15.390 New Enterprises
Sales and Distribution Plans

Howard Anderson
Bill Aulet
How are you going to market?

• Direct Sales?
• Indirect?
• OEM
• Distributor
• Retailers
• Internet
Wireless Waiter
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

-’s

• 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 $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

-’s

• 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.
- 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: