

# 5 Ways that Resellers can Survive & Thrive economic Turmoil

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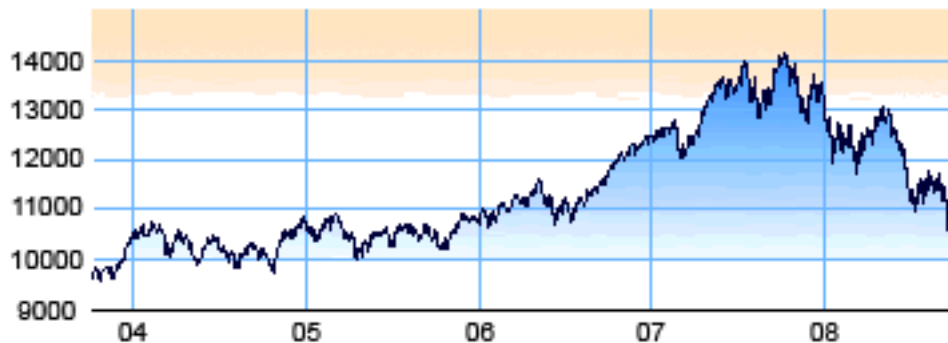
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# 5 Ways to Survive & Thrive Economic Turmoil

## The Bad News

The U.S. economy may have finally slipped into a recession and all sectors of the economy are rightfully concerned. Credit markets are freezing and citizens are losing their homes. The Dow Jones Industrial Average dropped under 10,000, for the first time since October 2004, a number that represents a large psychological blow to the American psyche. <http://online.wsj.com/article/SB122328868571207285.html> Despite extraordinary government intervention, the nation is gripped in fear that any effort to try to reverse the unraveling of once-solid companies may not be enough.

## DJ Industrial Average



Don't think that the economic crunch is the problem of the U.S. alone. The fear of a worldwide recession is growing each day. Ireland has fallen into recession as the country's economy dropped by 0.5% in the second quarter. Analysts are saying that Germany and Spain could be next. Iceland, once a nation that gave its citizens one of the world's highest per capital incomes, is on the brink of becoming the first "national bankruptcy" of the global financial meltdown. The Nikkei has plummeted more than 9 percent and other Asian and Pacific markets suffered heavy losses. <http://edition.cnn.com/2008/BUSINESS/10/08/stock.markets/index.html> All over the world, stocks and bonds are falling—and there is no end yet in sight.

## Why Is This Happening?

Experts believe that if one would study the trends during the past half century, a sharp downturn in U.S. housing always translates into a recession. Unfortunately for the whole world, U.S. housing prices plummeted by a record 15.4% in quarter two compared to last year (and as this is being written, falling faster). <http://news.bbc.co.uk/2/hi/business/7582307.stm>

Even more troubling is the theory that was developed after a long-term examination of U.S. history. In "The Fourth Turning: An American Prophecy", authors William Strauss and Neil Howe explains their theory that the U.S. is entering an extended period of collapse or crisis. Using data gathered by examining historical cycles, the authors are convinced that an era called a "Fourth Turning" will start occurring in 2005 and may possibly last until the late 2020s.

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## How This Affects VARs

In a financial crisis of this magnitude, every sector is affected. Whether you like it or not, the pains of Wall Street will hit the I.T. Market and affect your company. Tighter credit, rising energy costs, and a morbid fear of the current economic situation will result in lower revenues and profit for VARs across the U.S.

Furthermore, as reported by CNN, VARs won't be insulated from the economic downturn through the "old recession proof strategy" of serving a diversity of sectors. Even business activity for the service sector--which encompasses retail, transportation, health care, and construction--has plummeted. [http://money.cnn.com/2008/02/05/news/economy/ism\\_service\\_sector/?postversion=2008020510](http://money.cnn.com/2008/02/05/news/economy/ism_service_sector/?postversion=2008020510) According to Forrester Research, nearly 50% of U.S. companies have cut back on IT spending and nearly all have frozen discretionary spending. <http://www.channelinsider.com/c/a/Surveys/Wall-Street-Woes-Hit-IT-Market/> As a result of this economic storm, tougher competition will emerge as VARs will find themselves scavenging in a marketplace with fewer sales opportunities. This market will be even more price sensitive and this will result in even lower margins.

This will not be a question of maintaining revenue. For a lot of VARs, this will be a question of survival. Historical indicators are not pointing to a short period of financial instability. Rather, it is becoming more apparent day by day that the economic downturn may last years. Some of the corporations that have fallen like Lehman Brothers, Washington Mutual, Bear Stearns, AIG Inc., Iceland's Landsbanki, and Germany's Hypo Real Estate are giants with sterling reputations. No corporation is safe. Adjustments need to be made.

## Five Approaches to VAR Survival in the Current Economy

Unfortunately for resellers, raising prices to protect margins isn't the wisest thing to do—although it may be the easiest. With competition at its fiercest and with customers with shallow pockets, VARs need to come up with more creative ways to survive in such a gloomy, economic environment.

As reported in publications like Channel Insider, CRN, and CNN, listed are five ways a VAR can cope with the current conditions:

### 1. Concentrate on Recession-Proof Products.

Simply put, there are products that IT customers can't live without. Some technology products will remain in high demand and will give VARs continuous profit no matter how hard economic conditions may be. It may be a good idea for channels to refocus effort on these so-called recession-proof products in order to survive in a tough market.

The following are some examples of high-demand tech products:

- Commerce Applications.
- Network Infrastructure.
- Application Development
- Enterprise Application
- Storage Solutions
- Business Intelligence Software
- Mobility Solutions

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- Managed Services
- Software as a Service (SaaS)

<http://www.channelinsider.com/c/a/News/Most-Profitable-RecessionProof-Products/>

## 2. Reduce Expenses.

Although this may seem basic, it is now even more important that VARs find more ways to cut costs. Channels should become thriftier and closely monitor corporate expenses from employee phone calls to travel budgets. Human resources should also be closely reviewed. Some corporations may find it necessary to cut the fat.

Laying off employees is difficult and it can sometimes make things worse. It can demoralize employees and affect the work ethics of the people who stay. Unfortunately, some corporations are left with no choice but to revamp their current workforce. Right now, the U.S. is experiencing the worst job cuts in five years. According to the U.S. Department of Labor monthly report, a total of 159,000 jobs were lost in September. Already, a total of 760,000 jobs were lost this year.

[http://money.cnn.com/2008/10/03/news/economy/jobs\\_september/indexhtm?postversion=2008100312](http://money.cnn.com/2008/10/03/news/economy/jobs_september/indexhtm?postversion=2008100312)

Whether resellers layoff employees or not, VARs must be prepared to do more with less. In order to do so, the channel should make the most out of all current resources and find tools that improve efficiency and individual performance.

## 3. Make Use of Vendor/Distributor Financing Options.

Bad debt is the main reason why the U.S. is facing a prolonged recession. But VARs have reason to rejoice as the credit crunch hasn't really affected them yet. A Channel Insider survey revealed that around 80% of solution providers still have easy access to credit and that, in fact, it is easier to get credit today than three years ago.

<http://www.channelinsider.com/c/a/News/No-Credit-Crunch-in-the-Channel/?kc=EWWHNEMNL10022008STR1>

Channels should make a conscious effort to assist customers in gaining access to loans and line of credit. By taking advantage of vendor or distributor financing programs, the VARs are paid the full amount upfront while the customer gets to defer payment for a specified period of time. So if customers are concerned about their budget, a financing option might very well clinch the deal.

It is surprising however, that very few VARs consider giving their customers financing options. In a very competitive field, channels who don't expect their clients to cough up the entire purchase amount in 30 days will win more deals than those that refuse to make financing a regular option.

## 4. Make the Most Out of Your Vendor Programs, Promotions and Incentives.

In the past, vendors would direct more effort on direct sales initiatives during times of economic downturns. Today, it is a totally different story. Vendors have now realized that during tough financial times, they should focus even more on strengthening their

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relationship with their partners. A really smart move considering that doing so would increase their sales and save them money at the same time.

<http://www.crn.com/it-channel/210603675>

Why do vendors care so much? VARs are the most cost-efficient way to market products. Imagine how much it would cost for a vendor to hire 200 sales personnel. Now imagine that same vendor being able to reach 100,000 salespeople through partnerships with channels. The most profitable route is obvious.

Unfortunately, a lot of VARs aren't aware that vendors are throwing them a helping hand. Channels should realize that the best help their partners are giving them are the hundreds of programs, promotions and incentives available to resellers. However, for one reason or another, most resellers fail to avail of these vendor deals.

Vendor programs, promotions and incentives can give massive discounts to resellers. The implications of this are huge. In a competitive market with limited sales opportunities, a channel who registers for vendor deals can come up with a better pricing strategy than the enemy. Remember, in a floundering economy, the best price will almost always win.

## **5. Invest in Tools for Improving Sales Team Efficiency**

Sometimes, you have to spend a little money to save a little money. During a financial crisis, it is advisable for a corporation to look into investing in tools which will improve the efficiency and effectiveness of the sales team and the entire organization in general.

These tools include CRM tools such as Salesforce (<http://www.salesforce.com>), or SAP (<http://www.sap.com/solutions/business-suite/crm/index.epx>); virtual meetings tools such as Citrix's GoToMeeting (<http://www.gotomeeting.com>), and vendor management software such as Deal Insight (<http://dealinsight.neuronglobal.com/>), a portal that actually helps resellers keep track of vendor promotions, programs and incentives.

If you find yourself confused about whether a certain technology is worth investing in, consider the following questions: Will this technology help me increase sales and boost revenue? Will this service or product pay for itself over a short period of time? If you answer yes to the two questions, it will probably be in your best interest to make the purchase.

Of the five recommendations mentioned above, the last one deserves special mention, particularly because a lot of organizations find it hard to do. After all, spending money during a period of time when you could be losing money seems to go against the grain. It is, however, important to stress that some of the tools mentioned above are necessary because not only will they pay for themselves in a short period of time, they may actually start making the company money.

Everyone is already familiar with the benefits of having Customer Relationship Management and Virtual Meeting software. Vendor Management Software, however, is another story all together. It is very new to the market and few VARs have implemented its use. This is unfortunate and should be remedied, particularly because Vendor Management Software specifically addresses the need to utilize vendor programs, promotions and incentives.

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## Why Better Management of Vendor Information is Needed

Today's severe economic conditions have made the market extremely price sensitive. Therefore, being able to offer customers the best prices has become of even greater importance. VARs that make the most out of vendor programs, promotions and incentives will have the upper hand as they can pass on discounts earned to their customers.

Unfortunately, there is just too much vendor information out there. The average sales organization needs to weed through over a thousand vendor deals every year. Most sales people don't even bother searching for these deals—leaving \$100,000's dollars worth of discounts on the table for resellers. During an economic crisis, no one can afford to let this happen.

## About Deal Insight

Deal Insight is a relatively new tool and therefore, it is difficult to find a product that is comparable. It is basically a web portal that contains all vendor programs, incentives and promotions that are searchable by product and updated daily. But sales people who are constantly subjected to information from vendors are fully aware of the sheer amount of knowledge that needs to be absorbed.

Take, for example, most large vendors like IBM & HP who have portals with over 2,000 webpages and approximately 1,500 documents. With this amount of clutter it is very easy to lose thousands of dollars worth of opportunities without even realizing it. In addition, vendors send 1000s of emails to resellers in a year. How are sales people supposed to keep track of which offer matches what product? A vendor management tool prevents this from happening and this should be enough to give it a second look.

Of course, one should always consider how much technology costs before making a purchase—especially when dealing with a prolonged economic downturn. Deal Insight, like other SaaS, is affordable and for what it can deliver, may very well be worth it. Qualified VARs can take advantage of a 14-day free trial so they can actually try before they buy. Contract terms are also flexible and implementation is fast. According to the website (<http://dealinsight.neuronglobal.com/>), it can cost as little as \$499 a month. It is definitely something any competitive VAR should look into and according to the website, you can get more information by calling 202 828 1234 or sending an email at [info@neuronglobal.com](mailto:info@neuronglobal.com).

## Conclusion

When sales are dropping and competition is getting worse, it is vital for channels to squeeze everything they can out of what they currently have. It is a VARs responsibility to ensure that they are ready to face this crisis. Whether it is by realigning their focus on products that are still in high-demand, or by cutting costs, or investing in vendor management software like Deal Insight, adjustments need to be done fast. Channels who delay will find themselves left behind by competitors who act today. There are many tools available to VARs who wish to arm themselves for the war that lies ahead. When the dust clears, those who were not prepared to fight this battle may not survive—while the others who took the other way may very well have thrived.