

October 2017 Newsletter (Copy 07)

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**\$609 Billion or more up for grabs –
Value-Added Resellers (VARs) face the challenge of,
well, value.**

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Dear Colleagues,

It's a multi-billion dollar industry. It shapes how we obtain and use information. It is pretty ubiquitous. And yet, my guess is that few readers have thought about the changing world of the Value-Added Reseller (VAR), a company that adds features or services to an existing product, then resells it (usually to end-users) as an integrated product or complete "turn-key" solution. From a role, within the technology ecosystem, that involved being an intermediary to large original equipment manufacturers (OEMs) to a new, not completely defined role as partners and service providers, VARs are seeing their traditional advantages shift out from under them. It is a story from the front lines of the transient advantage economy.



**The cloud has changed the business
model and customer expectations**



Making technology live up to its promise has never been easy. Originally, VARs earned their keep by providing solutions that manufacturers of complex data center and networking gear either couldn't or didn't want to offer, to their customers who run their own data centers.

VARs offer many value-adds, such as: low insider pricing, one-stop shopping, coverage where an existing sales team couldn't operate, help with warehousing, stocking and credit checks, and many more options for complete solution for customers. Even better, they only make money when they sell stuff, which, for the manufacturer, was a better deal than keeping expensive fixed-cost sales teams in place. The challenge for this model is that as more services move to the cloud, offering these benefits is no longer enough. Some observers have said that the **traditional VAR model** is dead.

From a focus on sales to (gulp) superior customer experiences. Ushering in an era of services and outcomes, not just gear.



Traditionally, representatives of VARs had sales as part of their DNA. For many large manufacturers, VARs were a 'channel' to get their product into the hands of end users. Indeed, many articles discussed 'the channel' as though the different players in the ecosystem were part of one big sales and distribution function.

A dilemma: more and more companies are discovering that customers don't actually want to buy products. They want the benefits they get from *using* products. It's all about getting access to assets rather than ownership of assets.

With that, manufacturers are increasingly **becoming service providers**. This applies to the OEMs in technology as well. As end users begin to expect not just configured equipment, but actual tailored solutions, the role of the VAR is shifting. This transition means that their business will be less about making money by negotiating discounts with the manufacturers and more about offering a service component that adds value

for the end user. This scenario is going to require new thinking and new skill sets.

The holy grail - a recurring revenue model

An inflection point that is sweeping through the technology sector is that firms are moving away from the sale of traditional products, licenses and maintenance fees toward recurring revenue models, such as subscriptions. A stellar example of a company that made this transition is **Adobe**, which, in short order transitioned from selling boxed software to selling cloud-based software by subscription. Despite some howling by customers who didn't like the change, by and large the transition has been a successful one.

As more revenue for manufacturers comes in the form of recurring services revenue for manufacturers, customer retention is critical. With a one-time sale, all the money comes in at the point of sale and if you've priced the offering appropriately, the margin is baked in. With a recurring revenue model, the margin can be spread over a long period of time. Normally, with this model there is an investment of set-up costs to launch the relationship to begin with. What this means, is that if you can't retain your customers, the economics of the recurring or subscription model doesn't work nearly as well.

For resellers, this implies that vendors have to see VARs as partners in retaining customers, which, in turn, places emphasis on their ability to deliver valuable services, rather than just behaving like sales people.

The rise of the line-of-business buyer

Historically, VARs talked to the IT department and the IT department controlled the budgets that gave the VARs their livelihoods. Executives looking for an edge in marketing, customer insight and predictive analytics, however, may not have anything to do with IT. The budget allocated for services such as data analytics, metrics pulling information from multiple sources and integration of real-time information into business processes is unlikely to flow through the IT department; rather it is a business person writing those metaphorical checks.

One recent 2017 analysis estimated that \$609 billion in "IT" related revenue would



Learning to speak the language executives use is not optional. As one observer noted:

While learning to sell to unfamiliar customers is always daunting, for those VARS who can make the transition to offer more consultative services, this new customer segment could be a blessing.



can be a nightmare once they get to a certain size. There may be interesting new growth opportunities for VARs in helping corral some of this chaos.

Amazon Web Services, the company's cloud-computing infrastructure arm, is one of the fastest-growing enterprise-level businesses of all time. And, Amazon is really good at selling. It's also genuinely, maniacally driven with respect to the customer experience. If I were a VAR, I'd be looking over my shoulder at how easy it would be for Amazon to invent disruptive new models that would eliminate what existing customers don't like about the state of the current channel and to identify new solutions they will find delightful.

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Finally, artificial intelligence and machine learning might affect the VAR world in unexpected ways. When a machine can figure out what help a user needs and get to it before a person, the value of that person is reduced. When a vendor can anticipate who might be buying, in what quantities and for what features, the advantage of having a sales relationship with a VAR (who require commissions or some kind of payment) declines. When machines get smart enough to configure themselves, you no longer need a guy with a screwdriver to do it.

What to do?

As always, figuring out a path forward for the VAR market is going to start with the customer. In this case it's the path between the customer on both sides of their ecosystem – the large tech producers who use them and the end customers who pay them. As with the idea of learning to sell to business buyers, rather than procurement and IT departments, innovation of new models and services offerings is going to be essential.

Leading Strategic Growth and Change

Discovering new sources of growth and transforming organizations to stay competitive are two of the biggest challenges I find my clients face. This weeklong course, which we are just running this month, covers the latest thinking on these topics, including how to manage the entire cycle of competitive advantage, how to manage growth portfolios, design thinking and inspiration from unusual places, platform (2 sided) strategies and managing organizational politics. It runs in New York City during the day for a week.

Participants bring a real organizational challenge to the program and work on it throughout the week. [Click here](#) for more information. Or drop me a line at rdm20@gsb.columbia.edu.

Recent press coverage:

The Economic Times - [Disruption isn't just a buzzword. If you don't disrupt your own](#)

business, someone else will.

IDR Solutions - [Business of Software days 2 and 3 - key takeaways](#)

Exciting news:

In May, I [presented](#) and was [interviewed](#) at the Thinkers50 European Business Forum. I'm delighted to be attending the Thinkers50 awards program in London in November. To read more about the event, please click [here](#).

Upcoming Events:

[Advanced Management Program](#) Helping executives respond to evolving leadership challenges and create a vision to lead their companies to success.

Columbia Business School

November 3, 2017 New York, New York

[World 50](#) A private community for senior-most executives from globally respected organizations to intimately share ideas, solutions and collaborative discovery, free from press, competition and solicitation.

November 3, 2017 New York, New York

[Fujitsu Forum](#) An opportunity for business and IT leaders to join subject matter experts from Fujitsu, their partners and their customers, to discuss new ways of working and how using innovative digital technology can make businesses more efficient, effective and human-centric.

November 9, 2017 Munich, Germany

Growth & Inclusive Prosperity - The Secular Management Challenge

[The 9th Global Peter Drucker Forum](#) The conference will focus on the management challenges for private and public sector organizations and the civil society in the context of a fast-changing, complex and volatile environment.

November 16-17, 2017 Vienna, Austria

Onto the year 2018!

[Leading Strategic Growth and Change](#)

My revamped Executive Education Columbia Business School program

May 7 -11, 2018 New York, New York

As before, where there is uncertainty, there is also opportunity

The VAR business is pretty tough – low margins, demanding customers and constantly changing requirements. To those VARs who are forward thinking enough that they learn to extend their reach to new services that customers will recognize as adding, well, value, a bright future awaits.

Here's to your next advantage!

Rita

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