

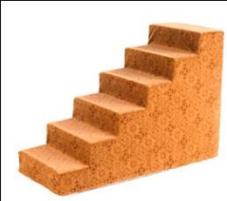


15.390 New Enterprises Sales and Distribution Plans

Howard Anderson
Bill Aulet

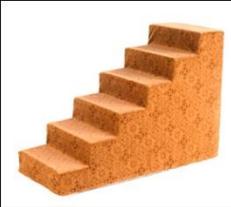
15.390 New Enterprises





How are you going to market?

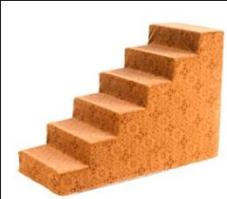
- Direct Sales?
- Indirect?
- OEM
- Distributor
- Retailers
- Internet



Wireless Waiter

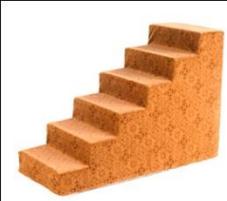
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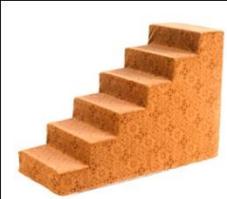
Roger Berkowitz

- 30 East Coast Restaurants – Legal Seafood
- Syracuse, HBS OPM
- Honorary Degree: C.I.A.
- Honorary Doctorate: Johnson and Wales
- Interest: Improve dining experience



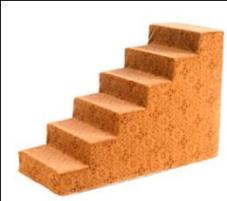
OK. What are my options in Sales/Distribution

1. Start a Direct Sales Operation
2. Sell through Restaurant IT Companies
3. OEM with IBM/NCR/Other
4. Go through Distributors



Each method has its strengths and weaknesses

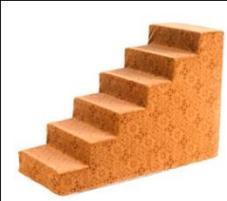
- Each depends on the Selling Price of the Product
- Each depends on the adoption cycle
- Each depends on the degree of change for the consumer of the product
- Each depends on the profitability of the product



Direct Sales

+’s

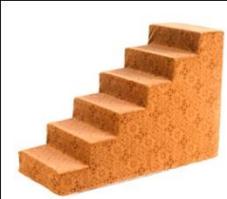
- Allows control of salesforce
- Target customer
- Best for products that can get \$20,000 - \$50,000 per customer per year
- Industrial market
- Enterprise software; hot boxes



Direct Sales

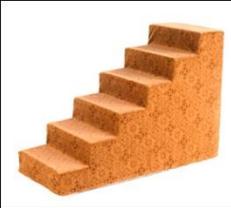
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- Relatively complex product
- Longer decision cycles
- Good where product has a definable ROI
- Assume sales of no more than \$500,000 per year for each sales person in year one – or perhaps 20 sales at \$25,000.
- Assume no sales for the first six months



-'s. Direct Sales

1. Very expensive. \$100,000 per salesperson. Plus Commissions (\$50,000 - \$100,000)
2. Assume \$24,000 in travel
3. Assume you will need one full time sales manager @\$150,000 for every 6 sales people. Plus one full time sales assistant at \$50K.
4. Assume long lead time to recruit: 2 months.
5. Assume you will need a headhunter at 30% of first year's salary.
6. Assume $\frac{1}{2}$ of the salespeople will not work out



Distribution: OEM

+’s

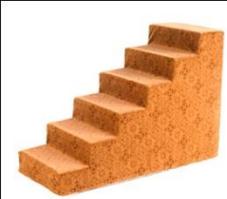
1. Much lower cost.
2. Can get broader reach
3. Borrow status
4. Get factory going with larger volume



OEM

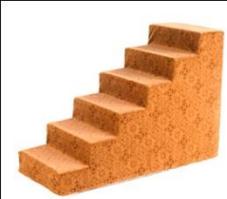
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- May take long time: evaluation, negotiation.
- Will require 40% of sales – a \$25,000 product will only get you \$15,000
- Will lose brand; OEM gets
- May lose out on next product
- Will require sales people to help get early sales anyway



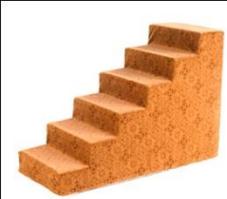
Retail:

- Can give nationwide, even worldwide distribution.
- Appropriate for products at lower price point
- Retailer will want 25 – 35%. Plus advertising, plus stocking charge
- Retailer will need training.
- Retailer may have competing products, including his own.
- No guarantee of sales. May want exclusive



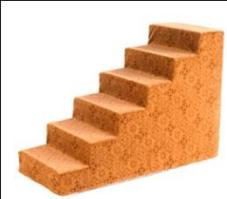
Ideally.... You would like your

- Selling cost to be 10% of sales.
- May be 40 – 100% in the early years.
- Remember, the distributor/VAR/OEM/Retailer is a CHANNEL.
- It is up to you to decide what the customer really wants, what the price point will be.



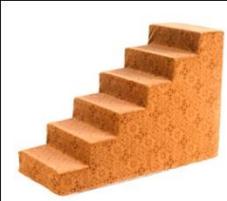
Three Examples

1. Enterprise Software: Cost: \$230,000 to install for 1000 seats; Maintenance @ 15% of selling price of software (\$15,000/year)
2. New Golf Ball with GPS. Cost \$5.
3. Super Wet Suit. Cost \$300/each



In each case....

- Your sales strategy revolves around your budget... and reality. What does the competition do? Sales Reps? Who? Where?
- What are they doing with marketing? Where could you ideally spend money?
- What research are you doing about the ultimate buyer? How does this research help your sales channel? Example: Focus Groups.



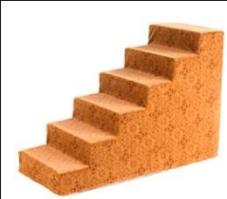
Wet Suit...

- 5,000 upper end Dive Shops.
- National Sporting Goods Association
- May need 500 stores that will stock and sell Wetsuits... Will need 10 salespeople in those areas.
- Advertising? ...or Co-op sales.
- Could use sales agents... what else are they selling... Pay 10%



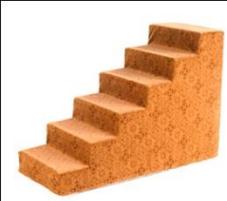
Assume:

- Retail Price: \$300.
- Manufactured Price: \$100
- Price to Retailer: \$200.
- Sales Commission to Rep: \$20.
- How many Wet Suits could a store sell?
 - ▶ What inventory level will they need?



Assume: That a scuba shop sells...

- 4 wetsuits per week... or 200 per year...
- That your wetsuit could capture 10% of their yearly business.
- 20 wetsuits x \$200 = \$4000/year. Store would need 5 wetsuits in inventory and its inventory would turn 4x/year
- How many stores would you need to do \$1 Million? 250 stores.



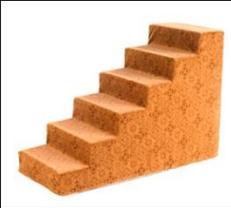
How long would it take to get 250 stores?

- Scuba Shops. Cash flow problems.
- Sell to Chains? Exclusive? Point of Sale display? How much?



Go Direct?

- Ads: Professional Scuba Diver Magazine:
- \$10,000 x 6 = \$60,000/year
- What is goal? Sales? Probably will sell 24 Wetsuits...or is the goal to get distributors?



Conclusions:

- Picking the right channel depends... on your product, your support needs, your selling price, your margin.
- Pick wrong:

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