

# Dell And The Channel: One Year Later

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They hated him. Oh, how they hated him.

This is a story of a man, the larger-than-life ruler who amassed great wealth and countless enemies while forging a formidable empire crafted in his own name. It is also a story of the many thousands who fought back, defending their ground, saying his way was not the better way. Lastly, it is a story of change, a sweeping transformation so dramatic that many still do not believe it is really happening.

But it is happening. On a steamy Texas afternoon last May, two dozen solution providers sat fidgeting in an Austin hotel conference room. They had assembled from far and wide, called together for a single purpose. Around a series of tables, they formed a big "U" and waited for the door to open. And that's when Michael Dell (NSDQ:[Dell](#)) walked into the room. With the first wisps of gray and the first wrinkles creeping into his well-known countenance, the man grabbed a chair and sat among them. He looked around at 48 staring, wary eyes and said, "OK, ask me anything you want." It took several seconds for the words to sink in, but they did, and the conversation began.

It's now been nine months since Dell Inc. launched its PartnerDirect initiative. In that time, the Round Rock, Texas-based vendor has signed up more than 11,500 registered solution providers and is adding 250 to 300 each week, according to Greg Davis, vice president and general manager of Dell's Americas Channel Group. The vendor is on a \$12 billion run rate for revenue through the channel, said Michael Dell at the end of this year's first fiscal quarter.

The company is also piloting an account registration program, believed to be the first for a major vendor.

As was evident in the conference room that day, Dell's gains are causing even longtime haters to evaluate the longtime direct vendor for the first time, and it's forcing competitors like Hewlett-Packard and IBM to begin to draw up their counterattacks.

"I am surprised at how quickly they've grown the number of reseller partners they do business with and how much revenue they're getting from the channel," said Brian Alexander, managing director of equity research at Raymond James & Associates. "They haven't had to deal with the largest resellers out there," he said. "They're getting that good growth from the lower end of the market."

Indeed, much of Dell's channel growth has come without any help from billion-dollar solution providers like CDW, Insight and Softchoice, companies that vendors like HP and IBM rely on for huge chunks of revenue.

Clearly, something's changed. The winds no longer blow so cold across the Texas prairie. Dell is winning over the channel.

### **VARs 'Pleasantly Surprised'**

The official purpose of Dell's first advisory council meeting in Austin, according to Chris Bates, director of strategy for Americas Channel Group, was to gather feedback about its PartnerDirect channel program from a variety of different partners. Unstated, but perhaps equally as important, was to show the channel that Michael Dell breathes the same air they do.

For those solution providers who attended that meeting, it was an awakening. What they had expected—the barriers, the arguments, the excuses—melted away in a one-hour Q&A session with Michael Dell. Not every question was answered, but several solution providers walked out with lots to ponder. Could they really partner with Dell? Really?

The partners on hand told Dell they liked the vendor's [certification](#) structure and managed services initiative, but they want Dell to leave room so they can add value to customers. Other solution providers there said they were impressed not so much with what Michael Dell and other executives said, but what they asked.

"I was very skeptical," said Mike Collins, president of Mike Collins & Associates, a Chattanooga, Tenn.-based solution provider. But in the meetings, Collins said, he became "pleasantly surprised."

Many of the VARs noticed that there were as many Dell employees as partners in the room. Michael Dell said he wanted people from many departments, including the direct sales side, to learn more about the channel. Many of them jotted down notes as VARs spoke.

"It was more about them listening to us," said another attendee, Tim Hebert, president and CEO of Atrion Networking, a Warwick, R.I.-based solution provider. "They did a brief introduction, opened up with a presentation, and then after the first slide, it turned into a discussion."

Hebert said he hasn't seen this level of interest in VAR issues from a vendor in 20 years. "I've seen so many manufacturers make channel programs in a vacuum of what it's really like from a reseller standpoint," he said.

Clearly, Dell executives weren't taking notes just to sharpen their penmanship skills. A channel strategy has become a crucial component for Dell's future growth because the company's customer base was growing stagnant and solution providers bring an ocean of potential new accounts.

"They have to go through resellers," Hebert said.

## The Challenges

And therein lies the rub. Dell (NSDQ:[Dell](#)) is in the midst of perhaps the greatest challenge any company has ever faced in the channel. How do you win over thousands of solution providers who don't trust you and, in many cases, don't want to trust you? The answer for Dell may be as simple as this: one at a time.

Weeks before the Austin meeting with VARs, Michael Dell had visited Future Tech Enterprise's Long Island headquarters in Holbrook, N.Y. Why? The company's President and CEO, Bob Venero, had extended an invitation. That meeting was productive, Venero said, and he and Dell have had a continuous exchange ever since. Dell even sent a text message asking Venero what he thought of the EDS and HP merger. "That's cool," Venero said.

On-site visits, invitations, text messages, all coming from the man who made his fortune competing against solution providers, often by dismissing their very worthiness while doing so. It's a tricky strait that Dell must navigate. On one hand, the company's whole reason for being is direct. On the other, Dell himself admits a great deal of the vendor's future growth hinges on the channel.

Of course, many solution providers are still betting on an HP (NYSE:[HPQ](#))-IBM (NYSE:[IBM](#)) quiniela. And it goes beyond hating Dell for the sake of hating Dell. Aside from competing against the direct monster, solution providers cite concerns regarding product quality, serviceability, power consumption and [software](#) licensing when comparing Dell to other vendors.

"We haven't, and we wouldn't, [look at Dell]," said Jeff Albright, founder of Albright Consulting Services Inc., Evansville, Ind.

Albright, who counts midsize and enterprise clients as customers, has an eye on Dell but still feels its total value proposition can't match the other vendors, at least at the midmarket and enterprise levels.

Dell's marketing guns have historically worked wonders hypnotizing end users into thinking that price is paramount in an IT solution. Because of that, the vendor hasn't developed the right message—or technology—to help VARs solve complex business problems, Albright said.

"If a customer looks at just the purchase price, it's a tough sell [to beat Dell]," he said. "That's the struggle [we both face now]."

At the small-business level, it can get even more nasty. To many VARs, Dell will always be a four-letter word.

John Zammett, president of HorizonTek, a Huntington, N.Y.-based [storage](#) solution provider who counts himself as a [Network Appliance](#) loyalist, said Dell can't provide the close-up and personal service that he can. "We have no intention of partnering with Dell," he said.

Another solution provider, who attended the Austin meeting but didn't want to be named, said Dell still can't comprehend that a customer is willing to pay a little more for products in

exchange for the value a solution provider can add. "It's like someone talking about the Grand Canyon when they've never really been there. It's hard to bring it to life," he said.

That solution provider recently closed a significant desktop deal with Dell, displacing HP in the process, but now he wishes he hadn't ever won the deal. "It's a 3-percent deal and Dell is forcing me to take the credit risk on it. We couldn't stop it. We have to integrate the product, but we got bupkis from Dell on it," he said. "Three friggin' points."

### **Grass-Roots Approach**

The concept of a \$64-billion company taking a grass-roots approach to develop a new way of doing business seems absurd, but it could be necessary for Dell (NSDQ:[Dell](#)). In some regard, Dell seems to want to build VAR relationships in stealth mode. The vendor's PR team says it won't comment on Michael Dell's schedule, aside from public appearances. If Michael Dell calls on a VAR, you won't hear it from Dell.

One Texas solution provider recently issued a press release heralding its addition into Dell's PartnerDirect program. Noticeably missing from the release: a quote from a Dell executive.

"I think it's in their best interest to keep it quiet. I don't think they want other vendors to hear they are reaching out to potential partners and then having those vendors sweeten their deals with resellers," said Raymond James & Associates' Alexander.

But even keeping things quiet, Dell is gaining traction with enough solution providers for other top vendors to consider it a channel threat, said one distribution executive, who asked not to be named. "They have a story to tell and resellers are listening," said the distribution executive. The only hindrance the distribution executive sees is if direct marketers Insight or CDW take on a more aggressive stance.

"If they figure out how to partner with medium-sized VARs or small VARs, they will gain share," he said. "If you're a small VAR, who really is your enemy? Is it Dell, or is it CDW or Insight?"

The executive said Dell could really gain momentum by engaging distributors, although he doesn't see much interest from Dell regarding such a relationship.

### **The Prize**

Dell has much to gain by building a strong channel program. It has a chance—a chance—to become the only vendor not named Hewlett-Packard to offer a near-complete portfolio of products to [SMB](#) customers. In other words, it could trump Big Blue in the channel.

In the past, companies had the ability to invest in a single [OEM](#) across multiple product lines to save money. For most corporations, either IBM (NYSE:[IBM](#)) or HP (NYSE:[HPQ](#)) fit the bill. "Dell was on the outside," Venero said. "Now, IBM peels off its [PC] business, printers. What happened? HP grew revenue share."

A growing number of companies are working more with HP and only in limited areas with IBM, he said. Now Dell comes knocking—through a solution provider—with printers, desktops, notebooks, storage, servers, software, services.

"The [end user] has that two-horse choice again," he said.

Not surprisingly, HP and IBM are growing increasingly incensed by any progress Dell makes in the channel.

When distribution executives get asked about Dell on financial analysts' calls, it really irritates the senior leadership at HP, said one channel insider. "HP is telling these guys, 'Don't do business with the devil,'" said the executive. "What they say publicly has the potential to upset relationships."

One East Coast VAR said that HP and IBM also get angry when he talks about Dell. "Trust me, I get phone calls," said the solution provider.

So what's a VAR to do? To Dell or not to Dell—that is the question thousands of solution providers have to ask themselves as the vendor's reach extends further into the channel.

Mark Crall, CEO of Tech Care Team Inc., a Charlotte, N.C.-based solution provider, believes Dell has the most turnkey programs in town when it comes to small business offerings. But don't expect him to start baking [cookies](#) for Dell yet.

"On the configuration and support side, you can't beat it, but we are not diving into the partner program under the belief it is everything we'd like it to be."

No vendor is going to be a perfect partner. Heck, even Symantec (NSDQ:[SYMC](#)), considered a longtime channel stalwart, has started to take some major accounts direct.

"You can have a lion as a pet, but it's still a lion," Crall said. "It gives us all the more reason to realize Dell has consistently proven that their first responsibility is to its shareholders. As a businessperson, I have to always be cognizant of that."

Business owners who have built nine- and 10-figure businesses by not making bad decisions have listened to Dell and liked what they heard. Regardless of past failures, it likely behooves solution providers to at least pay attention.

"I think it's very shortsighted to walk away from a business opportunity because of the past," Venero said. "If you do that, you're going to hurt your employees, customers and business. If it's right for your customer, that's your No.1 job."