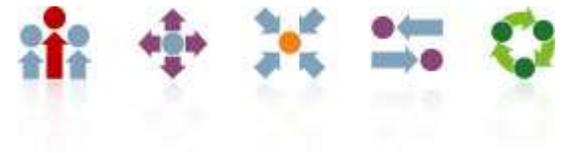




White Paper

Expertek

OEM Partner Relationships



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SYNOPSIS

Some companies, especially start-ups see an OEM or White Label relationship as a panacea, where the challenge of growing sales in multiple market is delegated. Others see it as a decent into the hell of being at the beck and call of a multinational.

The reality is usually different with some relationships working well and others not realising their initial promise. Here's a brief guide to what you should consider when considering an OEM deal.

INTRODUCTION

Of all the possible routes to market the OEM relationship provides the most extreme product focused approach. It provides the technology vendor with an opportunity and a threat, especially where the relationship is more a 'sell-through' partnership than integration of your component into their product. Often the relationship is between a small resource-constricted company and a large multi-national. The lack of a clear definition of an 'OEM' also causes confusion. The term means the component supplier to some, and the main product manufacturer to others.

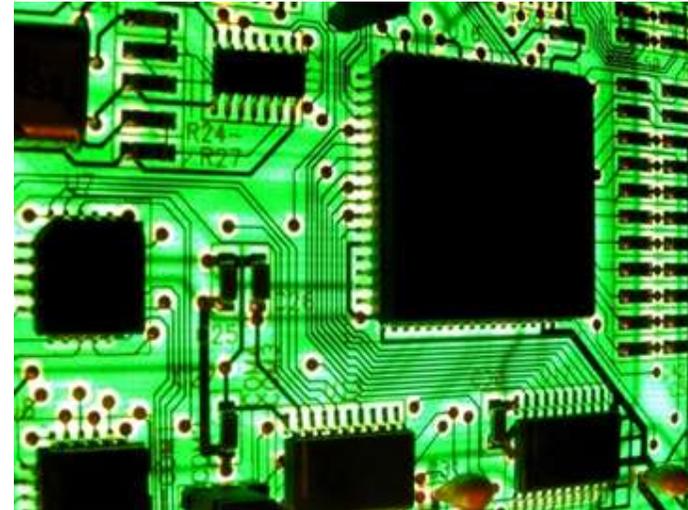
We'll define OEM, walk through the advantages and disadvantages of this type of B2B relationship and then describe the key facets which help to make this relationship effective.

DEFINITIONS

We will define the OEM as the *'supplier (or vendor) of the component'*. We define an OEM relationship as: *'the supply of a component that is used in a solution and sold by an organisation with the end customer having no relationship with the OEM'*.

This relationship is distinctive from other forms of partnership, distributor or reseller, where the supplier of the component retains a relationship with the end customer, even if it's just the brand recognition*.

*** Intel is a notable exception to this restriction, and there are others. Few end-consumers will buy an Intel product but the company has made successful efforts to develop a brand preference for products using its components.**



In addition:

The *Principal* is the company using the component.

The *component* can be any product; hardware or software.

White Label is a special case of OEM relationship usually where the product is complete and can be sold with the principal's branding, adapted, or integrated into a larger solution.

PROS

An OEM relationship can provide a very effective route to market and increase sales by providing, for example:

- Access to new markets: geographic or industry sectors
- Assembly or integration into a complete solution that might be impossible to create by the vendor, or take too long, or cost too much
- Market expertise or even an existing market that is open to next generation products
- Brand, marketing resources, sales resources, working capital, physical distribution or manufacturing assets, where these are seen by the end-customer as an essential requirement

Case Study

Diagnostic Instruments Ltd produced diagnostic instruments for detecting faults in heavy machinery. They were successful in European markets but want to break into North America. Their approach had always been to conduct exploratory talks in new markets with all the players, including competitors.

They had talks in the US with several major instrument manufacturers who wanted to sell the product with their own badging. The discussions included HP who appeared lukewarm. Discussions with other partners stalled as the manufacturers demanded low prices, exclusivity and supply commitments which could risk their success in other markets.

Having decided to walk away from these potential routes into the US market, the HP product manager called them to say that they were ready to discuss a deal. Three days later they walked away with a deal that opened the US market; HP would pay for the product to be redesigned to fit the HP style and branding, commit to initial order levels, to pricing that ensured the company could maintain their margins, and all with no exclusivity.

The deal ensured the company had sufficient revenue to design the second generation of products and eventually be successfully sold to a European company with specific interest in the target market.

CONS

However, there are risks in an OEM relationship:

- The principal may insist on product improvements which are driven by internal perspectives, rather than market requirements
- They may demand technical or sales support requiring costly time and travel expenses - when the real problem is a lack of product understanding or sales enablement
- Exclusivity make stop the OEM from understanding the end-customer and of implementing product improvements to suit real market requirements

POSITIONING

The most important task is to understand your company and the market:

- What your company wants from the relationship – this is best achieved through creating a Partner Requirements document
- Your proposition and your solution's positioning in the market – who does it compete with and how is it differentiated. This can be analysed through a Marketing Planning process or a focused Proposition Development project
- Your proposition to the partner (not the end-customer). This might be any combination of cost reduction, competitive advantage, time to market etc. This should be part of a Proposition Development project
- What are your key assets? It's easy to present a comprehensive case to a partner but what you need to do is identify, exploit and protect your key assets. That could be anything from reputation, patents, know-how and branding to designs and personnel
- Your limits; what are you prepared to compromise on and what is non-negotiable? The right time to agree these is prior to the engagement, not in the heat of a negotiation

THE AGREEMENT

Negotiation can be a timing consuming, stimulating and frustrating process. Larger companies are not always efficient and often fail to respect the effort and resources being deployed on your side. Their stance can change overnight when another person becomes involved or internal politics come into play. The important thing to remember is the outcome and your negotiating limits. A comprehensive list of items to cover in an OEM agreement is beyond the scope of a short paper, and it's important not to generalise.

Here are a few items that need special consideration:

1. **Costs**

The principal should pay for all variable costs related to the product. Otherwise they will have no incentive to equip themselves with the resources and expertise to fully support the product. These costs might include:

- a. Specific product customisation
- b. Technical support
- c. Market support
- d. Training

2. **Sales**

The contract should guarantee a minimum sale volume, otherwise it's easy to gear up for volume and then find you are bearing the costs of underutilised resources.

3. **Product**

Exactly what is to be provided should be stated clearly, especially with respect to rights to future products. You might want to sell directly in future, so protect the next generation products.

4. **Resources**

With a white label type of deal, or one where sales depend on specific sales knowledge, you need to ensure the principal pays for you to enable their salesforce and support the partner's marketing efforts; don't assume they will know how to sell or up-sell your solution.

5. **Escalation**

Ensure you have a senior sponsor within the partner and that they are part of the escalation process; you might need to be able to make a quick call to unlock a problem when it becomes acute for your business.

6. **Exclusivity**

OEM is a long-term relationship. Never say never, but don't commit to exclusivity unless there are some very compelling reasons. If you do, time-bound it or include a non-performance break.

OEM CHANNEL CHECKLIST

The OEM channel is an established route for selling commercial products into several markets including automotive, embedded systems and software. If you are contemplating an OEM you need to ensure you:

1. **Manage**
The negotiation as well as running your business.
2. **Understand**
Your partner; what drives their business, your value to them and how then can exploit it.
3. **Propositions**
Know your proposition to the end-customer and partner “inside out”.
4. **Limits**
Agree your negotiation limits, what assets you have and how to protect them.
5. **Enable**
Enable their organisation to integrate and sell your solution; don't rely on good words – insist that they invest in your resources to support them.





About Expertek

Expertek has been working with partnerships for over 15 years. We have helped to establish large complex partnerships, simpler reseller relationships and everything in between. We have designed partnership strategies for multi national engineering and ICT companies, and reseller programmes for software start ups. Hands on experience of managing partnerships in a corporate setting has given us insights beyond the theory. This ensures that we can review and recommend partnership relationships from all perspectives, with the knowledge and judgement to deliver real impact.

Expertek's Partnership Framework provides a structured solution for organisations wanting to grow their business, enter new markets, increase profitability, improve customer satisfaction or enhance brand value. The amount of investment required will depend upon the product, the market, the organisational structure, and the company's growth aspirations. Often organisations start with the objective of improving sales through a current partner or partners, but quickly appreciate the potential extra value that could be realised from adopting a more structured approach. The key objective of the framework is to accelerate the partner process so that sustainable long term relationships can develop, resulting in profitable business for both/all partners. We support organisations implementing this proven framework, taking a programmatic approach to reducing risk and improving key metrics, without the need for clients to build a large transitional team.

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