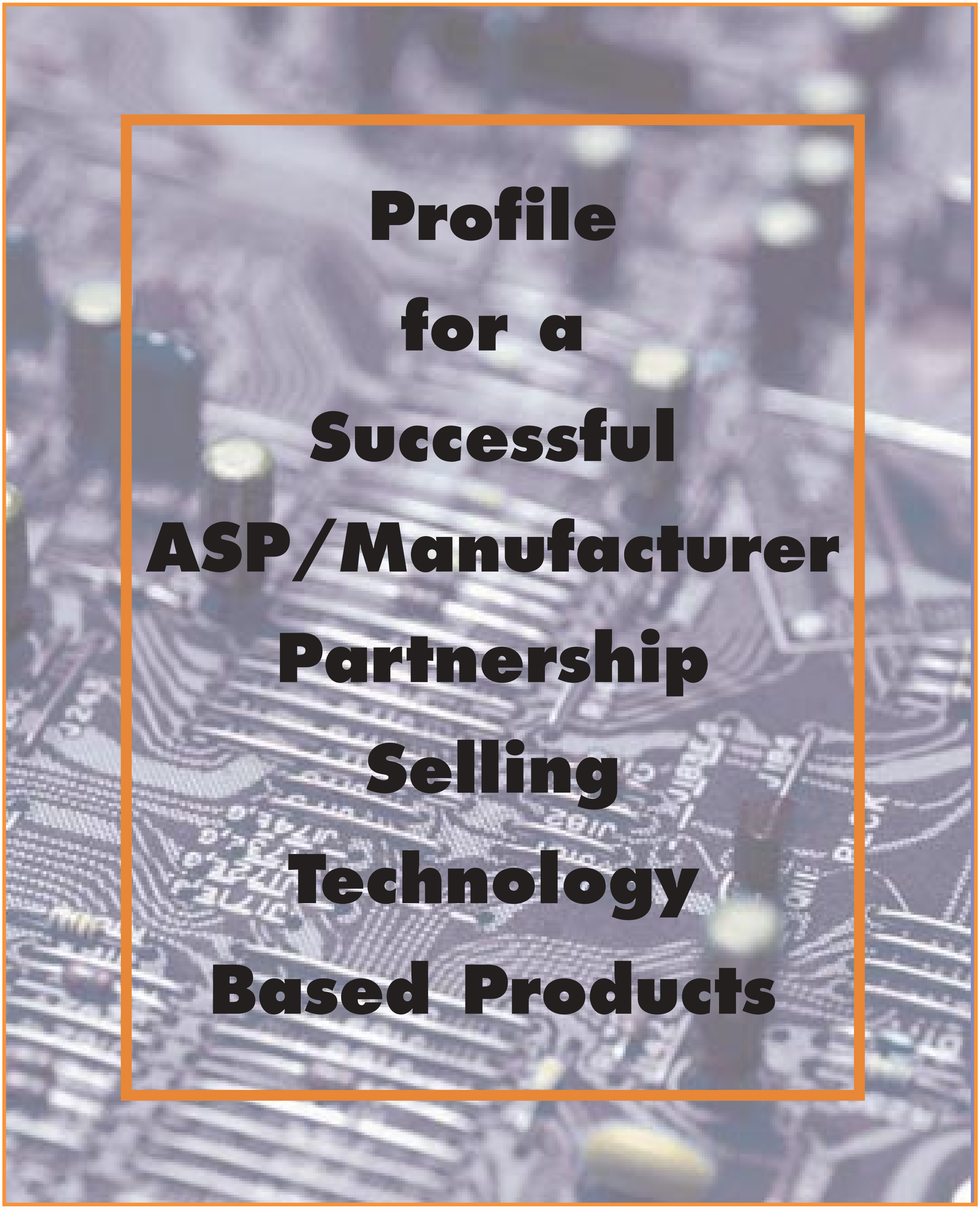

Profile for a Successful ASP/Manufacturer Partnership Selling Technology Based Products

ASSOCIATION FOR HIGH TECHNOLOGY DISTRIBUTION
AHTD
the source for automation solutions

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Members of the Association for High Technology Distribution are companies specializing in the sales and support of factory automation products requiring application expertise. In marketing and servicing these technology based products, the distribution channel now performs many non-traditional functions. Both manufacturers and ASPs must therefore continually review their relationships in open discussions keeping the customer as the focal point.

Traditionally, ASPs did not create demand. They serviced existing demand, inventoried products, extended credit and made deliveries. The manufacturer took responsibility for creating demand, finding customers, promoting and demonstrating products, training customers, providing application engineering, and servicing products.

Today, the pace of change and the relative complexity of technology based products requires a different approach and different responsibilities for both the ASP and the manufacturer. Manufacturers are looking at an increasingly complex market and asking their ASPs to perform many of the functions they have traditionally performed. This results in a transfer of costs from the manufacturer to the ASP.

These changes require a review of traditional relationships. Policies regarding advertising, training, inventory, application engineering, warranty, obsolescence, margins, cataloging, sales leads, exclusivity, new products, joint sales calls, market research, etc. must all be examined. Policies must promote a WIN-WIN-WIN relationship. That is, a win for the manufacturer, a win for the ASP, and most important, a win for the customer.

In developing a distribution system to achieve such a philosophy, manufacturers must create policies that provide both ASPs and themselves with incentive and confidence. They must mutually agree and state who will perform what functions, and then structure revenue flow to cover the costs of these functions.

Ultimately, manufacturers and ASPs of technology based products have the same goal: a long term, mutually profitable, business relationship, developing sales and service consistent with market potential.

This profile contains recommendations for both manufacturers and ASPs to provide incentive for and confidence in each other. While each manufacturer must make its own decisions on its distribution policies and each ASP must make its own decisions on products and markets serviced, both parties should recognize that the most successful policies are those that make manufacturers and ASPs partners in a mutually beneficial and profitable relationship.

⏭ No Surprises

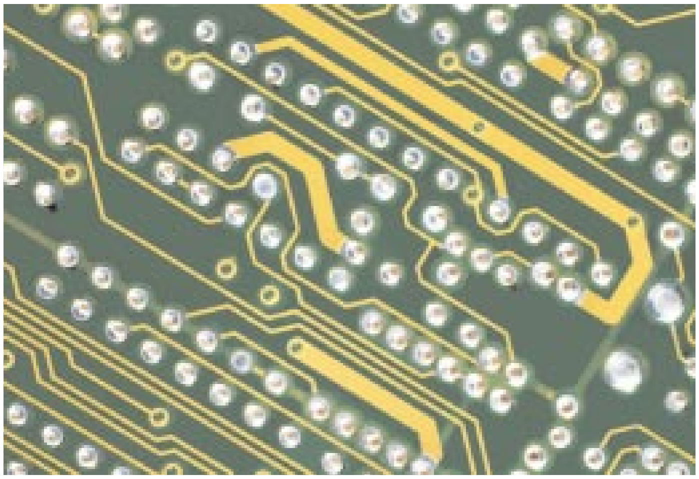
What AHTD suggests is an ongoing relationship between manufacturers and ASPs in which neither party surprises the other with significant changes or problems. There should be discussions or disclosures well in advance concerning such material matters as product changes, adding competitive product lines, adding ASPs or the ASP adding new locations. If either party is dissatisfied with the performance of the other, this should be discussed to provide an opportunity to remedy the problem.

⏭ Selectivity in Distribution

It is in the best interest of manufacturers, ASPs and customers to minimize the number of ASPs in a particular market area. Most market segments can be best served by one highly committed ASP. It is recognized that a single ASP does not cover all market segments for every product.

Ideally, an exclusive ASP territory is substantially stronger than a non-exclusive territory. Much the same as a ASP carrying only non-competing products is ideal from a manufacturers view. However, realistically, ASPs do not cover all market segments needed my manufacturers and ASPs need to service their customers needs which can require carrying competing products.

Where exclusive territories for ASPs are achievable, a manufacturer can agree that it will not sell direct in a ASP's territory. The manufacturer giving that incentive to a ASP can expect the ASP to agree not to carry lines directly competing with those it manufacturers.



Direct Business

It is in the best interest of all parties that the manufacturer not compete with the ASPs.

When a manufacturer takes orders direct this results in reduced volume for the ASP and therefore reduced commitment. It makes the ASP treat a manufacturer's field sales personnel as competitors rather than partners. Mutual trust is eroded with the result that the customer is not as well served.

If a competitive situation indicates a direct sale may be necessary, the manufacturer should review the matter with the ASP upfront, and explore whether there is a role for the ASP.

Performance Goals and Business Plans

There should be performance goals for both ASPs and manufacturers. They should be set by mutual agreement initially, and then reconsidered at reasonably spaced intervals such as once a year. Joint review of the business plan of the ASP and manufacturer should be part of this process. Interim reviews (every three or six months) would be useful to insure that the manufacturer and ASP agree that they are both performing as expected.

Inventory

It is recommended that a manufacturer have a regular stock and obsolete material return policy where the ASP can return material without charge with an offsetting order of equal value. The manufacturer should advise the ASP in advance when they intend to obsolete a product and to permit return of that product in the next return. The ASP and manufacturer should agree to the inventory and obsolete material plan at the beginning of their partnership.

If a manufacturer fails to notify a ASP of impending obsolete product, the manufacturer should agree to the return of this product without an offsetting order of equal value.

The objective should be to maximize the investment which should be to maximize the investment which should be in good saleable merchandise at the point of use so that our mutual customers can be best served. Initial stock levels should be mutually agreed upon and based on market size.

Training

A manufacturer should provide a high level of professional training for its ASPs. The better trained a ASP is on the manufacturer's products, the better job it can do of creating new business and supporting existing business for that manufacturer.

Factory training of ASP personnel should be a shared cost:

- **ASP Share**
  - Transportation costs
  - Loss of productivity of individuals attending school
- **Manufacturer Share**
  - Room and meals
  - Cost of school

Contracts

Both parties must understand what each expects of the other. A written contract, in plain English, not legalese, helps. The ASP should participate in shaping the document for the specific relationship.

The Contract Term

A notification period before termination must realistically reflect how long it takes a ASP to replace a manufacturer, and vice versa, and how long it takes a ASP to recoup his investment. (Termination on short notice is sometimes not enforceable when the ASP can't recoup his investment that quickly.)

An example is to increase the notification period for termination based on the length of the relationship such as additional months for each year's duration.

When a ASP relationship is terminated, the ASP should be left with (or arrangements made to provide) enough inventory to fulfill its contract obligations. If the ASP has unsold inventory, it will either discount and dump it, or sell it as it can. Either way, these actions will interfere with a new ASP's efforts. For these reasons, many manufacturers either allow or require the terminated ASP to sell the inventory back to them.

Service and Warranty Expense

Warranty handling involves an added expense that is usually overlooked. Technology based products often require an application engineer to assist the customer in concluding whether the product has failed or the application is wrong.

Theoretically, this expense could be factored into the margin, but in practice it is not. Another, more realistic approach could be for the manufacturer to grant a per event credit on factory failed products. If the equipment requires extended repair time, the manufacturer should consider whether a credit or replacement is appropriate.

Sales, Promotion and Service

Technology based products must be promoted, applied, sold and serviced. The expense to sell these products must be shared by both the ASP and manufacturer. ASPs must have application engineers and product specialists on staff. Inside and outside sales personnel must be technically trained. Customer training centers, schools, seminars, and product demonstration rooms with up-to-date demonstration equipment are required.

Both manufacturers and ASPs share a need for promotional activities such as market research, product meetings, mailers, advertisements and local trade show participation. Post-order customer training, sales support, service and warranty work are vitally important.

Payment for Performing These Functions

Whoever performs these functions must be compensated. The manufacturer calculates its costs and sets prices to provide a profit. The ASP looks to two sources to cover its costs and provide its profits:

The manufacturer pays for or shares the costs of some expenses.

For example, the manufacturer usually pays the costs of market research, its field personnel, sales literature and sales oriented software, pays or shares the costs of demos, and shares the expenses of factory training, promotional material, trade shows, samples and end customer training.

An innovative approach of some manufacturers is temporarily funding a ASP's employee to concentrate on sales of that manufacturer's products. Other examples are: Funding for training centers and demonstration rooms; rebates tailored to the quality of the ASP's performance; co-op funds based in a percentage of the ASP's sales.

The ASP's margin.

The economics are simple: unless the ASP's costs are paid for by others or generated by the ASP's margin, the ASP cannot absorb those expenses.

The partnership.

Both manufacturer and ASP should agree upon shared expenses when entering into their agreement. Shared costs, in whatever form, are necessary for both entities to be profitable and meet customer's needs.

In Setting ASP Margins, A Manufacturer Must Decide What Functions It Wants The ASP To Perform

When a manufacturer develops a suggested resale price schedule, and then a ASP margin or discount, the manufacturer has done two things. First, the manufacturer sets the price it expects to receive to cover costs and generate a profit. In addition, in practice, the manufacturer has effectively set the outside limit on the revenue the ASP can produce from the sale of that product.

If the manufacturer is looking to the ASP of technology based products to perform the functions described above, at the level of quality and in the manner required, then the manufacturer must consider what revenue and profit the ASP needs to function in that way.

Conversely, the ASP should decide which products it needs to best service its customer base. The ASP must also decide what profit level it wants to maintain and which products give this profit level and still be able to serve customer requirements.

The ASP and manufacturer should agree to the profit and discount levels and if exceptions occur, which they will, agree to communicate and negotiate discounts on specific cases.

Summary

In summary, a true full partnership should be established with both parties working creatively and efficiently for the common good and to fulfill the customer's needs.

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