

Topic:
CRM

Do strategic alliances hold the key for reseller survival?

iCAD is produced by Business Advantage, a B2B research, business development and marketing consulting practice operating in the global IT, Digital and Telecommunication sectors.

Do strategic alliances offer the answer for CAD/CAM resellers looking to get ahead in their cut-throat world? How many of them have done it, are thinking about it, or would rather go it alone?

We speak to two resellers about the alliances they have formed:

CARA, a partnership between four resellers that sought to pool marketing and other resources.

Recruit4CAD.com, the on-line service for hiring contract CAD specialists developed by Design4Advantage (part of the ISI Group which also owns DataCAD) and Air Resources.

.....and **we reveal the results from our survey of over 200 CAD/CAM resellers** on their experience of and attitudes towards forming alliances with companies other than their software or hardware suppliers.

Two fifths of resellers have tried it.....

Of the 209 resellers we spoke to, almost two fifths told us they have experience of setting up alliances. For most this is a relatively recent strategy - nearly 4 out of 5 of these alliances have been running for three years or less, with three quarters of them still running.

Alliances with other resellers are the most common choice. **Nearly 50% of those with experience of forming alliances selected other resellers as their strategic partners.** We spoke to one such reseller, Rob Goddard, Managing Director of Adris, about his experiences.

The CARA story

In 1996 Rob Goddard formed a loose partnership with four other resellers with a view to pooling marketing resources and generally working together for mutual benefit. Known as CARA, the alliance ended in summer 1999.



The beginning

"Initially I approached four companies with my idea of an alliance — CADassist, Alta Systems, Robott, and CADcomp although CADcomp dropped out early on after being bought out by another reseller. I selected these companies as I felt they had the same ethos as Adris Ltd, built around providing a quality service in the sale of Autodesk products; they also represented different geographical regions."

The benefits

"In the short term we were able to realise the benefits of marketing together e.g. exhibition attendance, magazine advertising, mailshots, drop cards, seminars etc. Marketing/advertising costs were quartered and the members were therefore able to afford to produce higher quality marketing campaigns and materials."

"The planned medium term objective was essentially to save money through pooling technical resources and save money on travel by members avoiding having to send their staff all over the country. We were also moving towards having a call centre for technical support, with all the benefits of economies of scale that this would have brought."

"In the long term, the potential was there for multiple benefits:

- *increasing our purchasing power at a major level and getting better discounts from sales of Autodesk products plus general hardware;*
- *a larger company could be better managed than a small one to produce better sales and growth patterns;*
- *company costs could be shared e.g. accountancy costs;*
- *the ability to put more resources into corporate selling and invest more in different areas.*

I worked out that, from simply cutting costs e.g. labour and marketing and getting better discounts on Autodesk products, each member could make an extra £100,000 profit a year. On top of this would be the extra revenue from increased sales."

The problems

"My decision to approach the alliance as a co-operative scheme, offering equal partnership in terms of management structure, meant that we didn't have an authoritative leader. This led to disagreements about how the group should be developed, formed and run."

The end

"With the purchase of Robott by another reseller last year, the alliance as it was (i.e. with its plans to move forward together on a formal basis) collapsed. But the remaining members still market together occasionally, e.g. joint ventures at exhibitions and sharing resources."

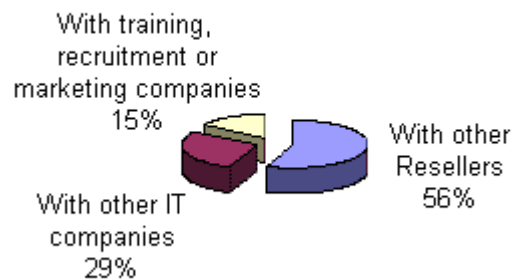
But three fifths of resellers are unconvinced.....

Rob's enthusiasm for alliances is not shared by the majority of resellers. Our research shows that **six out of ten resellers have never formed a strategic alliance** — and their reasons for not doing so illustrate the classic image of the reseller as being too busy battling for survival to consider alternatives. **For 43% of this group it's not so much that they are against alliances, they have just never considered it.** A further 17% are unsure how it would benefit them, while 11% like the idea but either don't know how to go about it, or cannot devote the resources to instigate it. Only one in ten feel that alliances are irrelevant to their business.

Who are the best allies?

Who are resellers forming alliances with? "I think that the main scope for alliances for resellers is with other resellers," says Rob Goddard. "Alliances with businesses from other walks of life tend not to work so well because each has different marketing needs and business models. If a different type of business is interested in a reseller, it tends to just buy it out."

Reseller Alliances



There are, however, a significant number of resellers who are looking beyond their own kind to form strategic alliances with. **A quarter of the resellers with experience of forming alliances did so with other IT companies, such as systems integrators or consultancies, while 13% formed alliances with training, recruitment or marketing companies.**

Recruit4CAD

Recruit4CAD was launched on 3 July 2000 as an on-line service for hiring contract CAD specialists. It has been jointly developed by web based portal company Design4Advantage (set up by DataCAD, the largest reseller of CAD/EDM based solutions in Europe) and Air Resources, the trading arm of the Marchfield Group, which provides technical staff to the IT, telecommunications and other industries.

Paul Kasler, Managing Director of Design4Advantage, is not convinced that an alliance between resellers is the best option. *“The objective of an alliance has to be that 1+1= more than 2, not even just 2. You have to get the benefit of both plus a bit of magic created by the combination. The typical exercise of resellers combining with other resellers doesn't always achieve this.”*

The beginning

“We could see that there was an opportunity to provide recruitment services to the CAD industry via the web. But we realised that it would be easier to find a partner with experience in recruitment who would be able to ensure that the infrastructure of the project was correctly set up.”

“We chose the Marchfield Group because they are not competing against us, indeed their service complements ours. The most direct connection between us is that they can now offer their customers a CAD system (supplied by DataCAD) to hire at the same time as a contractor who uses it.”

The service

“There is so much that can be done on the web which can reduce recruitment costs. For example the Recruit4CAD site includes a pop-up on-line interviewing capability, and on-line candidate assessment package - Assess4CAD - which allows candidates to take a test and re-take that test if they wish, every 3 months. Contractors are emailed every week to see if they are free, so employers can instantly check availability before short-listing.”

Why it works

“The alliance is very relaxed and informal. There are no contracts drawn up. It is simply a win-win situation. Making an alliance formal is not a guarantee of success and can make things much messier if the alliance fails. Success is based upon companies getting on well together. It is not about formality or getting bogged down in legalities. Representatives of the Marchfield Group and Design4Advantage meet roughly once a week through conference calls.”

“The best alliances are where both parties are doing well and both are being proactive. They are less likely to succeed if they are a reaction to a problem e.g. in a recession. Alliances need to be up beat rather than reactive.”

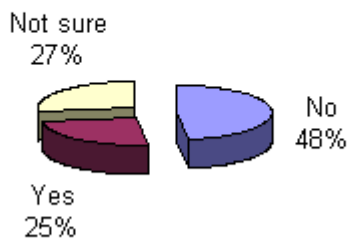
Long term plans

“Recruit4CAD is run as a pilot venture. The plan is to scale the project out on a world wide basis and have many partners like Marchfield who would cover different market sectors and different geographical areas. It is through this expansion to other sectors world wide that Design4Advantage plans to make its money.”

The future for reseller alliances

There appears to be a clear division in attitude between resellers who have formed alliances and remain convinced of their worth, and the rest. **When asked whether they think there will be a future increase in the number of resellers seeking to make alliances, just over two fifths thought there would be** — mainly those with experience of forming alliances. Most of the rest did not know — and then there is the stubborn one out of ten who think there will be no increase.

Resellers who have never made strategic alliances - would they consider forming one in the future



Quotes from resellers who forecast an increase in alliances

“The smart ones will form alliances. The name of the game is customer retention. We can charge more because we provide the end to end service.”

“You can maintain independence but have corporate clout.”

“The number of resellers will fall, and they’ll need to make alliances to offer the range of skills needed to provide a full service.”

“Autodesk are putting such tight controls on resellers, it will be the only way to survive.”

A surprisingly high proportion of resellers continue to see themselves going it alone in future years. **Just under half of those who have never been involved in an alliance said they would not consider forming one in the future.** A quarter said they would consider it, while the rest remain unsure.

Rob Goddard feels the doubters need to think again: *'Resellers of all sizes need to consider alliances to maintain profitability and survive. There have been many examples of this happening in the USA because the market became so competitive that they found that it was the only way to survive.'*

Conclusion

Chris Turner, Managing Director of The Business Advantage Group Plc, observes: *"The number of CAD/CAM resellers has reduced by at least 13% since spring last year - further evidence of the increasing competitiveness of a maturing CAD/CAM market. Our survey reveals that a surprising number of resellers - about a third - are not even considering forming alliances as a way to survive and prosper. They will need to be sure they can offer the breadth of service customers will increasingly require to improve the management of resources in the CAD/CAM environment."*

Interested in exploring how alliances could benefit your company? Please complete our enquiry form by clicking [here](#).

As mentioned in the article above, the recent annual update of the CAD/CAM Reseller Directory found that the number of CAD/CAM resellers operating in the UK and Eire has shrunk by at least 13% since spring last year. The Directory holds the contact details of 249 resellers and explores market trends and developments.

For more information about the 2000 edition of the directory including an overview report of the CAD/CAM market, click [directory of CAD/CAM resellers](#).

Please [Click HERE](#) to leave a comment or question.