



# Understanding the Channel

Technology Distributors are at the Center of a Global Value Chain for Solution Providers and Vendors.

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# At the Center of a Global Industry

The technology channel commonly refers to the supply chain that links manufacturers, distributors and the solution providers who ultimately deliver products and services to end-user customers. It's a constantly evolving ecosystem because of innovations in the technology itself and the shifting methods in which customers want to select, procure and use those products and services.

This important route to market for technology leaders worldwide also represents major opportunity for emerging companies with new products and services. Distributors and solution providers offer an economical, efficient and high-value way for vendors to serve end customers, especially in the SMB market.

## Anatomy of the Technology Supply Chain

Vendors, distributors and solution providers each fulfill unique channel roles. R&D typically begins with vendors striving to innovate based on changing market trends and user preferences. Distributors aggregate thousands of respective products —an ever-shifting mix — into comprehensive solutions backed by channel services enabling both vendor and solution provider success. Recruiting, education and training always play a central role.

Although vendors sell direct, such approaches often entail higher costs to serve depending on the type of customer or partner involved, associated credit risks and other dynamics. Solution providers typically prefer to source through distributors because of the one-stop sourcing advantage and service options specific to their needs. This includes aggregating their own buying power instead of diffusing it by sourcing directly from a multitude of vendors.

## Fulfillment Distribution Services

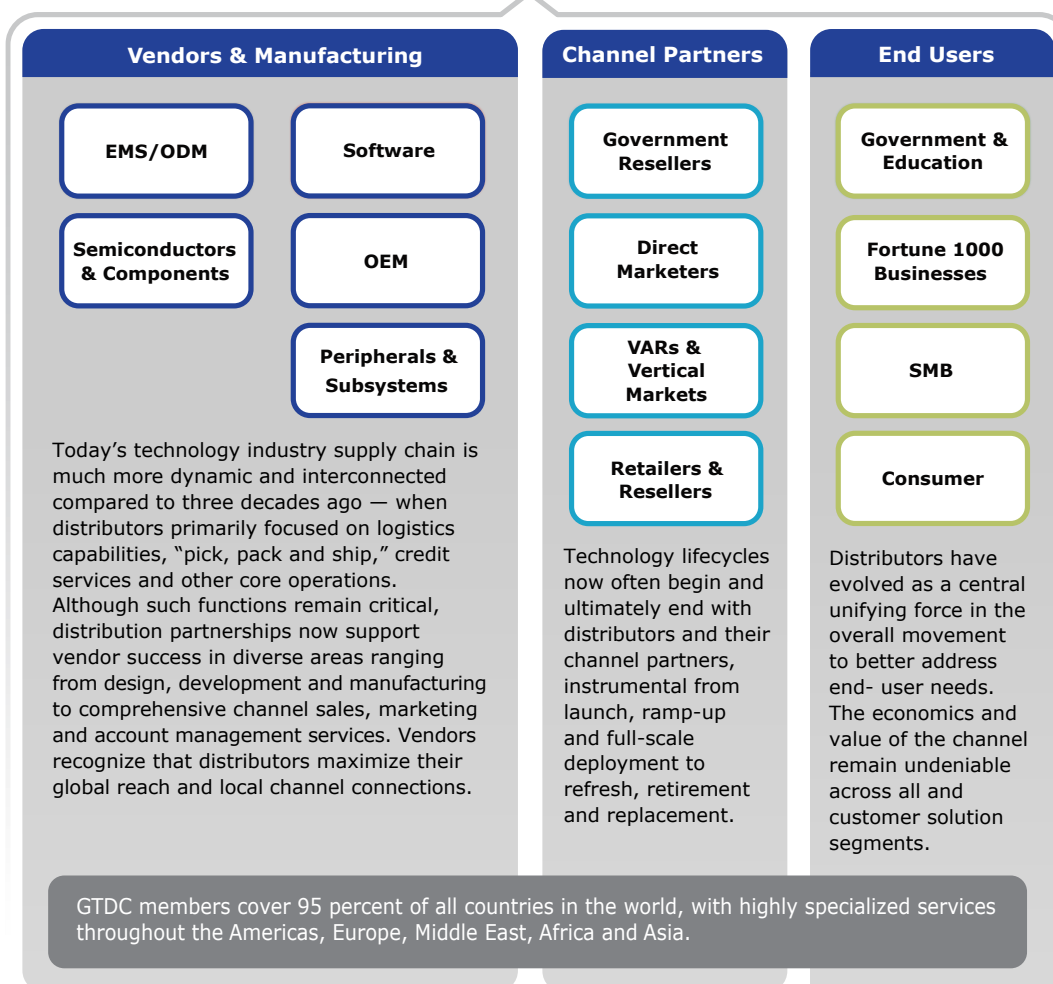
In markets where products are *bought* rather than *sold*, such as consumables, or where other players drive marketing and sales activity, such as retail, distribution performs the role of logistics engine on behalf of the vendor. With the vendor or final-tier retailer taking on most of the marketing activity, the core of this model is a high-volume, high-efficiency logistics operation, focused on stripping out any redundant cost in order for margins to cover infrastructure and operating costs. In many respects, this model is comparable to that of a pure logistics provider such as FedEx or DHL, with two major differences: first, the distributor providing these services typically bears a stocking risk, leveraging their expertise in inventory management to balance demand and supply; second, the distributor also bears the credit risk. In this model, compensation can be either through trading margin as in other models or on a fee-per-transaction basis which reflects the fact that the distribution and handling costs are standardized and unrelated to the selling price.

## One Size Never Fits All

It's not unusual for solution providers to rely on multiple distributors because of the specialized expertise, availability and other factors affecting their buying decisions. Their customers range from individual consumers to small, mid-size and large enterprises. They are regarded as trusted independent advisers in all markets, reaching and supporting millions of end users. When you consider that distributors address the needs of thousands of unique solution providers and vendors worldwide, you can more readily understand the importance of distributors to the entire technology marketplace.



Technology distributors provide integrated end-to-end supply chain value worldwide. As consumption models transform, distribution continues to evolve based on total channel requirements.



## From 'Resale' to 'Integrated Value'

The term “solution provider” is an amalgam of many different kinds of businesses that ultimately provide technology to end users. In the 1970s and 80s, those companies were known more as “resellers” because they primarily resold to end-user clients, adding in their own profit margins and providing little more than basic wired networking and integration services.

As product margins declined, resellers evolved by shifting their efforts to more profitable services such as full network design and installation, custom configuration, training and much more, with sharp focus on vertical markets and more deeply addressing complex business problems. Pure product sales became secondary as the term “VAR” (value-added reseller) rose in the industry vernacular. The “solution provider” label emerged in more recent years, aptly describing the value they deliver in conjunction with distribution partners.

Modern-day two-tier distribution includes a greatly diversified range of channel-centric products and solutions backed by meticulously honed logistics, technical and account management skills that manufacturers simply cannot match. The power of aggregation thrives through technology distributors — in the cloud as well as all other market categories.

## Meeting the World's Technology Needs

Today, the channel includes variants of the solution-provider model to reflect different kinds of businesses, including managed services providers, cloud specialists, retailers, etailers, systems integrators and independent software vendors that integrate their own applications into larger IT infrastructure projects. Many diverse models, but ultimately they all deliver technology to end customers. With so many kinds of solution providers delivering technology to corporate customers and consumers, the reality is that multiple channels actually choose to rely on distributors today. And those relationships continue to get stronger — even though many observers have speculated for years that distributors and solution providers would become less relevant to vendors and end users over time. The Internet, ecommerce and electronic software distribution, for example, were all viewed as likely means of disin-termediating the channel. Instead, these and other perceived threats have led to new sources of competitive *advantage*.

## A Bright Future

As the cloud, mobility, Big Data, security, virtualization and other developments further reshape the channel landscape, vendors will naturally come and go. Some will transform their leadership through continuous investment, innovation and exemplary R&D practices. Solution providers face similar challenges in terms of the products and services they choose to offer in this new era of computing. Distributor strategies take both realities into full account. Their portfolios, partnerships and value propositions are actually built around aggregate as well as nuanced shifts in demand. They've survived and thrived through decades of change, and that history of success looks more promising than ever. Major vendors that previously strived to be more direct now typically consider the channel important to their success. Emerging technology companies also eagerly embrace distribution and channel partnerships. It all adds up to unprecedented opportunity for distributors — at the center of today's global value chain!



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