

Types of Enterprise Software Distribution



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It is beyond the scope of this paper to explore in detail all the variations of distributing software in a country different from the home country of an Independent Software Vendor (ISV), but a general overview follows. The term “*channel partner*” is used to refer to all types of software distributors collectively.

Note that the list of software distributor representation is presented from highest to lowest by level of responsibility and commitment to the ISV.

Distributors, Resellers and VARs¹

Distributors have the closest relationship and the highest level of commitment to the ISV. Selling and supporting enterprise software¹ as a distributor nets the highest revenues to the channel partner (sometimes referred to as *margin*):

- 40% - 50% of the new license sales
- a slightly lower percentage for maintenance revenues
- a percentage contribution into a joint marketing fund.

Note that these relatively high commissions are offset by contractual investment in local marketing and dedicated staff, both sales and technical, of which many ISVs insist. ISVs also expect distributors to attain a product sales quota and invest their own funds into growing the local software business. Distributors are an extension of the ISV’s sales force and perform the same functions as would a local sales subsidiary.

Distributors usually sell the software they represent branded as a standalone entity, sometimes retaining the ISV’s name, even when software is bundled with services or hardware.

In larger territories, Distributors can license other local re-sellers. It is the distributor who has the direct relationship with the ISV and manages the re-sellers. Resellers usually buy their software product from the distributor, not directly from the vendor. Unlike VARs, described in the next paragraph, resellers are product-oriented.

VARs are a specialist form of resellers, who tend to sell solutions rather than separately branding and publicizing the software. The software is bundled into larger, packaged solutions (hardware and services bundled together into a solution, for example) and the VAR directly sells the entire solution rather than the software product. VARs generally don’t promote or sell specific software product brands, which helps to eliminate conflicts with traditional distributors and resellers.

¹ Value Added Re-Sellers

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Sales Consultants, Marketing Agents

Marketing Agents influence potential clients' purchase decisions and bring interested prospects to the channel partner, but do not control the sales process. They can "open the door" to sales opportunities, but the channel partner is usually involved in closing and supporting the sale. This can result in higher-than-expected expenses.

Sales Consultants are a step up from referral agents because they perform more sales functions to bring prospects who are ready to sign a contract. Once the contract is signed, the channel partner owns the customer relationship for installation, implementation and post-sales support. The ISV or distributor invoices the end-user customer directly and pays a commission to the Marketing Agent or Sales Consultant once the money is collected. Generally for enterprise software, the commissions for Marketing Agents are in the 10% range. A 20% – 25% commission is typical for Sales Consultants who handle much of the sales cycle. These percentages are paid as a percentage of the license fee¹ for new software and no commissions are usually paid to the Agents or Sales Consultants for installation/implementation fees or maintenance fees.

There are some variations in this model, as some ISVs ask Marketing Agents and Sales Consultants representing their software products to make a higher level of commitment in exchange for higher commissions, on the order of 25% – 35% of a new license sale. Some examples of increased commitment for Marketing Agents and Sales Consultants are:

- Completing an application form for each potential client;
- Certification testing and training to determine if the client is really a strong prospect;
- Developing a territory marketing plan;
- Minimum annual investment for local marketing efforts.

Even with these extra commitments and commission payment, the distributor will still control the customer relationship, collect from the end-user customers and pay the commissions after collections.

Integrators & Technology Consultants

Like VARs, *Systems Integrators* (SIs) and *Technology Consultants* provide bundled solutions which contain the ISV software products along with hardware and varying levels of installation, implementation and consulting services. These types of re-sellers generally do not sell specific software products or use the ISV's brand, but sell bundled solutions. However, there are many variations of how integrators can package, sell and manage bundled solutions. Some examples are:

1. **Consultants** (using Project Management and Consultative Approach) – The large multi-national services firms (such as Accenture, IBM Global Services, HP's EDS) sell and manage enterprise projects to the very largest enterprise customers. They combine software, services,

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- hardware and project management fees into a single solution to solve a huge problem. Often, the end-user client will have choices for the components of the bundle, as the consultants design and then present product options. The challenge for the ISVs/distributor team is to gain visibility with these multi-national consulting firms, with the hope that their software will merit inclusion in a project. An alternative is for the ISV to bypass the channel partner and deal directly with the consultant. The right to do this must be negotiated in advance and included in the partnership agreement.
2. **Systems Integrators** – Integrators are similar to VARs, because they integrate software and hardware into a custom solution for their clients. A strong relationship to system integrators is difficult for ISVs/Distributors to achieve because of worldwide competition from other ISVs.
 3. **Outsourcers** – Many of the multi-national consultants/SIs mentioned above have separate business units that provide outsourcing services to replace the entire internal IT department of large enterprises. End-user customers can sometimes negotiate deals on a fixed price basis for managing their IT infrastructure. Because of this, the Outsourcer has strong incentives to reduce operating costs and increase data center efficiency. This can result in the Outsourcer purchasing software on behalf of their end-user clients and negotiating a significant discount. As with Consultants and SIs, the sale of software to an Outsourcer is often handled directly from the ISV with the hope of becoming part of a worldwide outsourcing solution. This direct relationship from the ISV to the outsourcer must be included in the channel partner agreement.

OEM (Original Equipment Manufacturer)

OEM for enterprise software means licensing technology to a third party that is “under the covers,” inside another software solution. Usually, the licensed technology is not identifiable in the larger solution. Entering into OEM agreements can be a low-cost approach for an ISV to get started in a new market, but is only feasible in select circumstances. OEM agreements are sometimes called “private label agreements.”

Summary of Types of Software Distribution

In terms of commitment to the ISV and commission payments to a channel partner, the highest to lowest are:

- Distributor
- Re-seller
- VAR (value-added re-seller)
- Sales Consultants / Marketing Agents

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- Systems Integrators / Technology Consultants
- OEMs (original equipment manufacturer)

Assuming interest of most readers is in a distributor relationship, it is crucial to choose an ISV that is compatible on many different levels because of the close relationship with the ISV and the commitments/demands from both parties.