Channel Mechanics CEO and Founder Kenneth Fox talks through the company’s evolution from start-up to raising funding in London and establishing a presence in Silicon Valley.

Channel Vision

Channel Mechanics is an example of a well-conceived solution to an identified problem. The problem was the difficulty experienced by IT hardware and software vendors in managing their product and promotional offerings in an industry with a complex web of routes to market.

As CEO and founder Kenneth Fox explains, one manufacturer might sell millions of data routers worldwide through a network of hundreds of distributors and as many as 100,000 partners. But offering a discount on an existing model in certain geographic markets or to specific sectors, in order to clear the way for the introduction of a new model, for example, is typically a difficult, time-consuming procedure.

The platform Channel Mechanics has developed is geared towards addressing well-recognised pinch points within the channel, such as conflict between vendors and distributors over back-end credits and discounts.

The genesis came about four years ago when Fox, then working with a large multinational vendor, was talking with Jeremy Butt, an Executive VP at distribution group Wescor. They envisaged a new platform that could provide manufacturers with “the tools, data and insights needed to turn great sales ideas into easily executable market promotions and sales programmes, enabling easy and open communication between all tiers in the channel.”

Now comprised of 15 distinct modules, the highly granular solution allows for maximum customisation based on offer types and where the customer lies in the channel. It allows companies that sell through the channel to deploy individual product or bundled promotional offers to a wide range of customers. Crucially, this does not just dramatically shorten the whole process, it also allows companies to track in real-time the success of those promotions and to use that awareness to tweak them at will.

Acceptance of Risk

Fox is under no illusions about the risk he took in getting Channel Mechanics to where it is today. “At that time, I was a director of a multinational, and it had taken me 15 years’ hard work to get there. On the plus side, I knew my way around the business and had a large pool of contacts. But setting up any venture is high risk – only one or two out of every 10 succeed. So from the start you are fighting the numbers.”

Fox had the knowledge and experience, however, to do a few things likely to tip the balance in his favour. He approached Karl Flannery, the co-founder and managing director of Galway firm Storm Technology, who brought into the idea and brought both finance and technical skills to the venture. Today, Channel Mechanics’ advisory board comprises Flannery, Butt and other highly experienced individuals with global experience, such as Dan Solito, a senior vice president and Chief Operating Officer for CaféX Communications. “I have a strong board,” Fox says. “Everyone has at least 20 years’ experience in this sector.”

But Fox also spent about a year developing the idea and validating the proposition before quitting his day job. When that day came, Channel Mechanics was ready to hit the ground running, positioning itself with a good reference customer early on. Fox had also recruited a team of people already recognised as subject matter experts in the channel space and able to undertake consultancy assignments.

From the start, consultancy has generated revenue, stretching the capital needed to fund R&D. “Two of our early contracts were worth over $1 million each. Consultancy keeps us busy, keeps our name out there and helps to sell the product. It also helps pay the bills for our developers and testers.”

Despite this, Fox says, “for the first three years, we were living pretty much hand to mouth, with no real certainty. At the
start of last year, we realised it was even tougher than we’d expected.”

But when the business landed its fifth largest product customer last year, Fox was satisfied that it had reached a critical mass of recurring revenue. “That lets me focus more on the product and less on paying the bills,” he says. At this stage the company has five large vendor customers and seven smaller vendors in Europe, including such widely recognised names as Zebra Technologies and Cisco.

ACCESSING SILICON VALLEY
Another milestone, Fox says, was winning a place on EI’s two-week Access Silicon Valley programme. “Only 10 companies were picked, and we were lucky to be one of them. It was a bit like being on The X Factor. But it helped us learn about how to pitch our proposition, and it also opened our eyes to the opportunities there.”

Many of his target customers are headquartered in the Valley and San Francisco Bay areas, and many of the global channel decision-makers are there too. “To get a deal in Dublin, it can actually be quicker for us to go to San Francisco,” Fox says. Decisions are also made more quickly in the US, typically within four weeks rather than the three or four months they take in Europe. “Even if the answer is a ‘no’, that’s a huge saving in time and effort. At least you can focus on the next prospect.”

To establish a presence in the Valley, however, more money would be needed. “We wanted to accelerate our development and to establish our position in the channel space. We needed funding dedicated to building our sales and marketing capabilities.”

Last January, the board accepted his proposal that existing shareholders accept dilution through an investment funding round to raise $2 million. After three months spent meeting potential investors in the US, Channel Mechanics found an angel investor in London. With a background in distribution, he understood exactly what they were doing and was willing to put up $2 million. And with a number of the existing shareholders also reinvesting, the round was over-subscribed at $2.3m.

Differentiating itself from the noise of a busy marketplace, making sure its message is heard by the people who matter, is a real challenge, Fox says. “With the support of EI, we’ve been able to hone in on our value proposition, to identify our ‘sweet spot’ customers. They are high-tech, European and North American companies. They must have channel programmes and an allocated budget.”

Along the way, Channel Mechanics has learned another vitally important lesson: even with these targets, it is vital to talk to the right people. “Early on, we went too low in the organisation, for example talking to the operations teams who might use and benefit from our product. That led to a lot of conversations but not a lot of deals,” Fox says. “Then we realised we should really be talking to directors and senior level strategic thinkers, the people who could see the value in what we were offering but had no territory to defend.”

The company is now recruiting its own sales people in California and has recently engaged a specialist PR company based in Silicon Valley, Vantage PR, to help it stand out from the crowd. Channel Mechanics also plans to recruit a marketing specialist, who will probably be located in Galway.

In this, Fox is quite clear on how he plans to reach his annual revenue target of $30 million a year by 2020. “What’s needed is not just sales or PR or marketing, it’s a coherent strategy that combines all three to create awareness and lead generation. Having ‘feet on the street’ in the form of sales people is no use at all without the other two.”