

Much of the market competition for traditional dealers and VARs is coming from the a dramatic increase in the relative importance of two-step distribution channels. The key "players" in this distribution network are software retail chains, consortia of regional distributors and retail computer dealers, wholesale/retail buying clubs, mass merchandiser retail chains, "mega" retail chains, computer store franchises, and direct-response-catalog chains (See Figure 1). These agents of software distribution are having such an impact, that some believe that the VARs are an endangered species. As L.W. Henchey states, "VARs are facing increased difficulty because the steadily shrinking hardware margins continue to put the squeeze on their bottom lines. They have tweaked training, service and support charges and they've tried to put a stop to discounting...Consequently, many VARs believe that the only long-range cure is to court bigger accounts. Big game hunting is now in vogue, and tiered pricing based on a client's size is the new law of the jungle" [6, p. 39].

In addition to the mainstream distributor/dealer channels and the new two-step networks, several other avenues exist for selling software in the U.S. One approach is to employ a direct sales force. This option is very expensive and is generally used by developers/manufacturers of very high-end business software that are selling to Fortune-500 companies, large educational institutions, and government agencies. This method of penetrating the market is advantageous because it involves direct contact with the customer and permits effective customer service; however, this sales option is very expensive, and it works most efficiently if considerable marketing intelligence has been generated beforehand so that potential end users have been clearly identified.

In addition, the developer may decide to establish business ties with an independent sales representative. This person typically contributes toward all aspects of marketing the software product/application, including sales training for a dealer's sales force, packaging, pricing, promotions, and distribution allowances. In addition, reps generally operate under an extended contract; sell related, but non-competing products; and restrict their sales efforts to a specific geographic territory. In Hardy's study of what contributes to the success small and medium-sized Canadian establishments are having in exporting to the U.S., he reports that the dominant means of reaching wholesalers and end users is through manufacturers' reps [5, p. 70]. (See the next section for details on locating and contracting with reps.)

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