

specific markets; the economic costs of different distribution patterns, and the possibility that financial incentives may be provided for certain channel options; and, of course, the specific needs of the software product or application and any special characteristics of the existing market. For example, it is increasingly common for strategic partnering to occur in the software industry. Manufacturers of hardware may provide the software developer with R & D financing and marketing assistance in exchange for the adoption by the developer of exclusive marketing channels controlled by the manufacturer.

Fundamental to the selection of appropriate sales channels into the New York State marketplace is an understanding of the changes that are occurring nationally in the software distribution system. Traditional channels for selling computer software link the developers with wholesalers/distributors, dealers, and eventually end users. These typically three-step dealer networks include several key "players" (See Figure 1). For example, Value-added resellers (VARs) specialize in reselling hardware and providing a total solution, including turnkey packages. The VARs may include in the packages off-the-shelf or custom-designed software. Systems Integrators are typically independent of any specific hardware or software, and offer solutions without bias to meet the specific needs of end users. Another "player" is the independent software vendor, who develops proprietary software for special applications and then distributes such, often exclusively, to specific clients. Also within this distribution pattern are consultants that are selling knowledge rather than equipment or software, and that have established a symbiotic relationship with dealers. Occasionally, such individuals may initiate a limited software catalog operation on a regional or limited geographical basis that is designed to generate potential new clients for custom-designed software/hardware solutions. Frequently, these are one-person, freelance operations that work out of a home to minimize overhead costs. Other components of this kind of channel network include independent storefront resellers, independent retail and college bookstores, independent office products dealers, and computer-leasing and hardware-peripheral dealers.

Recently, however, this traditional system of channel distribution has experienced rapid transformations and reorganization as the demand for sophisticated applications increases, and as intense competition in the marketplace erodes traditional margins and puts severe downward pressure on prices. Such actions have thrust the traditional dealer and VAR into the unenviable position of having to cope with lower profits at the same time value-added services are costing more to provide. This situation has heightened the need of the dealers and VARs to seek out and secure niche markets in order to survive.