

# Channels for Networking Products

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A White Paper by EuroLAN Research  
commissioned by Novell

## Introduction

The Internet is changing the way we work and live. It is an all-pervasive technology, whose usage is doubling every 100 days, so that it requires organisations to re-think its operations. It is a truly global medium in which to carry out business, yet it is easy to access and relatively inexpensive to access. The Internet allows collaborative electronic relationships to be formed between customers, suppliers, distributors and manufacturers to create an interactive value chain. This is eBusiness, the backbone of the much talked about eCommerce which is itself purely the transactional element of buying and selling goods and services online.

eBusiness solutions can dramatically boost revenues, cut production cycle times and costs, improve customer service and broaden market reach. Building more efficient interactive relationships with customers and suppliers enables new products and services to be delivered faster, better, and at substantially lower cost.

New developments in Internet-enabled mobile phone technologies are just around the corner making eBusiness more pervasive. By 2003, business on the Internet will be worth \$1.5 trillion.

This is producing a sea change, not only in the delivery of products, but also in how the solutions are delivered to customers.

This White Paper, written by Keith Humphreys, Senior Consultant at EuroLAN Research, and commissioned by Novell, aims to examine the dynamics which are changing the channels of distribution for eBusiness solutions.

## eBusiness – a sea change

The adoption of eBusiness by European business is gaining momentum. The use of Internet based technologies to increase revenue or to reduce costs is now mainstream.

Intelligent Networks, Intranets and Extranets are replacing traditional information systems driving reductions in transaction costs.

**Business is about increasing revenue, lowering costs and establishing closer, more responsive relationships with customers, suppliers and partners**

Companies are adopting “point solutions” as the initial foray into this New World. Key applications giving immediate benefits are Supply Chain Management (SCM), Enterprise Management, Knowledge Management (KM), electronic-Customer Relationship Management (e-CRM), Business Intelligence (BI), e-Commerce (sell-side and buy-side), electronic Bill Presentment and Payment (EBPP), and e-Business Process Transformation (e-BPT).

eBusiness adoption is not limited to the enterprise. Small to medium businesses (SMB) are benefiting from outsourcing email, storage and back-up. Call centre technology, once seen as the preserve of the enterprise, is opened up to all comers.

## Old World Dynamics

Traditional routes to market were predicated upon the “title” of the product changing hands along the channel of distribution. i.e. vendors sold the product to a distributor who in turn sold it to the reseller who sold it to the eventual user. The challenge has been for the channel players to maintain a sustainable margin.

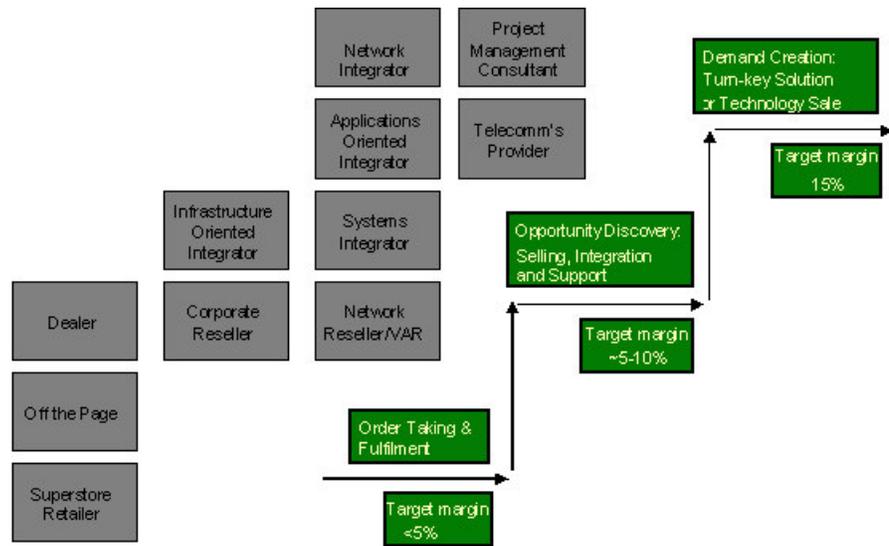


Figure 1 – Old World Channel Players

**The business model for Networking Integrators and VARs is challenged**

The channel has undergone a massive change and networking integrators and VARs are directly in the line of fire. The core competencies of the integrator are becoming eroded. The relationship between integrator and customer is under threat from the very vendors that are represented; performing free design services, offering shrink-wrapped support and demanding exclusivity. Other threats for the networking integrator are:

- Service specialist organisations such as Unisys
- Reduced margin on infrastructure products because of commoditisation
- Vendors demands for significant value add in addition to high volumes
- The Internet is the catalyst for new supply chains i.e. vendors direct

Integrators are also threatened by the emerging networking channels such as consultants, telcos and the emerging new breed of organisation focussed on eBusiness solutions and New World service providers.

Perhaps the business model of networking integrators and VARs never stacked up. The integrator possesses a combination of efficient logistics in the supply of products, the consultancy skills of a dedicated consultancy firm and a high degree of specialist service capabilities. These characteristics are necessary along with the management skills, sales and marketing prowess and the administration infrastructure that any large company requires. This is a difficult business model.

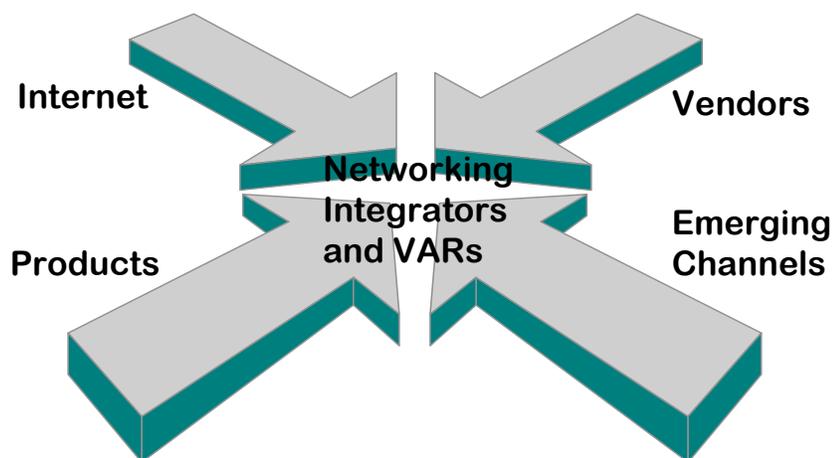


Figure 2 - Threats to Networking Integrators and VARs

If networking integrators and VARs wish to remain focussed on the infrastructure they must avoid the "squeeze" from consultants and vendors on pre-sales and post-sales services. The solution today may be a move towards voice and data integration or eBusiness solutions or finding a profitable, sustainable niche market but the future shape of the network integrator and networking VAR is set to change forever.

## New World Emergence

Today's 200 million Internet users will double to 400 million by 2002, of which 65 million will be in Europe. This change is happening because:

- Telecommunications liberalisation spurring competition
- The bandwidth explosion
- Access to the Internet by a variety of affordable means
- Europe catching the eCommerce wave
- The convergence of Voice and Data

In addition Europe has a leadership position in mobile telephony and m-Commerce.

## New World needs

Companies are implementing solutions today. As stated previously, this may be a toe in the water, but there is no doubt that the emphasis has moved from solutions based on point products, to selling end-to-end infrastructure and now to selling a solution to a business problem. In fact, the whole business of selling is undergoing a long overdue change. Neil Rackham and John DeVincentis describe it well in their book, "Rethinking the Sales Force". The change in emphasis to solution selling is expanded upon at length.

Revenues from services are performing a “volte face”. This year a VARs revenue from services is 35% - next year it will be 65%

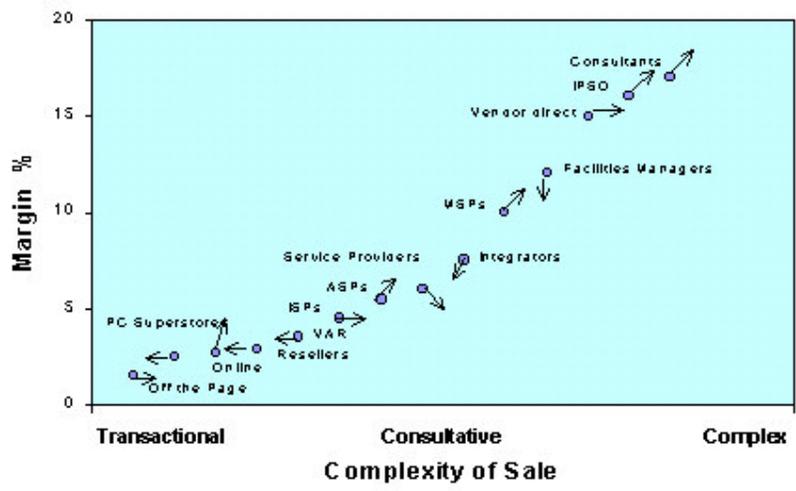


Figure 3 – Complexity of sales types in the New World

In his book Neil Rackham describes how selling methods have not changed during the last century. He predicts a change from transactional selling (suitable for commodity products) to consultative selling (wrapping services around the product) to complex selling. Complex selling involves engaging the customers in a partnership.

Vendors such as Cisco Systems, Intel and Novell are forming Internet eCommunities to address the complex sales process.

## Internet eCommunity

The Internet Ecosystem is a fundamental part of the Internet eCommunity.

The Internet Ecosystem is a web of inter-relationships when compared to the Industrial Economy, which is a hierarchical, command-and-control model. Unlike the value chain, which rewarded exclusivity, the Internet Economy is inclusive with low barriers to entry. As a naturally occurring ecosystem, activity in the Internet Economy is self-determining. The Internet Ecosystem will evolve, both technologically and in size, it will be even easier for countries/companies/individuals to participate in the Internet Community. The barriers to entry are low because the entry fee to use the Internet infrastructure is free.

The old rules don't work any more. The Internet Ecosystem is the new business model of the Internet Economy.

The potential for success in the Internet Economy can be measured by the quality of a country's or company's ecosystem. The quality of an ecosystem determines the potential for advancing the standard of living of a country, the shareholder value of a company and the participation of individuals in the economy.

In the Internet Economy, entering a market is not the issue; the issue is the speed of execution. Companies participating in an ecosystem - an open standards-based community that works toward a common goal - will emerge as the market and industry leaders of the future.

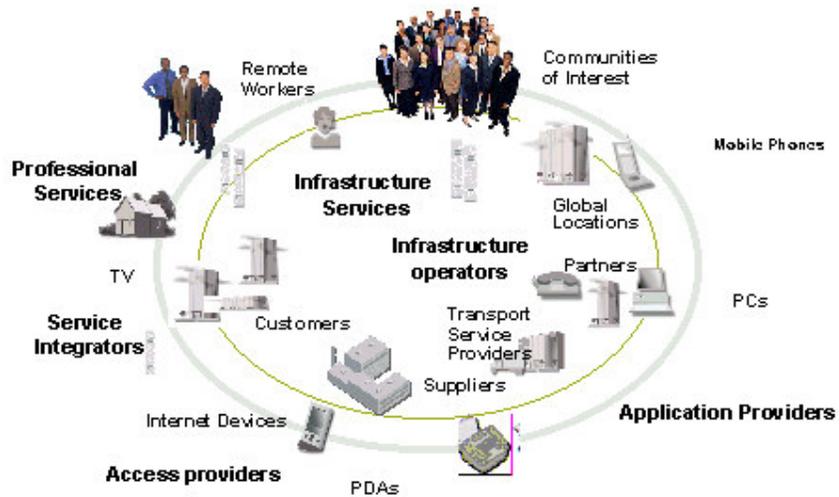


Figure 4 : Internet eCommunity

Vendors have to recognise the importance of partners, which do not resale it networking products, but are instrumental in the decision of which networking infrastructure products are adopted. Cap Gemini Ernst and Young and marchFIRST are good examples of companies that are instrumental in the successful implementation of eCommerce projects and are part of the ecosystems of Cisco and Novell.

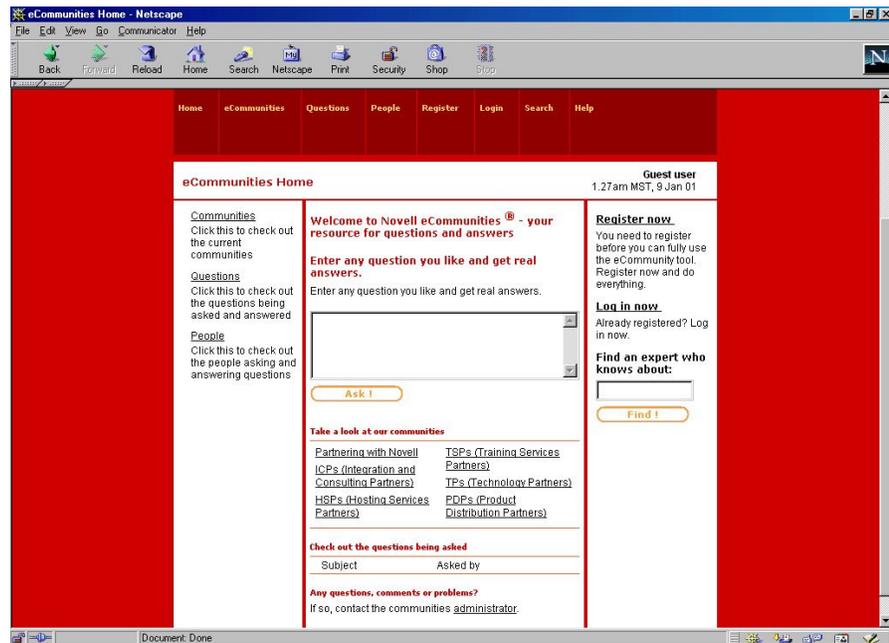


Figure 5 Novell's eCommunities Home page

Both Cisco and Novell have a “High Touch” engagement model. Novell Consulting has increased its cooperative consulting engagements with partners and is increasing its investment in knowledge transfer to its partners and, based on its new certification, partners have access to Novell Consulting methodologies.

Both companies recognise that there is a new breed of players emerging to address the needs of Internet eCommunity and are using the Internet Ecosystem to their advantage.

## New World Players

This new breed of players are identified as:

### Internet Service Providers (ISPs)

Internet Service Providers are fast consolidating into dedicated ISPs and ISPs set up by incumbent telcos. Both serving the domestic and business markets. ISPs are a channel for products and services but tend to bundle these as part of the overall offering.

### Application Service Providers (ASPs)

Applications Service Providers vary a great deal in services offered. The main ASPs are defined as:

- Application, Pure play or ISV ASPs
- ASP infrastructure providers
- Enterprise ASPs
- Wireless ASPs

### ASP Aggregators

ASP Aggregators have yet to establish a real presence in Europe. The model established in the US addresses the issue of companies not wishing to have multiple relationships with ASPs. Examples of ASP Aggregators in the United States are:

- Jamcracker
- ePanacea
- Agility

ASP Aggregators in the US view the channel either as competition (i.e. Jamcracker) or leverages the channel partner (i.e. ePanacea).

ASP Aggregators have the potential to become a channel of distribution for networking products themselves, especially in addressing the SME market, as they have the capability to perform the central billing function.

The ASP Aggregators emerging in Europe are from the incumbent telcos such as:

- Deutsche Telekom
- BT ignite
- C&W a-Services

### Managed Service Providers (MSPs)

An MSP is an external service, engaged on a subscription basis (for example, "rental" model) by companies, to manage infrastructure resources or applications. Tools are either externally hosted or hosted within the customer environment, with the MSP shouldering implementation. MSPs predominantly target eBusiness applications. Traditional software and services companies, such as Computer Associates, BMC Software, and Hewlett-Packard, have made inroads into this model through partnering and joint investments.

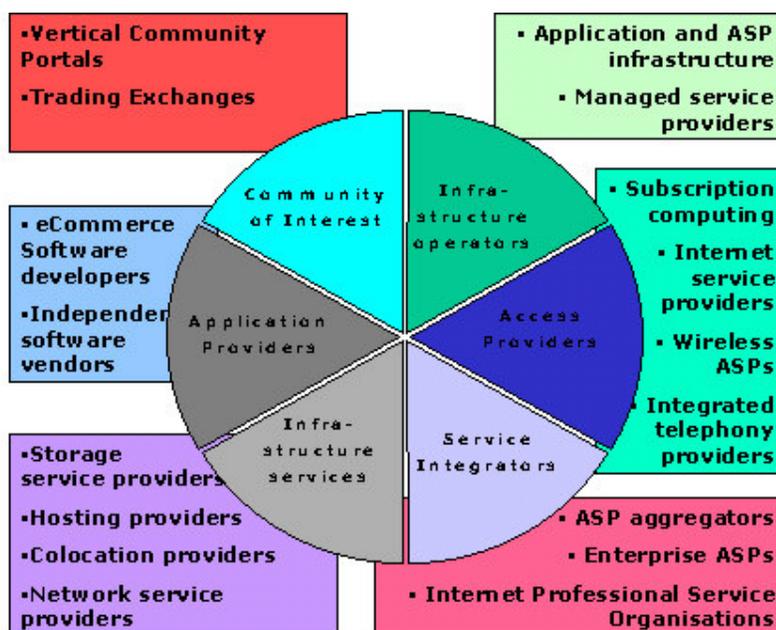


Figure 6 : New World Players

EuroLAN Research identifies MSPs as the most prolific of the emerging channels addressing the eCommerce market. Network Integrators are making the transition to MSP i.e. Logical and Digica (formerly VHA). There is also a new breed of MSP that has been established specifically to address the market opportunity i.e. Loudcloud.

## New World Enablers

New World Enablers sell products and services to customer facing providers and enable rather than engage directly. Players such as:

### Hosting providers

This category of enablers consists primarily of Hosters, collocation providers (CoLos), Internet Data Centres or Internet Hotels i.e. IXEurope, TeleCity and Telehouse.

### Storage service providers

Back-up and storage providers such as NetStore.

### Vertical community portals

Communities of interest and virtual Internet marketplaces (VIMs) that provide shared Internet space reserved for trading within a market such as Bidcom.

### Trading exchanges

Trading exchanges, virtual hubs and B2B exchanges such as Covisint or Transora, are either owned by the large players in the industry or are independent.

### xLECs

The competitive local exchange carriers - the CLECs - and cable companies are a channel of distribution for networking products today and this is set to increase because of broadband connections to the home and business.

Other xLECs include:

- BLECs (Building Local Exchange Carriers) provision services to apartment blocks or commercial developments e.g. Yipes
- ELECs (Ethernet LECs) provisioning Ethernet e.g. B2 in Sweden

Internet Professional Service Organisations (IPSOs)

The Internet Professional Service Organisations or Interactive Architects are a highly important emerging breed. The IPSO takes the lead role in eCommerce projects. It is the key recommender of the selection of networking infrastructure.

## Old World transitioning to the New World

There is a mixture of Old World players and New World players adopting new business models. In some instances the Old World of the Networking Integrator has been quick to embrace the New World of the emerging channels and make the transition:

- ISVs as ASPs – i.e. SAP
- Hosters as MSPs – i.e. CityReach
- Telcos as ASPs – i.e. BT ignite
- CLECs as MSPs – i.e. C&Ws a-Services
- Professional Services as MSPs – i.e. KPMG Internet
- Network VARs as IPSOs – i.e. ANS
- Networking Integrators as MSPs – i.e. Logical
- Resellers as ASPs – i.e. Penagen
- Off the Page as Online resellers – i.e. jungle.com

Many Networking Integrators and VARs are embracing the ASP model for non-strategic IT solutions such as Exchange and back-up (partnering with NetStore). This model will become clumsy as the NI/VAR will be representing multiple ASPs and act as the aggregator. The NI/VAR will not be in a position to perform central billing.

Network Service Providers

The incumbent carriers - PTTS - and cable companies are a channel of distribution for networking products today and this is set to increase because of broadband connections to the home and business.

## Examples of the World in Transition

Novell

Novell's One Net vision and Net services strategy is a significant change towards making Novell relevant for customers and partners in the New World. Its services drive the steps to successful eBusiness implementation, namely:

1. Run the business
2. Get on the net
3. Interact with users
4. Integrate with enterprise systems
5. Aggregate: net services and portals
6. Extend to devices

Novell is now a specialist in the 'niche' of net services that represents a change from a product focus to "components of solutions" focus. This underlines the desire of Novell to work with partners that add value to the customers. The recent PartnerNet 2001

announcements are a major step in ensuring its partner business model is in line with Novell's mission as a company: avoiding conflicts with the bread and butter business of partners, sharing consulting experiences with its partners and increasing investment in advanced knowledge transfer.

#### Novell Partner examples

##### ANS



ANS – Associated Network Solutions – was founded in 1996 by Scott Fletcher, now its chairman. Initially it positioned itself as a Networking Integrator, focussing on the infrastructure and representing hardware vendors such as Cisco Systems and Compaq on platforms from Novell and Microsoft.

Over the last four years, ANS has built up a varied portfolio of over 200 customers. It realised that although the networking infrastructure was, and still is important, what the customer really wanted was a solution to its problems. Workflow management was the initial thrust with the ability to webify electronic forms and integrate disparate databases from Oracle and Sequel, for example. The company is now engaged in the design of business solutions covering Internet connectivity, network management, e-mail, knowledge management, and Internet security, in addition to electronic workflow, which enables businesses to develop their eBusiness strategy

By inviting its clients, and potential clients, to a round table discussion group, ANS is able to demonstrate its understanding of the clients' requirements. It performs a needs analysis study and moves on to content and infrastructure design. All these pre-sales services are chargeable, which confirms the client's commitment to the project, and differentiates ANS from the competition.

ANS has also moved from regarding vendors as suppliers to regarding them as partners. For example, Novell's consulting group has shared its methodology with ANS, allowing them to partner on a recent win at the local authority, Bracknell Forest.

ANS's turnover last year was approximately £1.8 million with good profitability and it is set to nearly treble sales in 2000, helped by its acquisition of Applied Micro Systems, another Midlands based company, with a similar product portfolio, but enabling expanded geographical coverage.

The business model of ANS has been totally reversed over the last two years. In 1998, when it listed on the London Stock Exchange, 8 percent of its revenue was derived from consultancy services and 10 percent support services. Today 8 percent of revenue is derived from software and 10 percent hardware.

In 1998 this was a momentous decision and it took a great deal of effort to garner support from some of ANS key vendors. The initial reaction from vendors was negative because of the natural, but short-term desire, to sell its packaged products. Fortunately Novell's management "got it" and, once on-board, thoroughly supported the change. Today ANS positions Novell Consulting division as the "advanced troops on the bleeding edge", proving the solutions and then sharing the lesson and skills, with key partners like ANS.

For further information [www.ansplc.com](http://www.ansplc.com)

## Getronics



Getronics have, for a long time, provided the infrastructure for eBusiness but now it is seen as a critical factor as eBusiness gains importance. Novell's Directory Services, together with its XML implementation, DirXML, are key to providing the "glue" which links applications together and extends these applications in a secure way to the Net, making them simple to manage.

Wim Los, General Manager, Enterprise System Integration at Getronics, said, "companies expect you to be talking about networks when mentioning Novell but when you explain the *OneNet* proposition, then customers recognise that Novell's value proposition has changed." He gave the example of the City of The Hague, where the Novell solution has been application based although it is a NetWare shop.

The fact that Novell are dealing with the Enterprise System Integration group at Getronics rather than the Network Integration group speaks volumes in itself.

With 30,000 employees and a direct presence in more than 40 countries Getronics is one of the world's leading providers of Solutions and Services to the professional users of Information & Communication Technology (ICT) and expects to have sales of EUR 4 billion in 2000. Next year it is investing EUR 20 million, part of which will further develop and rollout its eBusiness initiatives across Europe.

For further information [www.getronics.com](http://www.getronics.com)

## ASP4ALL



ASP4ALL started in 1999 in its current incarnation. The company is based in the Netherlands and has three lines of business:

1. eCommerce – developing transactional systems
2. Hosting – from ISP services to supplying complete platforms
3. ASP – using two datacentres in The Netherlands

The ASP business supplies office automation products (from Microsoft and SUN), financials (Exact), helpdesk software (OGD) and project planning software (MFG Pro). In fact the business model is to position ASP4ALL as the fulcrum between Independent Software Vendors (ISVs) developing applications and application providers such as Progress.

Customers can connect via dedicated lines supplied by incumbent telcos or ASP4ALL provide satellite, radio or laser line of site connections with dual ISDN lines as back up but the preferred connection is over dark fibre.

The infrastructure is based on SUN Microsystems and Citrix with NetWare providing file and print services as well as NDS to manage users. Users have a NetWare client, which is downloaded and launched in the browser. The licensing model is extremely innovative with ASP4ALL paying Novell a monthly amount depending on usage and no initial costs. ASP4ALL hope to increase user licenses tenfold to 2500 by the end of the year.

ASP4ALL are a pioneering member of the Novell eCommunity.

For further information [www.asp4all.nl](http://www.asp4all.nl)

## Conclusion

Networking integrators and VARs are most affected by the sea change, which is being driven by the Internet. This phenomenon has occurred because the business model adopted was inherently flawed. Already under threat from service specialists, consultants and vendor dictates, integrators and VARs are now becoming unbundled from the product. Direct sales from vendors will increase this effect but, in this case, some recompense, for creating the transaction, can be made by the vendor.

Revenues from services need to accelerate rapidly. EuroLAN Research has monitored the growth in services for the last five years. Typically the network integrator and VAR service revenue has grown gradually to 35 percent of total revenue – whereas in 1995 it was around 30 percent. Next year it should be 65 percent. Services will dictate the flow of revenue not the product. Revenue will follow the value.

Networking integrators and VARs that are transitioning away from the infrastructure sale to services or New World technologies, such as eBusiness solutions will survive. Those that do not will be able to specialise in product supply at lowest cost, find a niche market or technology or partner with specialists, Telcos, consultants etc – but it is better to be in control of one's own destiny at the high end of the market.