

EMC-OuterBay

OEM Sales





Context

- Last Time: Veritas
 - ▶ Sales Force Reorg
- This Time: EMC-OuterBay
 - ▶ OEM Sales
- Next Time: Cabot
 - ▶ Complex Sales

Sales Models

- Direct Sales
 - ▶ Web/Online
 - ▶ Inside sales
 - ▶ Field sales

- Indirect Sales
 - ▶ Channel
 - Single tier (VARs)
 - Two tier (Disti)

 - ▶ OEM



Why do big companies do OEM deals with start-ups?

- Time-to-market
- Expertise
- “Off balance sheet” development
- Block competition

They cannot get there themselves in an acceptable time, if at all





Should this little company do a deal with this big one?

- OuterBay's Position
 - ▶ Product
 - ▶ Customer
 - ▶ Revenue
 - ▶ Company Stage
 - ▶ Competition
- EMC's Proposal
 - ▶ Acquisition
 - ▶ OEM Sales

Why Choose to do OEM?

Pros

- Sales leverage
- Big vendor endorsement
- Limited market access (block competition)
- You don't have a complete product

Cons

- Different business model
- Drains resources
- Potential for major unintended consequences (this is one, BIG sale)





Pros and cons: OB view

Pros to OuterBay	Cons to OuterBay	Sales Items
Credibility	Concentrated distribution	Account assignment
Massive channel	Captive to EMC requirements and channel	Sales re-organization
Increase in revenue	Exclusivity prevents other deals	Talent retention?
Block out competitor (Princeton)	EMC as board member	
Awareness	Terms – in general	
Engineering resources		
Leads to other deals		
Go public/raise money		

Differing Interests

Term	OuterBay Ask	EMC Ask
Products included	Segmentation of current products	All current products
Future products	No Position	All future products
License rights	>\$1B accounts, except for OB named accounts. OBT resellers and OEMS may sell into EMC accounts	Work through EMC in existing global and enterprise accounts
Branding	Joint branding	No branding
Public Relations	Jointly issued press release	Joint press release
Royalty rates	50% of net declining to 25% at \$40MM net license revenue	Declining rate, milestone based
Royalty floor	No more than 50% of list	Only for “key products”
Pre-paid royalties	Use or lose pre-paid	Use or loose by March 2005
Term	2 years	5 years from product general availability
Warrants	none	requested
Change of control	None	May terminate agreement and use source code
Board observer	None	Yes
Notice of intent to sell	No	Notice of intent to sell

Negotiated Outcome

Term	Outcome	Comments
Products included	Only products that are required	Never allow all products.
Future products	New royalties/ agreement, with caveat	Negotiate for new products. Maybe offer existing terms if current products hit a certain bar.
License rights	Limited exclusivity (6 months) to get started	Exclusivity can kill the company. Six months is acceptable, during which time you can sign up another partner.
Branding	Jointly branded	Insist but use as a give if needed
Public Relations	Press release when deal signed, either issued jointly or by company	Insist on a press release, but not critical
Royalty rates	Consistent with channel <ul style="list-style-type: none"> • 40% discount, with accelerators 	Avoid channel conflict. Can do steep discounts if products is embedded.
Floor	No more than 50% of list.	Prevent giving product away. Yrly review
Pre-paid royalties	Use or lose pre-paid by certain date	Pre-pay not critical. Creates a revenue "hole". Negotiate for better royalties.
Term	2 years	Shorter terms are better
Warrants	OK, based on objectives	If OEM hits key milestones
Change of control	May terminate agreement, but cannot use IP	Critical term. Can kill an acquisition if not structured correctly.
Board observer	OK	Doesn't really matter. Board observer will be recused for all competitive issues.
Notice of intent to sell	Give notice, with fast response. No price or company name required	Fast response is key...

Sales Considerations

OB sales rep view	Burton/corporate view
No access to best customers	Is the company now an “OEM” company?
Do I support EMC or leave OB?	Do we have a dedicated EMC team?
Compensation is only 1/4. Do I get 4x the volume?	Do all reps sell all products?
Conflict with existing customers/resellers?	How involved do our reps need to be in helping EMC?
If EMC steals a deal, should I steal from EMC (I get paid more on my deals)?	Require certain EMC revenue by territory?
	Change revenue goals?
	Pay same/more/less?

Summary

- Pros and cons to doing a big deal
 - ▶ Leverage from a big company (sales, brand, etc.)
 - ▶ Make enemies and create channel conflict
- Doing it outweighs not doing it in this case
 - ▶ High risk of doing a bad deal
 - ▶ Wrong terms amount to acquisition at low price
- Identify the terms that really matter
 - ▶ Exclusivity (practical), products/futures included, way out – not captive to “channel”
- Expect sales organization impact
 - ▶ Deal with channel conflict
 - ▶ Sales force composition and focus



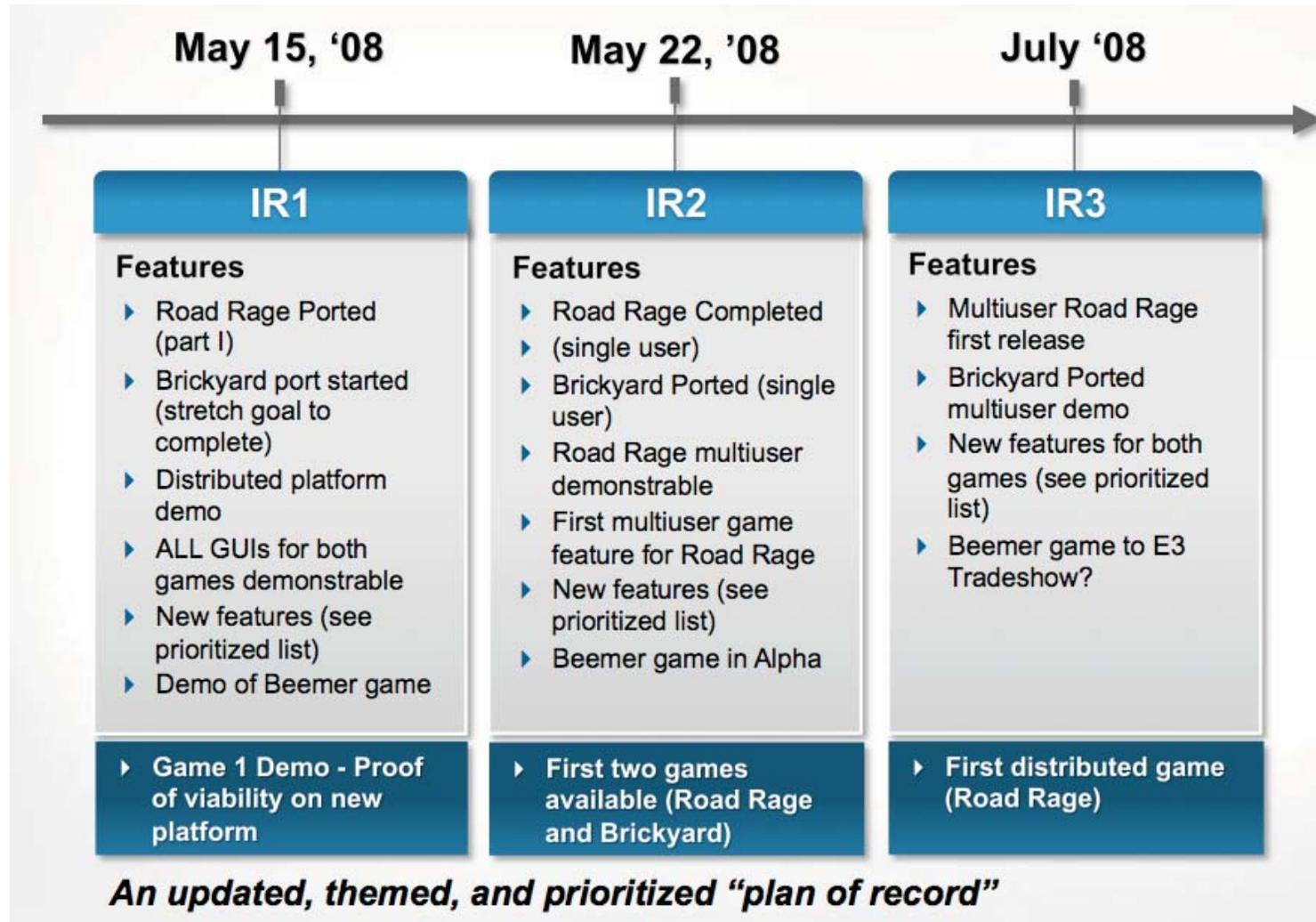
ADDITIONAL SLIDES



Pros and Cons: EMC view

Pros to EMC	Cons to EMC	Sales items
Access to software	Small company	More stuff to sell
Important in ILM business	Concerned about termination	Perhaps less hardware sales
More product to sell	Concerned about CoC, competitor buying OB	Too much to learn
		Channel conflict with OB sales
		OB getting involved with EMC sales process

A product roadmap



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15.387 Entrepreneurial Sales
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