would like to further explore the benefits of dealing with channel-partners in the following three area: products and services, availability, and costs.

Products and Services

For both products and services, users have access to multiple sources for almost any required solution. Most users who buy from the indirect channel select a core reseller who can provide the best mix of products, services, and expertise in most cases, and develop a long-term relationship with them. However, they also unbundle some elements of the value-chain and work with other alternative sources where and when the core reseller is not in a position of providing the user with a value proposition regarding those elements. This way, the user is in the driver seat and can ensure that their organization gets the optimum overall value form the channels value-chain.

Availability

With the acceleration of the product introductions and improvement rates, a critical user requirement is to buy products only when they need them, not ordering today's products for a distant future delivery. Many resellers working closely with industrial and value-added distributors increasingly outperform vendors to provide fast delivery and corresponding services and support. Additionally, for totally commoditized components, resellers often carry and can propose alternative products, so that the availability of a commodity component, does not jeopardize the timely completion of a

total solution. This advantage by itself adds significantly to the resilience of the customers procurement process.

Costs

Generally, indirect channels are more efficient and hence more cost-effective than direct sales. Therefore, they can offer equally or more attractive deals than vendors. However, with rapid rates of price-performance improvements, the initial purchase price is significantly overshadowed by the recurring costs of ownership such as support and maintenance. This applies most specifically to servers and systems level components such as the network and databases.

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Unlike individual and desktop systems, servers and their associated environment, have to frequently evolve by adding extensions and upgrades, therefore mandate a higher level of maintenance and support. Additionally, users have long realized that service and support are a highly localized activity with limited global scale effects. Therefore, the indirect channel is in an excellent position to provide equal or even better support at an equal or more attractive costs to the end-users than the product manufacturer.
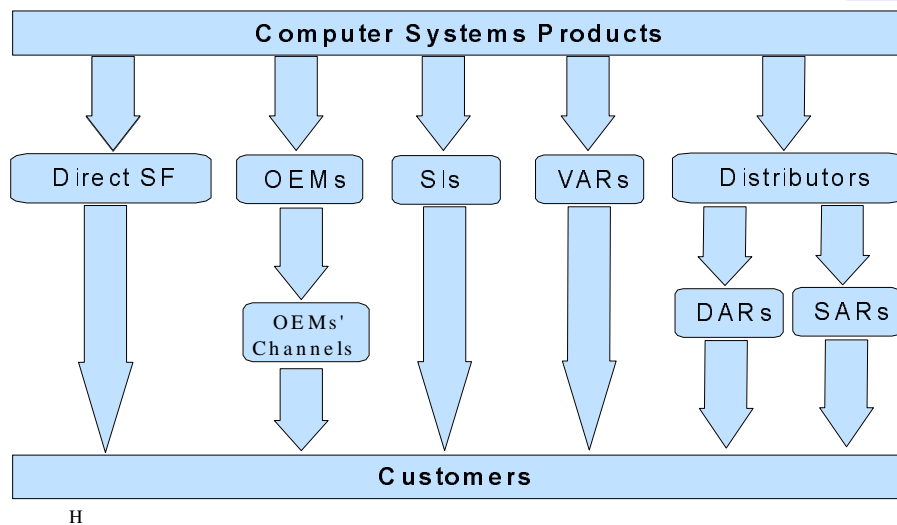
HP's Sales and Distribution Landscape

Figure 2.

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The Hybrid Channel: An Emerging Channels Trend

Hewlett-Packard has long acknowledged that achieving customer satisfaction and market coverage requires the deployment of diversified channel strategies that may involve two or more channels. Particularly for complex sales, where a solution approach is required, HP has advocated the use of hybrid channels. Hybrids channels are those in which different channel members perform specific tasks and functions within the same marketing, sales, implementation and support cycle.

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This is particularly applicable in distributed networked environments, such as client/server model, where diverse technologies are brought together and different range of expertise are required. For instance, HP may bring in a systems integrator (SI) to lead the design and implementation of an enterprise client/server solution for a customer. The SI may decide that a certain relational database technology is essential for the solution and involve a direct sales representative from the database company to work with the SI. The customer and the SI then decide on the application that would reside on top of the database. The application vendor may happen to be an independent software vendor (ISV), which in that case the HP rep will sell the HP systems, or if the application vendor happens to be an HP channel partner (VAR) they can sell the HP systems in addition to their own application. But post-sales technical support and maintenance may be outsourced to an authorized local support company.

For the customer, its an HP-centric environment, for HP and its partners, it's a chance to focus resources on what each does best to produce the optimum solution for the customer. A simpler instance of emerging hybrid channels, is the alliance of Product-Partners (i.e. ISVs) with Channel-Partners (e.g. VARs, DARs) who provide complementary products and services. In this scenario, HP does not directly get involved in the sales process, however, plays a key role in providing the common meeting ground to facilitate the formation of such alliances.

HP Sales and Distribution Channels Glossary

<u>Direct Channel</u> - HP's worldwide outbound field sales entities as well as its telemarketing and Professional Services Organizations, responsible to provide HP products and associated services directly to the customers.

<u>Indirect channel</u> - All non-HP owned companies that are involved in the supply-chain of providing HP products and/or services to the end-user customers. A channel is composed of a group of companies that have a similar business model, sell similar products and services to a similar customer set.

<u>System Integrator (SI)</u> - A company that supplies custom or standard solutions or services for specific projects. SIs may or may not resell HP hardware.

<u>Value-Added Reseller (VAR)</u> - A company that buys products from HP, adds significant value - usually through their own developed software - and independently resells a total solution to end-user customers with limited assistance form HP.

<u>Distributor</u> - A first tier reseller whose added value is in the form of facilitating the distribution of HP computer systems to HP Authorized second tier resellers. They do not sell directly to end users.

<u>Distributor Authorized Reseller (DAR)</u> - A value-added reseller who purchases HP products from an HP Distributor and resells them to end-user customers with limited assistance from HP.

<u>Two-Tier Channel -</u> A sales channel in which HP equipment is sold to end-user customers by a reseller (DAR) who purchases HP products from a distributor.

<u>Specialized Account Reseller (SAR)</u> - An HP authorized reseller who purchases products either directly from HP (in Europe) or from an HP Distributor (in the U.S.) for resale into specific named accounts. SARs are classified either as Corporate Resellers (CRs) or Small Disadvantaged Businesses (SDB).

<u>Original Equipment Manufacturer (OEM)</u> - A reseller who buys products directly from HP, acts independently from HP, receives no marketing or selling assistance, typically private label HP products, and sells them into well-defined niche markets such as specific application or geographic segments.