Should vendors buy their software-rich oems?

THE DEC STATUS QUO

All of these moves by its competitors to beef up their oem programs may not be a threat to the number one minicomputer supplier, Digital Equipment Corp., a company official says. In fact, Brian Cranston, DEC's distributor program manager, claims it is reassuring to hear about all the new marketing support programs other vendors are offering, for DEC has been making similar offers to select oems since it pioneered the authorized distributor concept five years ago. To stay above the competition, DEC has just introduced a new program, in cooperation with a Madison Avenue advertising agency, to provide oems with assistance in devising advertising and sales promotion plans.

"This is something our competitors are going to have a hard time copying," says Cranston, "It's very easy to copy a discount schedule and even go one better—you just change the number from 30% to 35%. It's a lot harder to address the kinds of needs that our promotional planning program will address."

Harry Beisswenger, president of Compute-R-Systems, a Plymouth Meeting, Pa., software house specializing in legal packages, finds advantages to participating in the DEC distributor program, in part because it is mature. An oem/vendor relationship, he says, "is like a marriage; it takes a while to work out. It takes time for manufacturers to learn to deal with oems, and DEC has a lot of experience there."

Peter Lowber of the Yankee Group believes that DEC has a good track record in providing support to its authorized distributors, but adds that "they are expensive."

Cranston believes DEC's discounts are "pretty competitive." The company now offers anywhere from 15% to 37% off on the PDP-11 (with an average discount of about 30%), and up to 26% off on the VAX (averaging about 19%).

Says Lowber: "I think one problem that DEC has had is that it has pricing strategies that conflict with its own sales force and its oems. Some of DEC's oems can't sell the VAX because the customer base is going to buy it from the direct sales force. Then what happens is that the direct sales force might discover that its customer needs application XYZ that has been developed by oem ABC. So it'll go to the oem and offer it the software sale. The oem is not going to decline a sale, even though it's not selling the VAX, so it ends up being more of a software supplier."

Vendor interest in converting their oems into software houses, rather than full system packagers, is moving into a second phase that alarms some industry officials while it is welcomed by others. Hewlett-Packard, Lowber points out, recently bought its second largest oem. "It was probably a good decision in this case," he says, "because what HP got out of it was a bunch of applications software experts that understood not only how to develop software but also how to train a sales force in supporting that software. So the company didn't just bring in a bunch of vertical applications software but also the ability to train a whole field staff to offer specialized support."

Will other oems be acquired? "It's an interesting proposition," says Horne at Prime, "but I think it's a double-edged sword. Most of the software firms that have been acquired lately have gone at an extremely high price-to-earnings ratio. The only time it may be worthwhile is in the startup phase, but then you have a real problem of how to keep the principal engineers interested in the product once they are owned by a Fortune 500 company."

Many oems are equally skeptical. "I could see it happening," says Ken Tratar at Systems Management, "and it would foul everything up. They're buying oems to buy their vertical marketplace . . . but they don't know the business. They look at an oem with, say, a particular piece of hospital software, and they say, 'Boy, we'll just buy that oem and make the product available to all of our people across the country to sell.' And that's a fatal flaw, because the average computer salesman doesn't know anything about hospitals. On the other hand, the oem people probably came from a hospital environment or worked very closely with a hospital to design their package and have the product knowledge to sell on a limited basis." ✱

"Come in. Have a snack. Have a drink. Talk to some people. Leave."

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