

The Art of Distribution

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One of the important insights that the [Startups 2006 panel](#) hammered home was the importance of distribution for consumer-facing startups. (By the way, an astounding 13,000 people watched this video during the first week.) Many people use the word “distribution” as if it were a tactic when in fact it is a goal. Any bozo can say the word as if it’s a magic bullet; the test is the ability to achieve distribution. Here are my thoughts.

1. **Define it right.** To old fogies like me, “distribution” meant Ingram/Micro D physically distributing software. This was in the days when “partner” was still a noun; companies wrote software manuals; and customers paid with money, not clicks. Modern entrepreneurs focus on “virality” and “eyeballs” and have made it necessary to redefine “distribution” to:

Getting companies with a lot to lose to help companies with a lot to gain.

The underlying and important assumption in modern day distribution is the asymmetry of the arrangement. For most entrepreneurs distribution involves piggybacking on another organization with much greater momentum. This reality affects many decisions and actions, so come to grips with it.

2. **Separate distribution from virality.** Distribution is not the same as virality. Viral means that a product is so compelling that people are involuntary users of it. For example, if someone sent you a PDF, for a time you had no choice but to install Acrobat.

Distribution, by contrast involves companies making your product available to potential users. It may or may not cause involuntary use. For example, when you upload pictures to PhotoBucket, there is a button to create a FilmLoop out of it.

A viral product could have no distribution, and a distributed product might not be viral. To use a medical example, a person with hepatitis in the middle of the ocean won’t spread the virus, and someone with a non-contagious disease won’t spread it even if she were in the middle of Mumbai during the morning commute.

3. **Allocate responsibility.** The ultimate goal is a viral product that is well-distributed. Understand the roles here: Engineering’s task is to make a viral product. Sales, marketing, or business development’s task is to find the right distribution partner and cut a deal. Then it’s engineering’s task to integrate the products. Then it’s sales, marketing, or business development’s task to ensure that the world knows about the distribution partnership. A clear delineation of responsibilities and fulfillment of those responsibilities by all parties are necessary.

4. **Obey the law of big numbers.** The most important characteristic of a good distribution partner is that it has a lot of traffic, eyeballs, page views, whatever. Yes, this traffic might not be the “perfect” customers for you; yes, you’ll only get a tiny fraction of uptakers, but a small percentage of a big number is a big number, so don’t think too much.

For example, if your target market is mommy bloggers, you might conclude that MySpace wouldn’t be a good distribution partner because its customers are Trixie and Biff, sixteen-year-old kids. There are two things wrong with this reasoning: first, when you’re introducing a product (which is when you need distribution the most), you don’t know who will use your product and what they’ll do with it. As Chairman Mao said, “Let a hundred flowers blossom.”

Second, there’s the “you never know phenomenon” which goes like this: “You never know: maybe Trixie and Biff will use your mommy-blogger-intended product in their MySpace profile and even end up telling their mommies about it.” You will never know unless you try, so don’t be close-minded.

5. **Look for adjacency.** My buddy Bryan Starbuck suggested this. The most logical distribution partners have “adjacent” businesses that truly need each other to function well—for example:
 - eBay and PayPal. Big eBay needed a payment system for sellers who couldn’t take credit cards.
 - LinkedIn and SimplyHired. Is there a better reason to use LinkedIn than to find a job?
 - FeedBurner and TypePad. Once you figure out that many people prefer RSS feeds, TypePad’s [FeedBurner widget](#) becomes a no-brainer.

Nota bene: “Truly need” is different than “same customer base.” For example, a hearing aid manufacturer might like a deal with the AARP, but call it what it is: Advertising, not distribution. The AARP doesn’t need a hearing aid manufacturer to function.

6. **Focus on revenue.** Money talks, and bull shiitake walks. No matter what either party says, a good distribution deal **always** comes down to making money. If you hear or use the words “strategic” plus “brand awareness” more than the word “revenue,” your distribution deal is probably doomed. But if your partner will make money, then the deal will probably happen.
7. **Look out for the other guy.** The right perspective for distribution partners is: Let’s both make money. For sure, it’s not: How can I ensure that we make a ton of money and stick it to our partner? I have never seen a case where only partner makes money. Either everyone makes money or no one does.
8. **Always be thinking, “Bigger pie, bigger pie, bigger pie”**—not slicing up the same pie differently. The best reason to do a distribution deal is to enlarge size of the market for both of you as quickly as possible. If the pie is going to stay the same size, a distribution deal isn’t as attractive.

9. **Sometimes be thinking, “Skim the cream.”** There are cases where the pie isn’t going to get bigger, but you’re leaving money on the table that a partnership can harvest. Monetizing traffic on a popular website, for example. This can work too, but such a deal is seldom in the category of “essential.”
10. **Don’t kid yourself.** I’ll bet that you believe these lies of distribution. Stop. You’re hurting your company.
 11.
 - **The other company has APIs so that integrating will be easy.** Integration is always hard. Take whatever your first estimate is and double it to be safe.
 - **Not only is integrating easy, co-marketing will be too.** Take whatever your doubled estimated time to integrate and double that to get the co-marketing launched.
 - **Your challenge will be scaling up fast enough.** I’ve never seen scaling up be the gating item on a distribution deal.
 - **Your partner’s challenge will be scaling up fast enough too.** I’ve never seen this be the gating item either.
 - **You understand what your partner wants.** If it’s anything besides “additional revenue,” you’re missing the boat.
 - **You can cut a deal with MySpace because a board member knows someone there.** This is possible. It just won’t happen before you’re fired for missing your sales projections.