

Partner, but they must be the right partner

The shareholders are disgruntled, be they private investors, venture capitalists or public holders, margins in the Re-seller business are under pressure. But you made that paradigm shift, you no longer 'shift the tin' you



are services companies. You promised higher margin as the transition became effective, only to find your competitors en-mass had made the same transition. You all understood, your shareholders understood, there is no margin in the tin; the holy grail of high percentage margin lay in services. You are here now, you have transformed your business, you have told the world, you have told your shareholders - "we are a services company", yet the margins are still under pressure.

You entered the services market in a big way, you transformed your businesses, you feted sales executives who could sell services, disposed of those that could not to the fields of double-glazing and used cars. You became a credible force in the services market, yet your margins showed little improvement. As the herd instinct took over you found the same old people chasing the same old customers with the same old 'me-too' capabilities, so you competed on the best way you knew how – price. Now in basic services, configuration, installation, break fix maintenance, the margins are little better than selling the tin. So you announce to the world, to your shareholders - "we are moving up the services value chain, we are going to focus on e-business, high-end consultancy, ERP implementation, Web development". High margin but lower revenue as your business skews towards short duration projects. However your overall business margins remain diluted, pulled down by the lower margins in



the base services market. You suffer from spiralling cost as you brought in highly paid technical consultants and e-business specialists to address your new markets and the upward pressure from the lower end services personnel for comparable salaries and packages is hard to resist.

Do you pull out of the base services market? If you do that what has happened to your client offering – your full services portfolio, are you just going to leave the door open to your competitors to step right in to 'your' account? Lets look to the early adopters in the market, those that changed their business model some years ago, what did they do to solve the dichotomy?

Partnerships: Partnerships must be the answer. Work with a partner to supply the services under your control under your contract. Result - full services offering, remove the low margin business, and gain a one hundred percent margin under a commission-based scheme. It's saleable to your client base. "Our partners are experts, it is the focus of their business, don't worry we remain in control & responsible, we

have Service Level Agreements and a Contract between us.” The big question is - who, who do you partner with? Again, let’s look to the early adopters.

Different routes have been tried with varying degrees of success, success that could be measured from disastrous to abject failure. Partner with another Re-seller, they certainly have the skills, they have the support of the manufacturers, they carry the accreditations – a good partner, yes definitely, until they too re-engineer their business model, move from base services into high end services driven by the same drivers that have forced change on yourself. Now you look back and find you have now very successfully, and with your support, brought a competitor into ‘your’ account, a competitor that has developed intimate account knowledge and contacts and not only that but is an incumbent supplier. Perhaps, not the best idea? Partner with Third Party Maintenance organisations? Not the best fit, excluded from the best support available from the manufacturers and excluded from many accreditation schemes. Inevitably they are changing their business model driven by the same market forces, another competitor to your new business. Partner with the manufacturers. If they provide any base services, they generally support only their own equipment, so what do you do in a mixed environment? Some manufacturers offer services in a mixed environment but how do they handle that? They have found the



answer to their problem – they partner, with your competitors. Not the best answer for you. Do you equip your customers to support themselves? Is this the answer, they are not going to compete with you, which neatly removes that problem. Well not quite, they came to you to provide them with a full services offering, you may be helping them at the high end but you have just handed them a problem

they do not want at the low end, they want to concentrate on their business, not yours, not great for a strategic relationship. So what partners are there? They need to have expert product knowledge, support from the manufacturers, be happy to work in the lower margin area of the business and not be competitive with your organisation.

The Distributors? Expert product knowledge – yes, supported by the manufacturer – yes, expert at working on low margin – yes, non competitive – yes. But do the Distributors have the systems, the skills and most importantly the culture? Are they going to develop what is needed and take this growing market opportunity? Are they going to be your partner? Are the Distributors going to take up the challenge and enter the base services market in a big way or ignore it miss the opportunity and just leave you with the problem?