

Topic:
CAD/CAM
Resellers

Dealer/Developer Relationship

A large proportion of CAD sites are in the AEC sector, we take a closer look.

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They love me, they love me not?

Thoughts on the dealer/developer relationship.

By Martyn Day, Group Editor, MCAD and AEC magazines



How it Was

The good old days of the healthily profitable CAD dealership seem like a distant sepia-coloured memory. A time where prospects were plentiful and the margin on hardware and software were both excellent. As a testament to this, one only had to turn up to a dealership and see the hardware in the car park to realise that these businesses were doing well.

Obviously this is a great contrast to today's dealerships, relying more on their existing customers for business, with ever-decreasing margins and increased competition from similarly desperate companies. Based on the previous metric, the car parks are more likely to be half empty.

In the beginning the CAD software developers were happy to recruit new dealerships and worked hard to build channels for their CAD tools, understanding their own inability to service, train and support the software 'at the coal face'. As the customers increased and the number of products grew in diversity, extra distribution layers were added to manage the channel and co-ordinate supply, stock and quality. This new structure placed developer and dealer on either side of the distribution fence, lessening direct contact and in my experience, planting the seeds for what has become a fairly fractious relationship.

How it Is

At the moment both small and large CAD dealerships are facing very tough market conditions. Admittedly much of this is recession-based but a number can be attributed to the on-going business plans of their 'partners', the software developers.

- Imagine owning a business that has come to expect a yearly un-specified, un-negotiated margin cut.
- Imagine running that business when the incentives placed upon you reward you for selling in volume but doesn't give enough margin to support more than one demonstration.
- Imagine having contractual obligations added to the contract which increase your overheads but lowers your income.
- Imagine running a business in which you have very little say in what products come to market.
- Imagine being forced to invest in training and sales for new products only to see them pulled or undermined.
- Imagine the fear of 'repercussions' because you want to diversify into other vendor's products, yet you need to service your user-base.

Add to all that the spectre of direct sales from the developer, competition from the zillion other dealers selling the same product and mix in a slow but steady move to subscription direct to the developer and you pretty much have the average dealer's business headache.

With this continual drop in margin, the dealers have been warned, sorry, I mean advised, that they should not be looking to survive off the boxed product margin but instead should be seeking to generate revenue from services, the new term for 'adding value'. So instead of making money by selling the software to the customer, they should be grateful that they make money around that opportunity to sell, via training, support and consultancy. The problem is, that CAD has become a commodity product with a mature user base, requiring little training and little consultancy.

To have the 'privilege' of selling vendors software, most dealers have to pay the software company for demonstration software, as well as pay to be trained to sell the product. I've had complaints that the software companies take margin from dealers to create pooled marketing funds, which provide 'virtually no marketing or product positioning to support resellers' and it is claimed that the marketing that does come out from the vendors is mainly price led. While dealers can choose to market out of their own shrinking pockets, to get access to their marketing margin fund will require the plan to be sanctioned by the vendor.

The net result has been many dealers reworking their businesses, searching for new products to sell, new markets and new opportunities. There have been many redundancies over the last couple of years, and the current business model of the incredible-shrinking dealer has been born. It should also be noted that a number of dealerships have already gone to the wall. Is it any wonder that there is no new blood, no

new dealerships being set up?

The software perspective

On the other side of the fence sit the CAD companies, which develop the applications the dealers sell and service. I have had many discussions concerning dealers and the total lack of respect always amazes me. Dealers are sometimes described as 'lazy', always going for the 'lowest hanging fruit', 'demanding' etc. The dealers got the blame for discounting too, which was the combined product of the developer's volume sales incentives, together with the authorisation of too many dealers, creating a 'Dutch auction' mentality for users. The answer to the discounting, so I was told, was to take the margin off the dealers if they were going to give it away anyway. It is akin to a doctor prescribing the removal of blood from a patient to decrease the risk of a heart attack. It's also worth noting that some developers actually publish discounted prices on their own web sites.

Another thought I have heard expressed about dealers is that they don't invest in their business. In the early to mid days that was true, there were many 'lifestyle' dealerships, but most of those dealers still around today have a passion for their market. To me it's no wonder that dealers are reluctant to invest in their businesses as the future looks uncertain. All the vendors appear to be attempting to add subscription revenues to their income. There are great advantages to having an income that needs no marketing or sales effort. Selling direct is obviously appealing but requires overhead and can introduce conflict with the existing channel. I know of one vendor that sacked its dealers overnight – literally a fax found in the morning, invoking a clause in the contract withdrawing their right to sell their software immediately. Dealers may now be used to sign up their installed base to subscription but they do this at the risk of losing 'ownership' of the customer.

Time and again, when discussing the shrinking dealership problem, I hear the developers talk of the 'importance of a healthy channel', as if they were the doctors and the dealers were patients on their life-support systems!

Recent events

With the poor economic climate, failure of web sales and need to satisfy Wall Street, the CAD software companies are back on the charm offensive to attract new channel partners to sell their applications. It's all about 'capacity' and 'partnerships'!

One only has to look at PTC - after having lost Rand Worldwide to Dassault/IBM - courting new distributors like Mensch und Maschine to aid replacing its decimated channel for Pro/E Wildfire. At this year's Daratech Conference PTC was actively looking to recruit SolidWorks dealers to sell their new version of Pro/E. Even companies like Autodesk, which has the most respected and wide-spread channel in the market has recently backtracked on its stated aim to generate 40% of sales through its own direct corporate channel. At Daratech, John McEleney, CEO of SolidWorks, admitted they were looking to 'add capacity' to their channel. Suddenly CAD dealers appear to be in vogue once more - well isn't that amazing!

While I'm having this rant, I have to say that at Daratech I had dinner with two (US) SolidWorks resellers that told me they had not had a margin cut in 6 years and the product had actually gone up in price. McEleney also explained to me that they had special low-interest loans for dealers to help fund expansion and grow. Which goes to show that there are some vendors doing things to work with dealers, recognising that the future of both parties is linked. Having said that I think the UK SolidWorks market is more cut-throat, there appearing to be too many dealers.

Conclusion

The question is, has anything really changed? Do the software companies really respect the CAD dealers and their function in the sales process any more? Or are these just desperate measures for desperate times? Unfortunately, in a general context, the fundamentals don't appear to really offer any improvements for dealers. Adding additional capacity means more competitors with similarly authorised dealers. More competition means more price competition, which means price reduction and loss of margin. And all that against a background of a general lack of sales.

After such a long and turbulent relationship, it's obvious that the two parties recognise that they need one another to exist but the mutual lack of respect looks to continue to undermine any positive progression.

The one positive to have come out from all of this, is that the broken-record mantra of the software companies' - 'don't exist off the margins of our products, generate money by selling services'- has lead to many dealers broadening their businesses and indeed removing some of their reliance on box margin. The bi-product of this has been that the software companies now fear that their dealers are getting less reliant on them, and so have less focus on their product portfolio and may actually have to work harder to win a higher proportion of sales bandwidth. It's now down to the software developers to try and remember what things incentivise CAD dealerships. The answers aren't hard, this isn't rocket science.

CAD Spaghetti would like to thank Martyn Day for this article. The views expressed are solely Martyn's and not necessarily those of CAD Spaghetti. If you have any views you would like to air regarding anything Martyn has written here, we would be pleased to publish them in the next issue of CAD Spaghetti. Please e-mail any comments to: <mailto:david.eaton@business-advantage.com>

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