

THE ROLE OF ORIGINAL EQUIPMENT MANUFACTURERS IN SOFTWARE DISTRIBUTION

A. HERȚANU¹ A.-B. BOITOR¹

Abstract: *The software distribution channels are having a significant impact on the mix of marketing not only for big companies in this domain, but also for small companies that activate in this domain. The Original Equipment Manufacturer's distribution channel it's having a significant impact on the marketing strategy of different companies. If the traditional distribution channels are still used to, the OEM's channels are used more and more to distribute the software products or services not only to the segment of consumers formed by companies, but also to the segment of costumers formed by individual users.*

Key words: *consumer, distribution, Original Equipment Manufacturer, software.*

1. Introduction

Software field has grown considerably in the last 20 years. If at the beginning, the computers and operating systems segment was divided between three giants in the field, software today covers a wide range of segments, from operating systems, enterprise applications, entertainment applications, networking, video games, online networks and so on. These segments are captured by a large number of companies, their presence becoming stronger both globally and nationally.

Software market is very dynamic and interactive. This is evidenced by a large number of participants and the success that small companies have very quickly in this area since their market entry. Technical innovation in this field, played by strong market growth, increases the competition in software markets, a leading competition

automatically increased emphasis on placing innovation and shortening of product life cycle.

2. Combination of software and hardware products

By the time of the first minicomputer, software and operating programs were supplied with the products of large hardware manufacturers. This distribution channel which consists of OEMs (Original Equipment Manufacturers), appeared first in the software industry and is the largest spread and used, today being one of the most important distribution channels of the software market.

Original Equipment Manufacturer refers to a company that acquires, for use in their products, a component made by a second company. Under this definition, if company A buys company B's software to

¹ PhD Student, Dept. of Economic Sciences and Business Administration, *Transilvania* University of Braşov.

its product mix, then company A is an Original Equipment Manufacturer.

OEMs rely on their ability to reduce production costs through economies of scale. Also, using one or more OEM agreements, companies can get the necessary parts or products without owning or operating a factory.

Today, many of the hardware manufacturers have in their product range, more software products than computers because of the uses and performance they create. The turnover of hardware manufacturers is strongly influenced by software compatible not only with their own products but also with competing products.

This, as well as the strong growth of computer industry, has led manufacturers to use software for maintaining competitiveness and competitive advantage over their competitors.

The size of all global software industry in 2008 was of U.S. \$ 303.8 billion, with an increase of 6.5% compared to 2007. American market represents 42.6% of the total global software market. Like Datamonitor forecasts say, in 2013 the global software market will be worth around U.S. \$ 457 billion, which will represent a tremendous increase of approximately 50.5% compared to 2008.[1]

The software world market value for 2011 reached U.S. \$ 267 billion, according to statistics provided by people from computing.co.uk. Following the stagnation recorded in 2010 the global market for enterprise software has also a significant increase in 2011.[2]

If we consider the entire global IT industry, it stands in 2011 to about U.S. \$ 3.7 trillion, according to reports published by those from Gartner and the industry for enterprise software is not a negligible part of the IT industry and comprehensive software.

According to data provided by the Institute of Computing Technology, software and IT industry in Romania has experienced a significant increase in the 2008-2009 period. Total turnover of the industry exceeded EUR 9.3 billion, up 13%, production/services sold reached EUR 7.9 billion (17%) and the total number of employees reached 130 500 (+6%). A stronger increase (+50%) recorded the exports of IT & C witch have reached EUR 3 billion.[3] End of 2008 completed a period of eight consecutive years of strong and continues growth of this field in Romania.

This continued growth is largely due to foreign investments. Outsourcing, a very common globally strategy, has taken off in Romania also, due to the all great best conditions offered too companies by the state: qualified staff, small wages, investments for small workstations, facilities and so on. In Braşov many companies have opened branches. Siemens, Pentalog, IBM, Awinta, Cambria, Route 66 are just a few big names of the software market.

Reports of the Institute of Computing Technology show that in 2009, software and information technology industry has seen a slight decrease, national turnover reaching EUR 8.28 billion, 12% lower than in previous year, the biggest loss being recorded by the companies oriented to domestic production. The least affected are companies in the hardware and electronics segments.[4]

In 2010 the value of software and IT market increased by 6% to a value of EUR 8.82 billion. Increases were made almost entirely by hardware and electronic manufacturing (68%), driven by exports and dominated by Nokia platform that has come to represent two thirds of the total production. Instead, the service sectors have evolved negatively influenced by the strong contraction of the internal market. [5]

3. Impact among customers of agreements between the OEMs and software manufacturers

Normally OEM versions of software are the same products as those that customers can find at the authorized distributors, but with no packaging, no instructions or manuals, with little or no support at all and often no guarantee.

When it comes to versions sold through distribution channels composed of OEMs, they relate to the cheapest versions of the products (Fischer, 2009).[7] For example, in segment operating systems, Microsoft has as versions sold through OEMs channel, most of the time, home versions of Windows operating systems, these versions being the cheapest and the most simple ones. Versions of the Windows operating system can be purchased online from all software vendors that are part of the corporation's distribution channel. Price differences that arose when it comes to the two channels, OEMs and retailers, were as follows for Windows Vista operating system:

- ✓ Vista Home Basic: U.S. \$ 99 (retail: U.S. \$ 199)
- ✓ Vista Home Premium: U.S. \$ 119 (retail: U.S. \$ 239)
- ✓ Vista Business: U.S. \$ 149 (retail: U.S. \$ 299)
- ✓ Vista Ultimate: U.S. \$ 199 (retail: U.S. \$ 399)

As shown, distribution channel variants which consist of OEMs have a much lower price for the software products than those consisted of retailers.

4. Which are the disadvantages for customers?

The disadvantages for customers are:

- the software is already installed on the computer and users can not install their own operating system or other applications, can not improve the applications or add other applications

that are incompatible with the already installed system;

- the software product can not be returned, this being due to the same reason that the software is already installed on the computer, having no product packaging, having no warranty or technical support; in case of purchase from retailers, the software product comes with warranty, technical support and it can be returned;
- the software product can not be transferred from one computer to another, which is disadvantageous to the client, because if he wants to change the motherboard of the computer will lose the already installed operating system, he will be forced to purchase another operating system, other software products, without changing a computer entirely;
- in most cases, software distributed through OEMs distribution channels do not come together with customer support, this being a disadvantage for the customers; if the same product is purchased from authorized distributors, the customer benefits from customer support; for example, when it was launched, the operating system Windows Vista was distributed through authorized partners with a period of 90 days of free technical support, but it was distributed through OEMs without any technical support provided for the customers.

5. Which are the advantages for the producers?

The advantages for the producers are:

- economies of scale; software companies can obtain long-term cost savings by increasing production, by concluding new contracts with manufacturers of equipment, achieving in this way economies of scale in their production;

- reduce distribution costs; software producers do not have to invest resources in storage and transport of products, they do not must have its own storage facilities, distribution costs reaching OEM's task , who care for the software distribution and reaching their end customers to be made in the best conditions; these products are already being incorporated into products made by them;
 - promotion of the software in most cases is performed by the hardware manufacturers; software companies conclude these agreements with OEMs and form the channels of distribution while combining it with highly efficient policies of promotion and publicity which involve minimal costs. The software products being already installed on PCs, computers and so on are then promoted by the hardware manufacturers with their own products. This is done to increase OEM's image and to achieve maximum efficiency in sales. Thus are produced promotional materials, commercials, commercials that incorporate presentations of software producers with which OEMs have contracts;
 - the size and force of OEMs represent a strong advantage for software manufacturers; producers selling trademarks, such as Microsoft or SAP, may get strong support and cooperation from the OEMs, thereby exercising their power over other members of the distribution channels;
 - the spread of products; already installed software components and hardware products are distributed through the distribution channels of OEMs, which are placed in various locations where hardware manufacturers sell their products. This fact represents an advantage for the software producers, especially in areas and regions which are difficult to penetrate and in regions where is harder to form a distribution channel that can be secure and easy to control;
 - improving the image is effective if customers and potential customers associate the software products with hardware products of superior quality if producers do not fail to form a software distribution channel including renowned manufacturers of hardware products;
 - adoption by customers of new products; due to very high dynamic of the software domain, products have a short life cycle and manufacturers have to invest huge resources in research and development of new products, new variants more efficient and modern of existing products on the market. Through OEMs, manufacturers launch their new products easier, access to the customers is higher through hardware manufacturers' outlets. Also, software manufacturers reduce their costs of distribution and promotion of new products, which are largely supported by the OEMs, members of the distribution channel.
- However, the control of this type of distribution channels is not full. Software producers may face difficulties in the supply chain control, product quality, association with hardware products that may be questionable in terms of quality. The companies can be fully affected when it comes to the risk of image damage, if OEMs do not have high quality products.
- Also, small producers are disadvantaged by this software distribution strategy, because the major hardware manufacturers that operate globally are already contracted by the leaders of the software market segments. It is difficult for small firms to remain competitive in the market segments they serve, as long as the great software manufacturers formed international distribution channels with OEMs.

These contractual arrangements are some of the most effective strategies for distribution of software and hardware. This distribution policy was very effective and it has lead companies, like Microsoft or Google, to obtain the first place on the operating systems market or on the Internet market. Operating systems made by software producers are licensed for OEMs primarily through the agreements signed. They have the right to produce devices based on these operating programs, mainly personal computers and mobile phones. Under similar arrangements, companies are licensed to produce and sell different systems for servers, desktop applications, hardware devices and software products for domestic consumers through OEMs. [6]

Software manufacturers have OEM agreements covering one or more of the market segments with almost all major manufacturers of personal computers: Acer, Dell, Fujitsu, Fujitsu Siemens Computers, Gateway, Hewlett-Packard, Lenovo, NEC, Samsung, Sony and Toshiba .[7]

Also into the category of OEM channels are included many medium or small traders operating on local or regional markets.

6. The link between distribution and promotion

Because of these agreements signed by the companies in the software market and in the hardware market, the formed distribution channels lead to sharing distribution strategies with promotion strategies. The most common promotional policies used by partner companies in the two areas are:

- ✓ joint advertisements in which software products are promoted with hardware products of the OEMs - these spots are transmitted via television and via Internet;

- ✓ joint promotional messages sent by e-mail in the contents of which are included messages from the software producers and OEMs which form the distribution channels;
- ✓ software producers participate to or found various exhibitions and fairs taking place in software and IT domain, which are held annually at local markets and regional fairs, and exhibition aimed to promote innovation and new products like: operating systems, office suite, software for administration and management, production, accounting, game consoles and other software products for entertainment.

7. Conclusions

Distribution of software products has grown very strongly over the last 20 years. Distribution channels formed by the major international manufacturers and traders helped to increase the authorized dealers of various regions and local markets where the software producers entered.

Distribution achieved through OEMs is very advantageous for large software producers, especially because the distribution costs are substantially reduced and the products are marketed on more extensive regions. These channels, due to hardware manufacturers, have a much greater coverage and are very advantageous for companies in the software domain.

Even if marketing and commercialization of software products bring the benefits mentioned above, OEMs and hardware manufacturers can affect end customers in a very powerful way. Customers may suffer in terms of confidence due to the lack of guaranty and possibility of returning the software products. Also limitations to these products can determine customers to seek other distribution

channels, even distribution channels of other manufacturers of low level software products.

Acknowledgment

This paper is supported by the Sector Operation Programme Human Resources Development (SOP HRD), ID76945 financed from the European Social Fund and by the Romanian Government.

References

1. Datamonitor: *Application Software Industry Profile: Global*. Mai 1, 2011.
2. Du Preez, D.: *Global software market to bounce back in 2011*. Computing.co.uk, <http://www.computing.co.uk/ctg/news/2080996/global-software-market-bounce-2011>
3. M. Vuici: *IT&C Industry in Romania 2009-2010*. Bucureşti, 2011, Institute of Computing Technology.
4. *IT&C Industry in Romania 2008-2009*, Institute of Computing Technology, 2010.
5. *IT&C Industry 2009-2010. Balance of crisis years*. Institute of Computing Technology, 2011.
6. Boitor, A. B.: *Distribution in software and IT domain*. Logistics and Management Journal, 2, 2010, pp. 3-10.
7. Boşcor, D., Brătucu, G.: *International marketing Course Braşov*. Editura Universităţii Transilvania din Braşov, 2002.
8. Fisher, K.: *Buying OEM versions of Windows Vista: the facts*. Ars Technica, 2009, <http://arstechnica.com/hardware/news/2007/01/8730.ars>
9. Lebreton, B.: *Strategic Closed-Loop Supply Chain Management*. Berlin. Editura Springer, 2007.