



**SMB  
Outsourced  
Procurement &  
IT Integration  
Conduit**

## OVERVIEW

*For the past two decades, the US, international distribution channels and hardware manufactures have been hindered by three specific factors restricting maximum productivity and efficiency:*

- Inaccurate demand forecasting
- An inability to properly service the small to medium business (SMB) reseller
- Lack of regional inventory rebalancing on a global basis

Millions of dollars are wasted annually, through the action of price concessions, initiated in the attempt to sell through the excess inventories that are a direct byproduct of these noted inefficiencies. The impact is significant and affects all participants in the sector, from the manufacturer to the distributor to the smallest VAR. Yet, despite the opportunity to dramatically increase profitability and shareholder value by resolving these issues, the problems persist.



## **INACCURATE DEMAND FORECASTING**

Historically, in the IT hardware and consumer electronics channel, manufacturer-based product forecasting has been highly inaccurate. The effect of these inaccuracies is significant because forecasts are the nucleus of manufacturing build plans. Without accurate information, manufactures typically produce a mix of products they will not achieve sufficient demand for. This results in large overstock positions of trailing edge or recently introduced technologies and impacting other products, regardless of where they are positioned in their life cycle.

As a result of these ever-compressing product life cycles, the need to liquidate excess inventory efficiently and strategically has accelerated. This typically requires OEM's to heavily discount excess supply inventory buckets, ultimately costing manufactures millions of dollars annually, via these price reductions and marketing/co-op programs. With OEM's allocating dollars to be utilized for discounts, distribution becomes incented to move aging inventory. Unfortunately, this diminishes the Distributors desire to stock and sell new generation product until such time as they have sold out of their newly discounted excess, further complicating the OEM's product launches and profitability. Ironically, based on schedules and the need to remain technically competitive, manufacturers launch advertising campaigns costing millions of dollars to generate demand for the newly created products. However, the forecasted demand and expected sales revenues cannot be fulfilled due to the channels focus on selling existing and aging overstock. As a result, critical launch phases of new product introductions are missed. This cycle repeats itself continuously.

To further exacerbate the problem, such mishandling of the supply chain can cause shifts that ultimately lead to the erosion of market share, revenue, and profitability. This supply chain mismanagement has created and systematically fueled the "open market" (broker, trading, and independent distribution channels) for the past 30 years.

Until the manufacturing community changes its approach, these channels issues will continue unabated in the future. Forecasting accuracy needs to improve, product life cycles need to be extended, overall market fill-rate and customer satisfaction needs to be enhanced, and the "open market" needs to be used only when it can enhance shareholder value.

## **SERVICING THE SMB**

Today, there are an estimated 40,000+ SMBs that service end-users of varying sizes. Despite its viability, however, manufacturers and distributors have struggled with servicing, supporting and growing the SMB segment. Most of their efforts have instead been directed towards large Tier 1 entities that are often high maintenance and extremely demanding of time and resources, reducing the ability to work beyond them. Yet the ignored margin generated through the SMB would critically impact margin availability that would compensate for the ongoing dilution of margin associated with Tier 1 accounts.

While it is true that distributors like Ingram Micro-- through Venture Tech Network (VTN)-- have attempted to increase their reach into SMB, these efforts have fallen short. The heavy burden of operational infrastructure, sales and marketing resources along with strict enrollment criteria has limited membership to fewer than 350 SMBs (1% of total market), removing 39,650 companies out of profit/margin generating potential. Tech Data and Synnex followed soon thereafter with Tech Select, Tech Liquidators, et al. which were burdened with the same issues and limitations. These programs have failed as they miss the mark by treating this critical channel as a side-line business.

To be successful, programs need to be established and implemented to strategically help the SMB community overcome standing, long term issues that prevent them from maximizing growth and profitability:

- Staffing limitations caused by the inability to fund \$150,000 CTO/CIO and \$80,000 Director of Procurement positions
- Funding the recurring education and resource costs necessary to keep their sales teams current and streamlined
- Keeping their supply conduit consistent and aggregating enough volume to maintain pricing competitiveness
- Leveraging technology tools to expand their reach and business potential without incurring additional risk
- Unfortunately, the same SMB's that manufacturers consistently ignore become the OEM's and Distributors biggest headaches and competitors. When manufacturers release their excess and obsolete products (additional to what currently resides at their distributors), it is often sold by another department through the OEM's back door, priced at highly discounted rates, with little to no strategic consideration as to how and to whom it is being sold. These same SMB buyers of the product then resell the inventory at extremely discounted market prices, in direct competition with the OEM and their distributors, further accelerating and complicating matters and margins.

A significant opportunity exists within this sector, but first, the integration gap currently in place needs to be bridged to affect this. Resources need to be made available so the SMB can outsource IT and purchasing activities as well as provide its sales force with the tools necessary to remain current and knowledgeable. *The playing field needs to be leveled for the SMB's* so they can achieve maximum productivity and profitability, without resorting to purchasing and selling activities that create additional market and margin friction. When resolved, everyone wins.

## GLOBAL SUPPLY BALANCING

Many international markets have aging product life cycles that far exceed comparable products in the United States. This can be the result of differing end-user preferences and requirements. In other instances, it might be the result of staggered product release dates between regions. Understanding these variances and taking advantage of the opportunities they present can substantially enhance manufacturer profitability.

As an example, APC released its SMT/SXT products in North America but chose not to release them simultaneously in Asia/Pacific. That region continues to sell APC's aging line of SUA products successfully. While the North American market has been ramping its efforts to stock and sell the new SMT/SXT lines, it has also been burdened with selling through its existing SUA inventory. However, since APC's regional units operate on standalone P&Ls, the North American group will not be able to rebalance its inventory by sending its excess SUA stock to Asia/Pacific if the need arises. Instead, the group will most likely have to write down the cost of its inventory and sell it through brokers within the United States, again, at highly unsatisfactory, discounted rates.

Properly understanding the dynamics of regional demand can clearly have long reaching effect on manufacturer productivity and profitability. It can support more accurate product forecasting and improve product life cycle management. In addition, by understanding regional trends, manufacturers can operate more efficiently and reduce the need to engage "open market" resellers who negatively impact ROI.

## CHANNEL OVERVIEW

When determining the most viable solutions for addressing inaccurate forecasting, lack of SMB centric solutions and geographical imbalances, we must consider three essential links in the supply chain.

- The manufacturer
- The reseller community
- The unification of manufacturer/reseller into a newly created whole

Any solution, to be effective, requires these three links to be tied together. To accomplish this task, current inefficiencies hindering growth and development for both the manufacturers and the resellers need to be resolved. Only then can the combination of the two equal a greater whole.

# MANUFACTURER

The primary obstacle to OEM efficiency has been the lack of full disclosure and integration with the reseller community. Conversely, In the process of working to meet increasing sales-out forecasts, resellers have established a history of creating false demand. This results in over-supply issues, which in turn, leads to price reduction requests to support the movement of associated excess/obsolete inventories. This tactic is employed because it places most of the burden to sell product on the manufacturer. The manufacturer not only builds the product, but also indirectly assumes the responsibility of creating demand for it by systematically reducing price.

As for the manufacturers, they are often their own worst enemies. Much like the reseller, the manufacturer can create unrealistic volume goals to keep their perceived market share high and leverage component part costs down. They spend little time addressing the true needs of the SMB community, thereby minimizing reseller performance. Inventory stockpiles frequently become concentrated in one or two key stocking customers (1<sup>st</sup> resellers and or distributors). These entities aggregate control and the small to mid-tier channel accounts are priced or allocated out of the market. Once this occurs, the vicious over-stock cycle outlined above begins again via price reduction requests, etc.

While this approach can move sitting inventory, it comes at a heavy price, both to margin as well as channel security. Ultimately, this tactic is unsustainable due to the erosion in the shareholder value it causes. To remove themselves from this process and embark upon a more productive path, manufacturers should aggressively seek to employ the following value propositions:

- Product lifecycle extension
- Supply chain enhancement
- True access to the SMB
- Global balancing of inventory
- Higher yield focus

## RESELLER COMMUNITY

Like the manufacturer, the reseller community faces its own set of challenges. The group is made up of a variety of participants, making it difficult to satisfy requirements with one comprehensive tool or approach. Additionally, this market is fearful of disintermediation or circumvention at the hands of the manufacturer when selling to its clients. It is also wary of having the large DMR or National VAR receive preferential treatment on product allocation and pricing.

SMB resellers are also hindered by operating capital restrictions. They oftentimes cannot afford to hire the personnel they truly need to remain competitive against much larger companies. Developing XML or EDI tools to integrate with their clients, new verticals or even with manufacturers can be financially technically out of reach as well. And while manufacturers and distributors claim to support them, eventually, the more lucrative accounts are taken direct, and the SMB gets placed last in line (no matter how many marketing initiatives there are claiming the opposite).

No one is currently acting as an extension of the reseller's purchasing team to help them navigate through a difficult channel. There is no one available to help answer technological questions or provide sales engineering support as an extension of their team. Help in the form of an outsourced IT department is non-existent and resources can be challenged to help them integrate technology for their markets.

In the end, they cannot deliver the true value-added solutions their customers require, even though they possess the knowledge to do so. This in turn translates into lost margin for the SMB and the manufacturer because the SMB cannot maximize their yield on the buy. The opportunity, therefore, is to develop custom tools and resources that the reseller can translate into revenue and profit by deploying more technology into the marketplace.

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## SOLUTION – SEGUE CORPORATION

Segue Corporation serves as a global product and information exchange for manufacturers, OEMs and resellers. We have the vision and the tools necessary to integrate the operational activities for all three entities so they function as one comprehensive unit. For manufacturers, this represents access to a true open market. Through this access, manufacturers have visibility into how product flows and the ability to separate those channel participants that enhance margin versus those that erode it through their unsettling selling practices. Furthermore, we can establish strict guidelines, based on manufacturer criteria, that participants must follow to clean up fraud and counterfeit activities that have increased for most manufacturers as online selling has increased capabilities and occurrences to defraud.

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Segue Corp. also provides a conduit between the SMB and the manufacturer so requirements for success can be accurately, and thoroughly communicated and relevant resources strategically deployed.

Through a combination of Segue Corporations in-house assets and the manufacturer's resources, problems such as personnel voids and insufficient access to technical tools can be solved.

Through these actions, a market can be created that extends product life cycles and optimizing returns by balancing supply globally to regions with higher yield and/or demand requirements. The result is enhanced supply chain efficiency and a broader supply conduit that improves the global fill rate while generating billions of dollars in revenue.

Through electronic tools, offered as part of our service and taking only three weeks to integrate, Segue Corporation can electronically connect manufacturers and resellers on a worldwide basis. Real time pricing, real time availability and real time information can be acquired by the reseller, allowing them to fully satisfy client requirements and maximize profitability.

Through the Segue solution, online configuration tools, sales resources, online curriculum, modules are made available to add business scale and diversity along with incremental revenue and profit centers for the manufacturers and resellers we partner with.

The final result is an ongoing, global supply chain that functions at a higher rate of efficiency and generates more value for all its participants.