

# The 2017 State of Partner Profitability

## Research Review and Discussion

Continuing Education for IPED Channel Masters



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*Consultant & Writer*

## Perspectives On:

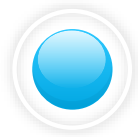
- ✓ Partner business models & economics
- ✓ Consulting business dynamics
- ✓ Building & running a professional services practice

## Professional History:

- Consultant / Analyst – ESG Group
- Director, Partner Alliances - Glasshouse Tech.
- VP, Professional Services – Avamar Technologies
- Client Director – EMC
- Director of Marketing & Prof. Services – Articulent/Berkshire
- Product Marketing - Digital Equipment Corp.



**Profitability Drivers by Business Model**



**Gross Margin and Expense Trends**



**Refining the Value Proposition Around Profitability**

# Start with your relative position ....

## Strategic

We are generating a significant amount of revenue with these technology suppliers and are highly involved with them at the sales, marketing and technical levels

## Tactical

We generate a significant amount of revenue with these technology suppliers, but product alternatives exist and we are not strategically invested in these lines

## Opportunistic

We infrequently buy small amount of products from these technology suppliers, and re-actively based on our customers' demands





# Impact to your profitability value proposition

**“Not a Strategic Fit”**

*Not addressing pure-play or hybrid business models*

**“Commitment Greater than the Opportunity”**

*Imbalance between SG&A investment and projected gross margins*

**“ROI Was Less Than Expected”**

*Improper expectations for investment time horizon  
OR unclear services-attach projections*

**“Lower Than Expected Margins”**

*Unclear services-attach projections  
OR not addressing the right business model(s)*

# The impact of profitability: then and now

# S U C C E S S

## THEN – “Profitable”

- Gross margins
- New customers
- Professional Services growth
- Solvency

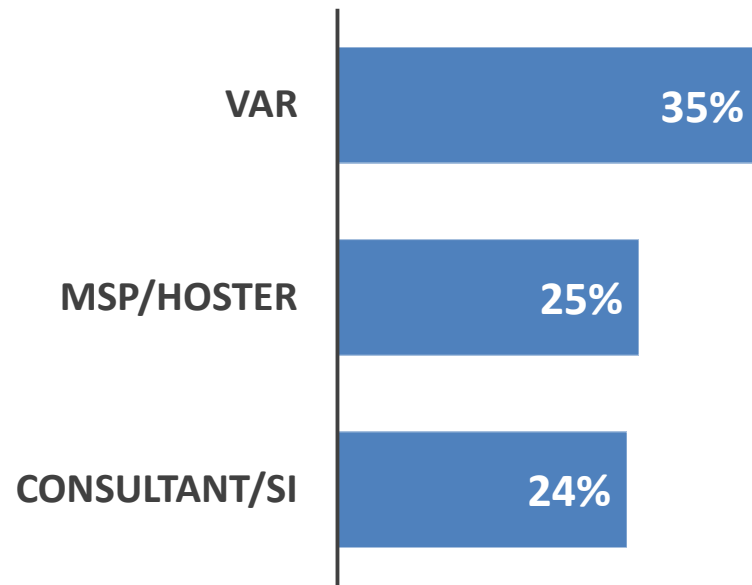


## NOW – “Valuable”

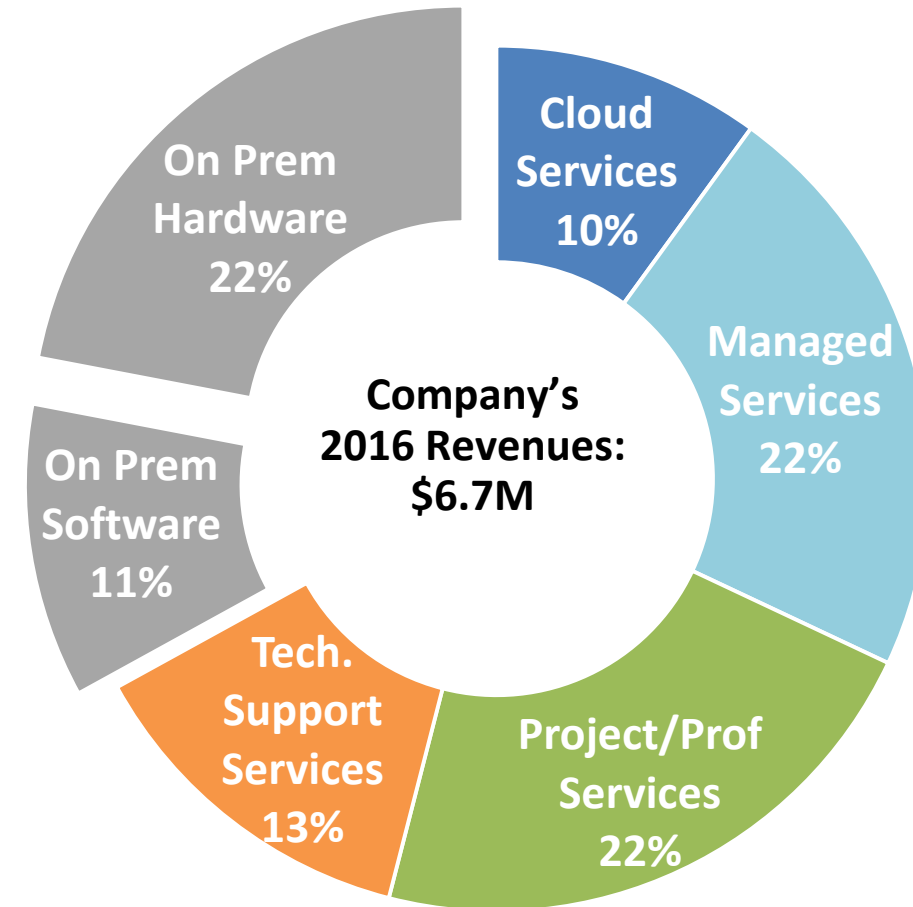
- Intellectual property
- Monthly recurring revenues
- Customer retention and expansion rates
- Vertical insights and LOB relationships
- Services diversity

# Respondents are hybrid VARs and MSP/Consultants leading with professional and managed services, then on-premise hardware

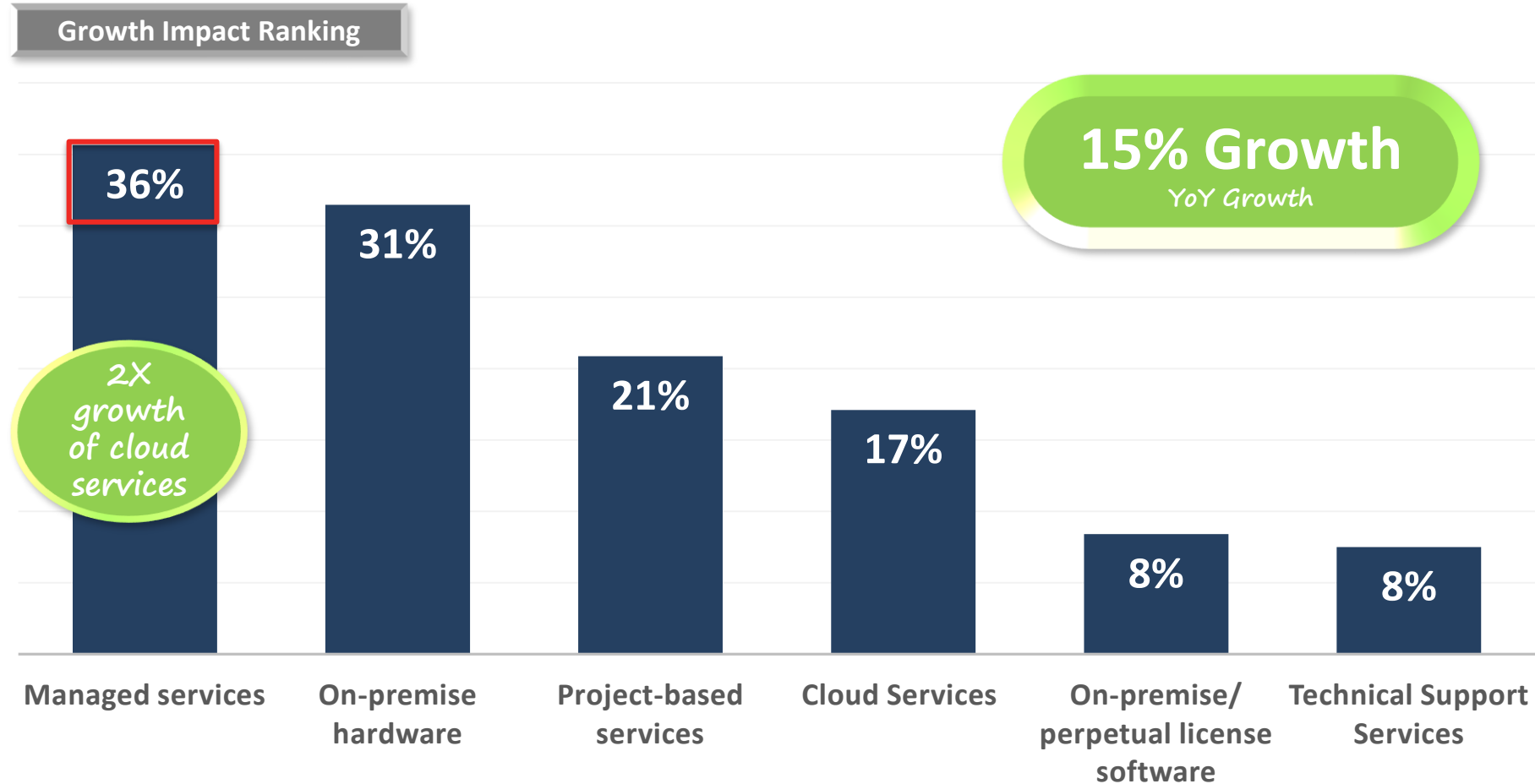
**Primary Business Models**



**2016 Revenue**



# Respondents grew 15% in topline sales in 2016; plan to drive topline growth in 2017 from MSP services and on-premise hardware sales



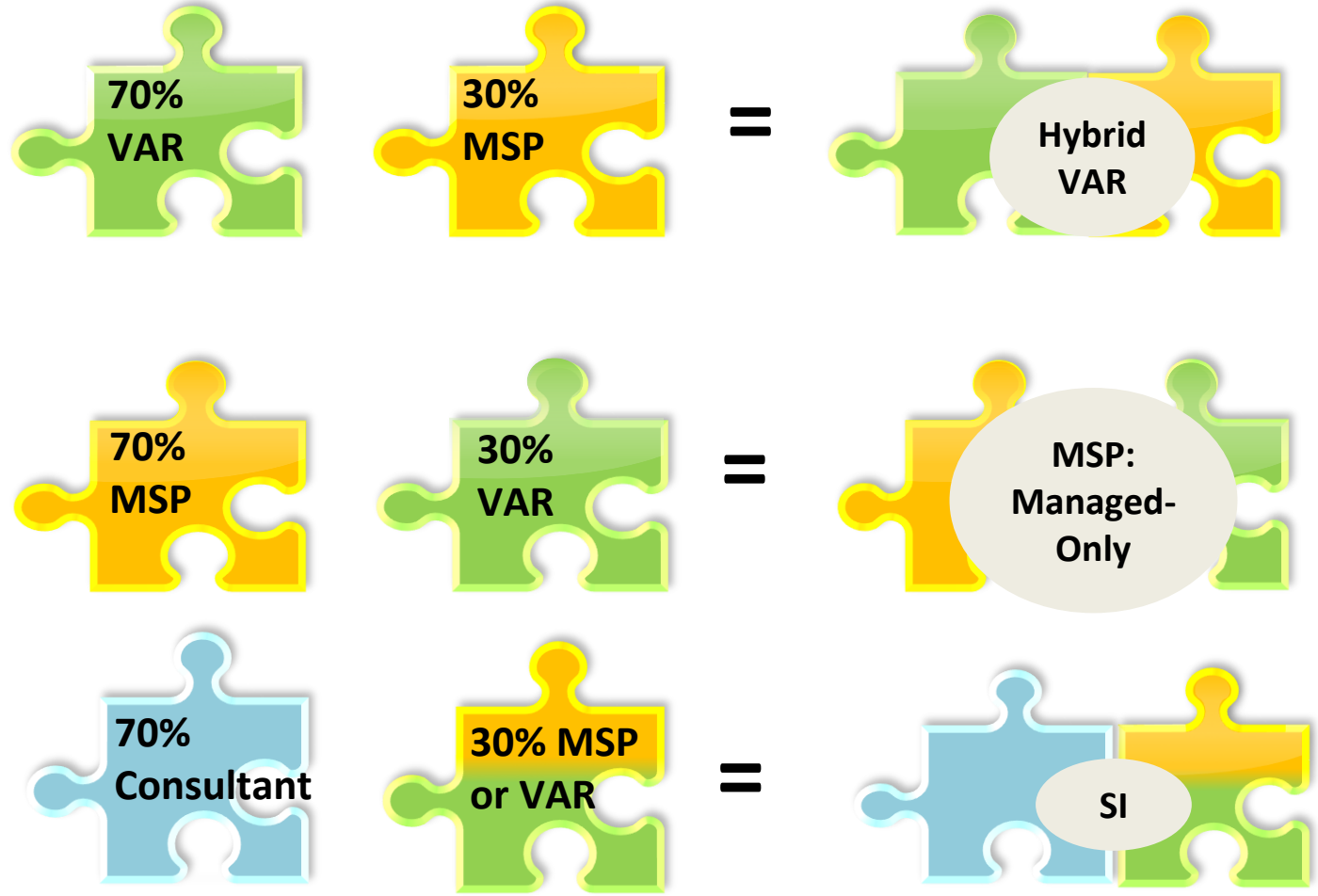
Q: From which categories do you expect to gain the majority of your topline sales growth in 2017? (Please rank in order of source of growth)



# Why role-based programs matter: hybrid business models

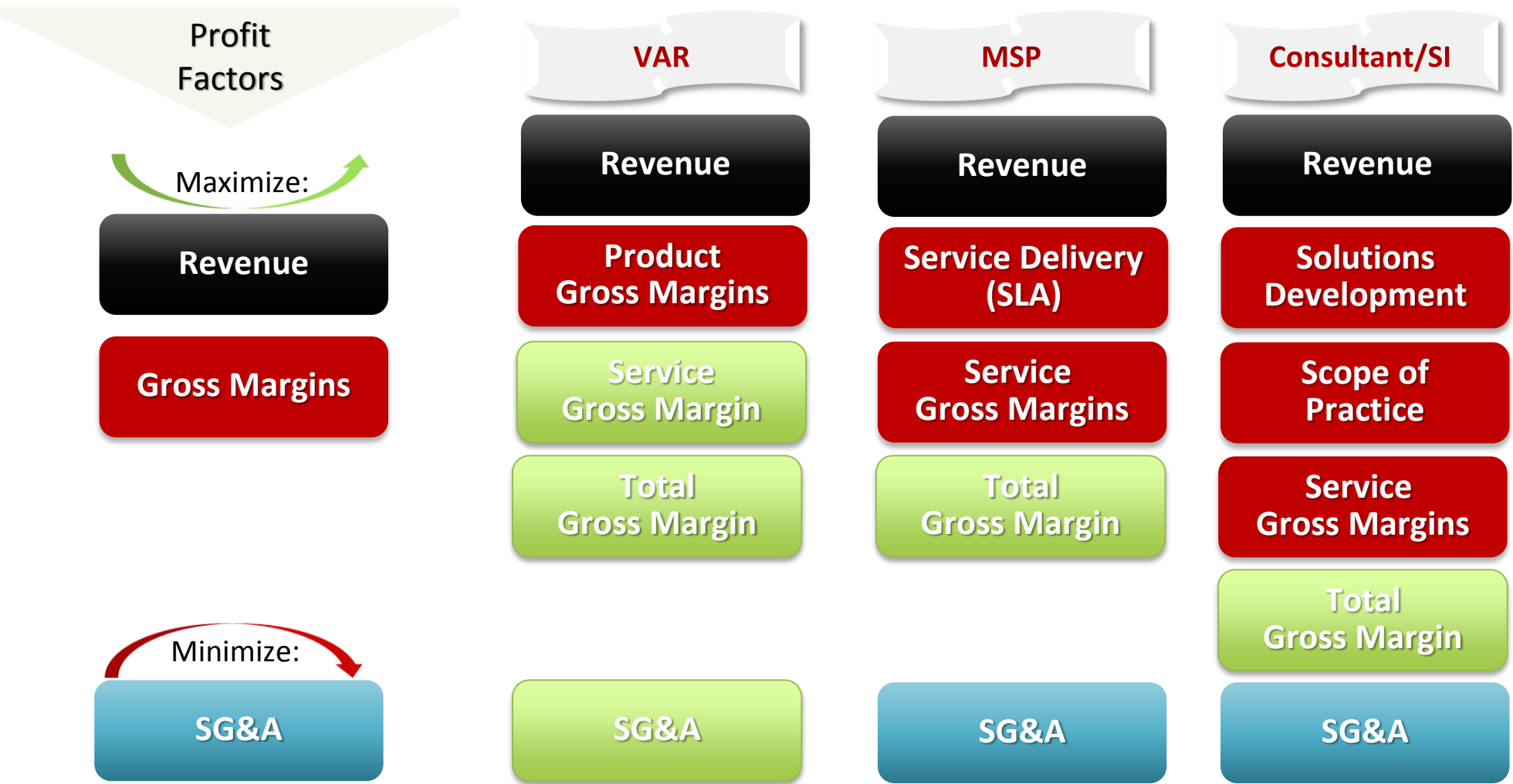
## How to Use These Models:

- Dissect your ideal partner profile
- VAR, MSP and Consultant models are the 3 pureplay roles
- Factor in the correct percentage of the 3 pure models to achieve the hybrid mix of your ideal partner profile
- Then benchmark partner needs to your program

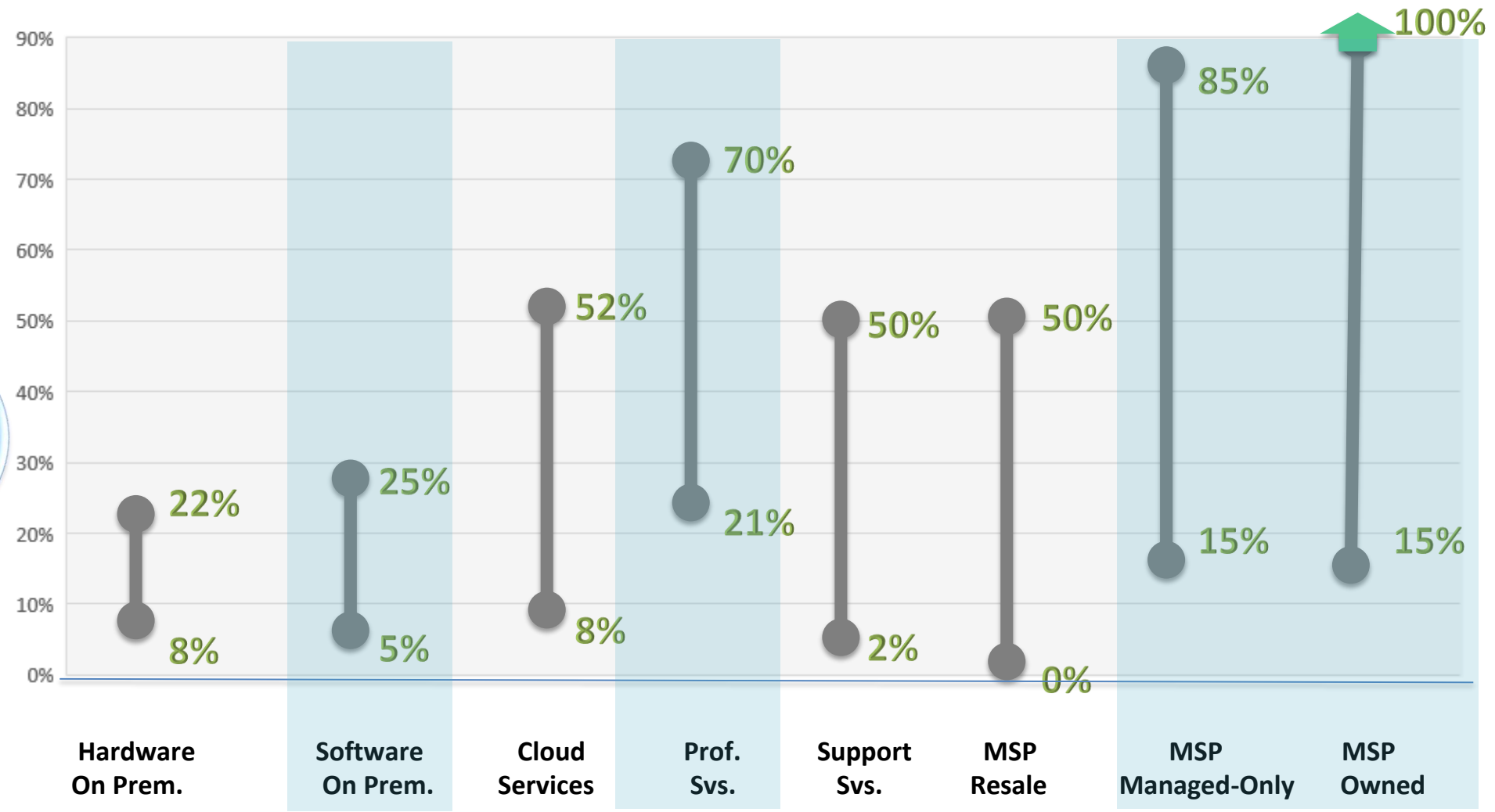
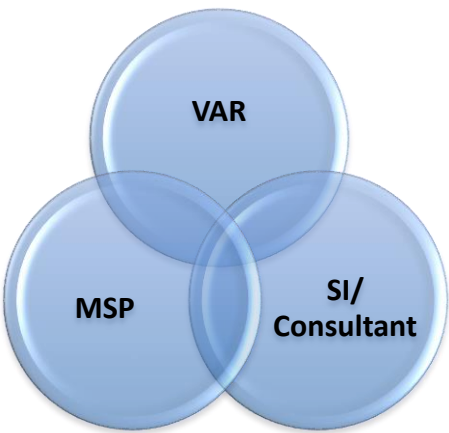


- Illustrative -

# Profitability factors vary distinctly by business model



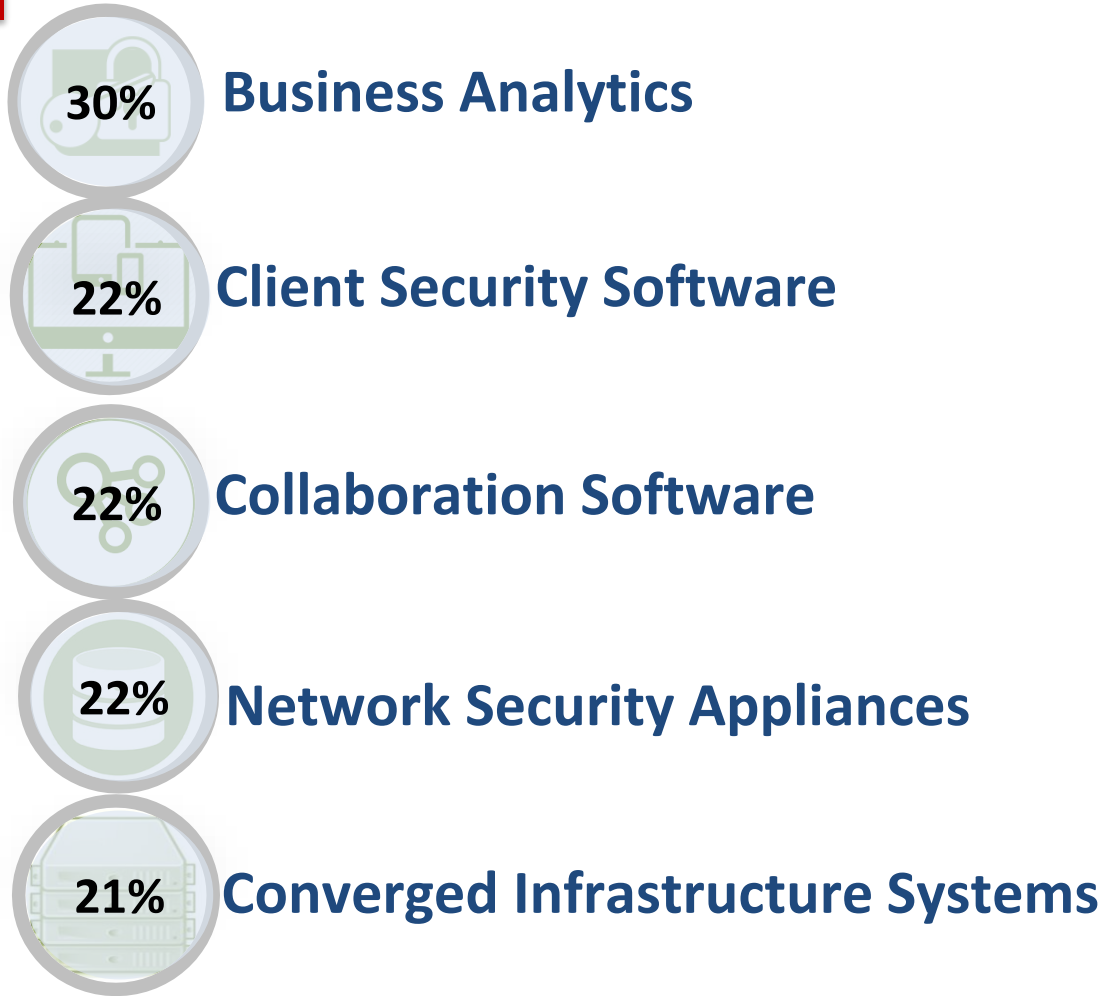
# Wide range of gross margins: reflect focus on areas of valuation



# VAR 2016 top gross margin-producing product categories

**Top 5**

Estimated Gross Margin %



**VAR**

*“Our margins are 18% on public cloud software, e.g. Office 365, but with our wrap-around managed services, margin goes up to 33% on average. Without services, there is no money here.”*

# MSP profits still heavily focused on partner-managed only

**MSP**

*“Our revenue mix used to be 25% recurring and 75% project services mix; but it’s got to be at least 30% plus recurring. This allows me to cover costs with recurring revenues.”*

**% of MRR revenues**

**21%**

**Resale**


- Resold another supplier or service providers’ managed services

**25% GM** 

**61%**

**Partner Managed-Only**

- Partner manages customer’s asset (*on customer premise, at someone else’s datacenter or on a public cloud*)

**50% GM** 

**18%**

**Partner Owned**

- Offered your own hosting services on your own data center and managed for a customer

**50-60% GM** 

# Consultant/SI's still heavily dependent on project-based services

**77%** of revenues from Services

**↳ 75%** of Services from Prof. Svs.

40-50% GM 


**5%** from managed services

50-65% GM 

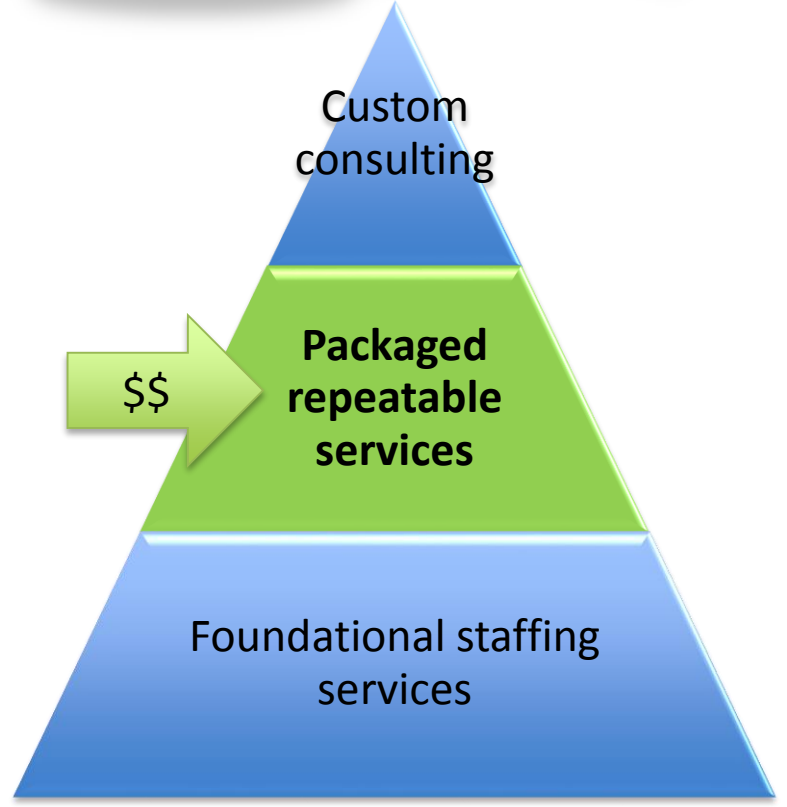
**3%** from cloud services (resale)

7-10% GM 

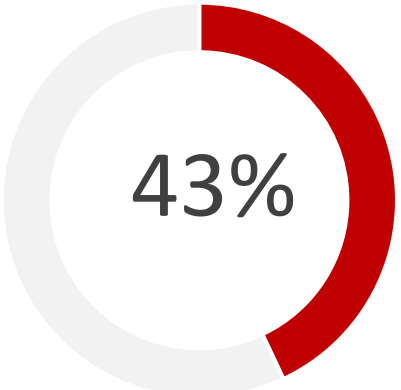
**17%** from support services

30% GM 

## Consultant/SI Services Heirarchy



# All major SG&A expenses up from 2015



Say **longer selling cycles** have increased their selling costs most in 2016

- Different decision makers
- Unpredictable customer demand

**All 11 Major SG&A Expense Lines INCREASED** from 2015  
(71 – 92% response)

<b>Top 4 greatest changes</b>	<b>1</b>	Technical staff		<b>3</b>	Business offices	
	<b>2</b>	Sales staffing		<b>4</b>	Back-office staff	



# Partner Profitability: Getting value prop alignment

**VAR**

Increase Revenue	Decrease COGS	Decrease SG&A
Stronger sales tools	More lucrative front-end deal reg. incentives	Make training and certification more affordable



# Partner Profitability: Getting value prop alignment

## VAR

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## MSP

Offer utility or consumption-based pricing	Expanded financing to help with data center build costs	Make training and certification more affordable
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## Consultant/SI

More IP to help us architect Next-Generation Services	Field mentoring for consultants	Reduce or eliminate channel/alliance program fees
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# Solution providers feel only ½ of vendor CAMs understand their profitability

 **15%** say  
CAM's **fully understand** all the elements of profits and costs

 **29%** say  
CAM's **understand most of** the margin and cost factors

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 **21%** say  
Say CAM's understanding is **limited to transactional gross margins**

 **19%** say  
Say CAM's have a **very limited understanding** of both real margins and sales expenses



*Q: To what degree do you feel the channel reps who support you from your top IT vendors understand how you make money with their product line(s)? (n=318)*

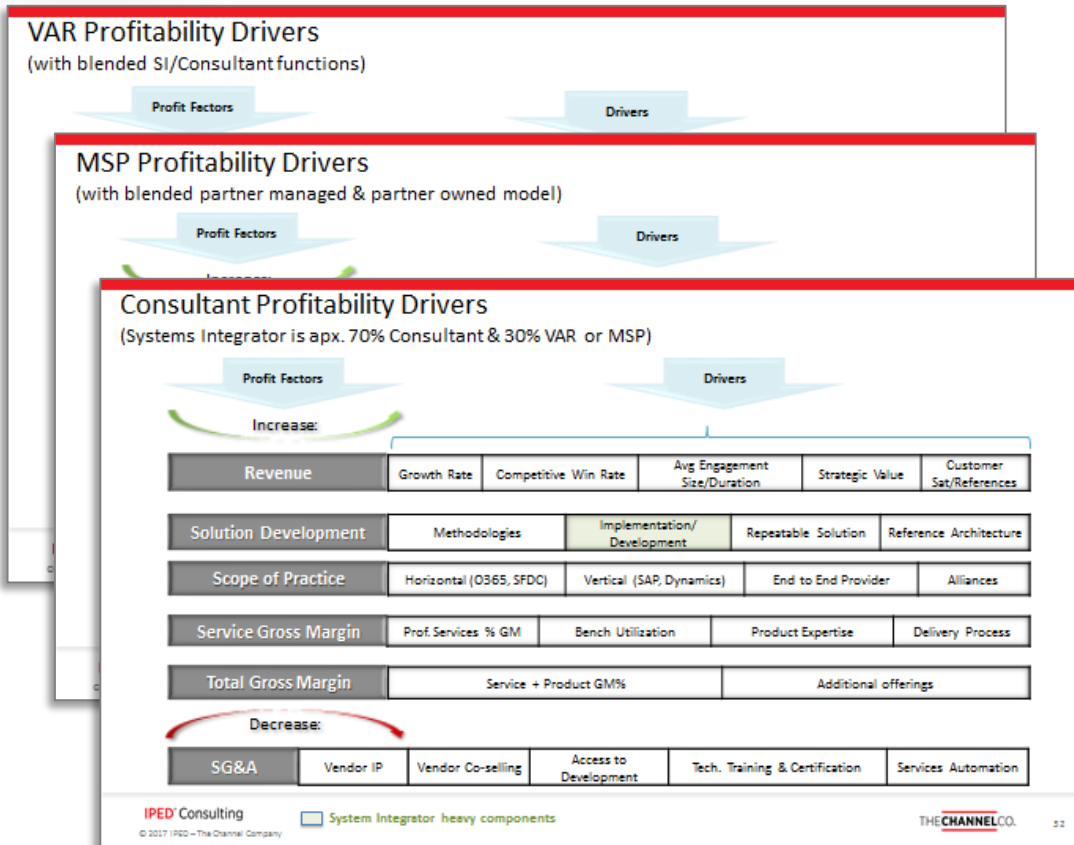
# Refining the value proposition around profitability



1. Map your *target partner profile* to hybrid business model & profitability drivers
2. Understand the *complete channel economic picture* for your products
3. Tailor your *value proposition* to speak to profitability impact first
4. Continue to *evolve your partner managers* into business managers, with a keen sense of profit & cost drivers

# Three pure-play models from which you can have a granular view of profitability and benchmark your program

## Partner Profitability



## Vendor Support Needs

**Lever of Partner Profitability: VAR**

Partner P&L Levers	Type	Vendor Tools / Resources
	Increase Revenue	Stronger sales tools 23%

**Lever of Partner Profitability: MSP**

Partner P&L Levers	Type	Vendor Tools / Resources
	Increase Revenue	Offer utility based or consumption based pricing 53%
	Decrease SG&A	More marketing visibility as part of vendors MSP partner ecosystem 38%

**Lever of Partner Profitability: Consultant/Systems Integrator**

Partner P&L Levers	Type	Vendor Tools / Resources
<b>SOLUTION DEVELOPMENT</b>		
Intellectual Property	Increase REVENUE	More IP to help us Architect Next-Generation Services 34%
<b>DELIVERY EFFICIENCY</b>		
Service Delivery Tools	Decrease COGS	Better Access to Service Delivery Tools, Best Practices (Architectures, SOWs, Integration Guides) 30%
<b>STAFFING</b>		
Resources and Development	Decrease SG&A	Easier Access to Field SEs for Joint Engagement 43%
	Decrease COGS	Field Mentoring for Consultants 35%
	Increase REVENUE	Access to Field Salespeople for Joint Engagements 26%
Sales Process	Decrease COGS	Help us Get Access to Certified Technical Talent to Expand our Bench 29%
	Decrease COGS	Better Access to Demo Gear 22%
<b>COST OF SALES</b>		
Sales Process	Decrease SG&A	Sales Influence Fees to Reward Co-selling 26%
Program	Decrease SG&A	Reduce/Eliminate Channel/Alliance Program Fees 47%

REVENUE  
C.O.G.S.  
SG&A

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## YEAR-LONG Development Series for Senior Channel Professionals

Proven program designed to arm vendor sales, marketing, and channel program leaders with the insight, tools and real world techniques to:

- **BUILD** upon best-in-class channel programs
- **RECRUIT** the most effective partners
- **ENABLE** partners to full productivity as quickly & predictably as possible
- **MANAGE** partner relationships to drive continued success

*Channel Masters classes kick off 2x per year. Seating is limited to approx. 25 attendees per class.*

Next class kicks off  
May 23-25 in Boston

### 2-PART PROGRAM

#### PART 1: MAY 23-25



#### 2.5 day Interactive Kickoff Workshop

Best practices data driven lectures. Facilitated discussions around attendee real world challenges. Simulation exercises including a live partner panel.

#### PART 2: JUNE '17 – APRIL '18



#### 11 Monthly Continuing Education Webinars

Topics prioritized by members. All webinars are delivered live, recorded and made available for on-demand usage behind a gated learning portal.

# Thank You



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