

Where is the value in a virtual world?

As a consultancy firm to IT supply chain businesses, Manufacturers through to Distributors and Resellers, it is vital for us to understand the needs of the User community to enable us to help you with your business development. To maintain this knowledge at a current level we spend considerable time with User organisations discussing their business and their needs from IT. It was at one of these meetings with an IT Director of a very large UK Corporate that the conversation came around to the 'IT supply chain' and in particular to Compaq's (now Hewlett Packard) statements about providing 'direct' supply. As we discussed the subject I was surprised to hear the statement – 'of course we have been supplied by Compaq direct for years'. I knew this was not the case nor had ever been the case, in fact the UK's largest Reseller supplies them. When I brought this fact to the attention of the IT Director it was met by astonishment – 'but I have regular meetings with my Account Manager from Compaq, we talk pricing, we talk product supply'. Now maybe naivety for this Director is wholly excusable because as one of the larger buyers of IT in the UK with a budget in excess of £50 million for PC based products, he enjoys the privilege of having a fleet of IT buyers, contract managers and operations management to handle the day-to-day procurement requirements.



Many other professional buyers we talk to are also recognising they do not really understand how the supply chain works. What they do understand is that Reseller companies they have dealt with for years are going into receivership or consolidating, particularly at the larger end of the market. Not so long ago buyers had a wide choice of suppliers at the large end of the market, Info Products, Elcom, Compel, SHL, Simmons Magee, now that choice is significantly reduced. Realisation has dawned that underlying this consolidation, this 'limits to choice', is the probability that it is the deals they have historically negotiated with their large buying power that has reduced Reseller margins to a level that is for many



not sustainable. The buyers are pressurised to find better deals, budget holding User groups consider a better deal to be a better price or in their terms a lower price. They go to Tender every three years as required by policy, an expensive exercise, they are not expected to return from the exercise with the same price.

Buyers are now questioning the structure of the supply chain, most have realised they cannot drive the basic product price from their Reseller any lower without risking the survivability of their supplier, many are learning by default about the other players in the chain. For years many have singularly negotiated with their Reseller, the more astute have also negotiated with the manufacturers to gain special bid pricing, now they are eyeing a member of the chain that is new to most of them – the Distributor.

The Distributor has been given prominence by moves within the market, more and more Resellers are operating or are moving to a 'virtual' product supply business. Distributors always a valuable player behind the scene now has an exposure to buyers, a prominence not seen before. Buyers are now aware of this 'new' player in the supply chain. They have historically found they can successfully negotiate better pricing from their Resellers, over the years, they have found they can circumnavigate their Reseller and negotiate directly with the manufactures and obtain even better pricing. Many are now contemplating this 'new' player and are lining up to attempt direct negotiations with the Distributors to try and deliver what they perceive as 'better pricing' to their User base.

Not an inviting future, but what can Resellers expect if you pass the stocking and logistics to another party in products that have become commodities. Buyers will be expecting to negotiate with the party they become to regard as their supplier, they want to extract every last penny. How long before they



turn around and ask what role is the Reseller now playing? Consider the moves in the American market, where stocking, supply, configuration, logistics and now even invoicing has been outsourced to the Distributors – the fee based model. How long will the buyers allow the Reseller a role, a cost to them in the supply chain, a cost for a middleman in a commodity market – unsustainable?

Information on the supply chain that is available to or is filtering through to buyers is increasing, but **knowledge** of the dynamics of the chain is not. I have seen argument from buyers who have learned of the existence of 'Co-operative Marketing Funds' attempting to gain the benefit of the fund – 'you gain this fund on the value of products sold onto my organisation, therefore those monies rightfully belong to me and should be passed on.' True professional Buyers are trying to understand the supply chain, realisation that their buying power should be used wisely so they can obtain best pricing and best support i.e. quality, consistency and longevity of supply, is driving them to gain an understanding of the supply chain. For example where is the margin made? Where can I negotiate best pricing? What is the level I should be negotiating to that will maintain quality, consistency and longevity? Professional Buyers are now giving a new message to their User base, price is important but the lowest price is not always the best price to pay. E-business is their new way to drive real cost out of the procurement process and a large element of the responsibility to manage these changes has come from them making changes internally.