Best Practice

Strategy & Business
...Booz, Allen & Hamilton

How Novell Manages its Reseller Channel
(Page 1 of 9) ▶

By Lawrence M. Fisher

How does a company turn its reseller channel into a source of competitive advantage? It requires balancing the objectives of its resellers with its own.

Sometimes there is a fine line between best practices and simply making a virtue of necessity. Novell Inc. had little choice but to create a new sales channel when it produced the first popular program for personal computer networks. But the company's steady management, promotion and evolution of that channel have maintained its resellers as a strategic asset for more than a dozen years.

Novell has more than 25,000 resellers worldwide, which run the gamut from mom-and-pop consulting shops to mass-market discounters, like Egghead Software, and sophisticated systems integrators, like Electronic Data Systems. Together they form a formidable force, one no competitor has been able to equal, and one that has pushed Novell's core product, the Netware network operating system, to a market share of nearly 70 percent.

Illustration by David Smith

To be sure, one best practice does not guarantee success, and Novell has made its share of missteps, most notably the ill-conceived acquisition two years ago of WordPerfect and Unix Systems Labs. Those companies, since divested, were aimed at competing head-on with the Microsoft Corporation across a broad product line, but instead diverted management attention and, perhaps most important, failed to leverage Novell's reseller channel. But the power of that channel sustained Novell during this rocky period, and sales of Netware continued to grow.

The channel "continues to be a strategic advantage for Novell in the marketplace," said Jamie Lewis, a former Novell executive, now president of the Burton Group, a market research firm specializing in computer networking. "It constitutes the momentum that continues to carry Novell, pumping close to 200,000 copies of Netware into the market every quarter."

›

How Novell Manages its Reseller Channels
◀(Page 2 of 9)▶

Novell's canny use of the reseller channel enabled it to compete with giants like I.B.M. in its youth and win, and has allowed it to stave off repeated assaults from Microsoft over the past decade. Novell has not always been the technology leader in network computing--in such a volatile field, no one keeps that role for very long--but the strength of the channel has kept it the market leader.

Few companies will have the historic opportunity Novell had to create a new market and a channel to fill it, but channel management is a fundamental issue to any enterprise in today's competitive environment. Regardless of their products or markets, companies that need to trim their cost of sales while maintaining quality service for their customers can find lessons well learned in Novell's care and feeding of the reseller channel.

Novell did not invent the technology for connecting personal computers across a network; credit for that breakthrough, like so many others, belongs to the Xerox Corporation. But Novell's Netware was the first reliable network operating system software to reach the market, creating both a major advantage and a major management challenge.

A challenge because Netware's complexity put it beyond the ability of the average user to install and, in the early 1980's, beyond most personal computer dealers as well. Installing Netware also meant installing network adaptor cards in each PC, stringing cable, configuring a server, apportioning a large disk drive. Netware was systems software, more akin to the minicomputer systems for which I.B.M. and the Digital Equipment Corporation deployed thousands of blue-suited field engineers to install than to the simple spreadsheets and word processors run on most PC's.

"How do you get a sales force as large as I.B.M.'s when you're a tiny company? You have to use a leveraged mentality," said Darryl Miller, a former Novell executive vice president and architect of its reseller strategy. "So we gathered up all these odd ducks."

Some were PC dealers looking for a way to add value, some were engineers laid off in the massive wave of consolidation that hit the big mainframe companies in the early 80's and some were other professionals--doctors, lawyers or accountants--who saw a vertical market opportunity in automating their erstwhile colleagues' offices.

Though the term "open systems" was not yet in common usage then, Netware was one of the first products to support this concept, and the company's distribution strategy mirrored its technical approach. An open systems company created an open distribution model.

Unlike the old proprietary model, exemplified by I.B.M., where every piece of a computer system came from one vendor, an open system allows a customer to mix and match components from multiple vendors as long as they adhere to certain common protocols. Netware became a kind of glue for early open systems, letting users string together PC's, Apple Macintoshs and even I.B.M. mainframes across a network.

So in its bid to make Netware ubiquitous as quickly as possible, Novell turned to a channel strategy that owed substantially more to McDonald's than to the International Business Machines Corporation. Nearly anyone could become an Authorized Netware Reseller; all that was required was to pay the fees and jump through the necessary hoops. Quality control was front-end loaded, in the requirements would-be resellers had to meet.

❮ ❯

Second Quarter 1996

Best Practice

SB Strategy & Business
...Booz, Allen & Hamilton

How Novell Manages its Reseller Channels
◀(Page 3 of 9)▶

"It's almost like a franchise," said Terry R. Haas, Novell's vice president for channel sales and marketing. "You have to commit a lot of money and time to the training, or you don't get the authorization."

Initially, Novell itself trained resellers in the intricacies of networked computing. In more recent years it has franchised Novell Authorized Education Centers, for a fee. The centers train people to become Certified Netware Engineers, or C.N.E.'s as they are known in the trade, who are versed in the ways of network design in general and the quirks of Netware in particular. C.N.E.'s earn $70,000 to $100,000 a year.

"The C.N.E. program has taken on an aura of its own," said Adam Apalategui, president of the Network Group, a Novell reseller based in Eugene, Ore. "Novell developed the training, and they charge you for it, but it has become the standard requirement for bidding on networking jobs."

Guaranteeing a level of customer care is one of the greatest challenges to a leveraged distribution model. Novell executives say there is no way to review performance retroactively across such a large group of resellers, although they do rely partly on customer satisfaction surveys. Instead, they try to improve the channel proactively. But often, this still amounts to a strategy of survival of the fittest.

"The free market takes care of some of that; people who don't take care of the customers go out of business," Mr. Haas said. "But we constantly have to press the point that our channel represents our first line of service and support, so the more we give them, the more we leverage our own resources."

Critics of open systems technology often charge that it is chaotic and confusing; the same could easily be true of an open distribution model. With 25,000 resellers, representing about 150,000 systems engineers and salespeople, there is no way to insure that they deliver a common message. When Novell introduced Version 4 of Netware, for example, some resellers preferred to continue selling Version 3, a less complex program that they thoroughly understood and that met many of their customers' needs. But Novell's future growth hinged on the success of Netware 4.

Illustration by David Smith

"What's good for the vendor, and what's good for the reseller, don't necessarily line up, so part of the trick is to balance our objectives," Mr. Haas said. Having multiple resellers in each sales region helps achieve that balance by increasing the likelihood that the company's message will be heard. "You want every buyer out there covered by multiple resellers," he said.

❮ ❯

Second Quarter 1996

Best Practice

Strategy & Business
...Booz, Allen & Hamilton

How Novell Manages its Reseller Channels
◀(Page 4 of 9)▶

One way Novell has sought to better balance its objectives with those of its resellers is to create multiple tiers in the channel. To ascend to each higher tier requires a greater investment of time and money on the part of the reseller, creating a greater investment in Novell's own direction. Resellers with a vested interest in Novell's success require less policing.

The tiers have evolved over time, but each level requires a greater commitment. The first, Authorized Reseller, requires just one staff member who has passed one of several Novell product knowledge tests. To be a Gold Reseller requires three months as an Authorized Reseller, one product test and one staff member with a current C.N.E. certificate. Platinum Resellers must have been Gold for at least six months, pass three product tests and have at least three C.N.E.'s on staff.

The higher tiers have become more important as viable competitors to Netware have arrived. With so much invested in Netware, these resellers are disincented to explore alternatives.

"The intent of the Platinum program is to consume every bit of that dealer's bandwidth with Netware," said Mr. Lewis, the former Novell executive. "You would give them the best margins, throw the most leads their way, give them the advertising dollars, and everything else they needed to sell the product. You wanted them so busy selling Netware, making so much money selling Netware, that they had no time to look at competitors."

For nearly a decade, the best measure of the success of Novell's channel strategy was the frustration of its competitors, most notably Microsoft, which despite teaming with I.B.M. failed to make much of a dent in Netware's market share.

● ● ● ● ● ●

"The intent of the Platinum program is to consume every bit of the dealer's bandwidth with Netware."

● ● ● ● ● ●

Illustration by David Smith

"Novell has more resellers than 7-Eleven; it's easier to buy Netware than it is to get a Big Gulp," lamented Steve Ballmer, a member of Microsoft's Office of the President, at one shareholders' meeting.

Indeed, in 1991, I.B.M. dropped Microsoft's LAN Manager program and became a Netware reseller. But Microsoft kept plugging away, and with the introduction in 1993 of Windows NT, an operating system that included networking capability, it had a product customers wanted. Novell resellers ignored NT at their peril, and Novell, for the first time, has had to find a way to accommodate serious competition in its own channel.

"You would love for them just to stay with us and to tell Microsoft to go away, but that's not a realistic goal," said Joseph Marengi, Novell's executive vice president for worldwide sales. "We need to tell them that it's not a binary equation, NT or Netware. We need to show them how NT can fit into the Netware world."
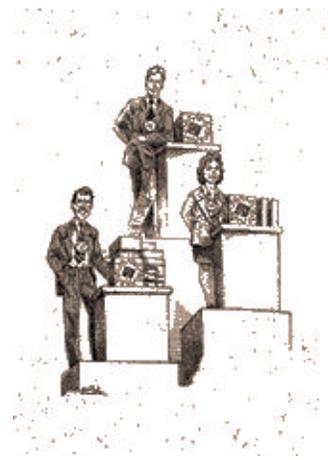
❮ ❯

Best Practice

SB Strategy & Business
...Booz, Allen & Hamilton

How Novell Manages its Reseller Channels
◀(Page 5 of 9)▶

NT is not completely analogous to Netware, and its sales to date have not approached Netware in volume. But NT sales are growing, and Novell has had to modify its relationships with resellers to meet this challenge. Microsoft, like Novell before it, charges resellers for the training they must have to become authorized. In the face of NT, Novell has begun offering scholarships to some resellers, and has gone so far as to sponsor C.N.E.'s, in effect paying their salary, at certain key dealers.

"We're interested in getting some of the resellers who may have deficiencies in their capabilities up to speed quickly," said Mr. Haas of Novell. He sees a hidden benefit in the competition. "If it weren't for people like Microsoft breathing down our necks, what would keep us honest? There was a period a few years ago when they weren't so competitive and we were not as innovative as we should have been."

Resellers said the renewed competition from Microsoft has made Novell more accommodating to their needs. Novell has always made high-level executives accessible to resellers, both in the field and at annual gatherings, but those contacts have increased, resellers said. Novell's own salespeople, or service staff, are available rapidly when they need help calling on important accounts, resellers said.

"With Microsoft, unless you're one of the major players, you don't get the attention; with Novell it takes a phone call and you get all you need," said Bruce Weinberg, president of Business Systems Solutions Inc., a Platinum reseller in Chicago. "We asked them to book training sessions at night and on weekends so you don't lose billable time, and they did so without hesitating."

Novell has also undercut Microsoft on technical support costs. "With Microsoft, you get 70 incidents of support a year and over and above that we have to pay and it's very expensive; Novell gives me unlimited support at whatever level I need it," said Steve Wickersham, president of Hartford Business Machines, a Platinum reseller based in Bloomfield, Conn.

Resellers say Novell's approach is high-touch and personal rather than high-tech. At each tier, resellers elect representatives to a council, which meets often with Novell executives and communicates frequently by teleconference and E-mail. Resellers' contacts at Novell are empowered to handle their needs personally rather than seeking authorization. "At Novell I can call up and whatever person I talk to takes complete ownership of the problem," Mr. Wickersham said.

The growth in Netware's capabilities continually stretches resellers, requiring more training to keep up. Originally designed as a program that allowed a handful of PC's in one room to share an expensive peripheral, like a laser printer, Netware is now used to connect thousands of computers across multiple sites in multiple states.

"The biggest change has probably been in the corporate enterprise world, where networks have become very complex," Mr. Marengi said. "Our resellers have had to extend their reach, either on their own, or working with partners, like Andersen Consulting, or Deloitte & Touche."

❮ ❯

Best Practice   Strategy & Business
...Booz, Allen & Hamilton

How Novell Manages its Reseller Channels

◀(Page 6 of 9)▶

But as the sophistication and complexity of Netware have grown, some jobs have gone beyond resellers' capabilities in sales and service. Sabre, American Airlines' computerized reservation system, runs on Netware, for example. So Novell maintains its own force of 600 salespeople and systems engineers in North America, 1,100 worldwide, to call on 150 named accounts.

Resellers are free to call on these accounts as well, however, recognizing that different units have different needs. And, increasingly, resellers install Netware-based systems in hospitals and other "mission critical" applications, where the reliability of the work is crucial. "Not only are the capabilities higher from a technical standpoint, but the capabilities of the reseller have to be higher on a service standpoint as well," Mr. Haas said.

Novell has also altered its requirements of resellers to reflect the evolution of its products, and the greater competition in the channel. Resellers were once required to sell Novell-branded computers, an obligation that was dropped when the company shifted to a software-only business model. The Platinum tier once included a $30,000 monthly quota for Netware sales, but it has since been removed.

Resellers at the Platinum and Gold level say they derive much more of their profit from network design, service and support than they do from product sales. It has become common for them to do every part of an installation except fulfilling the Netware order, which more likely comes from a mail-order shop with far lower overhead. Indeed, some resellers actually sell no Netware at all.

"It's just as important, frankly, for a reseller to go out there and influence a sale that gets fulfilled by someone else," Mr. Haas said. "They make their money on services and we try to recognize the reality. We don't want to force unnatural behavior on either the buyer or the seller."

Novell discovered the limits of what it could force on the channel the hard way. When Novell paid $1 billion to acquire the WordPerfect Corporation and the Quattro Pro spreadsheet program from Borland International Inc., Ray Noorda, who was then chief executive, said these applications--word processing and spreadsheet--would complement Netware. Novell would offer "network enabled" applications, giving it an edge over Microsoft, he said.

But resellers never warmed to selling shrink-wrapped software products, with vanishingly thin profit margins, when their business models were based on value-added services. They wanted to be able to sell Microsoft applications with Netware, if that was what their customers wanted. The net result, in February, was that Mr. Noorda's successor, Robert Frankenberg, sold WordPerfect and Quattro Pro to Corel Inc. of Ottawa, for just $185 million.

"There was no real leverage there," said Jeff Waxman, Novell's executive vice president for applications. "The customer never bought the idea that the networking vendor would have better applications because they would be network-enabled."

‹ ›

Best Practice   Strategy & Business ...Booz, Allen & Hamilton

How Novell Manages its Reseller Channels
◀(Page 7 of 9)▶

The experience strained resellers' loyalty. "For a while there, before they gave up the applications business, it was getting very tricky to keep my customers happy," Mr. Wickersham said. He and other resellers said they were relieved when Novell sold the WordPerfect unit, despite the financial loss it took.

But for Novell to grow, and for Netware to extend its dominance, the company will inevitably stress the channel again.

Mr. Frankenberg's vision of the future is one called "pervasive computing," where the network extends beyond personal computers and servers and beyond the global Internet to include private subnets with guaranteed performance and security, and wireless networks linking such nontraditional computing devices as automobiles and appliances. Novell has also developed a technology to exchange information over ordinary power lines, turning every electric outlet in the world into a potential Netware connection.

Getting resellers on board to deliver this vision will not be easy. "The paradox is, resellers won't spend time or money on training unless customers are already clamoring for the product," said Glenn Schwartz, chief technology officer of the Sutherland Group, which advises resellers and vendors. "Their margins are so tight that they can't afford to take people out of the field to learn about this stuff."

Resellers say Novell has done a better job in recent months of communicating Mr. Frankenberg's vision, but it is still not clear where they will make money. "At first it was pretty far out there," Mr. Apalategui said. "I still cannot see myself selling microwave ovens with networking built in, or installing power management programs in factories, but when Hewlett-Packard announced they were building some of this new technology into their new printers, then I see a place for us."

Mr. Haas said it is important that Novell's strategy define a role for the resellers in these new areas. "When we introduce something new, it's not a sure thing they will pick it up. So we spend a lot of time marketing to them. If we don't, nothing happens. It's important we create a sense of opportunity, maybe even a sense of impending danger if they don't get involved."

One thing the new applications will have in common with current Netware installations is that the profit margins for Novell will be thin. Software costs a lot to develop, but in today's competitive market must be sold at a low price. Resellers, since they lack the development costs of the software vendor, can afford to accept low margins on the product, and make their money on service. So Novell will continue to need the channel even as pervasive computing becomes a reality.

"Initially we had no choice, it's true, but the other model was obsolete anyway," Mr. Haas said. "Today you see I.B.M. and D.E.C. trying to leverage the channel just as we did."

Today, Novell faces stronger competition than ever, in the form of old foes like Microsoft and aggressive newcomers like Netscape Communications. The Internet presents broad new opportunities for the company, but also new challenges. There is no doubt then that Novell needs the channel now every bit as much as it did a decade ago if it is to prosper in this environment.

The best practice will lay in making sure the channel continues to need Novell.

❮ ❯

Best Practice   Strategy & Business
...Booz, Allen & Hamilton

How Novell Manages its Reseller Channels

EDUCATING THE RESELLERS

The early success of Novell's Netware in the marketplace, and the growing list of would-be Netware resellers, soon created a bottleneck for the young company. Novell required resellers to complete extensive training to become certified, but it could not keep up with the demand for its education programs. The solution: a leveraged education channel to serve a leveraged reseller channel.

In 1988, Novell owned 16 education centers in the United States, with 32 instructors, which trained 3,000 students that year, and faced a backlog of six months.

"The traditional system, where you own the infrastructure, was really holding us back," said Caroline G. Rose, Novell's vice president and general manager for education. "Recognizing that, and recognizing the strategic importance of education, led to the birth of a new model. The idea was we would partner with a lot of third-party organizations, have a high level of requirements and create a broad network of education centers."

Today, 1,400 Novell Authorized Education Centers are sprinkled around the world--in Vietnam, Sri Lanka and Bali, for example, as well as throughout South America, Africa and Eastern Europe--79 countries in all. These centers employ 3,300 certified Novell instructors, and last year trained 600,000 students. For 1996, the target is 750,000 students trained, Ms. Rose said.

As with the resellers, the key to maintaining Novell standards of customer care across such a broad base is to front-load the quality control. To become franchised, educators must meet three sets of criteria: their facilities must satisfy Novell standards for classroom size and comfort level, have a good location near other businesses and maintain up-to-date computer equipment; they must have a well-articulated business plan that demonstrates an understanding of both information technology and training businesses; and they must agree to employ Novell-authorized instructors and use Novell education materials and products in their classes.

Educators agree to all these requirements because "the profit margins in training are good," Ms. Rose said. "The value in training is starting to be recognized."

While the margins can be good, it is not an easy business in which to succeed, according to Novell educators. The centers must either employ full-time Novell-authorized instructors, whose salaries can approach six figures, or hire them as contractors for $600 to $900 per day. And while students pay $3,000 and up per course, and often complete several courses, keeping classrooms full is a management challenge.

‹ ›

Second Quarter 1996

Best Practice   SB Strategy & Business ...Booz, Allen & Hamilton

How Novell Manages its Reseller Channels
◀(Page 9 of 9)

"You can pay a considerable amount for an instructor, and in the training business you cannot guarantee you will be training 20 people on any given day," said Mike Gansl, president of NetLan, a Manhattan-based top-tier, or Platinum, reseller that is also an authorized education center for Novell, Microsoft and Lotus. "It can be a good payback, but it's not a simple payback. It's like running an airline."

Novell's very success in proliferating Certified Netware Engineers, or C.N.E.'s, has created a fresh challenge, Mr. Gansl said. "Today, with so many people having C.N.E.'s, it's become a little more difficult to use the education as a differentiator," he said. "But you can continue to use that as a differentiator if your people take some of the more rarefied classes or test out at the higher levels."

Again taking a cue from its successful reseller strategy, Novell increased the value of its education program by adding multiple tiers. In addition to C.N.E., it created the C.N.A. program, for Certified Netware Administrator, a lower level intended for network managers within corporations; and the Master C.N.E. program, a higher-level certification. Students can attain each level by successfully completing required classes, or by "testing out," on each course's exam. Some experienced computer systems engineers test out without taking a single course.

Each certification level is a global standard, "so a C.N.E. in Mexico City is the same thing as a C.N.E. in Beijing," Ms. Rose said. C.N.E.'s stay in touch with each other via telephone and E-mail, and also attend Novell's Brainshare conferences at its Provo, Utah, headquarters and in three or four foreign countries each year. "They're like an alumni association; they're very loyal to Novell," she said.

Novell's education department employs 220 people and maintains its own profit and loss statement as a sort of business within a business. Education has been a positive contributor to the company's revenues and earnings for several years, Ms. Rose said, but it is not broken out separately in Novell's financial results.

Today there are 78,000 C.N.E.'s worldwide, with another 150,000 in training; 84,000 C.N.A.'s; and 5,500 Master C.N.E.'s. Recently, the University of California at Berkeley Extension, along with many community colleges, began offering Novell's training and graduating C.N.E.'s as well. But to meet the goal of Novell's president, Robert Frankenberg, of 1 billion Netware users by the year 2000, compared with about 50 million now, many more C.N.E.'s will be needed, Ms. Rose said. And that means more education.

"Most companies look at training as a necessary evil; Novell looks at it as strategic," Ms. Rose said. "The more people who understand our product, the more people who will use our product."

❮