Software Channel Survey 2009

Overview

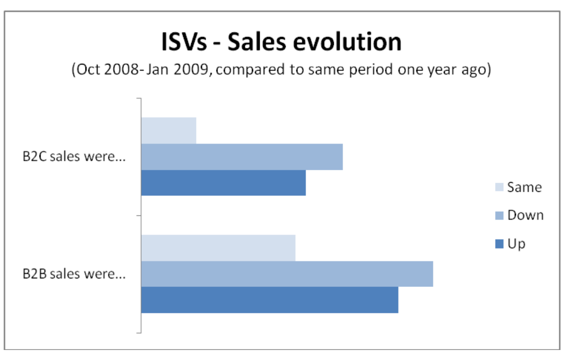
To have a clearer picture of how ISVs are coping with the economic downturn, Avangate conducted a survey (Mar-May 2009) focusing on the software channel. Survey results show challenges and solutions regarding the distribution channel.

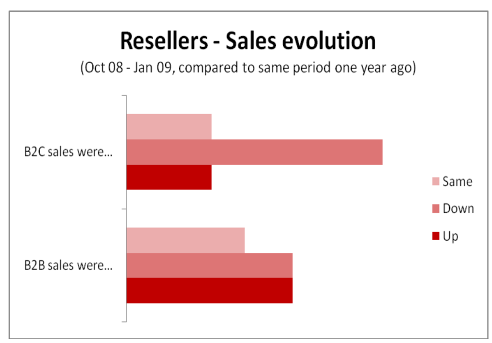
Methodology - As the survey was conducted on the internet on a self-selected sample, results are not statistically representative, however they make an interesting reading, showing some trends and providing tips & solutions for channel challenges related to the software industry. Results are based on 70 completed questionnaires. 206 responses were recorded (34% completion rate).

Summary of Results

Sales evolution - Overall, software sales registered a downward trend (Oct 2008- Jan 2009) for ISVs across the board - from small to large-, both for B2B and B2C sales. Direct sales went up, online sales stayed the same, while sales through the channel went down.

Resellers on the other hand reported a reduction in sales only for the B2C sector, with an overall stagnation for B2B sales.





Channel challenges & Solutions - Regarding challenges brought by the crisis & solutions, the words of the day are JOINT MARKETING PROGRAMS, MEASURING, EFFICIENCY, COMMUNICATION and PERFORMANCE RELATED.

While channel challenges for small and big companies follow the average trend, solutions show a clear focus amongst small companies towards the online channel, while large companies concentrate on ways of increasing sales via the reseller channel.

Here is a comparison of top challenges and solutions as seen by ISVs and Resellers:

	ISVs	Resellers
Top challenges:	▪ Resellers reluctant to put money into joint marketing programs. ▪ Have to rely more on resellers' efforts to make sales targets. ▪ Resellers with very little sales.	▪ Less funds for joint marketing programs with vendors. ▪ Clients increasingly demanding solutions to business problems. ▪ Decreased Margins. ▪ Vendors taking on too many resellers - no exclusivity for certain markets/ difficult to commit with marketing funds.
Top solutions:	▪ Increase and improve communication with reseller partners (find out problems and show stoppers). ▪ Performance-based sales incentives /Concentrate on best selling partners. ▪ More measurable and more efficient marketing activities.	▪ Increase and improve communication with vendors (discuss problems and show stoppers). ▪ Receive leads based on capabilities / past performance / bundle options. ▪ More measurable and more efficient marketing activities. ▪ Offer more value-added services (support, consultancy, etc.).

It is interesting to note that **ISVs and resellers are considering the same solutions for tackling top (most mentioned) channel challenges**, with some differences on the lower scale, for example 70% of resellers consider they need to receive leads based on capabilities/ past performance, while only 30% of software vendors are thinking about introducing this option. Similarly, 55% of resellers need a Partner Relationship Management system for automating order processing, payments, invoicing, while only 32% of vendors are considering this option.

Other channel challenges worth mentioning:

ISVs:

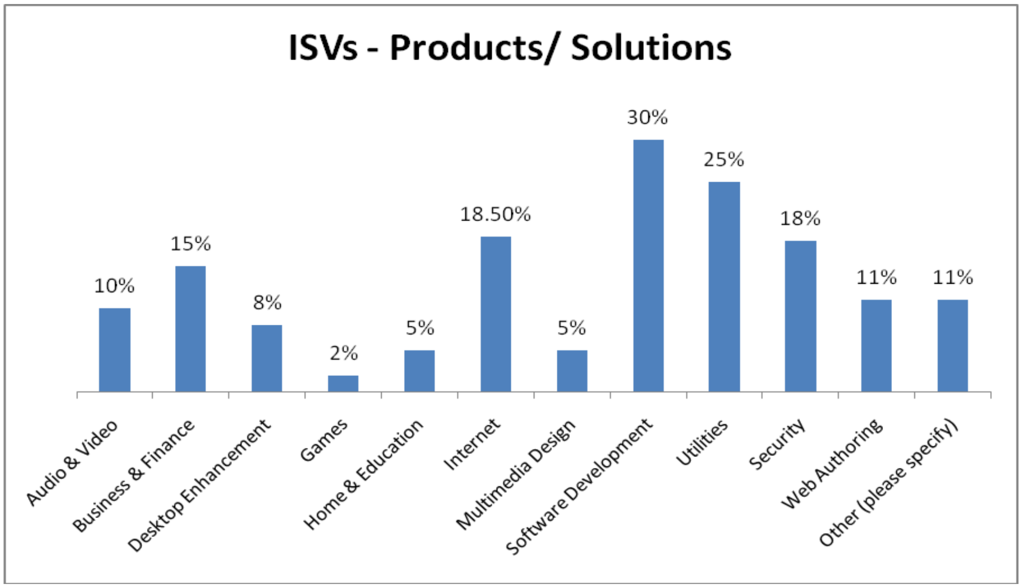
⇒ Lack of/ little visibility over final customers
⇒ Lack of interest from reseller partners to push products

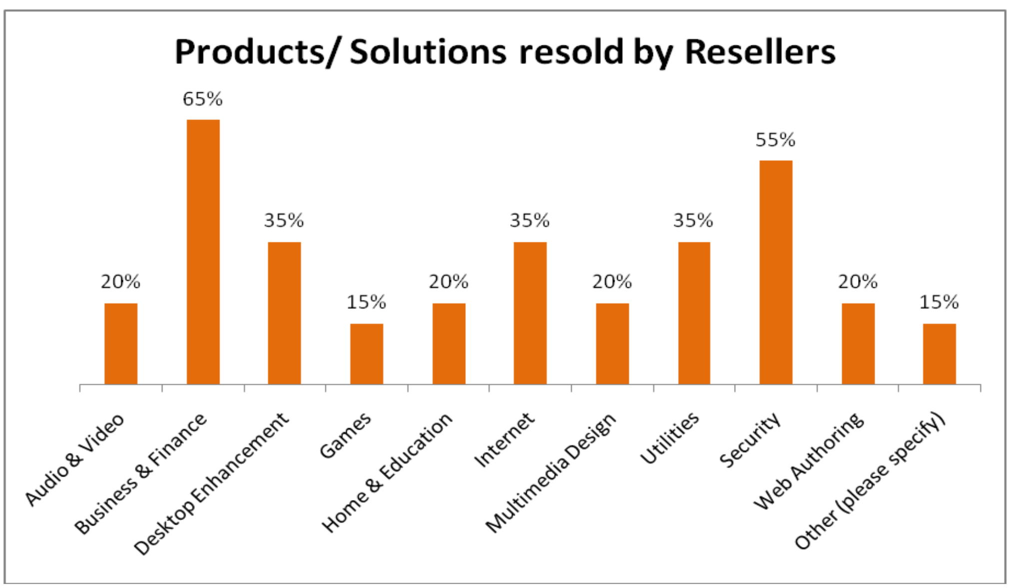
Resellers:

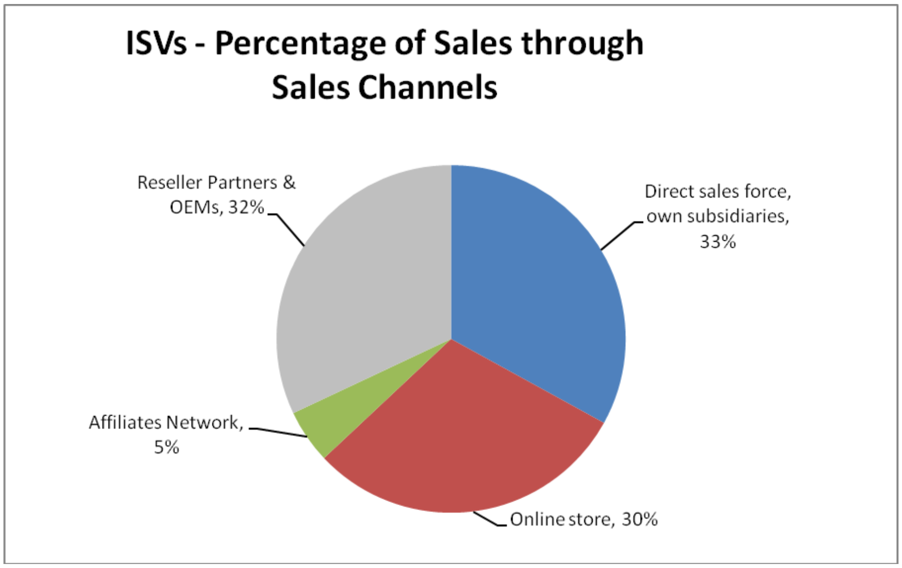
⇒ Clients demanding faster delivery and fulfillment
⇒ End-of-month/ quarterly sales reports difficult to collect and aggregate
⇒ Competition with vendor's online shop/ affiliate sales
⇒ Vendors pushing products, not solutions - difficult to match client needs

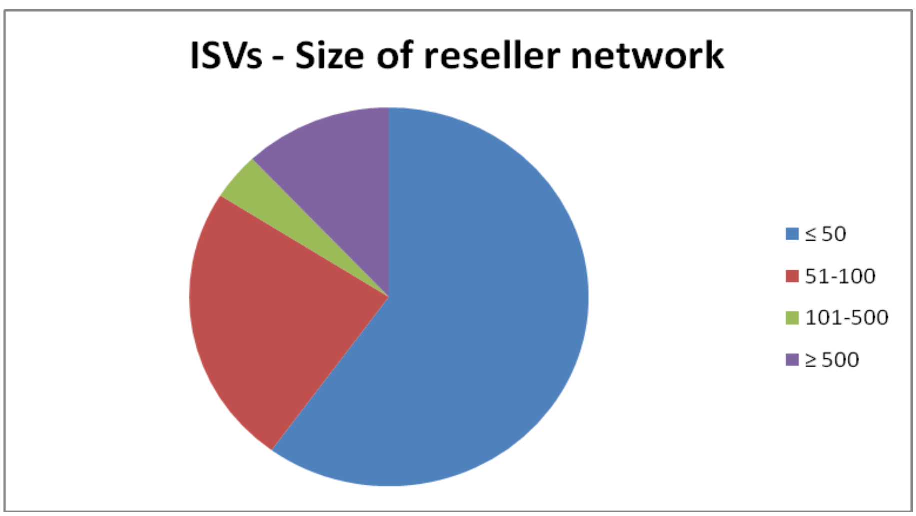
Other differences relate to margins: 80% of resellers mentioned they decreased, while 78% of ISVs mentioned they stayed the same.

Detailed Survey Results






ISVs - Percentage of Sales through Sales Channels
Reseller Partners & OEMs, 32%
Direct sales force, own subsidiaries, 33%
Affiliates Network, 5%
Online store, 30%

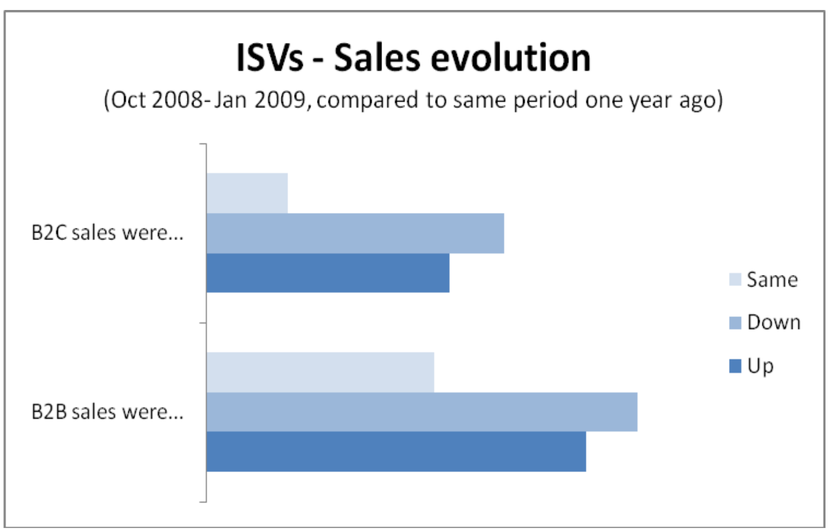

ISVs - Size of reseller network
≤ 50
51-100
101-500
≥ 500

ISVs - During Oct 08 to Jan 09, compared to same period one year ago,

	Up	Down	Same	Don't know/ Not applicable
Direct sales were...	**35%**	26%	16%	23%
Online sales (own web store + affiliates) were...	24%	24%	24%	29%
Sales through reseller partners were...	27%	**39%**	27%	8%

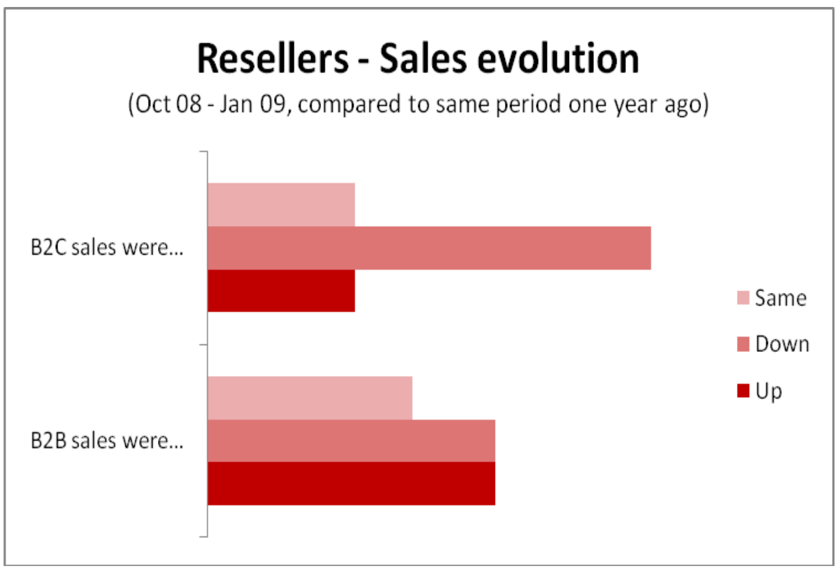
ISVs - During Oct 08 to Jan 09, compared to same period one year ago,

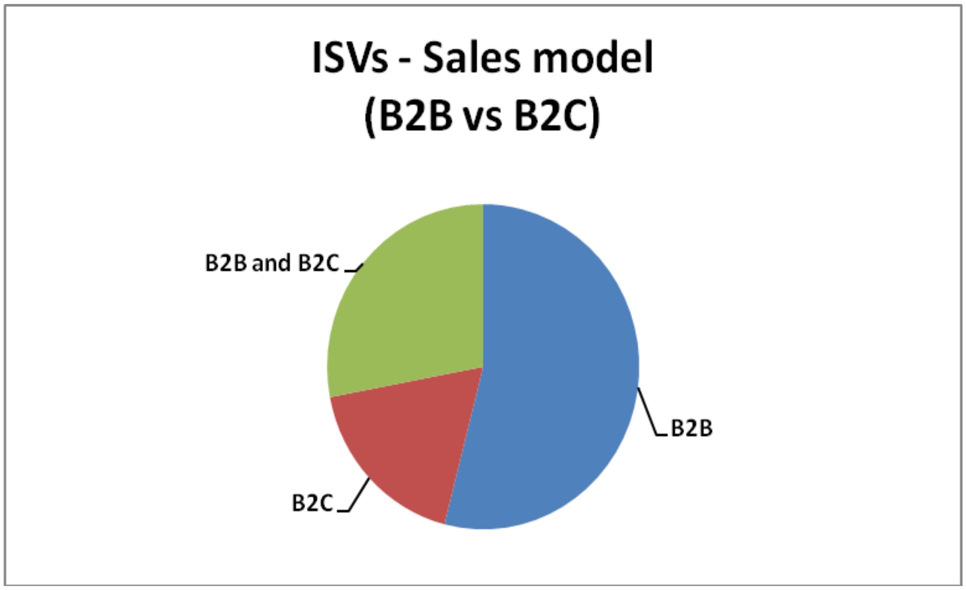
	Up	Down	Same	Don't know/ Not applicable
Overall B2B sales were...	31%	**35%**	19%	15%
Overall B2C sales were...	20%	**24%**	7%	49%

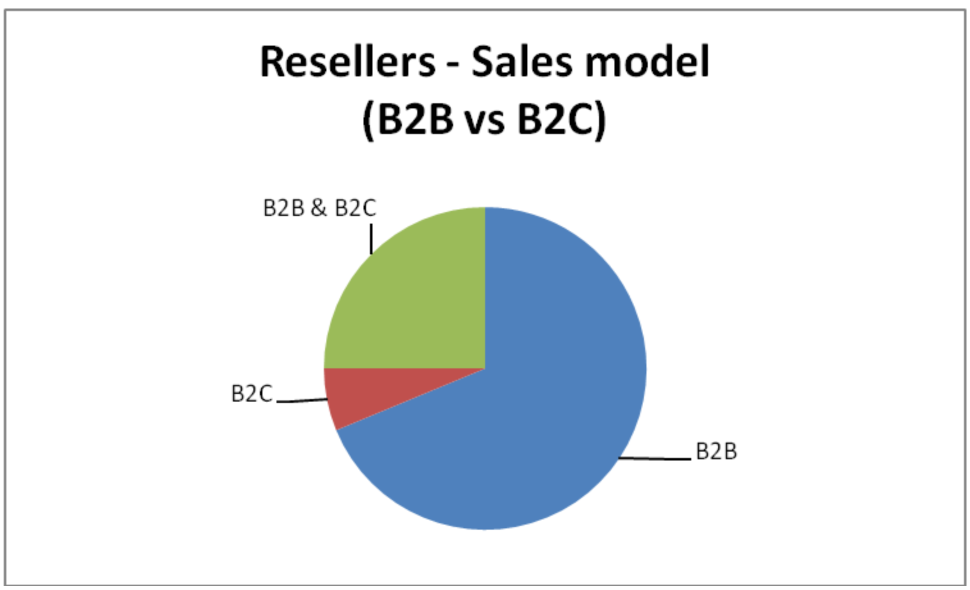


Resellers - During Oct 08 to Jan 09, compared to same period one year ago,

	Up	Down	Same	Don't know/ Not applicable
Overall B2B sales were	35%	35%	25%	5%
Overall B2C sales were	18%	54%	18%	9%




ISVs - Sales model
(B2B vs B2C)
B2B and B2C
B2B
B2C


Resellers - Sales model
(B2B vs B2C)
B2B & B2C
B2C
B2B

ISVs - Channel Challenges due to Crisis

	Yes	No
Lack of interest from reseller partners to push your products	42%	58%
Resellers reluctant to put money into joint marketing programs	**56%**	44%
Resellers demanding faster product delivery and fulfillment	22%	78%
Increased competition amongst resellers	50%	50%
Some resellers went out of business	42%	58%

Top challenge for small vendors. *Top challenges for large vendors (sales volume).*

Other challenges: Resellers reluctant to invest in product training

Resellers - Channel Challenges due to Crisis

	Yes	No
Less leads coming from vendors	55%	45%
Less funds for joint marketing programs with vendors	80%	20%
Clients increasingly demanding solutions to business problems	80%	20%
Increased competition amongst resellers/ with other competing vendors	70%	30%
Clients demanding faster delivery and fulfillment	60%	40%
Margins decreased	80%	20%

Comments: Delayed payments / Uncertainty due to economy/potential new tax burden.

ISVs - Channel challenges regardless of crisis	Yes	No
Lack of/ little visibility over final customers	**60%**	40%
End-of-month/ quarterly sales reports difficult to collect and aggregate	46%	54%
Lack of/ little communication with resellers	38%	62%
Difficult to manage international reseller partners	50%	50%
Resellers with very little sales	**86%**	14%
Lack of interest from reseller partners to push our products	**60%**	40%

Top challenge for small vendors

Top challenge for large vendors

Resellers - Channel challenges regardless of crisis	Yes	No
Lack of/ little communication with vendors	50%	50%
Vendors pushing products, not solutions - difficult to match client needs	65%	35%
End-of-month/ quarterly sales reports difficult to collect and aggregate	55%	45%
Vendors taking on too many resellers - no exclusivity for certain markets/ difficult to commit with marketing funds	85%	15%
Competition with vendor's online shop/ affiliate sales	55%	45%

ISVs - Other Crisis Effects	Yes	No
Have to rely more on resellers' efforts to make sales targets	**52%**	48%
Cancelled presence at some trade shows	50%	50%
Cancelled partner events – doing webinars/ video conferences instead	48%	52%
Cut/ cancelled offline advertising	**52%**	48%
Cut channel costs	44%	56%
Decreased resellers margins	22%	78%
Increased resellers margins	36%	64%

Top challenge for small vendors. *Top challenge for large vendors.*

Other crisis effects: Increased social networking activities

Resellers - Other Crisis Effects	Yes	No
Cancelled presence at some trade shows	50%	50%
Doing more webinars/ video conferences	60%	40%
Cut/ cancelled offline advertising	60%	40%
More effort required to close a sale	95%	5%

Other crisis effects: No new demand, business coming from existing client base/ Marketing initiatives evaluated on case by case basis /Zero budget.

ISVs - Solutions for channel improvement

	Already do	Think about doing	No/ not applicable
Sales training with resellers / Hand-holding for big account negotiations	50%	26%	24%
More joint-marketing activities/ programs based on Market Development Funds/ Coop funds	22%	46%	32%
More marketing materials & sales tools for reseller partners	38%	42%	20%
Increase and improve communication with reseller partners (find out problems and show stoppers)	46%	40%	14%
Use PRM (Partner Relationship Management) system for automating order processing, payments, invoicing	22%	32%	46%
Build Partner Portal to increase channel visibility & improve communication and channel performance	40%	36%	24%
Assign leads according to capabilities / past performance / bundle options	38%	30%	32%
Performance-based sales incentives /Concentrate on best selling partners	48%	36%	16%

Top solution for small vendors.

Top solution for large vendors.

Resellers - Solutions for channel improvement

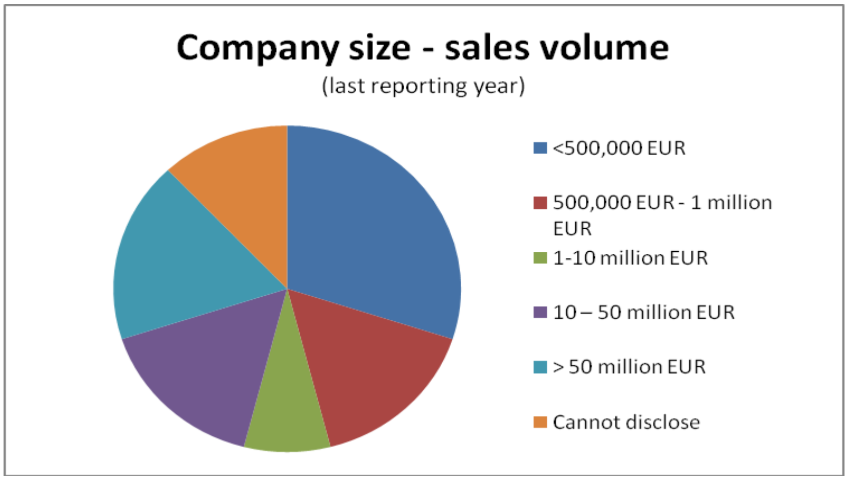
	Already get	**Need**
More sales training & hand-holding from vendors for big account negotiations	25%	45%
More joint-marketing activities/ programs based on Market Development Funds/ Coop funds	20%	60%
More marketing materials & sales tools from vendors	35%	60%
Increase and improve communication with vendors (discuss problems and show stoppers)	10%	**80%**
Vendors to use PRM (Partner Relationship Management) system for automating order processing, payments, invoicing	30%	55%
Vendors to offer Partner Portal to increase channel visibility & improve communication and channel performance	45%	45%
Receive leads based on capabilities / past performance / bundle options	25%	**70%**
Performance-based sales incentives	60%	35%

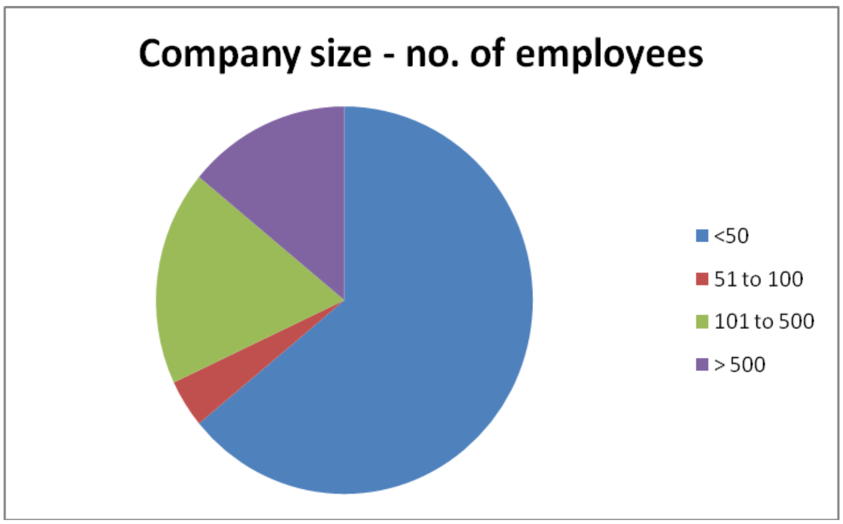
ISVs - Other solutions for tackling the crisis	**Already do**	**Think about doing**	No/ not applicable
Focus more on online sales	38%	28%	34%
Expand into new markets – online	34%	46%	20%
Localization of website/ products	30%	46%	24%
Expand into new markets – direct sales force	40%	22%	38%
Expand into new markets – through reseller partners	38%	50%	12%
Look for new partners - in existing markets	**46%**	44%	10%
More measurable and more efficient marketing activities	**34%**	**58%**	8%
Implement more cross-sell and up-sell programs on existing customers (independent of reseller partners)	32%	40%	28%
Implement more cross-sell and up-sell programs on existing customers (together with reseller partners)	22%	**56%**	22%
Delegate technical/ customer support to resellers	18%	36%	46%

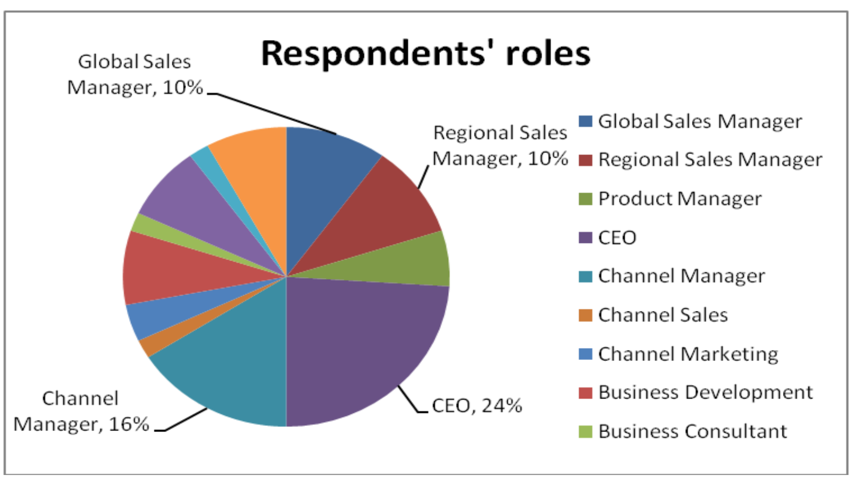
Top solution for small vendors. *Top solution for large vendors.*

Resellers - Other solutions for tackling the crisis	Already do	**Think about doing**	No/ not applicable
Localization of vendor's website/products	20%	50%	30%
Look for more vendors/ more products	50%	30%	20%
More measurable and more efficient marketing activities	35%	**65%**	-
Implement more cross-sell and up-sell programs on existing customers	45%	**50%**	5%
Offer more value-added services (support, consultancy, etc.)	60%	40%	-
Partner with other reseller partners/ distributors for more market strength.	50%	45%	5%

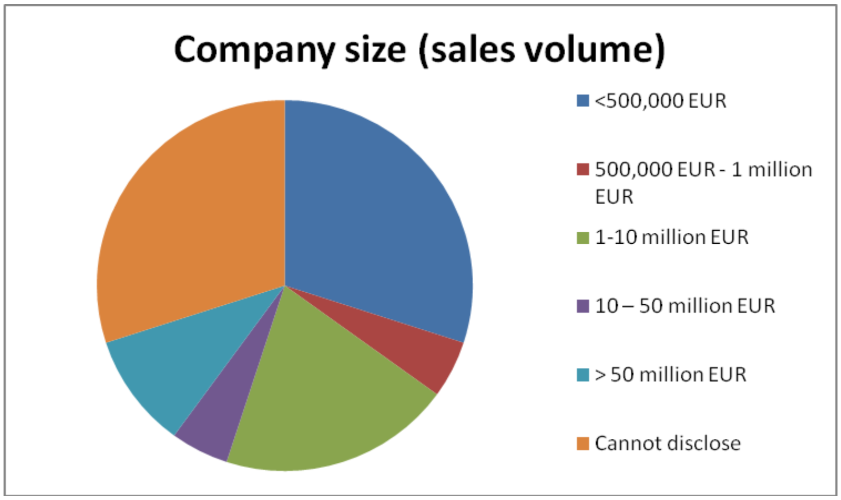
ISVs – extra demographics

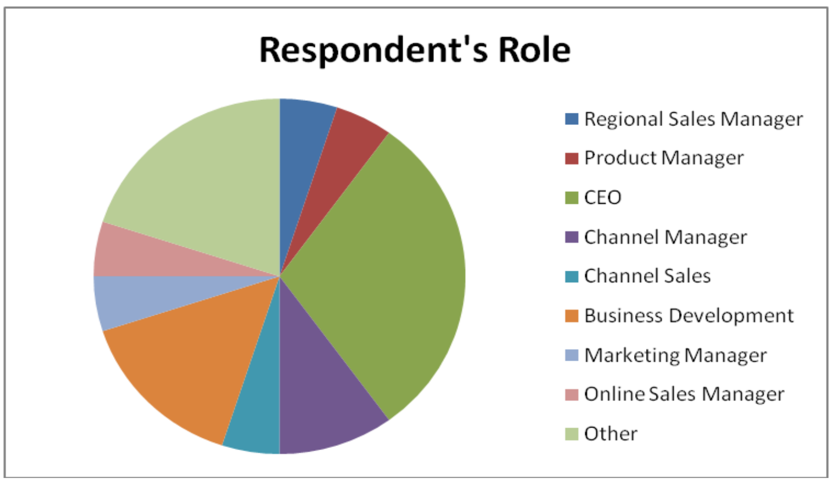






Resellers – extra demographics





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