SO LONG, VAR

"VALUE ADDED RESELLER" DOESN'T EVEN COME CLOSE TO DESCRIBING THE FULL BREADTH OF SERVICES THESE COMPANIES OFFER

by MORGAN SMYTH

It's time VARs got a name change. We all know them as Value Added Resellers, but this name no longer applies. Today, they are simply companies providing technology-based products and services.

Sure, years ago, their main business, and in many cases only business, was reselling other companies' products. But they have evolved significantly since then. Today, reselling is a relatively minor component of their businesses. When we look at a typical VAR today, it's more of a systems integrator, application developer, cloud computing and managed services provider, et cetera. "VAR" is a misnomer. These are full blown service and product companies, providing significant value while using their VAR capability only as a door-opener or as a "clother:" "Oh, by the way, you'll need a new server for this application we're building for you."

VARs have come a long way. Oddly enough, most of this progress has been forced upon them by the very companies that are now on the losing end of the scale. Here's a bit of history.

When the IBM PC was first introduced to the market in the early 1980s, it was sold through IBM retail outlets called Product Centres set up in various retail locations in cities across Canada.

Storefront selling was a whole new ballgame for IBM. It was clearly out of its comfort zone. So IBM started to recruit other companies to take over this role. Companies such as Computerland, Compugen and Compu-Group began to spring up. The main prerequisite placed on these dealers: they had to have a store stocked with IBM's products. Another condition was that these dealers could not sell competitors' products. They were predominately single-manufacture outlets. Think car dealerships.

This lasted a couple of years until IBM and other computer manufacturers realized they weren't reaching all of their potential markets. So they started to sign up resellers who didn't have storefronts. These resellers were typically small, technically savvy computer consulting companies that had excellent client lists and could influence their clients in terms of hardware and software purchases. Instead of operating from a store, these resellers did most of their transacting at the customer's location. Think Mary Kay.

"Pushing iron" became the main revenue generator for many of these firms – so much so that they started to focus more and more of their efforts on it. And the manufacturers kept signing up more and more resellers. Pretty soon the market was super-saturated. But resellers were so hooked on this relatively easy money, they wanted more. Once they saturated their own market segments, they started raiding other patches – patches owned by other resellers. Price cutting became the main weapon. Some resellers would even sell product at or below their cost, making their profits on the marketing SPIFFs handed out at the end of each quarter by the manufacturers.

Things were getting messy. Something had to be done. So the manufacturers stepped in and started to lay down some rules. If you want to sell our products, you must:

- add extra value to every sale
- sell only to specific companies or market segments
- in some cases, ask for permission from us before you even make the sale
- document all aspects of the sale so we can audit it, if necessary

And there were others. Failure to comply with the rules resulted in fines and even termination of reseller status.

Imposing these rules was a good idea, but it came with a cost. The first cost was to the reseller in the form of much more paperwork and administrative overhead, drastically lowering margins and the commissions of salespeople.

VARS THAT HAVE BEEN IN BUSINESS FOR A LONG TIME HAVE REINVENTED THEMSELVES INTO HOSTING PROVIDERS, CLOUD PROVIDERS AND APPLICATION DEVELOPERS.

Manufacturers undermined the resellers as well — by calling them "the indirect channel" or "the channel," for instance. Which would you rather do: buy direct from the multinational manufacturer, or buy from some rinky-dink company you've never heard of, in some "indirect" method never clearly explained? VARs certainly had their challenges.

The good news is it forced them to develop their own value. When you look at the VARs that have been at it a long time, they have completely reinvented themselves into web hosting providers, cloud providers, and application developers. Not only is this new business more lucrative for them, their customer connections are stronger as well.

VARs now have their own identity. No longer are they described as an HP VAR or a Toshiba dealer. Today they have their own brands.

Congratulations to all you high-tech firms! All of the hard work you put into transforming your caterpillar into a butterfly is finally paying off. Instead of adding value to other people's products, you are now adding significant value to yourselves.