



Part of the CMP Channel Group

Var Business

HOME

AWARDS

CONTACT

ABOUT US

SITE

ChannelWeb Network

Events

NetSeminars

Research

Tools and Services

Newsletters

Subscriptions

Hot Top

SAGE ACCPAC

STRATEGIC INSIGHT FOR TECHNOLOGY INTEGRATORS

GO

Research

Technology Solutions

Strategy

Customer

VARBusiness 500

Government

Research Home

Partner Programs Guide

ARC Awards 2005

Annual Report Card 2005

FINDCHA

Courting the Crystal Ball

By Ramin P. Jaleshgari
Dec. 21, 1998

.....

Divining the future-then deciding it-is what it takes for VARs to be successful in today's market. Whether you're a top-tier systems integrator or a small reseller, accurately calling on a mix of assessment, intuition and artistry is an essential skill. Y2K, labor pressures, channel assembly and ERP are some of the issues that VARs face as the millennium approaches. To see how they do it, read on.

Jeff McKeever is a methodical man. After realizing his company, MicroAge Inc., was a virtual hydra with a distribution arm competing with a budding integration business, he quietly set out to create a plan to tear the company in half. His first step was to harvest the talent he had meticulously groomed during the months and years he served as chief executive so he would be able to hand over the leadership of what would become Pinacor Inc., the independent distributor spun out of the MicroAge mix. It was a well-calculated move in anticipation of the day when McKeever would spend life exclusively on the VAR side, heading MicroAge Integration.

With a stalwart vision, McKeever successfully divided his company into two distinct companies in June of this year. Today, in true Rooseveltian fashion, he still speaks softly but carries a big stick, calmly organizing his troops in a battle plan to turn his budding, young VAR into the top integrator of tomorrow.

MicroAge is no different than VARs polled in this year's State of the VAR Market (SOVM) survey, who say they need to constantly reinvent themselves. This rings true whether you're a midtier VAR, such as Reynolds & Reynolds Co., or a tiny player, such as Bassett Computer Systems Inc.

While his MicroAge's major competitors may be fixated on the same old paradigms, ones that may not work in today's market, MicroAge Integration is learning business anew-and attempting to break open some staid parameters in the process.

The way to do that, McKeever says, is to anticipate where the market is going before it gets there. And where it's going, he adds, is toward an inventory-free model.

"The split put those of us that were not Pinacor in a new land, and there are skillsets that we are without," McKeever says. "The thing that is most important about us now, though, is that we are not trying to replicate Vanstar, Entex or CompuCom. We want to create a new model, one based fundamentally on sourcing, not stocking."

Achieve N
Heights w
Intel® Serv
Products

Number of Employees

	Small VARs	Midsize VARs	Large VARs
Total	3	14	190
Sales	1	3	16
Marketing	1	1	3

Source: VARBusiness/IntelliQuest

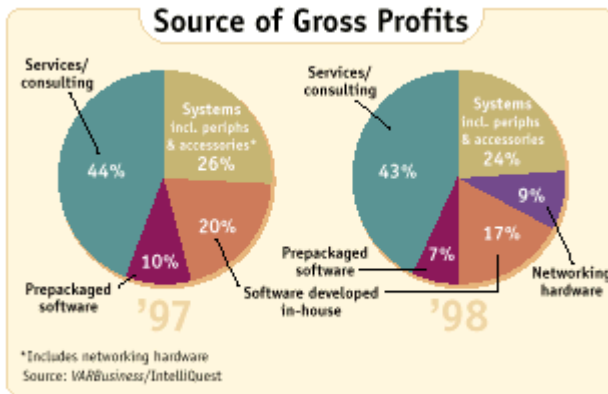
Crucial to MicroAge Integration's strategy was coming to grips that it would be a VAR without a portfolio of inventory.

"I think a critical success factor for VARs in the future is to not be put in a position where they are buying inventory without getting it sold," says McKeever. "It took a lot of energy to make our people understand we don't have inventory, or anything tied to inventory, but that what we are now selling is a product service: procurement support."

McKeever's shrewd judgment, that his company's value-add is in its ability to integrate, not stock, products, is shared by many other VARs. The results of the SOVM survey conducted this year show almost half of the VARs polled feel their primary value-add to customers is in the technological expertise they bring to the table, and that their largest source of gross profits-43 percent-comes from services and consulting work they provide.

Today, the SOVM, as McKeever sees it, is based on the demands of a world moving toward a model of the specialty or application-specific computer.

"There was a time when most of our clients didn't know how many computers and servers they had. In fact, when I asked our chief information officer that same question a few years ago, the counts were off by a factor of six," he says. "What happens today is that clients buy computers for a specific task and buy new ones for speed. The life span of computers is typically three years because they are used with a specific application in mind. But for the most part, the channel is not doing business based around these facts. Instead, we are still using the channel to push acquired inventory through-like a snake trying to



digest a cow."

Jennifer Beck, a principal analyst with the San Jose-based market researcher firm Dataquest Inc., says McKeever's assessment is right on the mark.

"The channel today is ill-configured for custom business because it is designed for volume. But moving product is no longer the way to go, and the channel will have to figure out how to specialize," she says. "The way to do that will probably be by selecting and carrying a shorter list of products."

While McKeever believes that becoming a stockless service provider is MicroAge Integration's big measure of success, he does stress that it is not possible for integrators to provide service without product.

"VARs will still have to procure and provide product for the clients they are doing services for," he says. "They simply won't have to stock it."

What makes those Ric
VAR guy
so different
than us?



RICO
Image Commun



**ONLINE
SECURITY**

Channel Ser

- IP Com sales rel making the busin case, not just co savings, says rej
- Get your compai front of millions c technology buye



- Technology Sen Directory.
- Intel - Learn technology is headed.
- Get a FREE T Drive Select from Quantu
- VX924 from View no LCD display i world is faster.
- Business Innova How mid-size companies use I succeed..

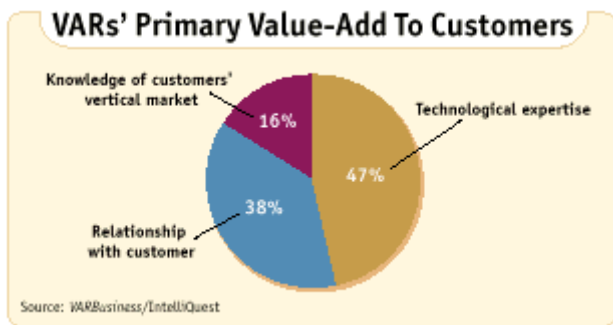
Whatever it's called-channel assembly, build-to-order-McKeever is adamant that sourcing, not stocking, is essential for the future health of the channel.

"If a VAR can move to sourcing, it would be more profitable and provide better value," he says. "If I were the owner of any VAR business, my first directive would be to take cost out, and I would realize that the more [product-centric model] keeps me from addressing the new paradigm going forward."

Another concern for VARs today is consolidation. But that term means different things to different players at all levels of the VAR scale. For smaller players, consolidation could mean hitching a wagon to a brighter star, while the big guys have an eye for the buy. At MicroAge Integration, the consolidation effect is certainly given the respect it deserves, but McKeever thinks it is a phenomenon much heralded before its actual arrival.

"I think what's happened is that the distribution business has largely consolidated into three or four major players, but on the VAR side of business I see it as highly fragmented," he says. "What you are going to find is a tremendous consolidation opportunity over the next five years, but it hasn't really started happening yet. Yes, there are high-profile examples like Inacom buying Vanstar, but the bulk of consolidation-the kind that will narrow a market of hundreds of thousands of VARs down to a few thousand, and a few hundred at the top of that, hasn't happened yet."

While acquisition is far off in McKeever's estimation, he, nonetheless, is following his usual method of plan, prepare and proceed. Noting the success of consolidators as dependent on "world-class automation" of critical systems, McKeever announced last summer that MicroAge Integration would be on one worldwide system, Insource, by the second quarter of next year.



"We did not have a plan like that in place when we first started this venture, and we paid a big price," he says.

Whether that price can be recovered remains to be seen. Under McKeever's oracular gaze, MicroAge Integration seems to have done all the right things to be a successful VAR today. But while the integrator boasted 146 percent services growth in its first year out, and its chief executive promises another 100 percent growth in the coming 12 months, he does admit MicroAge Integration has not yet turned a profit.

Preliminary reports of the company's earnings in early December proved that,

leading to steadily falling stock prices. Nonetheless, McKeever remains resolute.

"In one more year, we will be as big as any integrator in our peer group," he says. "And in two, I believe we can actually be the largest."

Midtier, Not Middle-of-the-Road

Speeding ahead of the VAR race may be a tempting proposition for McKeever, but talk to Scott Waldron, vice president of systems marketing at Reynolds & Reynolds' automotive division, and you'll soon realize that the upper midtier is a pretty nice place to be, as well. According to the SOVM survey results, midtier VARs enjoyed a higher per employee productivity rate than large and small VARs.

Based out of Dayton, Ohio, Reynolds & Reynolds (VARBusiness 500 rank: 45) does a billion dollar business primarily in the automotive markets. The company's success, says Waldron, is due to a near-obsessive pursuit of customer satisfaction.

"We are totally focused on what we call our 'Voice of the Customer' ratings system," he says. Voice of the Customer is a system of daily calls by Reynolds & Reynolds employees to clients who are surveyed about their experiences with the VAR. The program is supplemented by independent studies of the company contracted by some of its larger clients. "By doing this, we maintain a high level of concern about what customers really say about the ways in which they expect us to improve," Waldron says.



Waldron sees the maintenance of his company's success as contingent on providing a product that is, ironically, only partly technology related. VARs surveyed for the SOVM agree, with 38 percent reporting that a relationship with the customer offers them a primary value-add. For Reynolds & Reynolds, its knowledge of car dealers is key.

"A big boom area for us will be in helping automotive dealers make good use of the information they garner from the technical systems they have today," Waldron says. "For example, our clients have terrific customer information databases in place, but maximizing that information both in terms of integrating disparate technologies and in terms of training dealers on how to use this data is key.

"Additionally, one of the roles we are increasingly asked to play is not just as an integrator of the technology, but of processes because of the knowledge base we have working with multiple dealerships. We can look at what's required across the board and figure out what works best based on our own previous experience."

Reynolds & Reynolds is taking a proactive approach to being a VAR of the future, by creating a database of frequently asked questions, which will allow technicians to deal with regularly occurring problems quickly or even talk clients through issues based on standardized solutions.

"We have an automated tracking system that allows us to understand customer problems, log them and then create an expert solution around the problem for when it comes up again," says Waldron. "This will become our database for frequently asked questions, which allows us to serve more customers better with less staff and less experienced staff."

That measure was instituted in large part as a reaction to the labor shortage that's rampant throughout the IT industry today. Salaries remain the largest strain on VARs' finances, according to SOVM survey results.

"Today and moving forward, one of the things that we are trying to do is make sure our customers are getting full value out of solutions that we sell to them," says Waldron. "The biggest part of that is knowing intimately the daily problems our customers are trying to solve with those solutions. We've focused a lot of effort on making our systems help clients work through their intrinsic processes."



It's a Small World of Big Profits

Slow and steady assessment is not the style of nine-person VAR Bassett Computer Systems, North Haven, Conn. Working against a stopwatch counting down to the year 2000, as well as trying to fill clients' ever-increasing networking needs, president Rick Bassett is biting off as much as he can chew.

Bassett's forward outlook is one based on a strong belief that after Y2K fixes are long done, there will be a glut of technical people flooding the market, setting up their own consultancies for lack of jobs elsewhere and driving service pricing down overall.

"Our strategy is simple," he says. "We are in a run for the roses, trying to get customers signed up so that if and when that happens, we've got a fallback squirreled away. Sure, we'll lose clients and will have to drop rates, but costs will drop as well."

Bassett says his company could live with a sales decrease of 30 percent, since he has been enjoying an increase of the same amount for the past few years and an expected rise this year to 50 percent.

But for Bassett, keeping a wary eye toward the future is not the only thing necessary to be a VAR today. Correctly assessing clients' knowledge of what they're getting and what it should cost is key, too.

"Today, clients are technically knowledgeable, and they demand a higher level of skills. There is no tolerance for nonsense, which clients define as sending out a technician who doesn't fix a problem on the first go-around," he says. "So what that means now is doing a much better job of determining what the end user's real needs are before sending someone out."

While this little VAR is feasting at the big-guy's table right now, putting in one

major client network per week vs. once a month just a few short years ago, Bassett harbors no illusions about the future.

"It's a weird time right now because you don't know if the computer economy is good because it actually is, or because of Y2K," he says. "It's just not easy to know."

CHANNELWEB PRODUCT SOURCE (Sponsored Links)

T1 Lines as Low as \$240 for 1st 3 Months

Get a Covad T1 line for as low as \$240 per month for the first 3 months. Free installation. Keep your business a step ahead. Check availability now.

Affordable Enterprise-Grade Link Load Balancer

PePLink MANGA Balance series features inbound load balancing, session persistence (binding), rule-based stateful firewall, server load balancing and authoritative DNS to aggregate up to 3 Internet Links (e.g. Cable, DSL) at affordable price.

IT Services Management Software

Great integrated web-based business management software for IT Service Providers. Optimize resources and track billable project and service work. Get a demo via the web, then try it free with sample data. Click here to request your FREE WHITE PAPER!

Risk Free VoIP

Find out how Quintum's channel partner program benefits value-added resellers. Profit from VoIP products that bring reliability and voice clarity of public telephone networks to Internet telephony!

IntelliVIEW - Integrate Reporting into your apps

IntelliVIEW - an interactive reporting solution for databases for Java & .Net platforms. Integrate, embed, bundle or host our solution to provide powerful end-user query, reporting & analytics for your users. Call us now!

Buy a Link Now



Media Kits | Privacy Statement | California Privacy Rights | Copyright © 2005 CMP Media LLC | Terms of Service



GovernmentVAR