DISTRIBUTION CHANNELS

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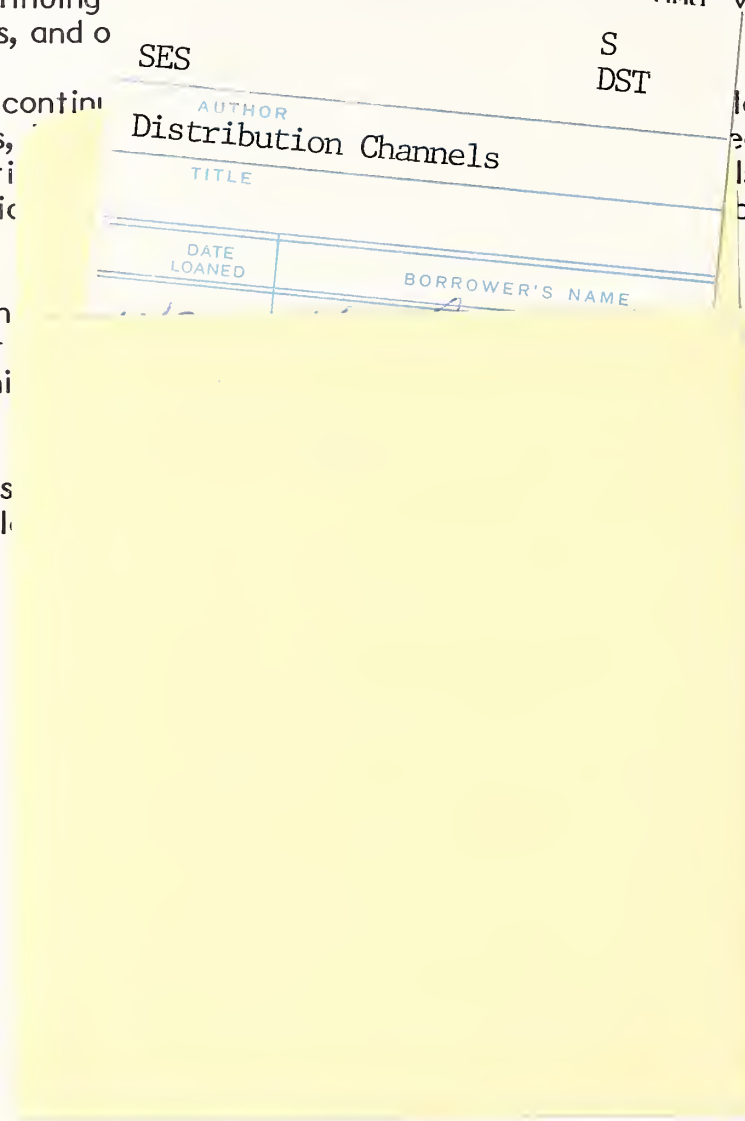
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# DISTRIBUTION CHANNELS FOR INFORMATION PROCESSING EQUIPMENT AND SERVICES TO SMALL ESTABLISHMENTS

IMPACT REPORT #1

JUNE 1978

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# DISTRIBUTION CHANNELS FOR INFORMATION PROCESSING
# EQUIPMENT AND SERVICES TO SMALL ESTABLISHMENTS

## TABLE OF CONTENTS

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# DISTRIBUTION CHANNELS FOR INFORMATION PROCESSING EQUIPMENT AND SERVICES FOR SMALL ESTABLISHMENTS

## LIST OF EXHIBITS

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I INTRODUCTION

# I    INTRODUCTION

●    This report is produced by INPUT as part of the Small Establishment Service (SES).  The report covers the use of distribution channels, other than through direct salesmen, for selling products and services to the small businessman. These channels include:

-    Manufacturers representatives.

-    System houses.

-    Vendor stores.

-    Computer hobby stores.

-    Office equipment dealers.

-    Large retailers.

-    Electronic equipment hobby stores.

-    Office and computer services companies.

-    User associations.

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- This topic for research was selected because of high client interest. As product costs decrease and salesman compensation increases, the cost/sale ratio increases and alternate ways of reaching the user (distribution channels) must be found. These alternate distribution channels are discussed in this report.

- Before commencing research, INPUT polled clients to the Small Establishment Service for suggestions on particular issues and specific areas of interest to be incorporated in the study.

- Research carried out for this report included a series of interviews as specified in Appendix B.

- Separate questionnaires were used for interviewing:

    - Users.

    - Distribution channels.

    - User associations.

    - Vendors.

    Sample copies of these questionnaires are included in Appendix D.

- A bibliography of sources of information is included in Appendix A.

- Inquiries and comments on the information presented in this report are invitied from clients.

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II EXECUTIVE SUMMARY

## II EXECUTIVE SUMMARY

## A.   NEED FOR ALTERNATIVE CHANNELS OF DISTRIBUTION

- To reach the small establishment market, hardware and services vendors need distribution channels above and beyond conventional vendor-employed direct sales organizations. This need, extant today to some degree, will substantially increase over the next five years:

  - Even the largest vendors cannot adequately cover the entire market. This is illustrated in Exhibit II-I which shows that even 100 sales offices can reach only a small percentage of the small establishments.

  - The ratio of sales-to-product costs is increasing as labor-related costs rise and hardware-related costs decline. Hence, more efficient methods of selling and distribution will be needed to maintain adequate margins.

  - Although the numbers of prospects are increasing as unit prices drop, the number of trained qualified sales personnel will remain relatively constant over the forecast period.

- As shown in Exhibits II-2 and II-3, 99.7% of the business establishments in the U.S., employing 75% of the work force, have fewer than 500 employees. Services and equipment whose usage is related to the number of employees (such

- 3 -

EXHIBIT I

# EFFECTIVE COVERAGE OF SALES OFFICES

PERCENT
OF TOTAL
ESTABLISHMENTS
COVERED

ASSUMES COMPLETE COVERAGE
OF A STANDARD METROPOLITAN
STATISTICAL AREA (UP TO
1.5 MILLION PEOPLE PER OFFICE)

ASSUMES COVERAGE OF ONE
INNER CITY PER OFFICE

NUMBER OF SALES OFFICES

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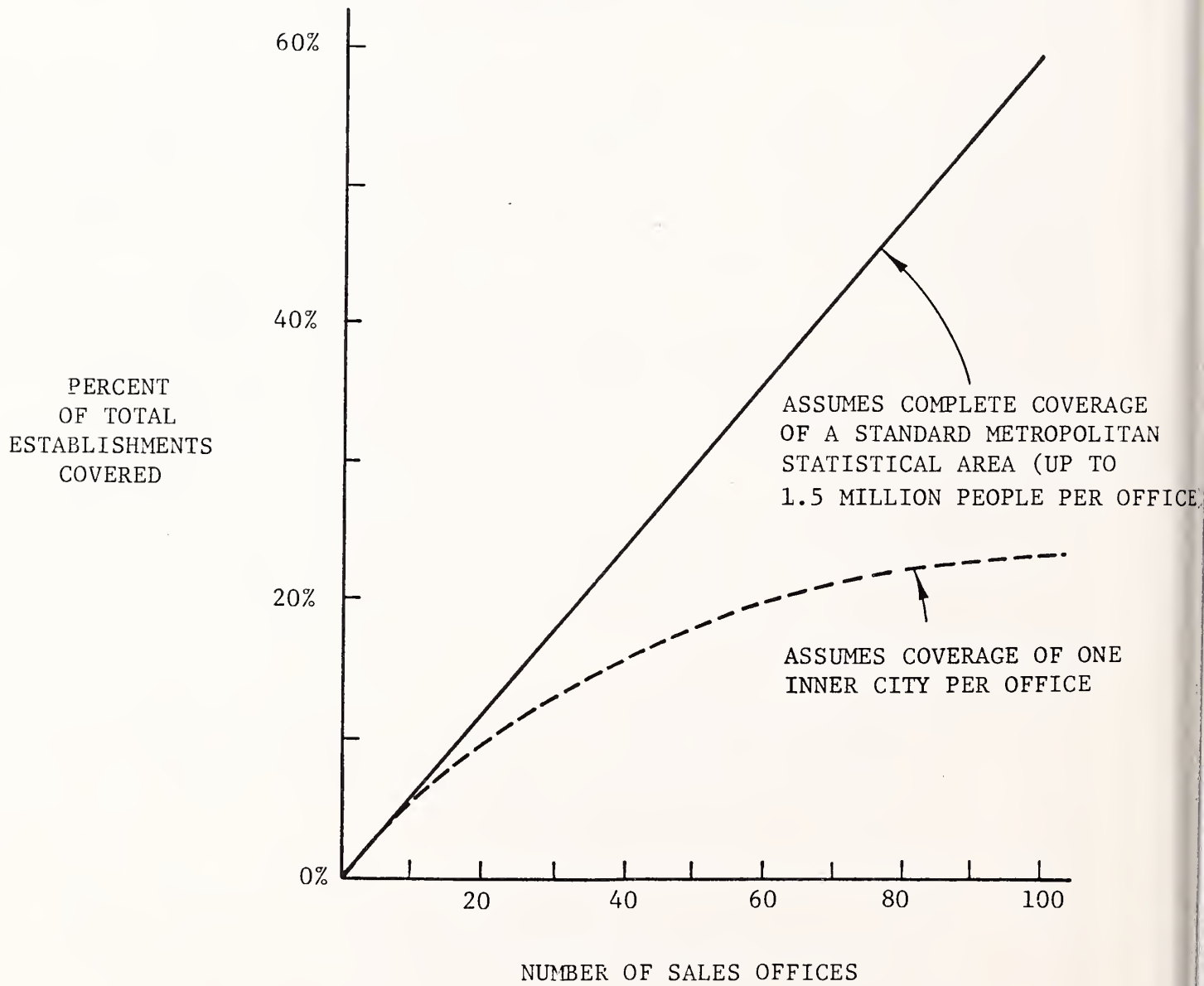
# EXHIBIT   2

## NUMBER OF ESTABLISHMENTS BY SIZE IN THE UNITED STATES (1972)
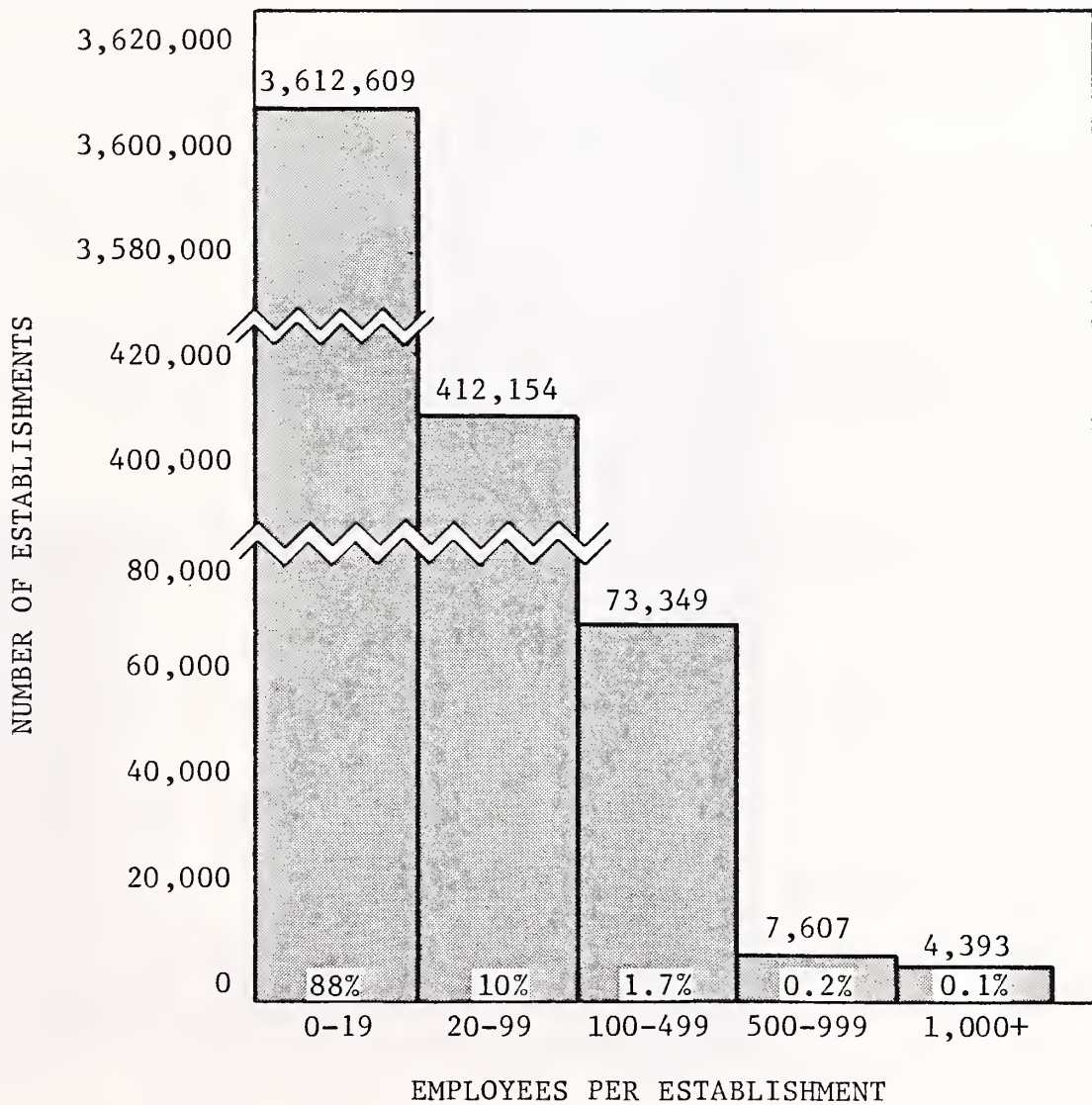


TOTAL NUMBER OF ESTABLISHMENTS
IN U.S.: 4,110,112

-5-

INPUT

# EXHIBIT 3

## U.S. EMPLOYMENT BY SIZE OF ESTABLISHMENT

NUMBER OF
EMPLOYEES

TOTAL NUMBER OF EMPLOYEES
IN U.S. ESTABLISHMENTS: 63,487,630

18 MILLION

16,936,271

16,395,468

16 MILLION

14,726,721

14 MILLION

12 MILLION

10,143,192

10 MILLION

8 MILLION

6 MILLION

5,285,978

| 4 MILLION | 26% | 27% | 23% | 8% | 16% |
| --- | --- | --- | --- | --- | --- |
| | 1-19 | 20-99 | 100-499 | 500-999 | 1000+ |

EMPLOYEES PER ESTABLISHMENT

-6-

INPU
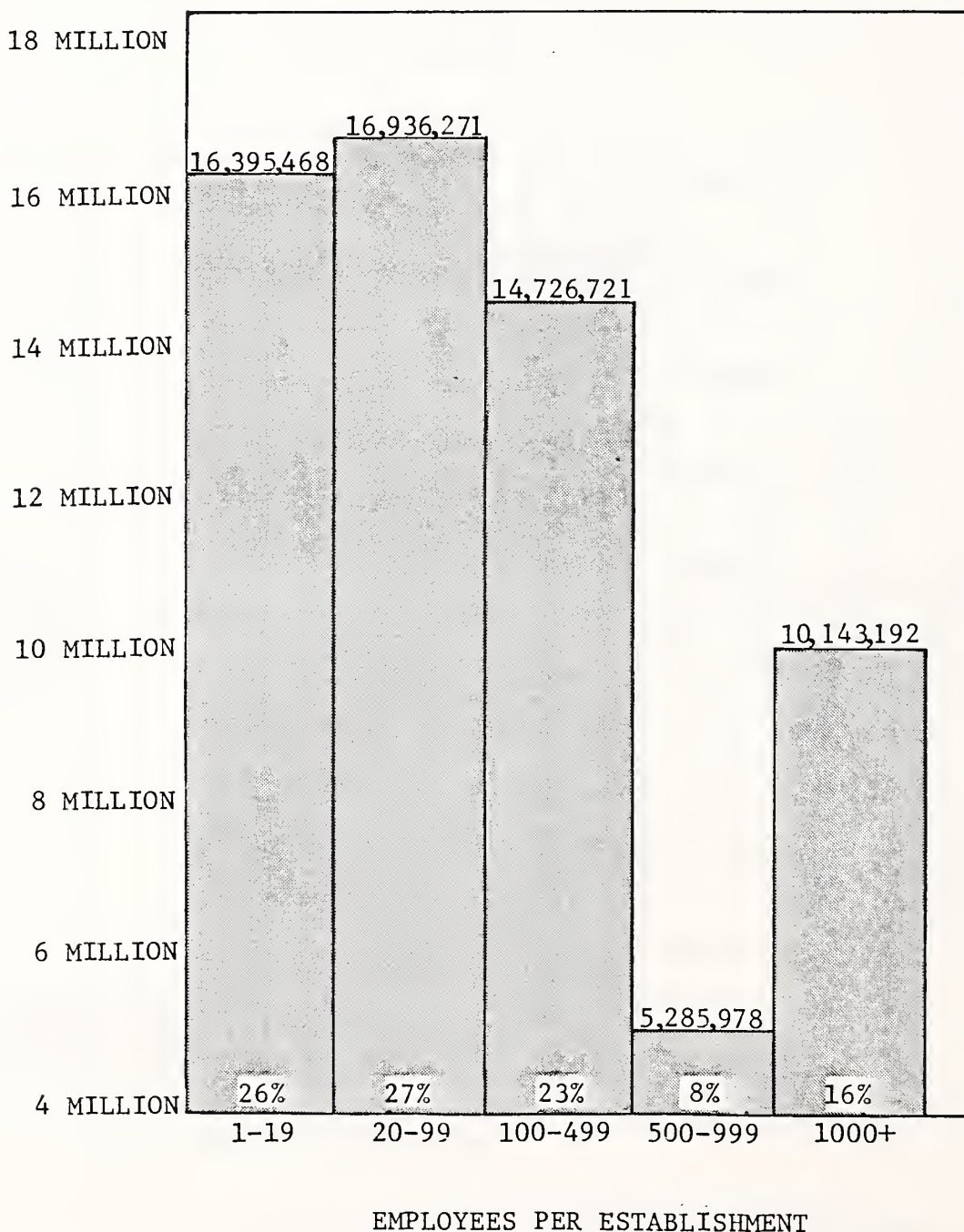
as calculators, telephones, text editing units, and supplies) depend upon re-
quirements at the user location.

- The usage of other types of products and services (postage meters, PABXs,
terminals) are tied to the number of establishments, in itself an imposing
number, exceeding 4 million in the U.S.

- A summary of the products and services now being sold by various distribution
channels is shown in Exhibit II-4. Exhibit II-5 contains INPUT's <u>forecast</u> of
those channels which will be in use five years hence. These exhibits show that:

   - No channel does or will handle all products (except for vendor stores).

   - Most channels will be capable of servicing more than one type of
   product.

   - All products can be handled by some channel outside of direct vendor
   sales organizations.

## B.    TYPES OF DISTRIBUTION CHANNELS

- Many channels are available to the vendor. They include:

   - Manufacturer's representatives.

   - System houses.

   - Vendor operated stores.

   - Computer "hobby stores."

   - Office equipment dealers.

   - Large retailers.

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EXHIBIT II-4

## DISTRIBUTION CHANNELS - PRODUCTS AND SERVICES

| | Manufacturer Representatives | Computer Service Firms | Systems House (Turnkey) | Systems House (OEM) | Office and Computer Supplies Dealers | Large Retailers | Office Equipment Dealers | Computer Stores "Hobby" | Hobby Stores | Electronic Equipment |
|---|---|---|---|---|---|---|---|---|---|---|
| MICRO COMPUTER "BARE BONES" SYSTEMS | | ● | | | | | ○ | | ● | ○ |
| COMPUTER SYSTEMS FOR BUSINESS | | ● | ● | ● | ● | | | ○ | ● | ● |
| TELEPHONES & ANSWERING DEVICES | | | | | | | ● | ○ | | ● |
| KEYSETS & UP COMMUNICATIONS EQUIPMENT | | ● | | ○ | | | | | | |
| COPIERS & TYPEWRITERS | | | | | | ○ | ● | ● | | |
| TEXT PROCESSING EQUIPMENT | | ● | ○ | ● | ● | | | ● | | |
| SOFTWARE PACKAGES | | ● | ● | ● | ● | | | | ○ | |
| SERVICES | | ● | ● | ○ | ○ | | | | | |
| TURNKEY SYSTEMS | | ● | ● | ● | ● | | | | ● | ● |

KEY: ● – EXTENSIVE ACTIVITY
○ – LIMITED ACTIVITY

INPUT

EXHIBIT II-5

## DISTRIBUTION CHANNELS FOR MARKETING PRODUCTS AND SERVICES THROUGH 1983

| | ELECTRONIC EQUIPMENT VENDOR STORES | HOBBY STORES | COMPUTER "HOBBY" STORES | OFFICE EQUIPMENT DEALERS | LARGE RETAILERS | OFFICE AND COMPUTER SUPPLIES DEALER | SYSTEMS HOUSE (OEM) | SYSTEMS HOUSE (TURNKEY) COMPUTER SERVICE FIRMS | REPRESENTATIVES |
|---|---|---|---|---|---|---|---|---|---|
| MICRO COMPUTERS "BARE BONES" SYSTEMS | ● | ● | ○ | ● | ○ | | | ○ | ● |
| COMPUTER SYSTEMS FOR BUSINESS | ● | ● | ● | | | ● | ● | ● | ● |
| TELEPHONE & ANSWERING SERVICE | ● | | ● | ● | | | | | |
| KEYSETS & UP COMMUNICATION EQUIPMENT | | | ○ | | ○ | ○ | ○ | | ● |
| COPIERS & TYPEWRITERS | | | ● | ● | ○ | | | | |
| TEXT PROCESSING EQUIPMENT | ● | ● | ● | | | ● | ● | ● | ● |
| SOFTWARE PACKAGES | ○ | ● | | ○ | | ○ | ● | ● | ● |
| SERVICES | | ○ | ○ | ○ | | ○ | ○ | ● | ● |
| TURNKEY SYSTEMS | ● | ● | ○ | ○ | | ● | ● | ● | ● |

KEY: ● – EXTENSIVE ACTIVITY
     ○ – LIMITED ACTIVITY

INPUT

- Electronics hobby stores.

- Office and computer supplies dealers.

- Computer services companies.

- User associations.

- Mail order.

- Some outlets, such as the office equipment dealers, are well established with some of the older dealers going back 40 or more years. Others, such as the hobby stores, are quite recent. Still others, such as vendor stores, are untested as yet. There is no single ideal or universal channel for any one product or service. Vendors must consider using a mix of different channels tailored to fit both product and geographic requirements.

- Vendors must also keep in mind the limitations of the potential distribution channels and be prepared to provide training and support where necessary. For example, the office product distributor, unfamiliar with complex electronics, will require a substantial amount of help to effectively handle some products having a high electronic content.

- All types of distributors interviewed for this study were flexible in their attitudes toward selling new products and services. They lack the specialized people needed to handle sophisticated information products, but can acquire these people and skills by obtaining reasonable assistance from vendors.

## C.   USER ATTITUDES

- Users interviewed for this study shared a distinct preference for direct vendor contact and prefer to deal with representatives or direct sales personnel. (System houses were generally looked upon in the same light as original equipment manufacturers.)

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- Despite the lack of actual experience, users rated vendor stores second only to direct sales as the place they would most like to purchase from. This would appear to support a contention that users are strongly biased toward vendor-controlled outlets in any form over and above third party outlets.

- Most users interviewed were not really familiar with the distribution channel structure and the many ways in which products and services can be obtained.

## D.  VENDOR ATTITUDES

- Vendors interviewed for this study included those who supply computer equipment and services, office equipment, communications equipment, and services. Vendors believe that:

  - New distribution channels will be established by major vendors.

  - Products will be partly developed to fit the requirments of the distribution channels.

  - Entirely new sales approaches will be developed aimed at reducing cost of sales.

- Both IBM and AT&T are experimenting with new distribution channels. The actions of these industry leaders will influence other vendors:

  - AT&T operating companies have opened walk-in street level stores.

  - IBM has opened "Business Computer Centers" for their Model 5100 desk top computer wherein customers call the center for appointments.

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## E. RECOMMENDATIONS FOR VENDORS OF COMPUTER, OFFICE, AND COMMUNICATIONS EQUIPMENT

- Vendors of all types of equipment should experiment with different distribution channels and closely monitor the successes and failures of competitive companies.

- A liaison departments for distribution channels should be established and publicized.

- Design equipment so that maintenance and repairs can be made by the (relatively) unskilled personnel employed by third party distributors.

- Develop sales and maintenance training programs for distributors.

- Applications software should be designed for easy tailoring or modification.

- All vendors should consider opening vendor name stores. These stores can be shared with other vendors selling other non-competing product lines. For example, a computer vendor, an office equipment vendor and a communications vendor can all utilize the same store.

## F. RECOMMENDATIONS FOR SERVICES VENDORS

- Vendor stores are as suitable for the services vendors as they are for equipment vendors.

- Applications package vendors can utilize the same channels as do the computer equipment companies who produce the equipment upon which the software runs.

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- Processing services vendors, both remote and batch, should establish relationships with hardware outlets to provide back-up support and to handle applications requiring more capability or capacity than the outlet's products can handle.

- Remote computing and batch services vendors should sell time and storage at wholesale or bulk rates to distributors who will resell it to small local accounts.

- As specialty communications services are developed, many will become suited for sale by specialized distribution channels. For example, a message store and forward network service could be sold by a distributor who also sells message terminals or office equipment.

- Communications services vendors should consider joint ventures with vendors offering specialty turnkey systems or services where the communications service is implicit in the end user product offering. A data base inquiry service (such as a stock quotation service) is an example.

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III USER ATTITUDES TOWARD
DISTRIBUTION CHANNELS

# III    USER ATTITUDES TOWARD DISTRIBUTION CHANNELS

## A.    METHODOLOGY

- The users can effect the distribution process by buying or refusing to buy from a given type of distribution channel, thereby having a veto power over which distribution channels are used. However, they cannot initiate the use of new distribution channels by vendors. Only the vendors can do this (Chapter VI).

- To determine how small establishment personnel prefer to use distribution channels for buying equipment and services and to understand what purchase factors they consider important, 40 users were surveyed. These users were chosen from firms of 100 to 300 employees in size and from the industry sectors of:

    - Discrete manufacturing (metalworking).

    - Law firms.

- Independent establishments were interviewed (not branches of major corporations) so that the corporate purchasing process was not involved in the analysis of user preference for the purchasing of equipment and services. A services industry sector and a manufacturing industry sector each were interviewed to determine any differences existing between these two different types of enterprises.

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## B. HOW USERS PREFER BEING SOLD

- Respondents were asked how they prefer to obtain information processing equipment and services. They were asked to rate (high, medium, or low) their preference for different types of distribution channels, including direct salesmen. The results are shown in Exhibit III-1 for manufacturing firms, and Exhibit III-2 for law firms.

- The similarities between law firm and manufacturing company responses far outweigh their differences:

    - Both prefer direct salesmen of the manufacturer of information processing equipment above all other methods of sales.

    - Manufacturers' reps are next in order of preference followed closely by vendor stores.

- Respondents are not favorably disposed towards distribution channels which are not directly related to the manufacturer of the equipment or the supplier of the service, such as:

    - Retail outlets.

    - Computer hobby stores.

    - Office and computer supply distributors.

    - Office product distributors.

- To summarize, small establishments prefer short rather than long paths to the manufacturer of equipment and supplier or service.

- The attitude of small establishments towards vendor stores is interesting because, in general, these outlets do not yet exist and the respondents have no experience with them. Despite this, the idea of vendor stores was intriguing

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EXHIBIT III-I

## MANUFACTURERS (METALWORKING): RESPONDENT ATTITUDES TOWARDS DISTRIBUTION CHANNELS



**DIRECT SALESMEN**
- 71%
- 21%
- 8%

**MANUFACTURERS' REPRESENTATIVES**
- 42%
- 21%
- 37%

**HARDWARE DISTRIBUTORS**
- 5%
- 17%
- 78%

**VENDOR STORES**
- 36%
- 41%
- 23%

**RETAIL OUTLETS**
- 0%
- 22%
- 78%

**COMPUTER HOBBY STORES**
- 0%
- 4%
- 96%

**PAPER AND SUPPLY DISTRIBUTORS**
- 14%
- 18%
- 68%

**OFFICE PRODUCTS DISTRIBUTORS**
- 26%
- 13%
- 61%

0   20   40   60   80   100

PERCENT OF RESPONDENT RATING HIGH, MEDIUM OR LOW

▧ HIGH

▨ MEDIUM

▥ LOW

- 16 -

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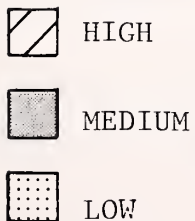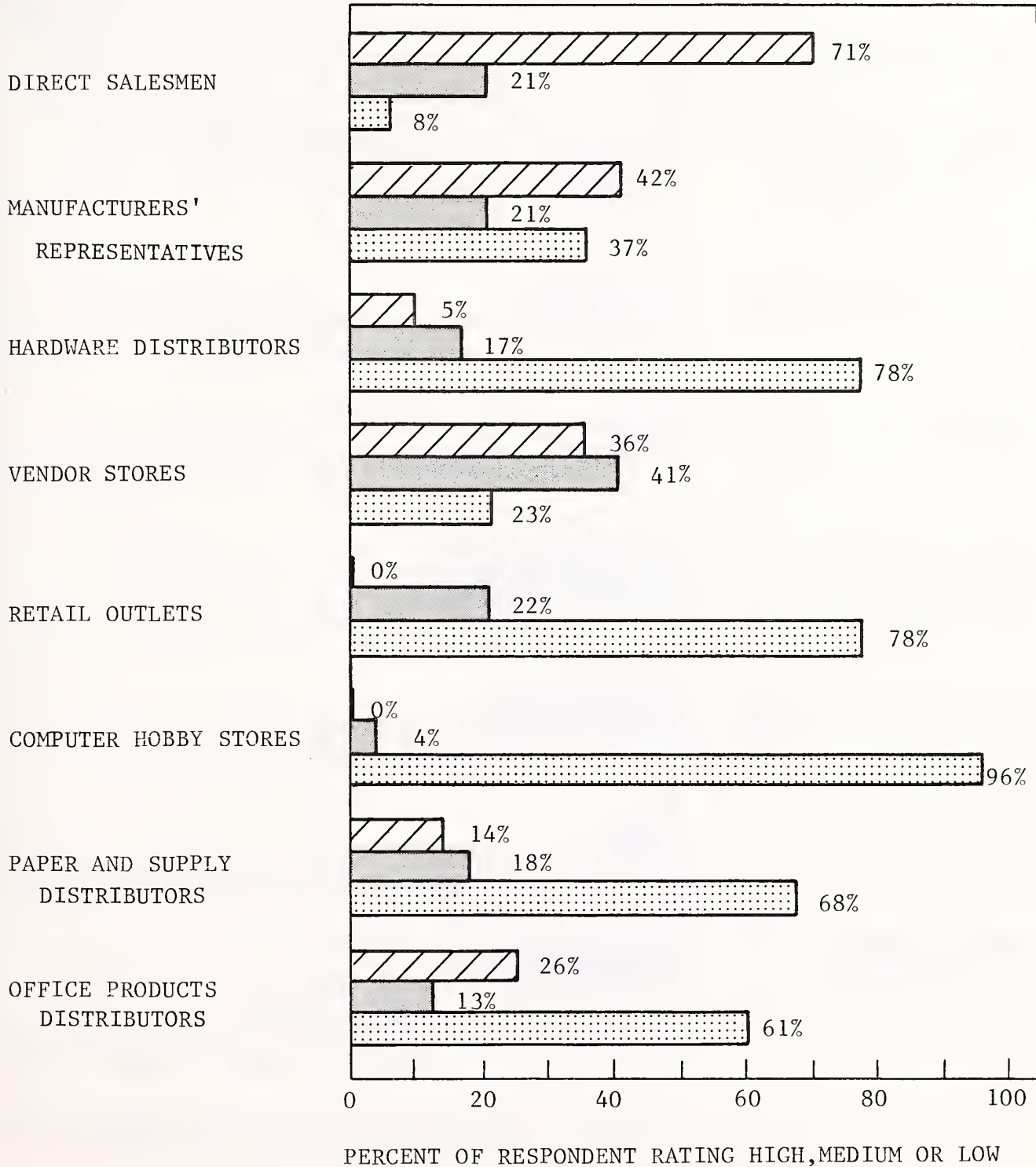
EXHIBIT III-2

## LAW FIRMS: RESPONDENT ATTITUDES TOWARDS DISTRIBUTION CHANNELS



PERCENT OF RESPONDENT RATING HIGH, MEDIUM OR LOW

◪ HIGH

▨ MEDIUM

▢ LOW

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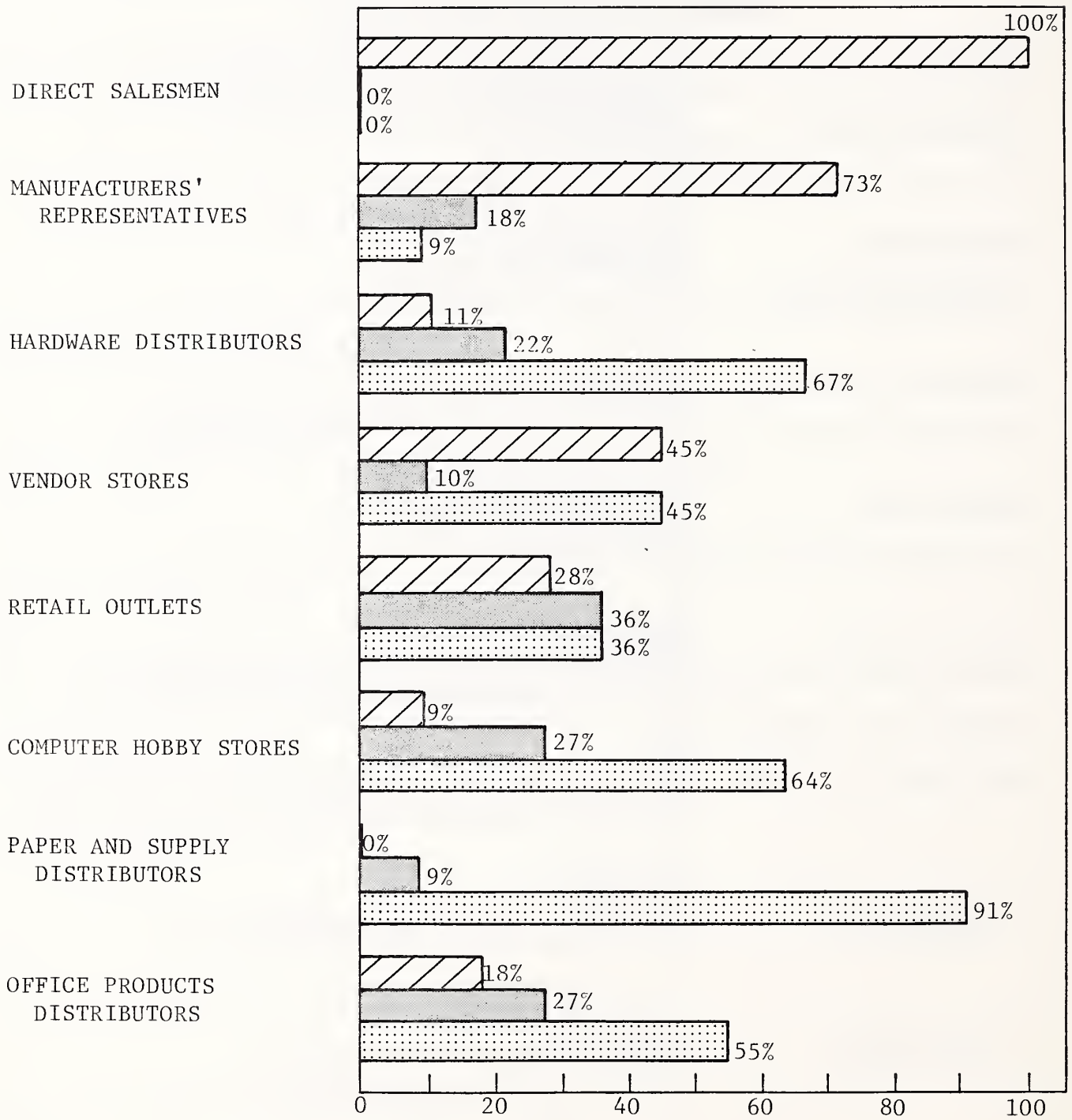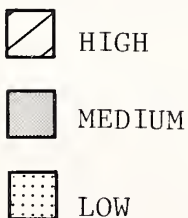
to the respondents. These stores are a means by which small establishments can best understand what their options are by seeing the equipment demonstrated, and also can retain their relationship with the product manufacturer.

- The attitude of respondents toward office product distributors was generally negative, despite the fact that these channels are effective and growing (Chapter IV-C). This indicates that the user does not have the total decision power over which distribution channels are used.

## C.    DECISION PROCESS

- The decision process by which small establishments determine product or service needs is informal and unstructured.

    - There is no fixed budget. Firms have a "rule of thumb" that up to a certain percentage of sales may be spent, and there remains great flexibility as to how and when equipment or services are purchased.

    - Because top management of the independent firms make the decisions (Exhibit III-4), there is no strong control exhibited by a technical staff of an outside source.

- Almost one-third of respondents voluntarily stated that they were unfamiliar with the various distribution channels through which they could buy products and services (Exhibit III-3). The majority of interviewees are probably unfamiliar with alternative distribution channels, if one-third volunteered their unfamiliarity with the topic.

- The purchase of information processing equipment and services is an informal process for the small establishments interviewed.

    - There is no formal group dedicated to the job of defining the firms' needs and evaluating how they can best be met by equipment or services.

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EXHIBIT III-3

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# RESPONDENTS WHO (WITHOUT BEING ASKED) VOLUNTARILY STATED

# THAT THEY KNEW LITTLE OF DISTRIBUTION CHANNELS

LAW FIRMS                    27%

MANUFACTURERS
(METALWORKING)               30%

```
0        20        40        60        80        100
```

PERCENT OF RESPONDENTS (%)

- 19 -

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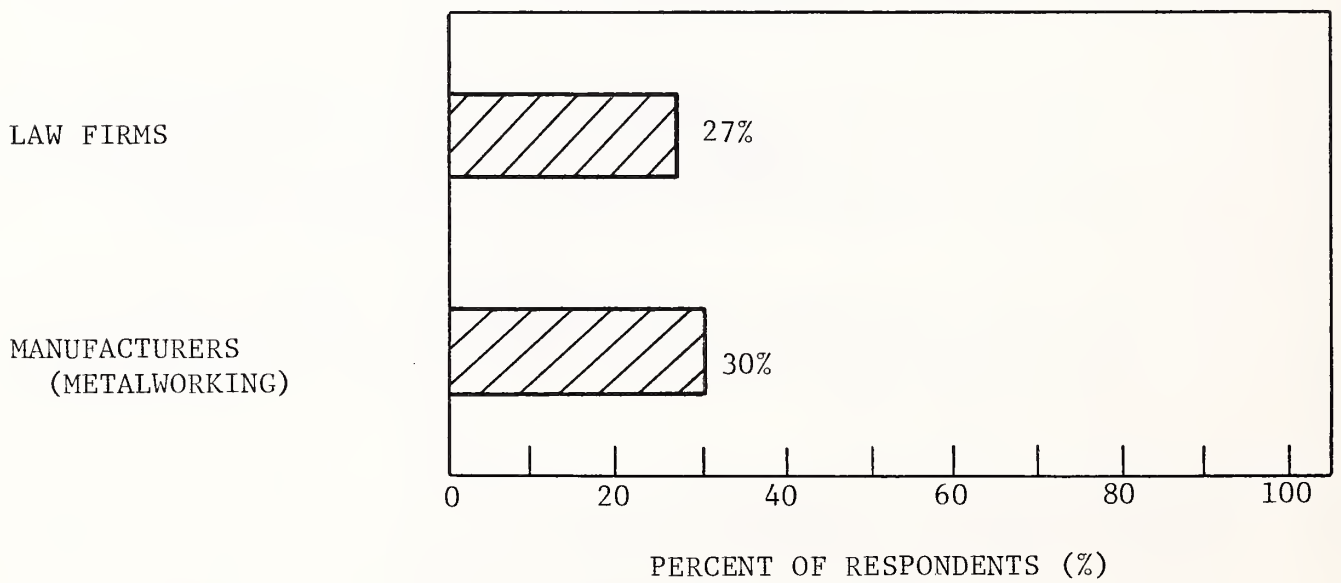
# EXHIBIT III-4

## RESPONDENTS' COMMENTS ON PURCHASE DECISION MAKERS:

## LAW FIRMS AND MANUFACTURERS (METALWORKING)



PARTNERS, V.P.
PRESIDENTS — 90%

PURCHASING AGENTS — 5%

OFFICE MANAGERS — 5%

PERCENT OF RESPONDENTS (%)

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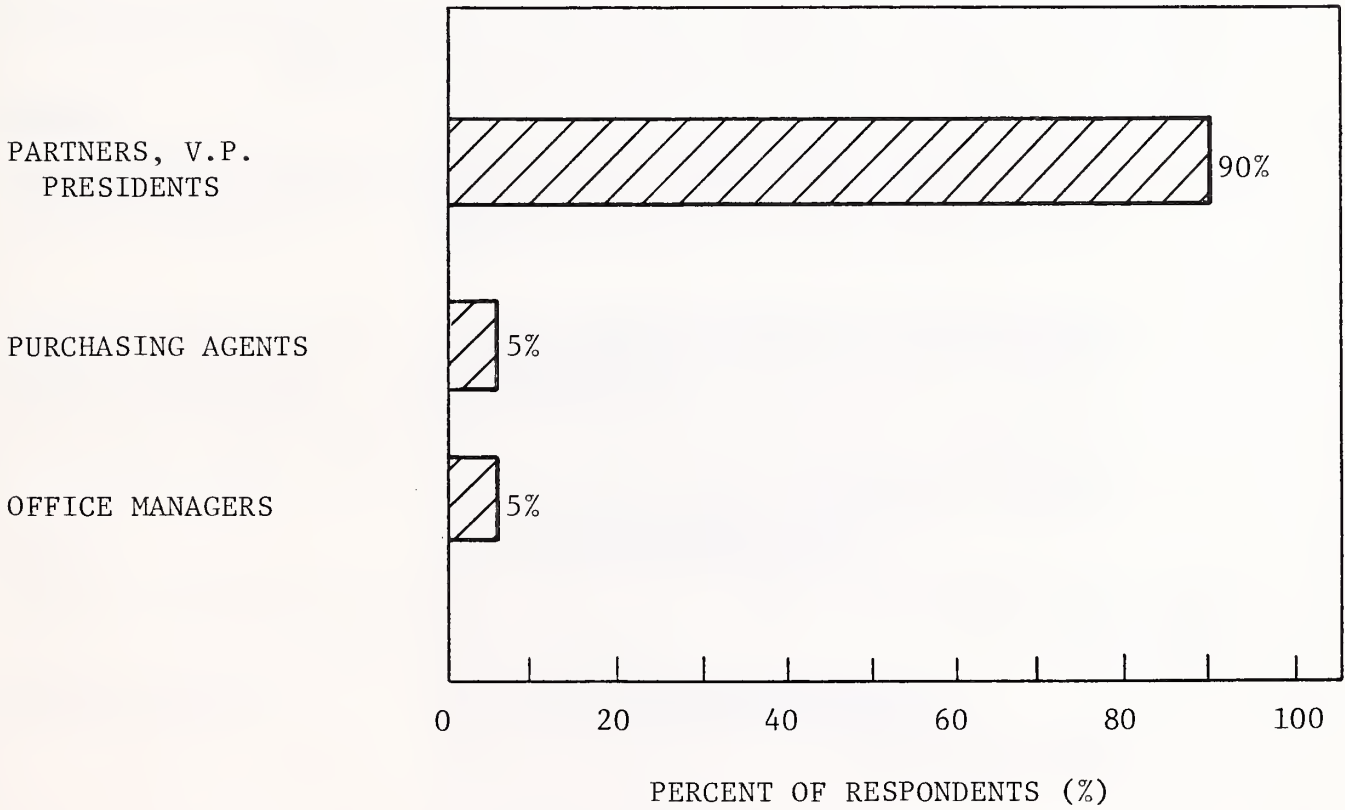
-       There is no formal search for vendors of information equipment or ser-
        vices or for distribution channels once a decision to purchase is
        reached.

•   The use of exisiting products (including vendors' direct salesmen) and new dis-
    tribution channels should be very well publicized by vendors so that users are
    aware of their options.


## D.    USER DECISION FACTORS


•   The factors evaluated by users when making a decision about the purchase of
    equipment and services are shown in Exhibits III-5, 6, 7 and 8.

    -       Law firms and manufacturers were analyzed separately to determine if
            any differences between them exist.

    -       The law firms and manufacturers are quire similar to each other in
            attitude.  In general, key issues resolve into how reliably the equipment
            and service will work once installed, and if it will properly perform its
            specified functions.

•   The factors which are of highest importance to both law firms and manufac-
    turers are:

    -       Vendor reputation.

    -       Services performed.

    -       Reliability and warrantee.

    -       Field maintenance.

    -       Fast delivery.

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# EXHIBIT III-5

## MANUFACTURERS (METALWORKING): RESPONDENT ATTITUDES
## TOWARDS IMPORTANCE OF FACTORS IN PURCHASE DECISIONS

FACTOR

| FACTOR | |
|---|---|
| VENDOR REPUTATION | 87% / 13% / 0% |
| SERVICES PERFORMED | 78% / 22% / 0% |
| PRICE | 48% / 48% / 4% |
| DISCOUNT POLICY | 22% / 56% / 22% |
| PAYMENT TERMS | 30% / 40% / 30% |

0    20    40    60    80    100

PERCENT OF RESPONDENTS CONSIDERING THE
FACTOR HIGH, MEDIUM, OR LOW

▨ HIGH

▧ MEDIUM

▨ LOW

- 22 -

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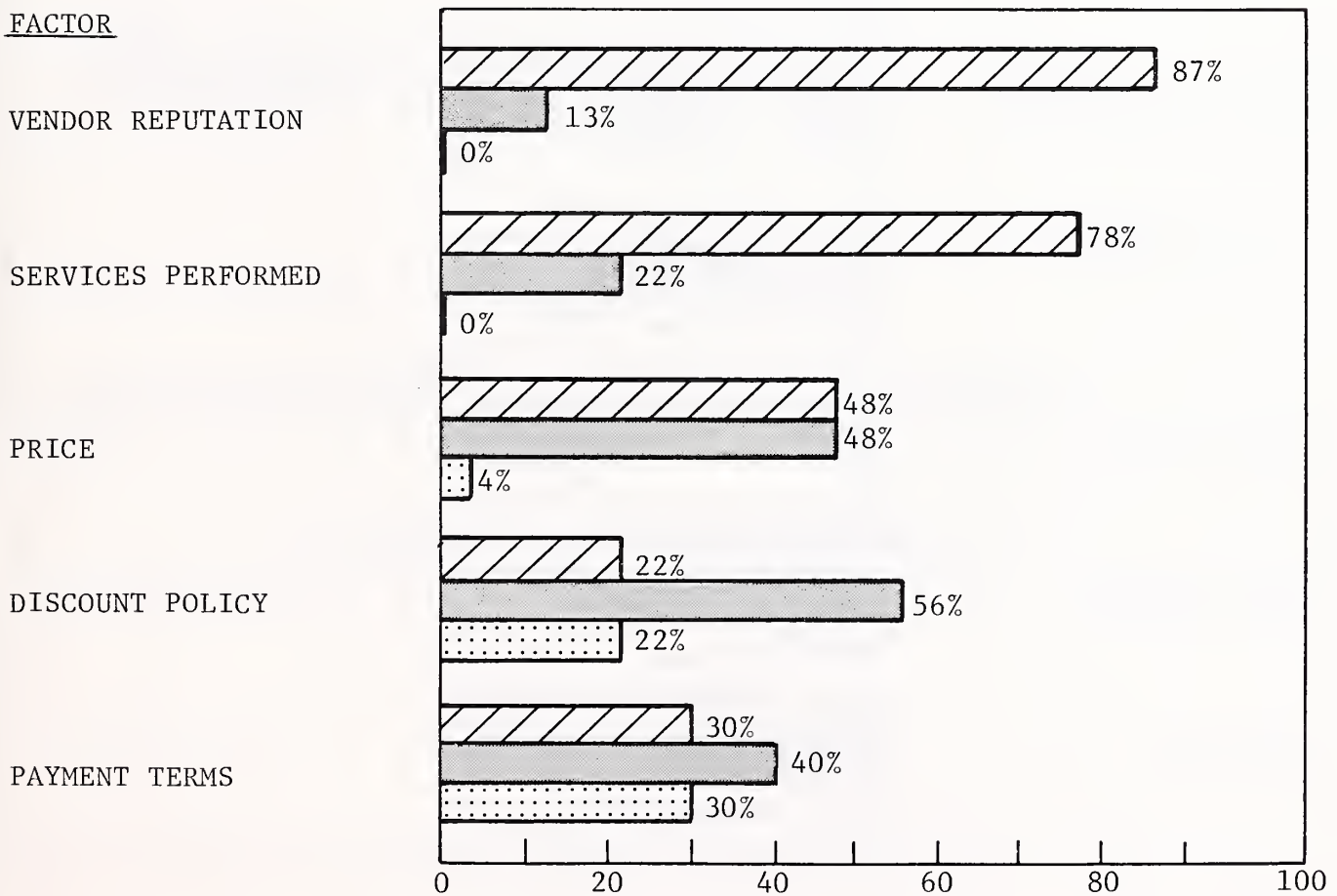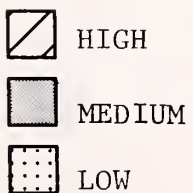
# EXHIBIT III-6

## MANUFACTURERS (METALWORKING): RESPONDENT ATTITUDES
## TOWARDS IMPORTANCE OF FACTORS IN PURCHASE DECISIONS

FACTOR

WARRANTEE — 70% (HIGH), 26% (MEDIUM), 4% (LOW)

FIELD MAINTENANCE — 88% (HIGH), 8% (MEDIUM), 4% (LOW)

CUSTOMIZATION — 40% (HIGH), 30% (MEDIUM), 30% (LOW)

RELIABILITY — 96% (HIGH), 4% (MEDIUM), 0% (LOW)

FAST DELIVERY — 60% (HIGH), 35% (MEDIUM), 5% (LOW)

TRAINING — 48% (HIGH), 26% (MEDIUM), 26% (LOW)

Axis: 0 20 40 60 80 100

HIGH

MEDIUM

LOW

PERCENT OF RESPONDENTS CONSIDERING THE
FACTOR HIGH, MEDIUM OR LOW

- 23 -

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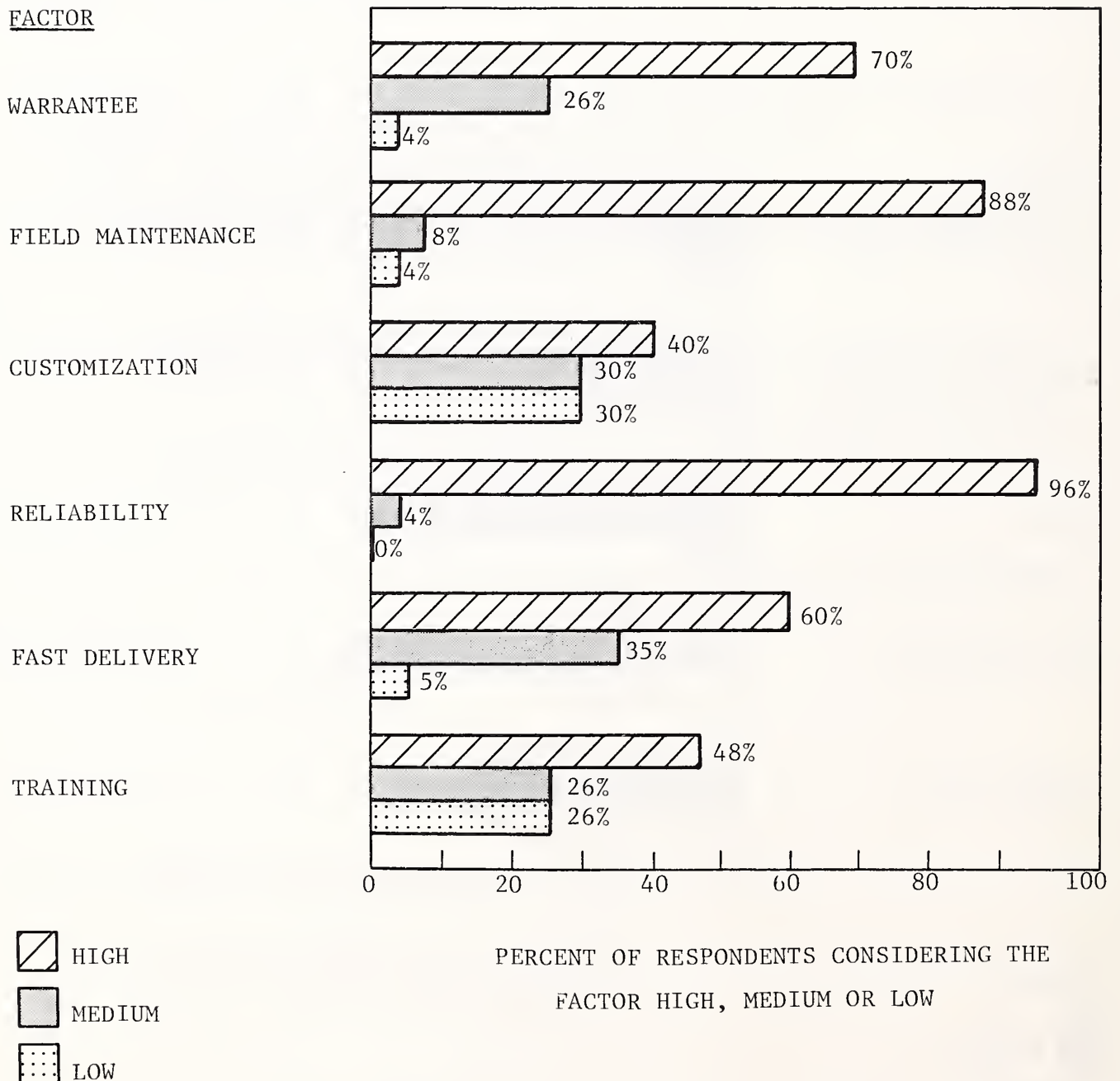
EXHIBIT III-7

# LAW FIRMS: RESPONDENT ATTITUDES TOWARDS IMPORTANCE OF

# FACTORS IN PURCHASE DECISIONS

FACTOR

VENDOR REPUTATION

70%

30%

0%

SERVICES PERFORMED

80%

20%

10%

PRICE

70%

20%

10%

DISCOUNT POLICY

60%

0%

40%

PAYMENT TERMS

30%

40%

30%

| 0 | 20 | 40 | 60 | 80 | 100 |

PERCENT OF RESPONDENTS CONSIDERING

THE FACTOR HIGH, MEDIUM, OR LOW

HIGH

MEDIUM

LOW

- 24 -

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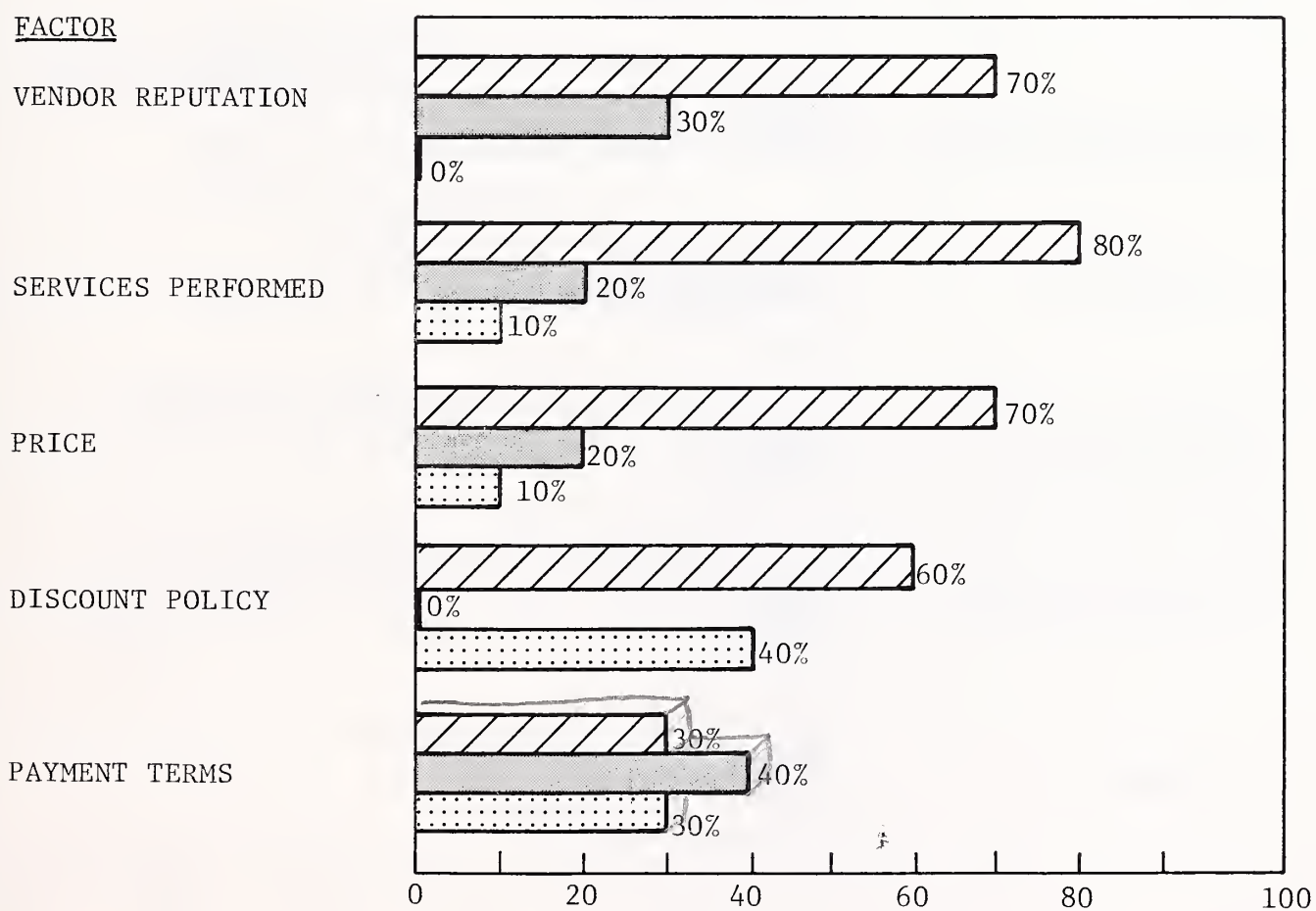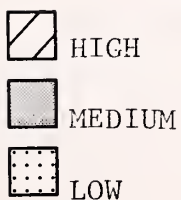
# EXHIBIT III-8

## LAW FIRMS: RESPONDENT ATTITUDES TOWARDS IMPORTANCE OF

## FACTORS IN PURCHASE DECISIONS

FACTOR

WARRANTEE
- 50%
- 30%
- 20%

FIELD MAINTENANCE
- 90%
- 10%

CUSTOMIZATION
- 56%
- 33%
- 11%

RELIABILITY
- 80%
- 10%
- 10%

DELIVERY SCHEDULE
- 80%
- 10%
- 10%

TRAINING
- 50%
- 20%
- 30%

0    20    40    60    80    100

◻ HIGH

◻ MEDIUM

◻ LOW

PERCENT OF RESPONDENTS CONSIDERING THE

FACTOR HIGH, MEDIUM, OR LOW

- 25 -

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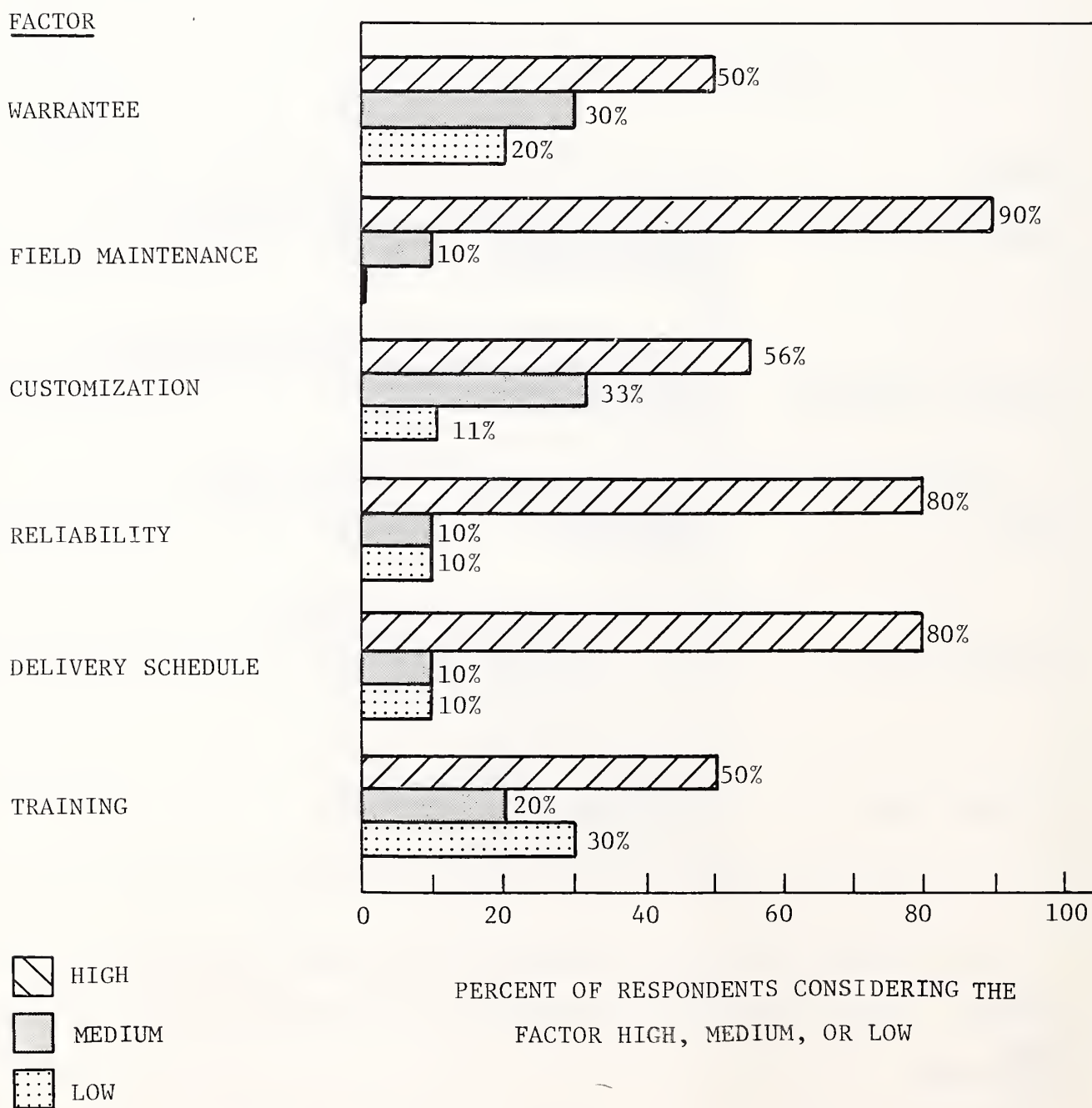
- Price was of high interest to law firms versus medium interest to the manufacturing companies. In all cases, price was of less importance than reliability.

- "Payment terms" were of medium interest to the respondents which indicates that no elaborate value of cash analysis is involved in making the purchase decision.

- The users' comments about choice of equipment and services, as shown in Exhibit III-9, reemphasizes the attitudes of the small establishments interviewed:

    - The equipment or service must perform the proper function.

    - It must be reliable.

    - Users are concerned about responsiveness on the part of the supplier of the equipment or service.

    - Price is not an overriding factor.

- To summarize, small independent establishments are suspicious of salesmen and vendors and do not spend a great deal of time analyzing the products or services supporting their information processing needs. Vendor firms selling to them must allay their fears of non-responsiveness and realize that the small establishments, in many cases, must be trained to use the equipment or services.

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IV DISTRIBUTION PATHS

# IV    DISTRIBUTION PATHS


## A.    INTERRELATIONSHIPS BETWEEN CHANNELS


- There are many distribution paths to the user from the manufacturer. These paths can become quite complex because distribution channels market to each other, as well as to the end user.

- This interrelation of distribution channels is shown in Exhibit IV-I which is a generalized illustration of possible distribution paths. Note that a manufacturer sells directly to two different distribution channels as well as to the user. A user division or group can acquire equipment or services for another branch, thus becoming an internal user distribution channel.

- Distribution channels can compete with each other in marketing the same or modified equipment and services to the user even though one distribution channel is a customer of the other channel.


## B.    SYSTEM HOUSES


- Exhibit IV-2 shows the use of system houses as distributors. The product could, for example, be a minicomputer and the manufacturer using its direct

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INPUT

# EXHIBIT IV-I

## DISTRIBUTION PROCESS, GENERAL

INF

EXHIBIT IV-2

- 29 -
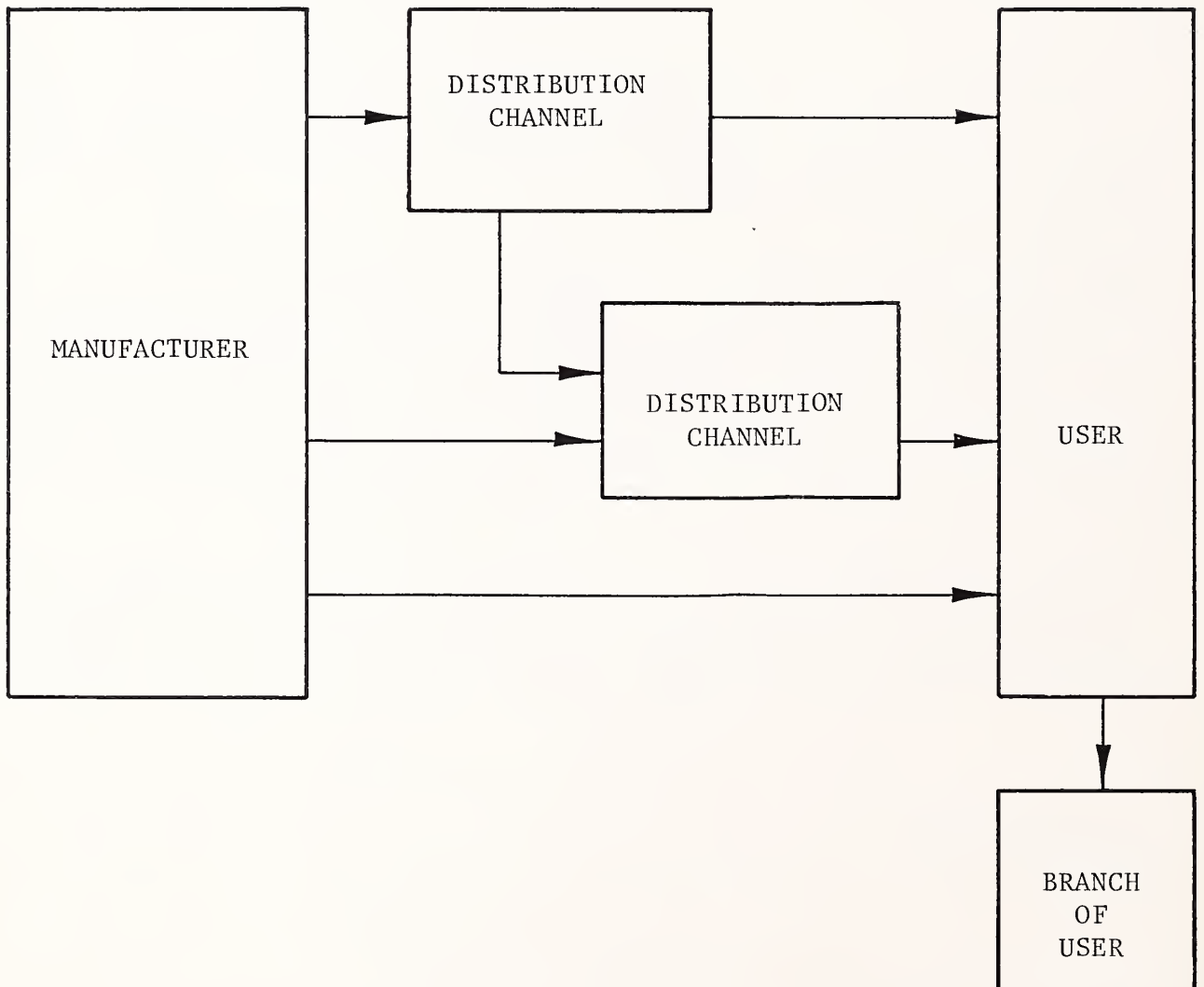
DISTRIBUTION PROCESS, SYSTEMS HOUSE

INPUT
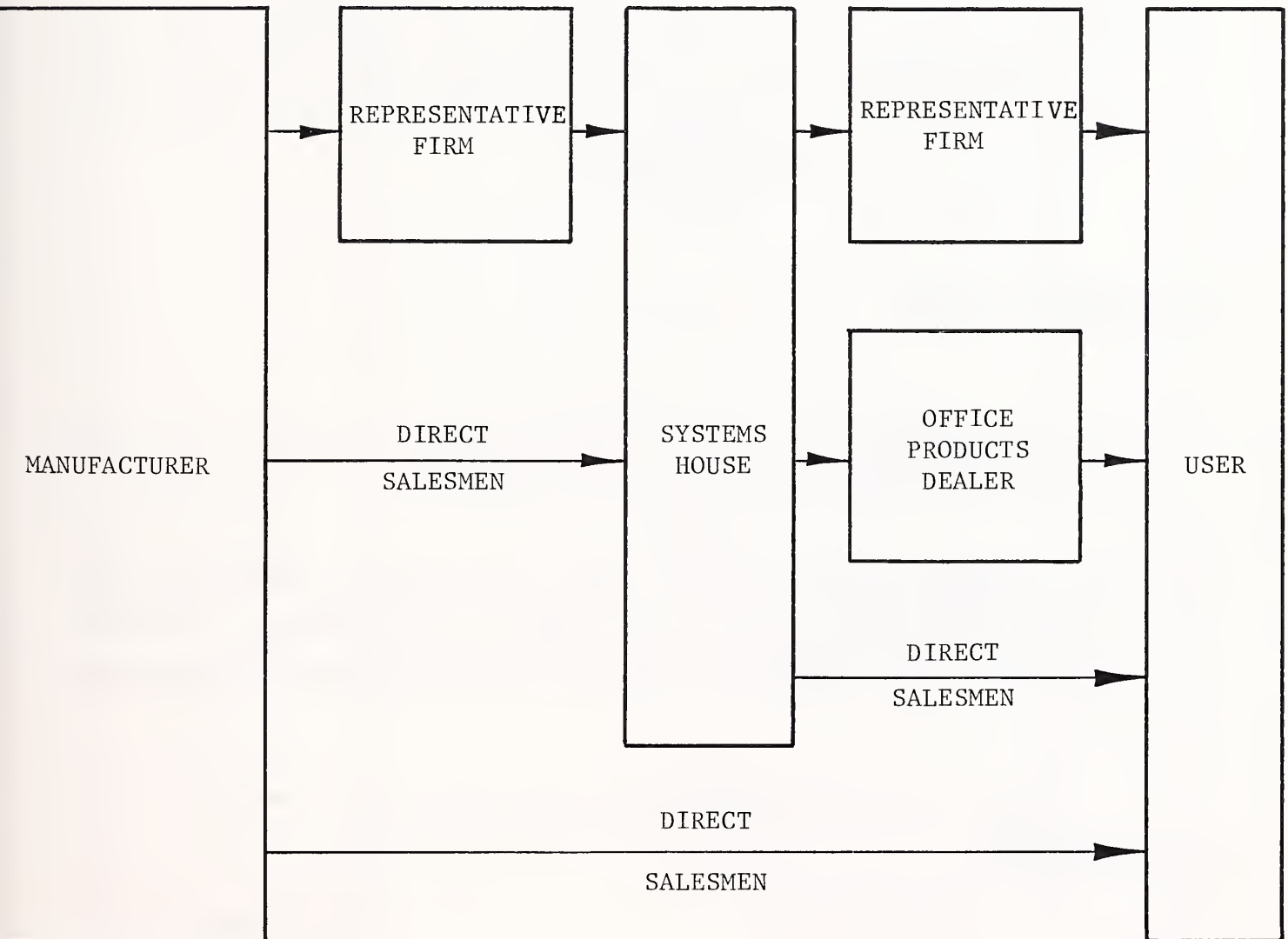
salesmen sells to both system houses and users. (Representatives also sell to system houses.) The systems house then integrates a product such as a text processing system or a small business computer system and markets the end user via manufacturing reps, office product dealers and direct salesmen.

## C.    OFFICE EQUIPMENT DISTRIBUTORS

- Another type of distribution path is prevalent in the office products industry (Exhibit IV-3). Large dealers act as wholesalers for smaller dealers (for a particular product) while possibly competing with the smaller dealers (i.e., Litton Industries manufacture both Adler and Royal typewriters and operates stores; it uses dealers who sell both to the end user and to smaller dealers, all occurring in the same geographical area).

## D.    VENDOR STORES

- Vendor stores (utilizing a manufacturer's name), shown in Exhibit IV-4, utilize direct salesmen as well as service "walk in" customers.

- Vendor stores may sell equipment from more than one manufacturer; for example, small business computers and keyset or PABX systems. The distribution role differs between the vendor owning the store and the one who does not.

## E.    RETAILERS

- Retailers (such as Sears), electronic hobby stores (such as Radio Shack) and computer hobby stores are similar to the other. They obtain equipment from more than one manufacturer and reach users by direct salesmen, "off the street" sales, and catalog and mail sales (Exhibit IV-5).

- 30 -

INP

EXHIBIT IV-3

DISTRIBUTION PROCESS, OFFICE EQUIPMENT DEALERS

INPUT
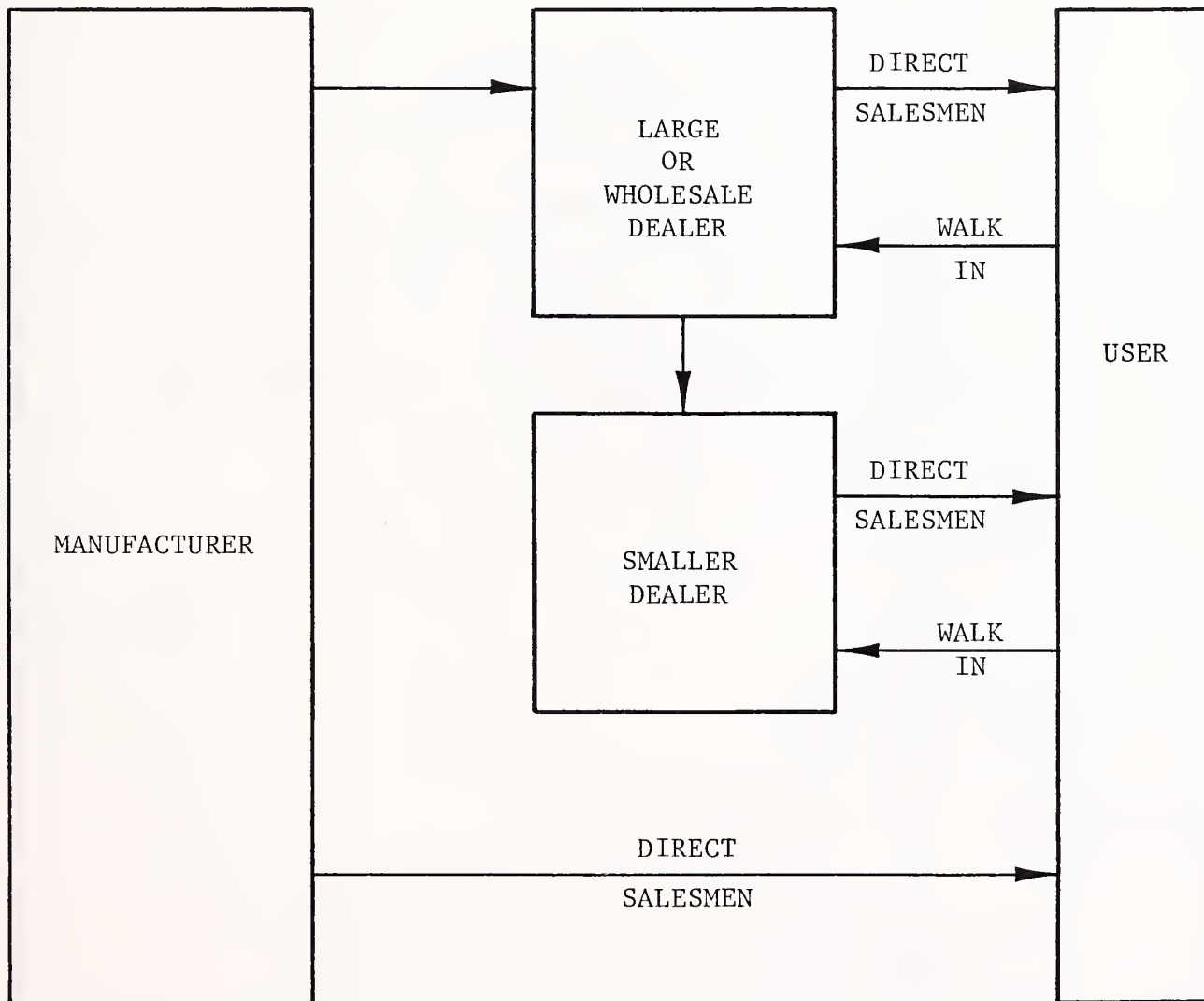
# EXHIBIT IV-4

## DISTRIBUTION CHANNEL, VENDOR OR MANUFACTURER STORE

```
┌──────────────┐                DIRECT SALESMEN                    ┌──────────┐
│              │ ─────────────────────────────────────────────►   │          │
│              │                                                   │          │
│              │              ┌──────────────┐   USER             │          │
│ MANUFACTURER │              │   VENDOR     │   "OFF THE         │          │
│      1       │              │  STORE OR    │ ◄─ STREET"         │          │
│              │ ───────────► │ MANUFACTURER │   DIRECT           │          │
│              │              │              │ ─ SALESMEN ──►     │          │
└──────────────┘              └──────────────┘                    │          │
                                      ▲                           │  USER    │
                                      │                           │          │
                                      │                           │          │
┌──────────────┐                      │                           │          │
│              │ ─────────────────────┘                           │          │
│              │                                                   │          │
│ MANUFACTURER │              DIRECT SALESMEN                      │          │
│      2       │ ─────────────────────────────────────────────►   │          │
│              │                                                   │          │
└──────────────┘                                                   └──────────┘
```

- 32 -
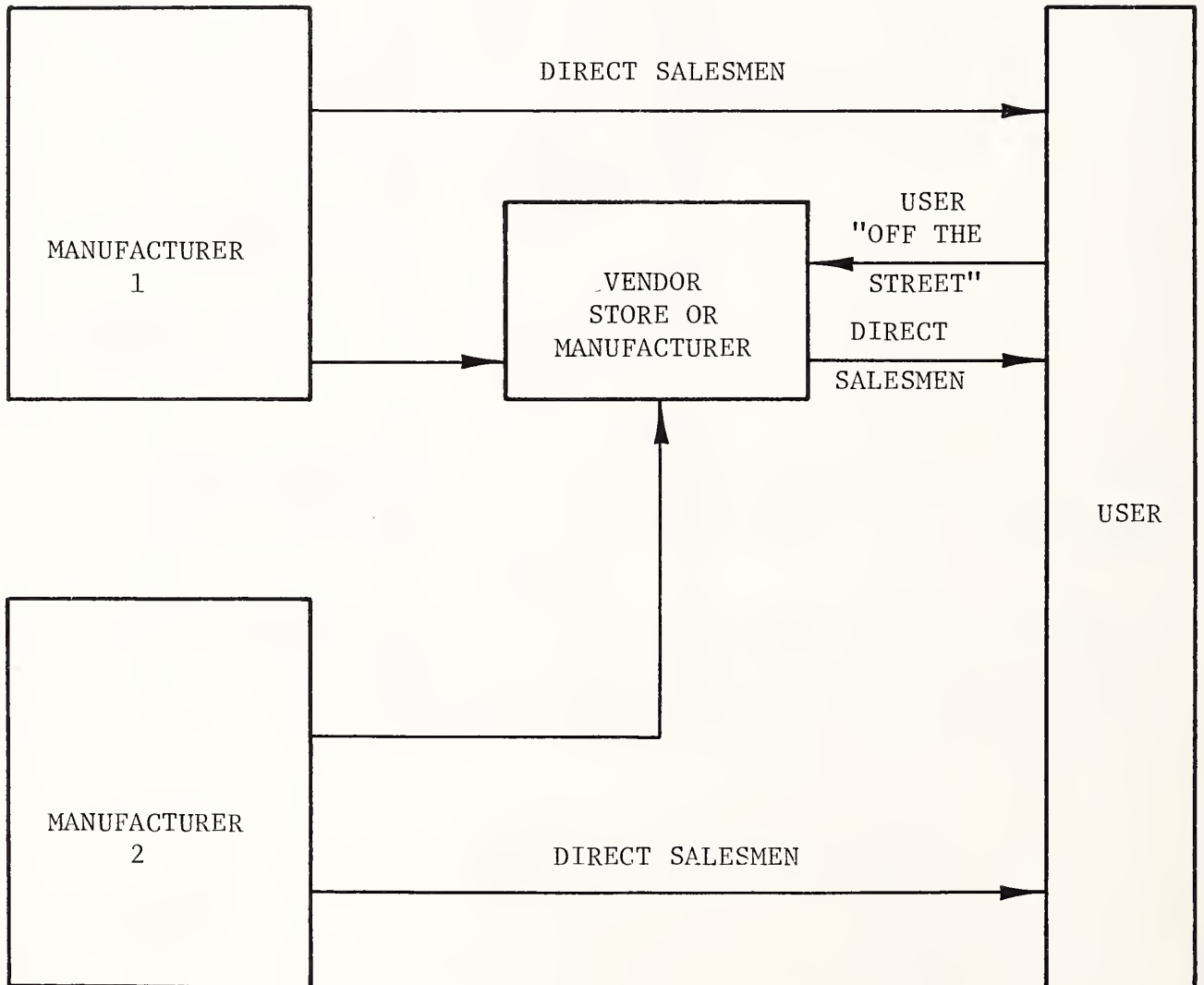
EXHIBIT IV-5

## DISTRIBUTION CHANNEL, RETAIL STORE OR HOBBY STORE

```
┌─────────────────┐
│                 │ ──────────────────► OTHER CHANNELS
│                 │
│                 │      ┌──────────────────────┐
│  MANUFACTURER   │      │                      │       USER OFF
│       1         │      │                      │ ◄──   THE
│                 │      │                      │       STREET
│                 │      │   RETAIL STORE       │
└─────────────────┘      │       OR             │       CATALOG   ┌──────┐
                         │  ELECTRONIC HOBBY    │       ──────►   │      │
                         │      STORE           │       AND MAIL  │ USER │
                         │       OR             │                 │      │
┌─────────────────┐      │  COMPUTER HOBBY      │       DIRECT    │      │
│                 │      │      STORE           │       ──────►   │      │
│                 │      │                      │       SALESMEN  │      │
│  MANUFACTURER   │      │                      │                 └──────┘
│       2         │      └──────────────────────┘
│                 │ ──────────────────► OTHER CHANNELS
│                 │
└─────────────────┘
```

INPUT
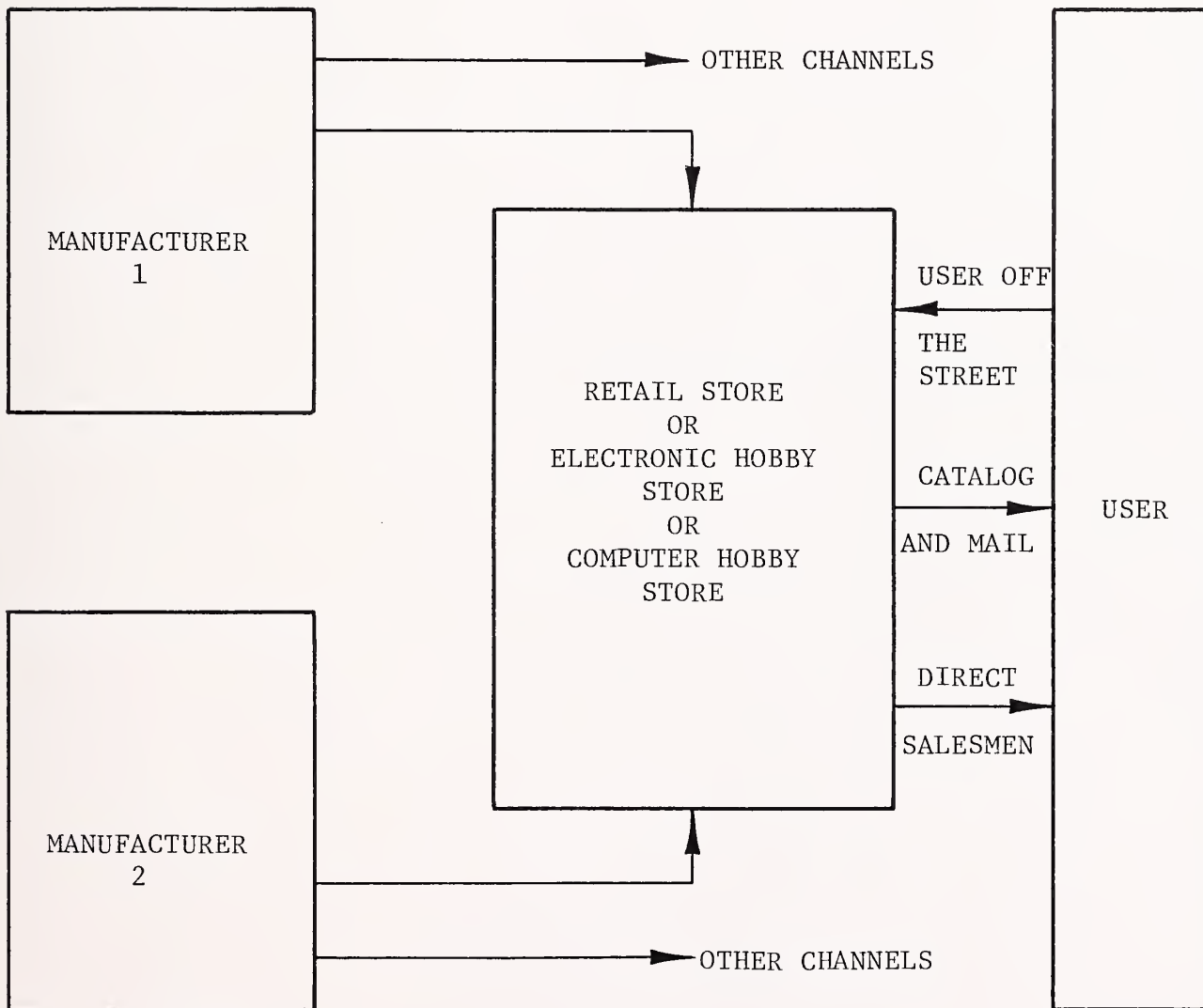
V DISTRIBUTION CHANNELS

# V DISTRIBUTION CHANNELS

## A. OVERVIEW

- There are a wide range of distribution channels reaching small establishments for selling equipment and services. Twenty were interviewed during the course of this study to determine:

    - How they operate.

    - What products and services they presently sell.

    - What products and services they expect to be selling over the next five years.

- Distribution channels which will be discussed in this section include:

    - System houses.

    - Vendor stores.

    - Computer hobby stores.

INPUT

- Office equipment dealers.

- Large retailers.

- Electronic equipment hobby stores.

- Office and computer supply dealers.

- Computer service companies.

- Industry associations.

● The characteristics of the various distribution channels are quite different:

- Some distribution channels, such as retailers and office equipment dealers, are long established. The key issue being what they currently are and what they plan to do in relation to marketing electronic information handling products.

- Distribution channels such as computer hobby stores, and system houses are relatively new. Although they have the technical skills to work with all types of information processing equipment, their intent to pursue the office and communications market is not evident. In some cases, the business skills of computer hobby stores and smaller system houses have yet to be proven.

- Vendor stores such as those being tested by IBM and AT&T are a concept that seem to have an optimistic future.

## B.   SYSTEM HOUSES

● System houses assemble hardware provided by other manufacturers into operating equipment for the end user. They are strong in both a technical and (in many cases) a business sense. System houses are divided into two major categories:

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- System houses (OEM) which provide standard products such as small business or photocomposition systems to end users.

- System houses (turnkey) have no standard products but provide custom designed turnkey systems to end users.

- System houses have been divided into two categories for the purpose of this analysis. However, the system houses (OEM) will modify their standard products and system houses (turnkey) tend to concentrate in areas of expertise to the point of offering quasi standard products.

- System houses follow an evolutionary growth from system houses (turnkey) to system houses (OEM) and utlimately become manufacturers. Thus, the system houses (turnkey) tend to be smaller than the system houses (OEM).

  - There are a total of about 2,500-3,000 system houses in the United States, primarily in the $250,000 to $10,000,000 annual revenue range.

- System houses tend to specialize by industry or function. (For example, supplying systems to beer wholesalers, or on a functional basis, photocomposition systems to newspapers.) Because of this specialization they tend to use direct salesmen, although some of the system houses (OEM) with strong product definitions may also use reps.

- Many of the system houses specialize in selling to small establishments.

- The usual way vendors do business with system houses is on an OEM equipment basis.

- Users view system houses (OEM) which supply products as manufacturers rather than as distributors.

- System houses can be used as distribution channels by vendors of equipment and services by:

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- Assisting the systems house to enter a specialized area where the vendor's equipment generally fills the need, but requires more customization. The vendor may refer leads to the systems house if the sale cannot be managed by the vendor because customization is required.

- Informing system houses supplying data processing about communications services which can be incorporated in systems provided to users. For example, a systems house installing an electronic mail system for a major corporation becomes a distribution channel for communications services. A systems house installing a manufacturing control system can become a distribution channel for computer services.

• The systems house can provide:

- Leads to a vendor for equipment and services which the systems house cannot provide.

- Installation of communications systems with the sales effort being jointly handled by the communications equipment vendor and the systems house.

## C. VENDOR STORES

I. THE CONCEPT RESPONDENT USERS WERE INTRIGUED BY

• The concept of a "Vendor Store" was investigated. In a vendor store a businessman can investigate computer, office, or communications equipment and services. The Vendor Store is visualized as a showroom in which equipment and services can be seen, used, and tested. It bears the name of a major company such as IBM, Kodak, or NCR.

• Vendor stores are supported by the equipment manufacturer because they are potentially a more efficient way to reach prospective users:

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- Salesmen's time is saved since they do not have to travel to the customer.

- Time is saved in prospecting since some customers will walk in.

- The physical setting for a demonstration can be ideal with all equipment available to be shown.

- Support personnel can also be efficiently used because they have to be available in only one physical area.

- Showroom stores for "high ticket" equipment have ample precedent; for example, automobile dealers.

    - According to the National Automobile Dealers Association, in 1976 the average car dealer had annual sales of $3.44 million, and there were 29,000 dealers.

    - Most of these automobiles are sold to consumers who presumably have less money to spend than business.

## 2. IBM AND AT&T STORES

- IBM and AT&T both have estimated vendor stores which have been initiated on an experimental basis, and were evaluated by INPUT in performing research for this report.

- The IBM "store" is called a Business Computer Center and is located on the 27th floor of the 2 Penn Plaza office building in New York. It is associated with the IBM General Systems Division sales office, and consists of a conference room area where a 5100 computer system is available for demonstration. The computer is connected to large TV monitors so a group of people can see the demonstration.

    - It is possible to telephone the business computer center and ask for an appointment for a demonstration. However, one must know what to

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request since blind calls to IBM result in sales literature but not an invitation to the Business Computer Center.

- The AT&T Telephone Store is a true "store." It is located on street level at the New York Telephone Headquarters Building, on 42nd Street and The Avenue of the Americas in New York.

    - As one enters, one is moved by display placement through the equipment exhibit. A store salesperson approaches to offer assistance in purchasing equipment or services. The salesperson is quite competent and helpful.

    - The "telephone store" handles any geographical area covered by New York Telephone. However, it is restricted to consumer equipment and services, and single station telephones for businesses.

## D.    COMPUTER HOBBY STORES

- Computer hobby stores have received a great deal of publicity recently and are considered to be an example of the future trend of consumer electronics distribution. In this report hobby stores are considered only as they relate to businesses.

- Computer hobby stores are in a very early stage of development. There were about 500 in the United States at the time of the preparation of this report. Proprietors of these stores believe that their numbers are growing at 100% annual rate.

- Computer hobby stores interviewed sell both to small businessmen and to consumers:

    - They use direct outside salesmen in addition to their store.

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- Typical business systems sold are all in the $5,000 to $15,000 price range, with some systems up to $40,000.

- The sale to the small business is purchased by the president or top manager of the business.

- They sell, install, and maintain both basic equipment and turnkey systems.

- The computer hobby stores interviewed are only interested in the EDP area:

  - They are now or planning to sell software.

  - They are not interested in selling office automation or communication equipment. (However, at a recent computer convention the hobby store exhibit was demonstrating text processing programs.)

- Equipment vendors should develop a liasion office directed toward the computer equipment stores to:

  - Track the needs of the small businessmen to whom the computer hobby store sell.

  - Use computer hobby stores as a source of leads for equipment and services for user requirements which the computer hobby stores cannot solve with their own products.

  - Sell products and services through the computer hobby store (involved in turnkey systems design to the user.

  - Use these stores for performing unique application programming that they understand.

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# E.    OFFICE EQUIPMENT DEALERS

- Office equipment dealers have been in business for a relatively long time (25-40 years). Their customer realtionships are well established. These distribution channels have usually been founded by a salesman or an equipment repairman:

    - Those founded by salesmen tend to have large showrooms and look toward growth.

    - Those founded by repairmen tend to have small showrooms and look toward profit from their repair service. Growth comes from adding technicians.

- Office Equipment dealerships average about $1 million in revenues with larger dealerships approaching a $10 million sales volume.

    - They use both outside direct salesmen and also sell from their own stores. The outside salesmen of one office equipment dealer interviewed earned a base salary of $24,000 plus commission and a car. His quota is $200,000 a year. This compensation level is adequate to obtain a salesman to sell all information processing products to small establishments.

    - Office equipment dealers sell products costing $10,000, and can handle information processing products from the position of price.

    - They sell to consumers, branches of the Fortune 500, and independent small establishments.

- Office equipment dealers sell a range of equipment, depending upon the dealer, including:

    - Desk top computers.

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- Calculators.

- Copiers.

- Typewriters (office and consumer).

- Text editing typewriters.

- Small communications equipment.

- A list of the type of equipment which office equipment dealers carry was obtained from the National Office Machines Dealers Association (Exhibit V-I).

- Dealers provide service for the products they sell. However, presently, these are mechanical products with only a small electronics content.

- Government statistics show that in the last census (1972), there were 5,300 office equipment distributors in the United States, selling both to users and to other retail sales establishments. These distributors were responsible for $1.4 billion of sales in 1972. Office equipment is also sold by paper and supplies distributors, 1,400 of which were in the United States in 1972.

- Exhibit V-2 shows the geographic distribution of office equipment dealers throughout the United States. The number of outlets per 1,000,000 population is constant.

  - This large number of office equipment dealers shows the potential for additional outlets for reaching small businessmen.

- Office equipment dealers provide effective sales outlets because they:

  - Are aggressive salesmen.

  - Have the customer contacts.

  - Can handle high ticket items.

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INPUT

EXHIBIT V-1

## EQUIPMENT CARRIED BY OFFICE EQUIPMENT DEALERS

| TYPE OF EQUIPMENT | NUMBER OF DEALERS |
|---|---|
| Typewriters | 2,771 |
| Calculating machines | 2,742 |
| Adding machines | 2,570 |
| Calculators | 2,319 |
| Copy machines | 2,570 |
| Check writing machines | 2,001 |
| Duplicating machines | 1,644 |
| Cash registers | 1,553 |
| Dictating machines | 1,534 |
| Furniture | 1,274 |
| Programmable calculators | 1,073 |
| Paper shredders | 1,025 |
| Time recording machines | 987 |
| Phone service devices | 819 |
| Addressing machines | 792 |
| Bookkeeping machines | 681 |
| Minicomputers | 528 |
| Edit typewriters | 409 |
| Data processing machines | 333 |
| Communications equipment | 320 |
| Coin counting machines | 314 |
| Security equipment | 281 |
| Microfilm equipment | 225 |
| Postage mailing equipment | 201 |
| Data terminals | 152 |
| Data collection equipment | 107 |
| Identification systems | 102 |
| Data transfer equipment | 90 |
| Facsimile equipment | 89 |
| Telephones | 54 |

INF

# EXHIBIT V-2

## DENSITY OF OFFICE EQUIPMENT DEALERS

| STATE | NUMBER OF ESTABLISHMENTS | POPULATION (MILLION) | OFFICE EQUIPMENT DEALERS PER MILLION POPULATION |
|---|---|---|---|
| CALIFORNIA | 1,185 | 19.95 | 59 |
| IOWA | 164 | 2.85 | 57 |
| MASSACHUSETTS | 304 | 5.69 | 53 |
| MICHIGAN | 367 | 9.10 | 40 |
| MISSISSIPPI | 74 | 2.30 | 32 |
| NEVADA | 40 | 0.49 | 82 |
| NEW YORK | 1,045 | 16.80 | 62.3 |
| TEXAS | 726 | 12.00 | 60 |

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INPUT

- Office equipment dealers are afraid of dealing with products which have a large electronic content or do information processing, although they realize they must eventually handle such products.

- Vendors of equipment and services should:

  - Show office product dealers that the vendors will support them, and that this support will enable the office product dealers to handle electronic products, such as computers and text processing equipment.

  - Provide equipment and services which are simple, easily maintained, and have excellent documentation.

- If the vendors succeed in working with office equipment dealers, they will have many new business contacts, sources of leads, and sales outlets.

## F.    LARGE RETAILERS

- Very large retailing organizations in the United States (Sears, Penney's, Montgomery Ward) are in most communities and sell items in the $1,000-2,000 price range. These large retailers were examined as distribution channels.

- Large retailers are selling to small establishments at the present time and are providing them with products such as:

  - Telephones.

  - Typewriters.

  - Office supplies.

  - Calculators.

  - Office furniture.

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INI

- They provide no customization or installation.

- Some of the largest of these retailers were interviewed to determine their attitudes toward distributing information automation equipment to small businesses. The respondents said that they:

    - View themselves as selling to small businesses as well as to consumers.

    - Expect to sell products at "popular prices."

    - Are looking into small computer systems.

    - Have no interest in selling communications systems other than telephones.

    - Have no interest in selling services or turnkey systems.

- There were 7,742 department stores in the United States according to the 1972 census.

- In order to obtain an idea as to how many of these outlets will handle information automation equipment, the following assumptions were made:

    - Only operations with more than 100 employees handling household appliances are suitable.

    - Only 5% of the suitable outlets will actually carry the equipment.

    - This results in 152 outlets.

- For vendors contemplating the sale of any products requiring software modification, customer training or installation, large retailers are not a suitable distribution channel.

    - However, vendors which are contemplating products in the $1,000-2,000 price range such as programmed (by cassette) calculators must consider

INPUT

the large retailers because of the large retailer's merchandising, and financial strength.


## G.   ELECTRONIC EQUIPMENT HOBBY STORES


- Some of the chains of electronic equipment hobby stores such as Radio Shack, Heathkit and Layfayette have a large number of outlets which sell electronic systems in the price range of $1,000. These firms presently sell computer hobby systems and provide a limited back-up to their customers.

- They sell in their own stores and by mail only (no outside salesman).

- Those interviewed would like to sell small ($1,000 price) computer systems, but:

    - Are not presently interested in office automation or communication systems.

    - Cannot sell turnkey systems; perhaps they will be able to do so in the future.

- Vendors of information processing equipment should maintain a liaison with electronic equipment hobby stores. This is particularly important if these vendors expect to sell $1,000-2,000 products at some point in the future.

    - Electronic equipment hobby stores can be an important distribution channel. However, they do not have the financial strength (for credit sales) or the reputation with consumers of a Sears or Macy's.

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## H.   OFFICE AND COMPUTER SUPPLIES DEALERS

- Office and computer supply dealers sell items such as paper for copiers and computers, magnetic tapes, cassettes, and floppy disks. They are long established and thus usually have a stable customer base which they repeatedly contact for the sale of consumables. Some of these firms sell office equipment, forms, and calculators as well as supplies.

- Office computer supply dealers' order sizes are generally small, but can escalate to $10,000 or more.

- Those interviewed had little interest in selling any technically sophisticated equipment or services.

- According to the 1972 census, there were 1,400 supply dealers in the United States.

- In exceptional cases, supplies dealers can be used to generate leads. However, in general, vendor efforts to develop new channels for the distribution of products and services are best directed elsewhere.

## I.   COMPUTER SERVICES COMPANIES

- Computer services companies are both a source of processing services (to be distributed) and a channel through which hardware and communications services can be distributed. They are extremely knowledgeable about the user applications and needs. They understand industry applications and operating functions inside each industry. In addition there is a very high level of user support by the computer services industry.

INPUT

- The computer services industry is considered only as a distribution channel in this report.

- At the present time computer services firms, particularly the industry leaders are selling computers and terminals to their customers, for example:

| | |
|---|---|
| ADP | Computer Equipment |
| National CSS | Computer Equipment |
| GEIS | Terminals |
| ITEL | Computer Equipment |

- By its very nature, the remote computing (timesharing) industry is a distribution channel for communication services when users purchase timesharing service delivered to them via communications.

    - Leased lines from the Telcos and SCC's are used by the timesharing users, and vendors.

    - The initial largest use of packet switching was by computer service firms who wanted.

        . Nationwide coverage.

        . Distance independent charges for communications.

    - Since the computer services companies are extremely sophisticated users of communications, this trend toward use (and thus distribution) of new and sophisticated communications services will continue.

- In the office information or text processing area, only a few firms such as Bowne Timesharing (New York) and Alphatext (Ottawa) are providing text processing services. However, there is a great deal of interest in participation in "Electronic Mail" by computer services firms. As this interest in electronic mail continues and new offerings are developed in the electronic mail area, computer service firms will utilize and thus become distribution channels for:

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- Office text processing equipment.

- Multifunction text/data terminals.

- High quality output printers.

- According to ADAPSO (Association for Data Processing Service Organization), there are 2,800 computer service firms in the U.S. Of these, 350 are responsible for 80% of the business.

  - Fifty of these firms are now distributing products such as computers and terminals.

- Vendors of computer and office equipment and of communications services should very carefully maintain relationships with the computer services industry because:

  - Computer services firms are industry leaders and have a wealth of knowledge about user needs and applications.

  - The computer services industry is growing at an average annual rate of 16%. Participating firms have the customer base and sales capability to become an excellent distribution channel.

## J. INDUSTRY ASSOCIATIONS

- According to the Directory of National Trade and Professional Associations of the U.S. and Canada, 1978, there are 6,000 industry associations in the United States. These associations relate to their members by journals, conventions, special committees, etc. These associations can participate in some manner in the decision of their members to purchase products and services. Associations can thus become a distribution channel.

INPUT

- Associations servicing the legal sector and metalworking sector were interviewed to determine how they visualize their role in the distribution process. The results are shown in Exhibit V-3.

    - All associations interviewed expect to be involved in some manner in the distribution process.

- Vendors should relate to key associations for the knowledge of industries needs and any emerging industry standards which these associations can provide.

    - The associations are variable in their role as a distribution channel, although in some areas, such as communication networks, some have become very active.

INF

# EXHIBIT V-3

## HOW ASSOCIATIONS VISUALIZE THEMSELVES IN THE DISTRIBUTION PROCESS

| ASSOCIATION | TOTAL MEMBERS | THE ASSOCIATION INVOLVED IN SOME MANNER IN THE DISTRIBUTION OF PRODUCTS AND SERVICES TO MEMBERS | RECOMMEND PRODUCTS, SERVICES, VENDORS | STANDARDS | THE ASSOCIATION AS DISTRIBUTION CHANNEL FOR PRODUCTS AND SERVICES | PRODUCT ADS IN JOURNALS |
|---|---|---|---|---|---|---|
| SOCIETY OF MANUFACTURING ENGINEERS | 47,000 | ● | | ● | | YES |
| ALLIANCE OF METAL WORKING INDUSTRIES | 700 | ● | ● | ● | ● | YES |
| METAL FINISHING SUPPLIERS & ASSOCIATION | 175 | ● | | ● | | NO |
| CAST METALS FEDERATION | 155 | ● | | | ● | NO |
| AMERICAN BAR ASSOCIATION | 225,000 | ● | | ● | ● | YES |
| NATIONAL LAWYERS GUILD | 6,000 | ● | | | | NO |

KEY:

● – EXTENSIVE ACTIVITY
O – LIMITED ACTIVITY

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INPUT

VI MAJOR VENDOR ATTITUDES

# VI    MAJOR VENDOR ATTITUDES

## A.    IMPORTANCE OF MAJOR VENDOR ATTITUDES

- Computer, office and communications equipment vendors, and computer and communications services vendors were interviewed to determine their attitudes towards:

    - What they think will occur in the area of distribution channels.

    - What would cause them to take action in developing new distribution channels.

- The attitude of major vendors toward utilizing new distribution channels is important because:

    - Only the major vendors can create changes. Although the users provide a driving force and can "veto" vendors actions by not buying, only vendors can initiate the process.

    - The major vendors can develop products and services especially for distribution through new channels because the major vendors have the development and production resources to make a significant impact.

INPUT

## B.    PERCEPTION OF A NEED TO USE NEW CHANNELS

- Vendors were interviewed to determine what use they now make of distribution channels, other than direct salesmen, and what percentage of the market they think they are missing through their present use of distribution techniques. The results of these questions are shown in Exhibits VI-1 and VI-2. Large vendors who are industry leaders were interviewed. However, IBM and AT&T which use only direct salesmen, but are experimenting with "stores," were not part of this sample.

- Exhibit VI-1 shows that the great majority of vendors interviewed utilize only direct salesmen at the present time. The reason being:

    - The industry is still relatively new and vendors are still concentrating upon the big companies where orders are the largest.

    - The price of products in the data processing and office automation industries has only recently started to drop below the $10,000 level.

    - Competition is relatively new in the communications industry for both equipment and services.

- Most vendors interviewed (over 80%) think they are presently losing some of the market because of a lack of salesmen coverage. However, there are different opinions as to what portions of the market are being lost. (See Exhibit VI-2.)

    - The general opinion of vendor respondents is that they were missing from 25-50% of the market. Only a few think they are presently covering all potential customers.

- The number of small establishments becoming candidates for equipment is rapidly increasing as equipment costs decrease. However, all of these new customers cannot be reached by direct salesmen:

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EXHIBIT VI-I

- 55 -

## VENDORS - RESPONDENT USE OF DIRECT SALESMEN

PERCENT USING
DIRECT SALESMEN
ONLY

83%

PERCENT USING
OTHER TECHNIQUES
AS WELL

17%

0          20          40          60          80          100

PERCENT OF RESPONDENTS (%)

INPUT
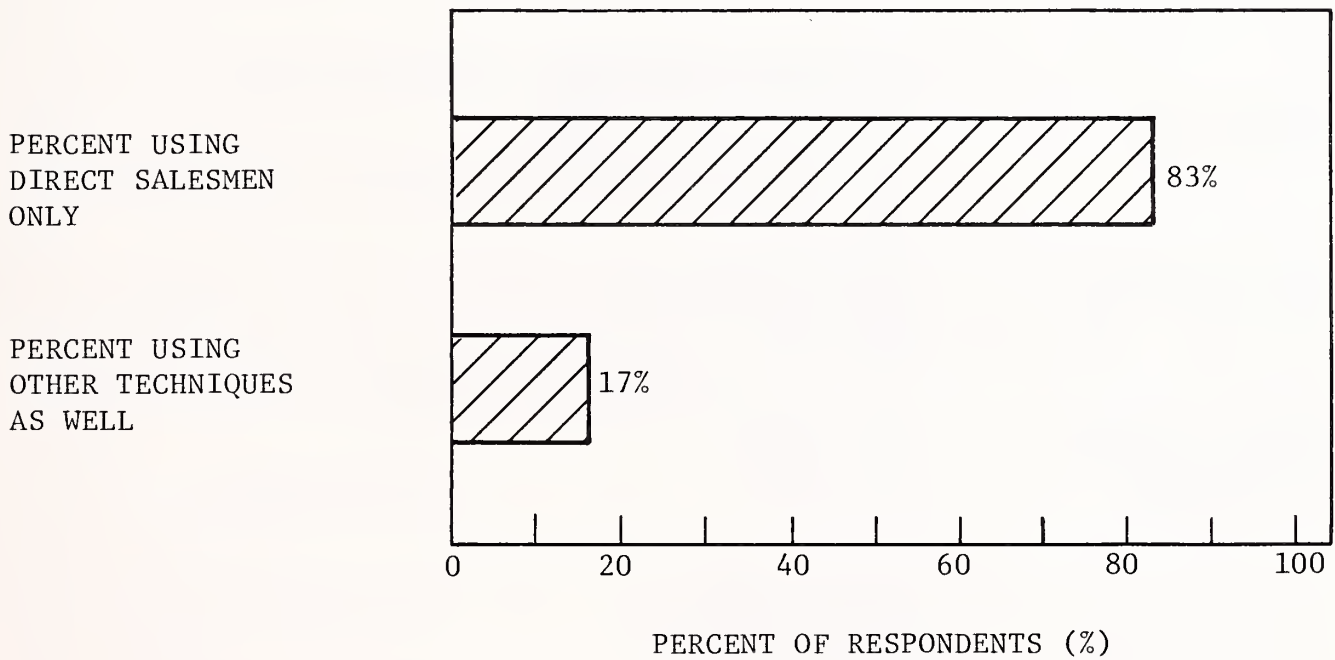
EXHIBIT VI-2

## LIMITATIONS IN SALES COVERAGE AS PERCEIVED BY
## VENDOR RESPONDENTS



PERCENT OF RESPONDENTS (%)

IN
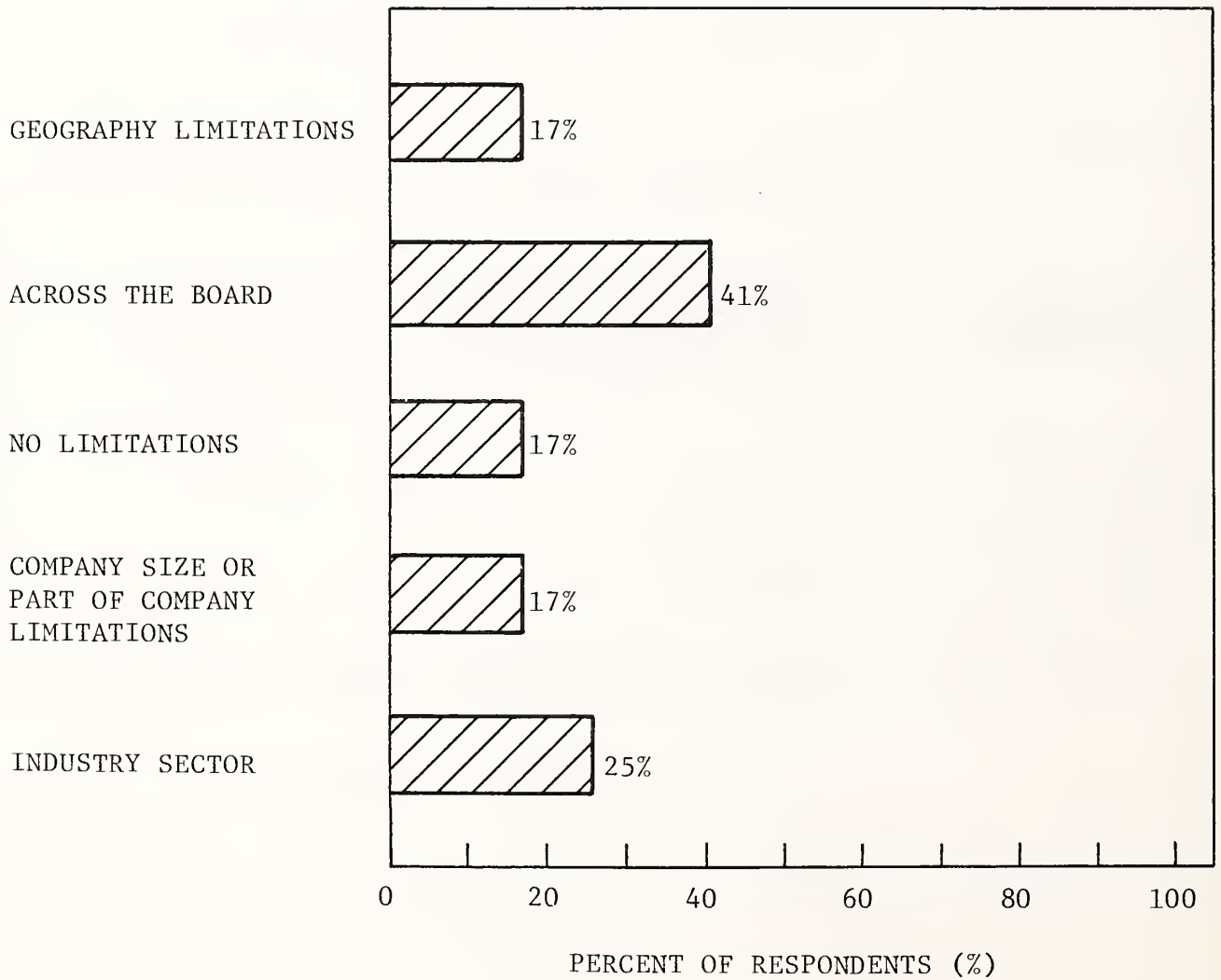
- This is the driving force which will cause vendors to seek new distribution channels.

## C. ATTITUDE TOWARD DISTRIBUTION CHANNELS

- The attitude of major vendors toward specific distribution channels is important because the vendors are the ones which can implement change. To see if attitudes were different among different types of vendors, results are shown for:

  - All vendors interviewed.

  - Vendors of equipment (office and computer).

  - Vendors of services (computer services and communications).

  The results are shown in Exhibits VI-3, 4, and 5.

- Equipment vendors showed a preference for existing distribution channels which either they or comapnies similar to themselves have used. This shows up in the relatively high ratings given to:

  - Representatives.

  - System houses.

  - Office products dealers.

- Vendor name computer stores (which are essentially now an idea, not an actuality) were rated highly because the idea appealed to the vendors interviewed.

- "Nonprofessional" distribution channels such as retail outlets, supplies dealers and computer hobby stores were not rated as well as vendor stores.

INPUT

EXHIBIT VI-3

## VENDOR RESPONDENT ATTITUDES TOWARDS DISTRIBUTION CHANNELS

DISTRIBUTION CHANNELS

| Distribution Channel | Rating |
|---|---|
| CATALOG & MAIL | 1.5 |
| REPRESENTATIVES | 2.6 |
| SYSTEM HOUSES | 3.1 |
| HARDWARE DISTRIBUTORS (ELECTRONICS) | 1.1 |
| OFFICE PRODUCTS DEALERS | 2.6 |
| VENDOR NAME STORES | 1.9 |
| RETAIL OUTLETS | 1.0 |
| COMPUTER HOBBY STORES | 1.2 |
| PAPER MERCHANTS, SUPPLIES | 1.3 |

0  1  2  3  4  5

VENDOR OPINIONS OF DISTRIBUTION CHANNELS.

KEY: 5 - HIGHEST
     1 - LOWEST

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INI
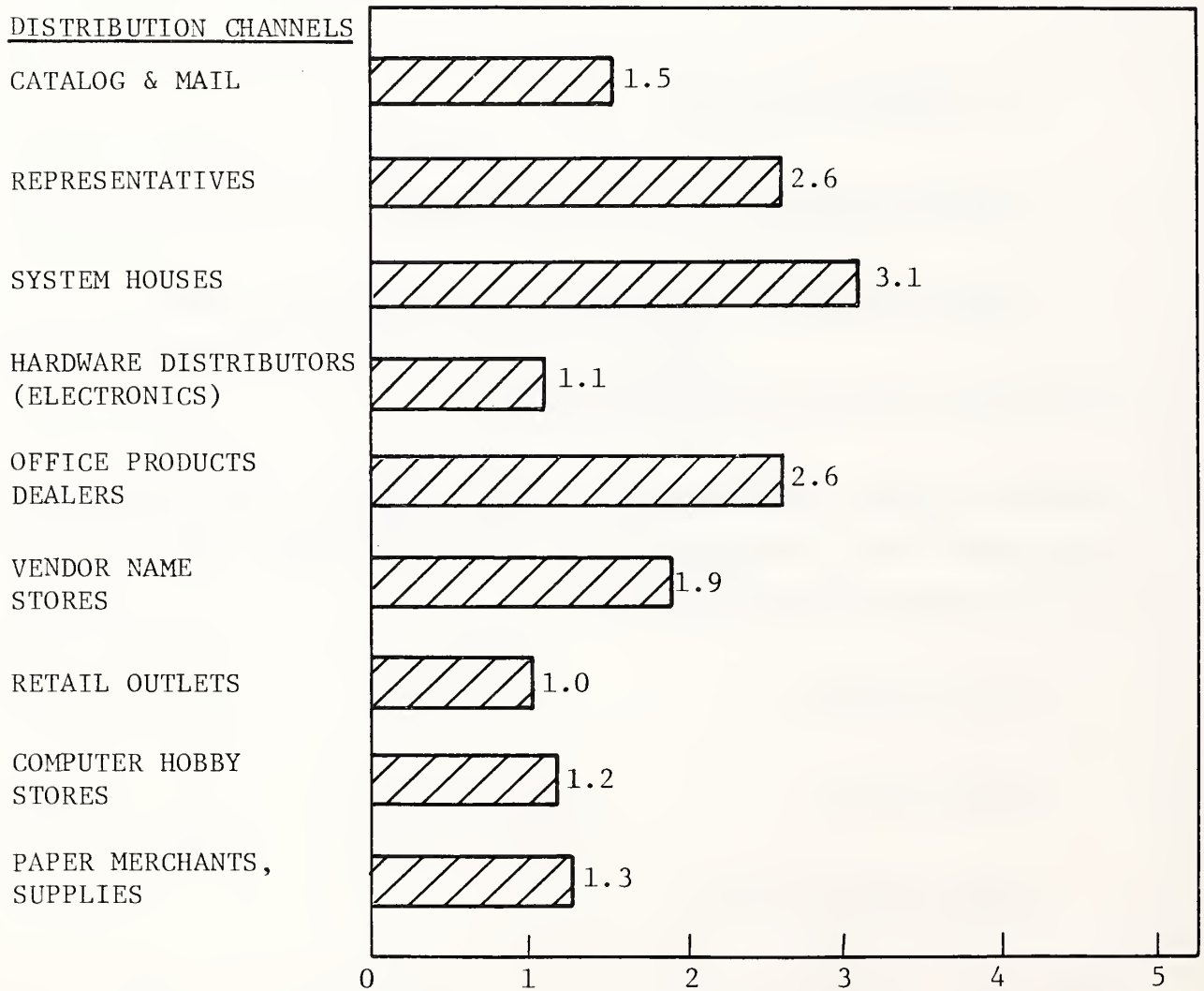
EXHIBIT VI-4

# EQUIPMENT VENDOR RESPONDENT (COMPUTER AND OFFICE)

# ATTITUDES TOWARDS DISTRIBUTION CHANNELS

DISTRIBUTION CHANNELS

| Distribution Channel | Value |
|---|---|
| CATALOG & MAIL | 1.5 |
| REPRESENTATIVES | 3.0 |
| SYSTEM HOUSES | 3.2 |
| HARDWARE DISTRIBUTORS (ELECTRONIC) | 1.0 |
| OFFICE PRODUCTS DEALERS | 3.6 |
| VENDOR NAME STORES | 2.6 |
| RETAIL OUTLETS | 1.2 |
| COMPUTER HOBBY STORES | 1.3 |
| PAPER MERCHANTS, SUPPLIES | 1.2 |

0    1    2    3    4    5
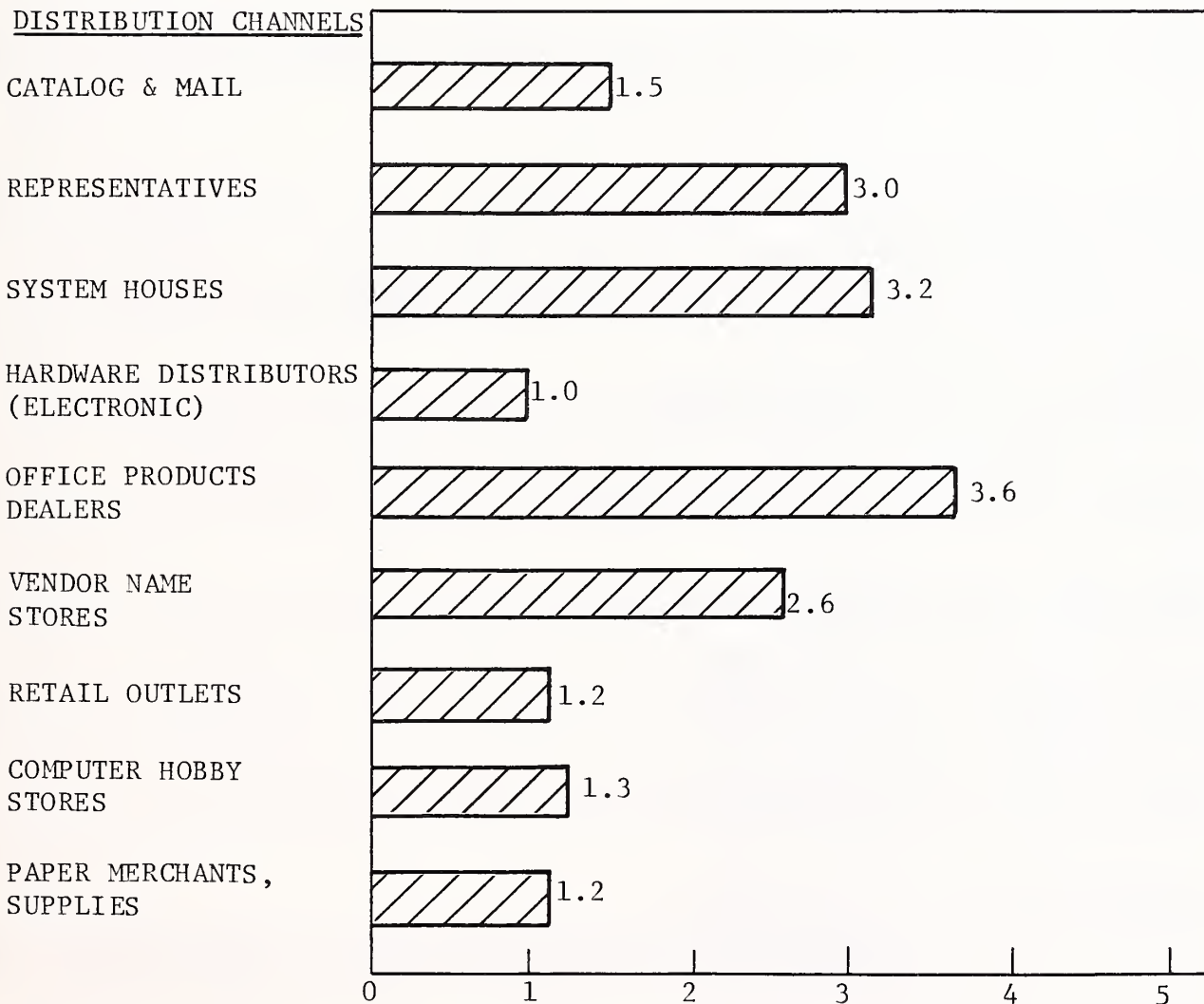
VENDOR OPINIONS OF DISTRIBUTION CHANNELS.

KEY: 5 - HIGHEST
     1 - LOWEST

INPUT

EXHIBIT VI-5

SERVICES VENDOR RESPONDENT (COMPUTER SERVICE AND

COMMUNICATIONS SERVICE) ATTITUDES TOWARDS

DISTRIBUTION CHANNELS

DISTRIBUTION CHANNELS

| Distribution Channel | Value |
|---|---|
| CATALOG & MAIL | 1.6 |
| REPRESENTATIVE | 2.2 |
| SYSTEM HOUSES | 3.1 |
| HARDWARE DISTRIBUTORS (ELECTRONIC) | 1.2 |
| OFFICE PRODUCTS DEALERS | 1.5 |
| VENDOR NAME STORES | 1.5 |
| RETAIL OUTLETS | 0.9 |
| COMPUTER HOBBY STORES | 1.0 |
| PAPER MERCHANTS, SUPPLIES | 1.0 |

VENDOR OPINIONS OF DISTRIBUTION CHANNELS.
KEY: 5 - HIGHEST
     1 - LOWEST

INI
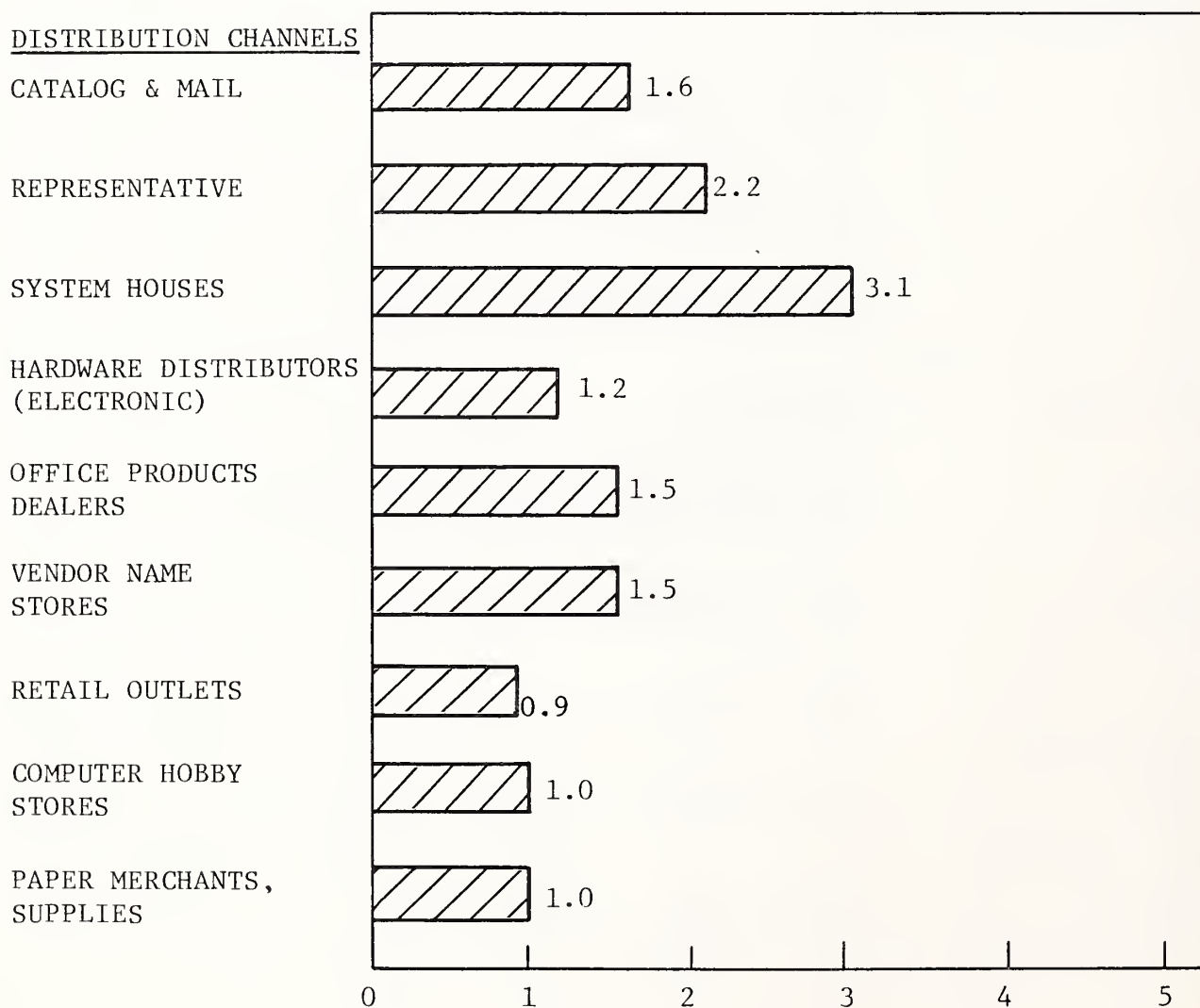
- The services companies interviewed (Exhibit VI-5) were not nearly as positive about other distribution sources as were the equipment vendors:

  - They have had good results with system houses and felt that representatives were of some value.

  - They feel that services (in contrast to equipment) are unique and require direct salesmen or highly qualified professionals. Thus, retailers or hobby stores were of little interest to them.

## D.    ATTITUDE TOWARD COMPUTER HOBBY STORES

- Computer hobby stores, such as Byte Shop, have recently received a great deal of publicity. A recent visit to a computer industry exposition showed that the computer hobby stores had one of the most crowded booths at the show.

  - These computer hobby stores receive a large percentage of sales from small businesses and they have the potential of becoming distribution channels and fulfilling the systems house role toward small businesses.

  - Only two of the ten vendor respondents felt the computer hobby stores could not fulfill such a role (Exhibit VI-6). The rest believe the computer hobby stores are now fulfilling the role of system houses or will soon do so as computer costs drop. Thus, major vendors see a role for the computer hobby stores in the distribution channel area.

## E.    INDUCEMENT TO USE NEW DISTRIBUTION CHANNELS

- All of the vendors interviewed would utilize new distribution channels if the proper situation arose (Exhibit VI-7).

INPUT

EXHIBIT VI-6

- 62 -

VENDOR RESPONDENT ATTITUDES TOWARDS COMPUTER HOBBY STORES
BEING SYSTEM HOUSES FOR VERY SMALL BUSINESSES


| VENDOR TYPE | ATTITUDE |
|---|---|
| • Computer Equipment | • "Yes, in some situations." |
| • Computer Equipment | • Not for next several years unless applications are provided." |
| • Computer Equipment | • Will not work unless cost of computer is much less than now." |
| • Computer Services | • "No!" |
| • Computer Services | • "Happening now to small extent." |
| • Computer Services | • "No clear opinion." |
| • Office Equipment | • "No, not satisfied to do this." |
| • Office Equipment | • "Are now doing this." |
| • Office Equipment | • "No doubt that they will in long run, but do not have programmers now." |
| • Communications Services | • "Yes." |

IN

EXHIBIT VI-7

- 63 -

## VENDOR RESPONDENT ATTITUDES TOWARDS INDUCEMENT
## TO TRY NEW DISTRIBUTION CHANNELS

| VENDOR TYPE | ATTITUDE |
|---|---|
| • Computer Equipment | • "A new, low price product that suits the channels." |
| • Computer Equipment | • "Lack of success in present approach, see competitors doing it." |
| • Computer Services | • "What competition does." |
| • Computer Services | • "New packaging of present products, specific products for the channel." |
| • Computer Services | • "Open to a good proposal." |
| • Office Equipment | • "Open to a good proposal." |
| • Office Equipment | • "A major penetration opportunity not being met now, without causing problems in present channels." |
| • Office Equipment | • "A new product that cannot be moved by present organization; profit." |
| • Communications Services | • "If experiment cost is low." |

INPUT

- Situations which the vendors say would motivate them towards the use of new distribution channels are:

  - If they develop new products for small businesses or new products which are suitable for different distribution channels.

  - A good proposal or opportunity.

  - Competitors' actions in using new distribution channels.

- In examining situations which would motivate vendors, it is seen that new products are now being developed (and they are low priced) and competitors (including AT&T and IBM) are experimenting with new distribution channels.

  - Thus, the conditions for major vendor entry into new distribution channels will be met.

## F.   VENDOR OPINIONS ABOUT FUTURE CHANGES IN DISTRIBUTION CHANNELS

- Of all vendors interviewed, only one expects no changes to occur during the next five years; all the others expect changes (Exhibit VI-8).

- Most vendor respondents expect that changes will occur for the sale of lower priced products.

- Other ideas mentioned were:

  - Separating lead generation from direct sales, which would allow new distribution channels to fulfill the role of lead generation.

  - "Wholesaling" services to another company for inclusion in a larger product such as communications services to a data base vendor.

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IN

EXHIBIT VI-8

- 65 -

# VENDOR RESPONDENT OPINIONS ON HOW DISTRIBUTION CHANNELS WILL CHANGE IN THE NEXT FIVE YEARS

| VENDOR TYPE | OPINION |
|---|---|
| • Computer Equipment | • "Not significant, but some low end products will be sold in stores." |
| • Computer Equipment | • "At low end computer stores, and IBM entry. |
| • Computer Equipment | • "Price will drop and high marketing cost will require different approaches." |
| • Computer Service | • "Some things will happen at low volume." |
| • Computer Service | • "New methods of generating leads." |
| • Office Equipment | • "More business to dealers." |
| • Office Equipment | • "Shift to dealer sales." |
| • Communications Services | • "Wholesale communications services to another vendor who will sell them with his package, such as proprietary data bases." |
| • Communications Services | • "Stay with direct salesmen." |

INPUT

APPENDIX A:   SOURCES USED

## APPENDIX A:        SOURCES USED


County Business Patterns - U.S. Department of the Census - 1975, Exhibits IB, 2B

1972 Survey of Retail Trade - U.S. Department of the Census

1972 Survey of Wholesale Trade - U.S. Department of the Census

1972 Survey of Selected Services - U.S. Department of the Census

1976 Statistical Abstract of the United States

Current Industrial Reports - Office, Computing, and Accounting Machines - U.S. Bureau of the Census, U.S. Dept. of Commerce -- 1976, 1973 (Document number MA-35R)

General Telephone and Electronics - 1976 Annual Report - Statistical Supplement

Electronic News -- April 24, 1978

Computerworld -- April 24, 1978; May 8, 1978

Telecommunications Handbook and Buyer's Guide (1977)

INPUT

Information Processing in the United States - A Quantitative Outlook

Monthly Selected Services Receipts, February 1978 -- U.S. Department of the Census

Survey of Current Business - U.S. Department of Commerce, June, 1977

Standard and Poor's Industry Surveys -- Office Equipment, Systems and Services (Section o) May 19, 1977.

INF

APPENDIX  B:  INTERVIEW  PROGRAM

# APPENDIX B

## INTERVIEW PROGRAM FOR ANALYSIS OF DISTRIBUTION CHANNELS

| USERS | PHONE | ON SITE | TOTAL |
|---|---|---|---|
| LAW FIRMS | 12 | 0 | 12 |
| MANUFACTURING FIRM (METALWORKING SIC 34) | 28 | 0 | 28 |
| VENDORS | 12 | 0 | 12 |
| DISTRIBUTION CHANNELS | 15 | 5 | 20 |
| INDUSTRY ASSOCIATIONS | 11 | 0 | 11 |
| OTHER | | | |
| AT&T TELEPHONE STORE | | 1 | 1 |
| IBM "COMPUTER STORE" | | 1 | 1 |
| TOTAL INTERVIEWS | 78 | 7 | 85 |

APPENDIX C: DEFINITIONS

# APPENDIX C:    DEFINITIONS

- An establishment is a physical location, or a street address and can be:

    - An independent enterprise.

    - A branch of a major enterprise.

- A systems house assembles equipment provided by other manufacturers into a functioning system (such as a small business computer) for the user. The systems house generally provides software. It may or may not manufacture some of the equipment itself. System houses are classified as:

    - Turnkey, those which do not produce products but only custom design systems for the user.

    - OEM, those which assemble equipment and software into products, which are sold as unique entities.

- Vendor stores have the name of an equipment or service vendor "on the door" and operate as a store or dealer showroom where a prospective user can walk in without an appointment and have a salesman take care of his needs. Generally, a street level location is envisioned where the appearance of the store provides advertising, and the location is easily accessible. Vendor stores can be franchised (as automobile dealers are) or company owned.

INPUT

- Computer hobby stores are primarily thought of as appealing to the computer amateur, despite the fact that they also sell to small business. They have a storefront location, but do not now carry the name or products of major vendors.

- Office equipment dealers are storefront types of organizations which specialize in office equipment and maintenance. They are independent enterprises. Using the SIC code definition, office equipment dealers are primarily classified as wholesale industry SIC 5081, commercial machines and equipment.

- Office and computer supply dealers sell items such as computer paper, copying paper, and magnetic cards to small and large businesses. They are classified as wholesale industry SIC 5112, stationery suppliers.

- Electronic equipment hobby stores (such as Radio Shack) sell electronic parts, audio equipment, and hobby computers to consumers more than small businesses.

NOTE: As defined in the 1972 Standard Industrial Code, a wholesaler is an establishment selling merchandise to retailers, industrial users, commercial users, or business users. Operations whose primary function is sales to businesses are considered wholesalers. Operations which primarily sell to consumers, but have some business sales, are considered retailers.

IN

APPENDIX D: QUESTIONNAIRES

## APPENDIX D:     QUESTIONNAIRES

Copies of the questionnaires used during the field research are included in this appendix. They are:

- User questionnaire

- Participant as a distribution channel questionnaire

- Association questionnaire

- Vendor questionnaire

GENERAL INFORMATION FOR THIS LOCATION

USER QUESTIONNAIRE

- 72 -

1.  Primary line of business (at this location):


2.  Secondary line of business (at this location, if any):


3.  Is this location:

    Part of a larger enterprise  ☐

    An independent enterprise    ☐

4.  Functions performed at this location (check all that apply):

    Single company location ☐          Accounting or finance ☐
    all functions

    Sales ☐                            Manufacturing ☐

    Warehousing ☐                      R & D ☐


    Other: _____

5.  Employees:

    Total number of employees                    _____

    EDP employees                                _____

    Office employees                             _____

    Amount of business performed (if possible)   _____

INI

ORGANIZATION AND FUNCTIONAL REQUIREMENTS AT THIS LOCATION

6.    What separate functional departments exist at this location?

7.    What are their information requirements?

      EDP

      Equipment

      Service

      Text/graphics

      Communications

INPUT

8.    Please rate the following as organizations you would like to deal with to receive products and services:

| ORGANIZATION | DESIRE TO WORK WITH | | | COMMENTS |
|---|---|---|---|---|
| | HIGH | MED. | LOW | |
| Manufacturers – Direct Salesmen | | | | |
| Reps (non-stocking) | | | | |
| Electronic Hardware Distributors | | | | |
| Office Product Distributors | | | | |
| Computer Manu- facturer's Store | | | | |
| Retail Outlets | | | | |
| Computer Hobby Stores | | | | |
| Paper Merchants | | | | |
| Other | | | | |

INF

9.    How important are the following factors in your decision to purchase
      a product or service:

| FACTOR | IMPORTANCE | | | COMMENTS |
|---|---|---|---|---|
| | HIGH | MED. | LOW | |
| Vendor Reputation | | | | |
| Services Performed<br>or<br>Equip. Specification | | | | |
| Price | | | | |
| Discount Policy | | | | |
| Payment Terms | | | | |
| Warranty | | | | |
| Field Maintenance | | | | |
| Customization | | | | |
| Reliability | | | | |
| Delivery Service | | | | |
| Training | | | | |
| Other | | | | |

INPUT

## USE OF EQUIPMENT AND SERVICES AT THIS LOCATION

10. What EDP equipment do you have installed at this location?
    (i.e., computers, accounting machines, terminals)

11. What office equipment do you have installed at this location?
    (i.e., copiers, duplicators, text editing equipment)

12. What communications equipment do you have installed at this
    location?  (i.e., PABX, KEYSET, FACSIMILE)

## SERVICES

13. What computer service do you use at this location?  What function
    does it perform?  (i.e., timesharing for general ledger)

14. What communications services do you use at this location?

IN

15.  How much did you spend on programmers and operators in 1977?
     For what?  (i.e., equipment, people, outside services)

16.  What changes do you see by 1982?

17.  How much did you spend on office functions of copying and text
     preparation in 1977?  For what?  (i.e., equipment, people, outside
     services)

18.  What changes do you see by 1982?

19.  How much did you spend on communications functions?  (i.e., intra-
     company, inter-company 1977)

20.  For what equipment, services, people?

INPUT

21.   What changes do you see by 1982?

22.   How much did you spend on EDP and office supplies in 1977?

23.   What changes do you see by 1982?

24.   How are purchase decisions made at this location?

25.   Who is involved in the decisions at this location?  (title)

26.   Who is involved in the office corporate decisions?  (title)

27.   How does the expenditure level change?  Who is involved?

28.   Is there a formal decision process?  If so, what?

INF

## PARTICIPANT AS A DISTRIBUTION CHANNEL QUESTIONNAIRE

Organization/Firm _____    INPUT

Line of Business (Products/Services Sold) _____

Nationwide _____    Regional _____

1.   Number of Employees:  Total _____    At this Location _____

2.   Gross Sales in 1977 _____    Growth % _____

INPUT

3.  What type of organizations do you sell to?

    Company differentiation ☐

    Corporate headquarters of large companies ☐

    Branches of large companies ☐

    Independent companies ☐

    Industry specialization ☐

    Regional specialization ☐

4.  What type of organizations do you want to sell to?

5.  What is typical for firms like yours?

6.  Who at the organization (by title) do you sell to?

    Chief of the facility ☐

    EDP manager ☐

    Office manager ☐

    Communications manager ☐

    Department head ☐

7.  What is typical for firms like yours?

IN

8.   What products or services does your organization sell?

Equipment ☐

       EDP ☐

       Office ☐

       Communications ☐

       Supplies ☐

Services ☐

       Computer (EDP) ☐

       Software ☐

9.   Does your organization provide:

Customization/installation ☐

Applications programming ☐

Systems design ☐

Installation (wiring, etc.) ☐

Equipment modification ☐

10.  What is the price range of products you sell?

Low ☐

Average ☐

High ☐

11.  What is the typical order size?

Low ☐

Average ☐

High ☐

12.  What is typical of firms such as yours?

INPUT

13. What products would you like to sell?

Computer systems ☐

Office automation systems ☐

Total communications systems ☐

14. At what price range?

15. What would induce you to become involved with relatively complex turnkey products?

16. Could you become a "wholesaler of" computer services or software?

17. What support or other help do you want from equipment manufacturers or from providers of software or computer services?

18. Does it make a difference to you if the manufacturer whose products you supply is not U.S.?

19. How does your firm sell:

Direct salesmen at company premises ☐

At your own store ☐

By mail ☐

Other ☐

INF

20. How do other firms like yours sell?


21. How many firms like yours are there in the U.S.?


22. Are there any associations of firms such as yours? Any lists of these firms?


23. Of the products you sell, how much has to be modified?

How much minor modifications?


How much major modifications?

## ASSOCIATION QUESTIONNAIRE

1.    Primary membership of association?


2.    Are there any additional memberships?


3.    What associations are similar to yours?


4.    Primary functions for membership:

☐    A clearinghouse of information necessary to the industry

☐    A journal for industry-wide distribution

☐    A journal for distribution outside the industry

☐    A collection of data primarily used to report the condition and trends of the industry

☐    Reports trends of other industries that may/is of use/interest to a wide range of members

☐    A referral service for the industry

☐    Other _____

_____


5.    What information is available to us as a consultant?


6.    Total number of members: _____

Characteristics of the industry:

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7.  The model firm represented is:

    Size (employees) _____

    Approximate expenditures/year _____

    Approximate sales/year _____

8.  Functions provided in the model firm:

    ☐ Performs all functions in house or

    ☐ Has functions provided through service companies:

    ☐ Payroll    ☐ Accounting    ☐ Word Processing

    ☐ Text Editing    ☐ Research

9.  What size member firm generally uses:

    Text editing equipment _____

    Text editing services _____

    Communications equipment _____

    Non-Bell system phones _____

    Telex _____

    Computer equipment _____

    Computer services _____

INPUT

10. Do you see the association in a role:

    1. Which involves the distribution of products and services to your members?

    2. As recommenders of products/services/vendors?

    3. As a standard setter?

    4. As a distribution channel for vendors?

    5. Other

11. What do other associations do?

INP

12.  How do your members like to deal with vendors?

| ORGANIZATION | DESIRE TO WORK WITH (1=HIGH, 5=LOW) | | COMMENTS |
| --- | --- | --- | --- |
| | TO YOU | FOR MEMBER FIRMS | |
| Manufacturer Direct Salesmen | | | |
| Manufacturer Representative | | | |
| Electronic Hardware Distributor | | | |
| Office Products Distributor | | | |
| Manufacturers Store | | | |
| Retail Outlets | | | |
| Computer Hobby Stores | | | |
| Paper Merchants | | | |
| Other | | | |

INPUT

13. How important are the following factors to your members in a decision to purchase a product/service?

| FACTOR | IMPORTANCE (1=HIGH, 5=LOW) | | COMMENTS |
|---|---|---|---|
| | TO YOU | FOR MEMBER FIRMS | |
| Vendor Reputation | | | |
| Equipment Spec. | | | |
| Price | | | |
| Discount Policy | | | |
| Payment Terms | | | |
| Warranty | | | |
| Field Maintenance | | | |
| Customization | | | |
| Reliability | | | |
| Delivery Service | | | |
| Training | | | |
| Knowledge of Industry | | | |
| Knowledge of Situations | | | |
| Ease of Operation | | | |
| Simplicity of Installation | | | |

INP

14. How do you like to acquire equipment/services?

| FACTOR | IMPORTANCE (1=HIGH, 5=LOW) | | COMMENTS |
|---|---|---|---|
| | TO YOU | FOR MEMBER FIRMS | |
| Outright Purchase | | | |
| Full Payment Lease | | | |
| Operating Lease (1,2 years) | | | |
| Monthly Rental | | | |

15. When are association meetings held?


What type of meeting is it?

☐ Industry trade show

☐ Other industries demonstrating new products

☐ Election of officers

☐ Industry get-together - exchange of ideas

☐ All of the above

☐ Other


What publications do you distribute?

Your own:

Publications from other sources:

INPUT

Percent of budget spent on office equipment _____ %

Percent of budget spent on communication services _____ %

Percent of budget spent on data processing equipment _____ %

Percent of budget spent on data processing services _____ %

16.    Describe some industry-wide problems/limitations that could be
       overcome by automation:

With large firms:

With small firms:

INPL

17.  What is contained in publications you distribute?  (articles of
     industry, advertisement, articles of other industries)

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     What type of advertisement do you generally run?

18.  Do you provide information about your specific members to other
     organizations?  (if so, what type?)

19.  Are mailing lists available?

**INPUT**

## VENDOR QUESTIONNAIRE

Company Characteristics:

Independent _____      Part of Larger Company _____


Size _____      Gross Sales _____


1.    Products/services sold - % of gross sales:

       EDP hardware          _____ %

       EDP services          _____ %

       Office equipment      _____ %

       Office services       _____ %

       Communications equipment      _____ %

       Communications services       _____ %

       Supplies:

          EDP          _____ %

          Office       _____ %

INP

2.    Are there at present limitations on sales caused by your own
      sales force?


          Type of companies not reached:

              Large companies - corporate    _____

              Large companies - branches     _____
                 by size 500, 100, 20

                                         .
              Independents                   _____
                 by size 500, 100, 20


              By industry sector             _____


              By geography                   _____


              Other                          _____

3.    What % of potential business do these limitations represent?



4.    Is this typical of other companies similar to yours?



5.    What other limitations exist upon sales (other than the sales force)?

INPUT

6.  How are products and services now sold?

    % sold by direct salesmen:

    % sold by other methods:

                                                          Percent

        Catalog and Mail                          _____ %

        Reps                                      _____ %

        Systems Houses                            _____ %

        Hardware Distributors (stocking)          _____ %

        Components Distributors                   _____ %

        Company Stores                            _____ %

        Retail Outlets                            _____ %

        Computer Hobby Stores                     _____ %

        Paper Merchants                           _____ %

        Other                                     _____ %

7.  What changes do you expect in the sales area by 1982?

8.  How do similar companies sell their products?

9.  What do you think of the viability of the following distribution
    methods to sell your products?  (5 = excellent, 1 = poor)

       Catalog and Mail                  _____

       Reps                            _____

       System Houses                   _____

       Electronic Hardware Distributors    _____

       Office Products Distributors        _____

       Computer Stores with Vendor Name    _____

       Retail Outlets                  _____

       Computer Hobby Stores           _____

       Paper Merchants                _____

       Other                          _____

10. What would induce you to try some of these approaches?

11. Do you think Computer Hobby Stores can be System Houses for very
    small businesses?

INPUT

12. Could they fine tune and sell computer services or software?

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13. What would be your ideal distribution channel other than direct salesmen?

14. How do you think distribution channels will change in the next five years?

INPL