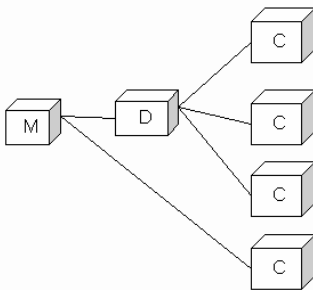


# Gateway Computers Distribution Channels

Casey Morgan  
www.gateway.com

Diagram of a typical distribution channel:



VAR: Value Added Resellers. Another piece of the distribution channel. VAR's add pieces to an already existing product and sell the product at large quantities to business.

CNET: Website that helps consumers find computer related products. www.cnet.com.

## What is a Distribution Channel

A distribution channel is a group of interdependent firms that work together to transfer products and information from the supplier to the consumer. It is composed of three main participants.

**Producers:** manufacturers of the original product or service.

**Intermediaries:** firms that match buyers and sellers and mediate the transactions among them

**Consumers:** those who consume the product.

A typical distribution channel would go through a supplier, manufacturer, wholesaler, retailer, and end consumer.

So, how is this basic Distribution Channel affected by the Internet?

## Gateway as an example of Internet Distribution Channels:

The Gateway Corp. claims to have three different channels of distribution. This is correct, except for how they have them labeled. Gateway says their three channels of distribution consist of phone sales, Internet sales, and Gateway Country stores. However, phone sales and Internet sales fall under the same distribution channel with a different portal in which to order a computer. Their other distribution channel comes in the form of a VAR.

## Direct Distribution to Consumers:

As Gateway started out, there was only one way to obtain a PC. This was by calling the home office in South Dakota, and ordering a computer straight from an operator. The computer was then delivered to your door. A basic PC was ordered, and there were upgrades available, but for the most part, the consumer was left with limited choice in PCs.

Today, Gateway offers a similar system. Consumers are still able to order straight from the telephone, but they are also able to order computers online. Customers still choose from a base PC, but they are able to upgrade and customize their PC. By letting consumers order online and by telephone, Gateway has eliminated major portions of the distribution channel. Now, instead of going from supplier to manufacturer to wholesaler to retailer to consumer, Gateway products go from supplier to manufacturer and then right on to the consumer. Gateway has now eliminated two to three steps from their distribution channel.

Today also, Gateway computers are available on CNET which opens up one more portal for consumers to find Gateway products without adding any steps to their Distribution Channel.

This strategy worked good for Gateway, and made them the leading seller of PC's to consumers in 1997. Until Dell streamlined the process and took the lead as the leading seller of PC's to the consumer market.

**Adding a Step to the Distribution Channel:**

Because of the rise of Dell, late in the 1990's, Gateway was left with no choice, but to change their strategy, and try to reclaim their crown as number one. That is when Gateway Corp. decided to open up Gateway Country.

Gateway Country brought the computers to the people by opening up retail stores in communities across the US. This was one attempt of Gateway to try and gain ground on Dell.

By developing Gateway Country stores, Gateway added a step to their distribution channel, by adding a retail step, which is something they never had before. Not only that, but after visiting a retail outlet consumers couldn't even leave the store with a PC. That is because Gateway wanted to save money on overhead, so no Gateway Country store carried computers on hand. A consumer would have to go to the store, pick out a PC, then order that PC just as before. Thus, adding even more steps to the distribution channel. Gateway Country stores are not giving Gateway back the edge they once had, in fact they are probably making the gap even bigger. There could be several reasons for this. One these stores aren't really necessary and two consumers still have to call South Dakota for support, and Gateway Country stores don't provide support for the PC's they sell.

**The Last Step to the Gateway Distribution Channel:**

Once again to try and gain ground on Dell and other PC companies, Gateway has implemented another step to their distribution channel. This is the step called VAR, or value added resellers. After the supplier and the manufacturer, computers may be sold to companies like compucom. What companies like this do is basically sell bundles to large businesses, government, and educational institutions. VARs buy the desktops, notebooks, and servers, they then add value to the computer. Value consists of things like software upgrades, peripheral upgrades, and numerous other things to add value to a computer. They then sell these computers in large quantities to companies, governments, and educational institutions.

There are companies like compucom that do this kind of work as a business, but Gateway has established VAR partnerships with individuals that work for Gateway to accommodate people interested in VARs.

So once again, Gateway added another step to its distribution channel. Now, products go from suppliers to manufacturers to VAR's to consumers.

