Software Economics

Channels
A. LSEVJ
B. SLSAP
C. NYVIR
D. XAYSL
How many hours did you spend on this course since last lecture?

A. 0-2 hours
B. 2-4 hours
C. 4-6 hours
D. 6-8 hours
E. 8-10 hours
F. More than 10 hours
In this course, I feel

A. I am ahead of the course
B. I am just in line with the course
C. I am a bit behind but it's ok
D. I am behind but I can manage
E. I am behind and I need help
Channel

“Describes how a company communicates with and reaches its customer segments to deliver its value proposition.”
Questions to consider

- How does a company want to sell its product/service?
- How does a customer want to buy a product/service?
The first companies made mostly physical products and therefore had physical channels to get their value proposition to the customer segments.

In mid 1920-ties intangible products were introduced (stocks, insurances) but were still sold through physical channels – “over a handshake”.

- Physical Products
- Passive role – if you build it, they will come ...
In mid-late 1990-ties with the emergence of Internet, we could sell physical products through the web (intangible channel).

The Past

- Physical Products
- Passive Role – if you build it, they will come ...

Recently

- Need to be online
Evolution of channels

The Past
- Physical Products
- Passive Role – if you build it, they will come ...

Recently
- Need to be online

Today
- Shopping across channels
- Physical stores, web, direct sales ...

September 16, 2016
Evolution of channels

The Past
• Physical Products
• Passive Role – if you build it, they will come ...

Recently
• Need to be online

Today
• Shopping across channels

Future?
• The right product/service at the right place?
Product and Channel

Channel
Web (online) vs. Physical (AFK)

Intangible via Web
• Google, Cloud Services, Twitter, Facebook

Intangible via Physical
• SAP, Oracle

Tangible via Web
• Amazon

Physical via Physical
• Cars, Bookstores

Allows customization, optimization, adaptability almost instantly
Web Channels

- Android/iTunes - using their platform
- Vertical Market Approach - zappos.com
- Your own webpage
- Using someone with strong web-presence (Amazon).
- Facebook (Zinga-video games)
- Groupon
Physical Channels

Original Equipment Manufacturer – component inside someone else product (their marketing / brand) – cars, computer chips (intel).

Ericsson, Cisco – take your component and build out a system (with components from others) with perhaps own software – highly complex

Value Added – less complex systems such as consultancies for software (SAP), video editing systems, AMD for BMW?
Video Editing Studio

Wikipedia GNU Free Documentation License, picture taken by Nullcron, 2007
Physical Channels

Distributor: independent agent who has an agreement with manufacturer to sell, like selling agent.

Dealer: Legal entity who sells the product of the manufacturer to the customer – a way for manufacturers to get to a market.

Retailers/Mass Merchants: Stores that sell the product, either only the product of a manufacturer (concepts stores) or multi-brand stores (Wal-Mart, Kaubamaja)

http://www.slideshare.net/sblank/lecture-4-distribution-channels?related=1
Which of the below is best used to distribute complex products/services?

A. System Integrators
B. Dealers
C. Webpage/portal
D. Value Added Resellers
DISTRIBUTION COMPLEXITY

- Defense Contracts
- Insurances
- Video Editing Systems
- Laptops
- Toners

Solution Complexity

Marketing Complexity
Effect of Channel

Cost of Goods Sold  Other Costs  Profit  Price / Revenue

Cost of Goods Sold  Other Costs  Profit  Reseller  Price

Cost of Goods Sold  Other Costs  Profit  Distributor  Price  Reseller

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Third platform – includes cloud, mobility, big data, and social media.

VARs:
- advisors who provide technology consulting - general;
- and solution experts capable of building solutions that alleviate the pain points of customers – "the vertical specialization".

Managed Service Providers (MSP)
- Company that remotely manages a customer's IT infrastructure and/or end-user system (www.newsignature.com).
Exercise

Describe how your selected company communicates and delivers value (value proposition) to its customers (segments).

About 15 min.