

## Channels

How your product get from our company to our customers? What are your distribution channels? Is your product virtual or physical? What channel will you have, direct or indirect?

Product		Channel	
Virtual	Physical	Direct	Indirect

Example:

- Virtual (Netflix)
- Physical (Coffee shop Le Pain Quotidien)
- Direct virtual (website), direct physical (sales people)
- Indirect virtual (third party website, web aggregator), indirect physical (retail store)

### Web Distribution Channels



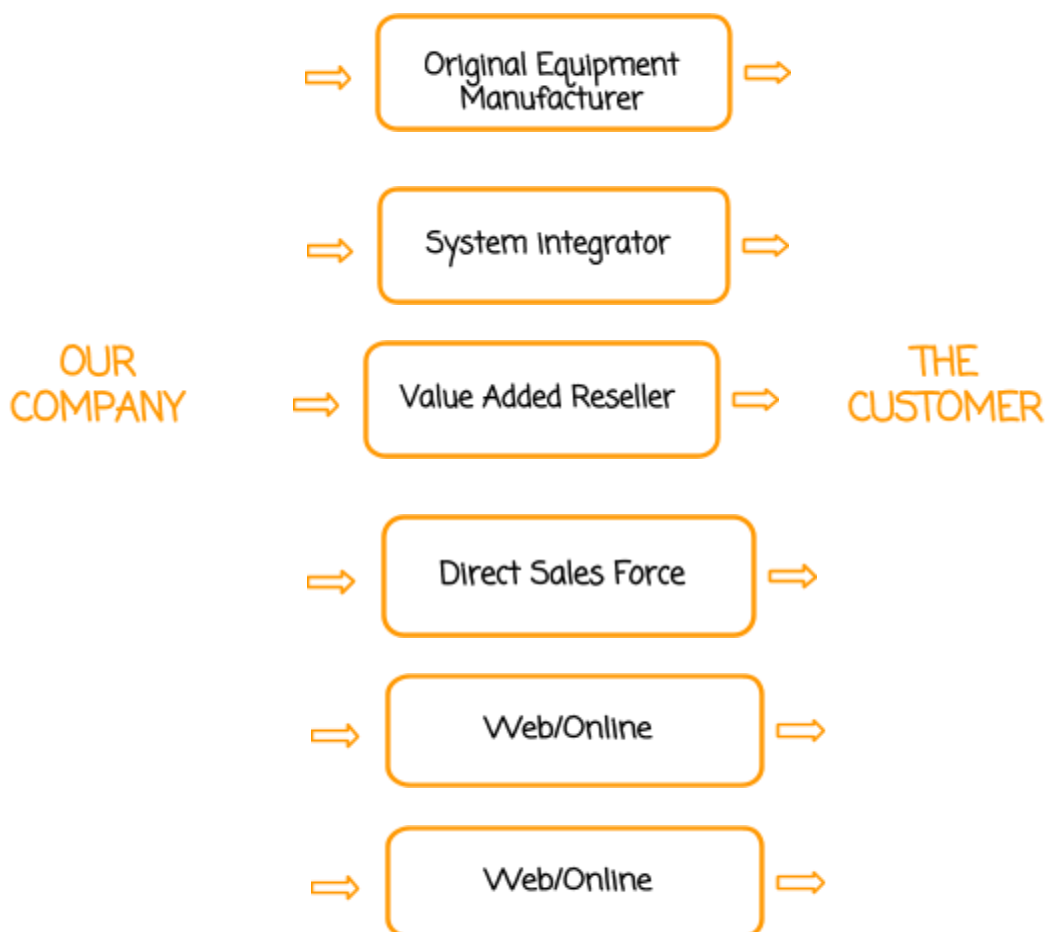


2 Step Distribution: Amazon, Walmart.

Aggregator: Insurance, Shoes, Sapos, Social commerce sites.

Flash Sales: Groupon, etc.

### Physical Distribution Channels



**OCM - Original Equipment Manufacturer:** You might have a component - graphic chip - that goes inside someone else's laptop. Example, graphic supplier to Apple or HP, It's Apple/HPs name and brand that shows up outside out of the box, you are making money but it's their marketing or brand that helps you with that credibility.

**System Integrator:** You might be selling to somebody that is building an entire telephone switching network, a company will take your component, systems, softwares, hardware, devices and help them create an entire system to the end user.

**Value Added Reseller:** Might take other computer system, pre-packaged software from 3rd party vendors, utilities of their own and sell it turn key-solutions to end user, they build less complex system, less value added but they can be great partners,

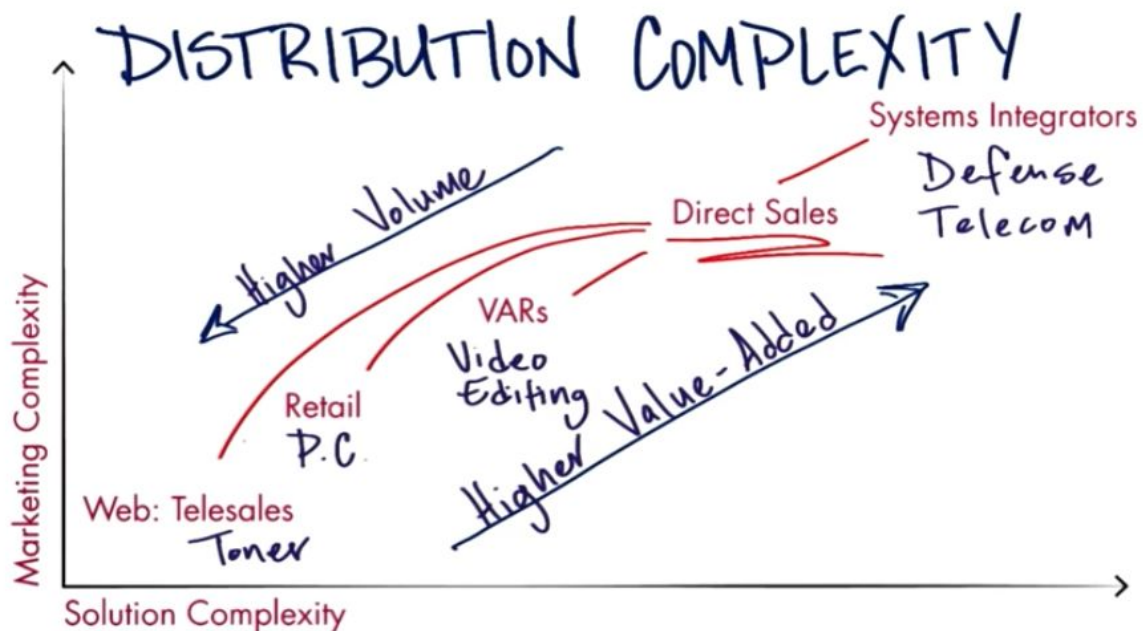
**Direct Sales Force:** Work force what work for you directly that sale to the end user.

**Web/Online:** Web/online sales efforts.

**Distributors:** Play a pivotal role in the distribution of the product, hole-sale, warehousing, accounting, etc. They might sell to:

- **Dealers:** Store fronts, they can offer support, they are essentially an extension of the distribution channel. They talk to the end user. Most dealers might not have a physical store for end user customers.
- **Retailers & mass merchants:** Are all about main-street and talking to your customers. They aggregate thousands of products under one roof.

What's gonna be your first distribution channel? You have to pick one and then expand.



## Channels Economies

*How are we gonna make money?*

How to come up to the final price?

Cost of Goods: Understand how cost me to manufacture my product?

Cost of my direct sales, engineering, compensation, general administration costs?

### Direct Sales



### Indirect Sales

Resellers



Your RND, general/administration costs will be the same but your selling costs will be lower because you are selling to resellers. You still need a direct sales person, but they will not be talking to every possible end user, they will be talking to a few number of resellers.

**Trade-Offs of indirect channels:** *Selling costs are lower* but you will be giving a % of your profit to other people not part of your company.

Laptop computer sold through a computer reseller channel (laptops sales for \$3000 USD), the end user assumes he/she will be getting a discount. The reseller is getting a profit, but they buy the laptop from a massive distributor. The manufacturer of the laptop (Apple or HP) has their COGs (cost of goods, components, etc.) & SALES costs (RND, G&A). if you are selling a graphic design chip that enters into the laptop, you are part of the COGs. Your profit is minuscule compared to the reseller manufacturer, but you will be selling lots of chips which will give you an economic of scale, less profit per unit sold but lots of unit solds.

