ChannelMasters®

Boston Kickoff Workshop

June 2018

THECHANNELCO.™

Channel Census

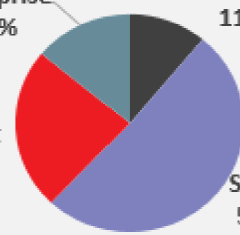
Over 2/3 of the N. American SP community is still small, regional VAR/Consultants catering to SMB

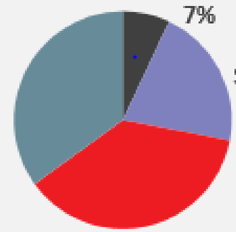
This Study's Participants: (medians)
$4m annual revenues
20 employees total; 10 tech., 5 sales

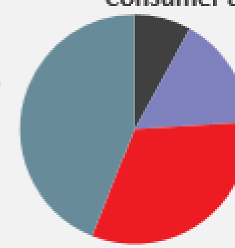


	Small regional *Local IT generalist or specialized services firms*	**Medium regional/national** *Established SMB integrators with expanding service portfolios*	**Large national/global** *Diverse enterprise solution providers promoting business outcomes*
% of total N. American solution providers	**68%**	**25%**	**8%**
Total annual revenues	<$10m	$10-499m	$500m+
# of employees (total); sales/technical	10 total; 2 sales, 5 tech.	110 total; 19 sales, 40 tech.	3200 total; 600 sales, 750 tech.
Primary & Secondary business models	1. VAR 2. Consultant	1. VAR 2. SI	1. VAR 2. MSP

Mix of revenues by customer type

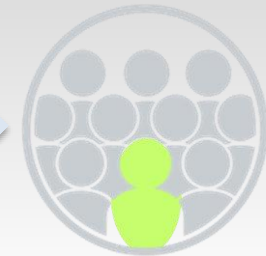






Q: What were your company's annual 2016 revenues? (n=532)
Q: Which of the following best describes your current primary business model (that which contributed the highest percentage of your 2016 revenues)? (n=532)
Q: Which of the following best describes your current secondary business model (that which contributed the highest percentage of your 2016 revenues)? (n=532)

"Strategic Service Provider" Model Revisited



#1

Represents the ***aspirational capabilities*** of partners 3 - 5 years into the future

#2

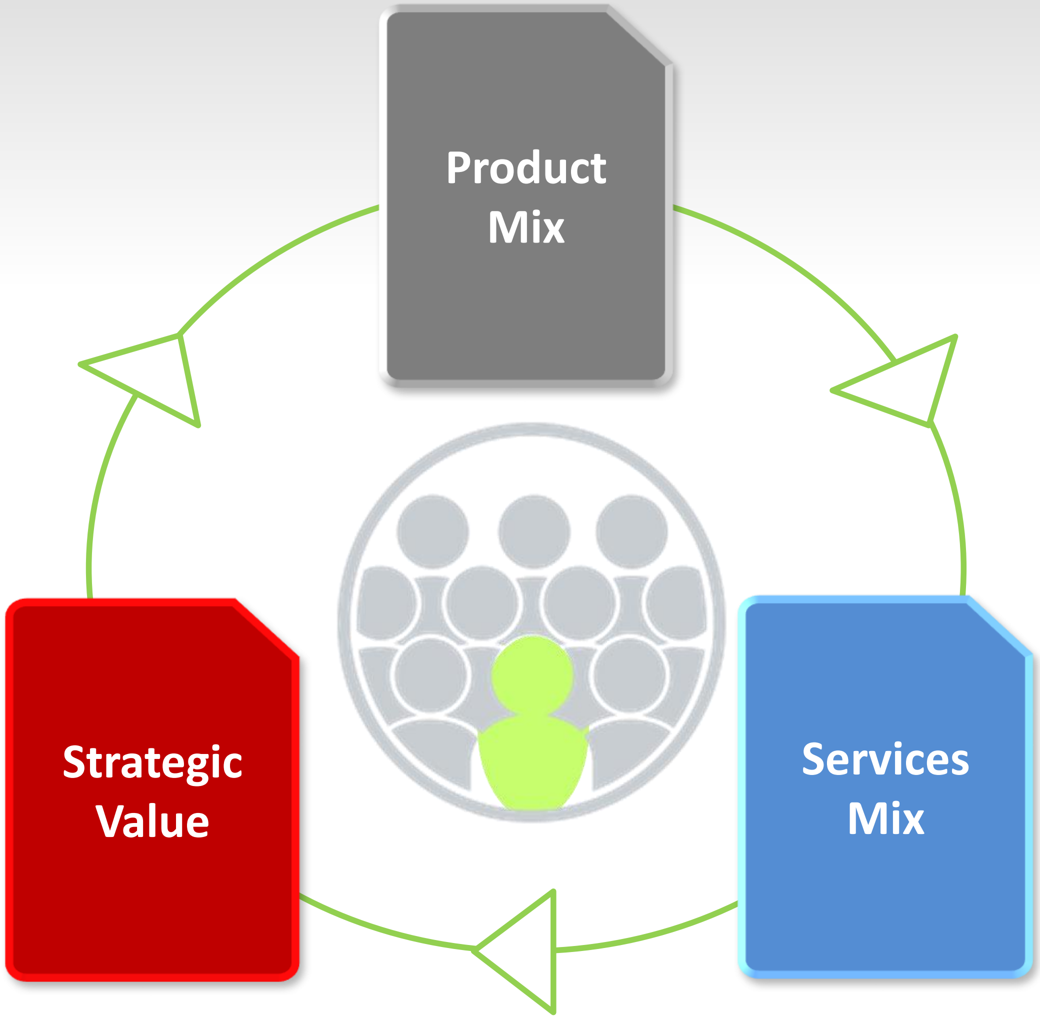
Captures the ability of the partner to be the ***trusted advisor to the customer***

#3

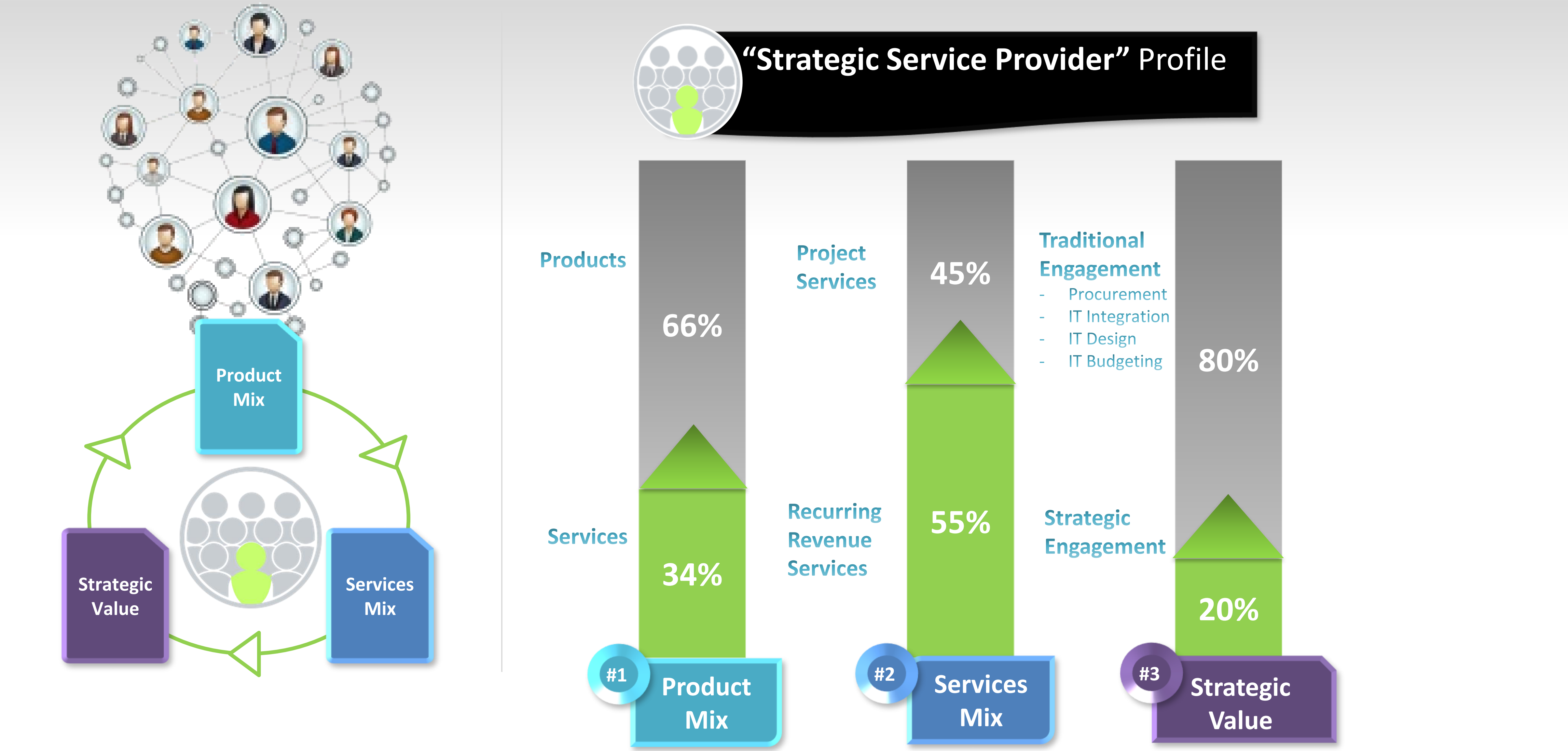
Represents ***cloud brokerage*** capabilities around IaaS, PaaS, SaaS, and other managed services

The term does <u>not</u> replace ISV, DMR, Consultant, SI or other business models. It is targeted at the ***VAR heritage solution provider***

Strategic Service Provider: Model Criteria



The "Solution Provider" Evolves: "Strategic Service Provider"



Four Biggest Takeaways

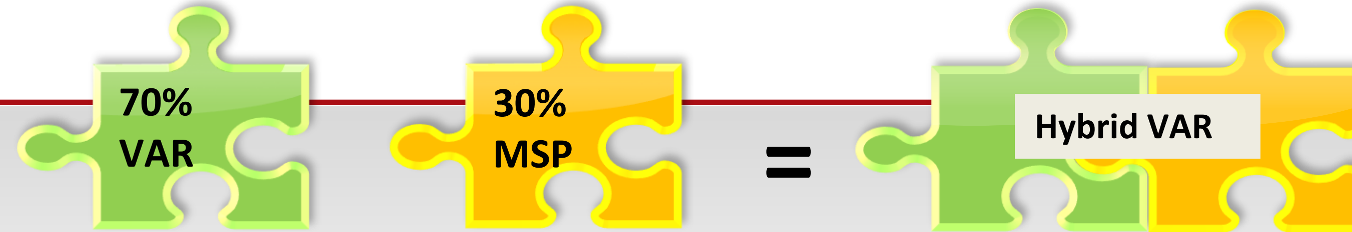
- CONTINUED GROWTH IN MSP BUSINESS MODEL
- NETWORK & SECURITY SKILLS REVITALIZED
- DIGITAL TRANSFORMATION CROSSES CHASM
- PARTNERS WANT EXPANDED RECURRING REVENUE SUPPORT

Four Biggest Takeaways

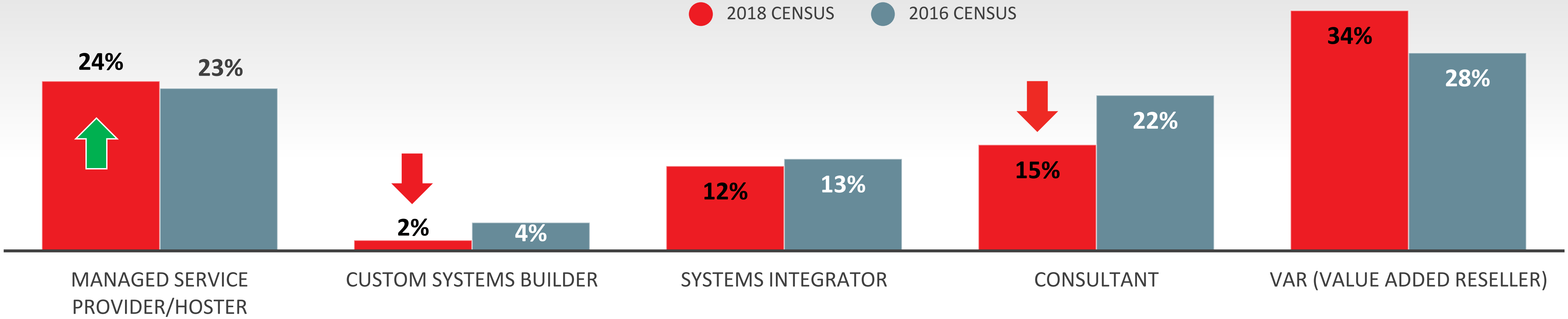
▶ **CONTINUED GROWTH IN MSP BUSINESS MODEL**

Nearly 50% of solution providers now deliver managed services as primary or secondary business model; consultative selling now ubiquitous approach, but drive toward scalable annuity revenues dictates growth strategies

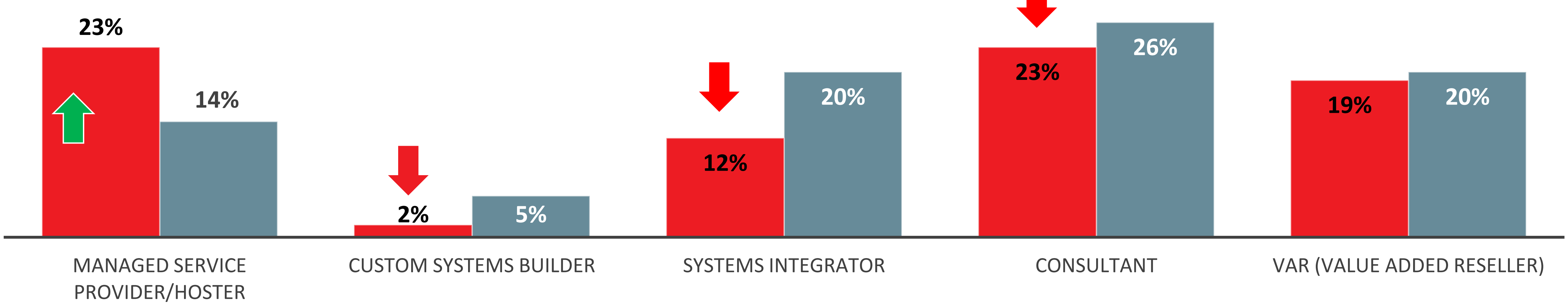
Current Biz Model Mix



PRIMARY BUSINESS MODELS



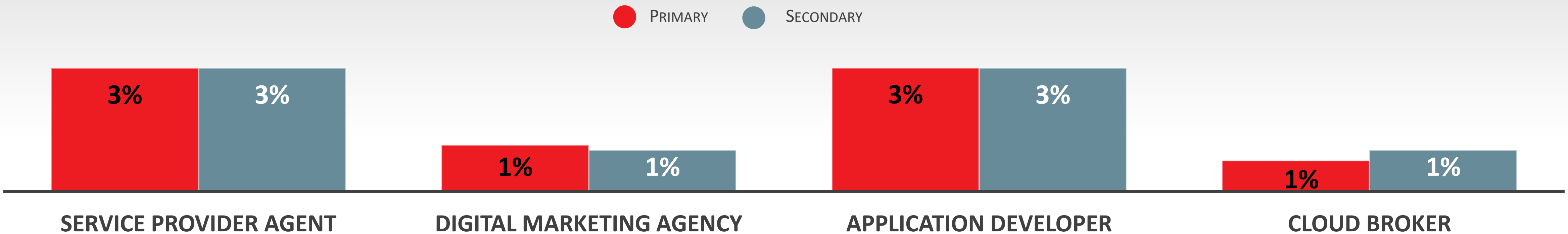
SECONDARY BUSINESS MODELS



Q: Which of the following best describes your current primary business model (that which contributed the highest percentage of your 2016 revenues)? (n=532) Means
Q: Which of the following best describes your current secondary business model (that which contributed the highest percentage of your 2016 revenues)? (n=532) Means

Application development skills now blending to many other business models; tracking growth of digital marketing agencies and cloud brokers

EMERGING BUSINESS MODELS



SERVICE PROVIDER AGENT

Service Provider Agent (or reseller) still aligned with legacy telephony focused partners; aligns with opportunistic selling of T21/T2 IaaS provider offerings

DIGITAL MARKETING AGENCY — Now Included

Enhance customers' creative and strategic online user experience, mobile applications strategy, social media strategy, and approach to data gathering /analytics. May also provide creative agency services and influence mobile application development and/or marketing automation solutions.

APPLICATION DEVELOPER

App. developer broken out from commercial ISV to reflect increase need for application skills; top function for P2P teaming

CLOUD BROKER — Now Included

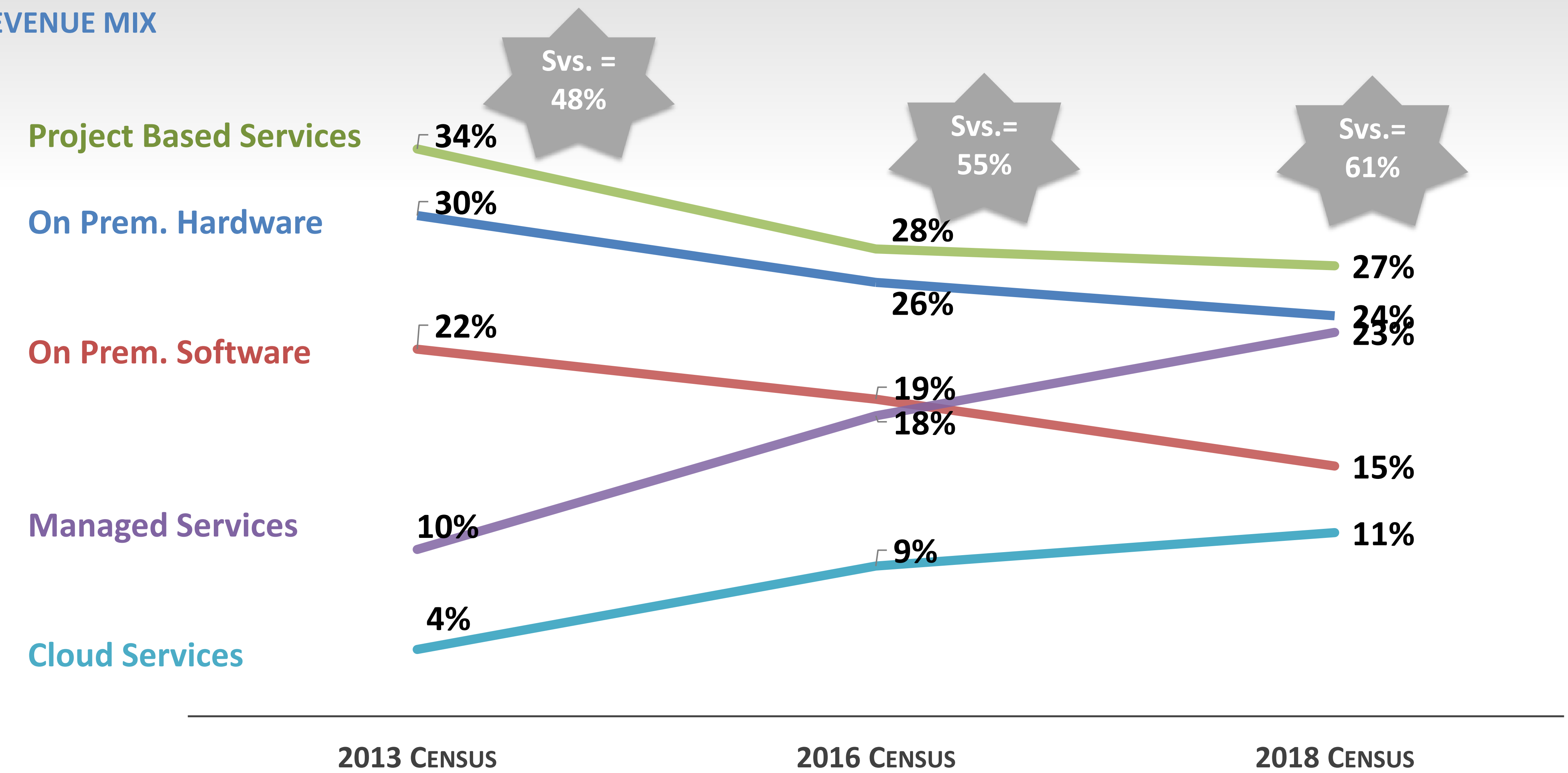
Majority of revenues (>50%) come from the administration of public cloud services. May include provisioning licenses, user additions/changes, access & security designations, license compliance management & reporting via a central portal access, ongoing billing and central help desk support.

Watch for App Dev Research 2H2018

Q: Which of the following best describes your current primary (and secondary) business model (that which contributed the highest percentage of your 2016 revenues)? (n=532) Means

Revenues continue to shift away from on-prem. hardware and software to project, managed and cloud services

CENSUS - REVENUE MIX



Q: What was your estimated mix of revenue in 2016, among the following major product/service categories? (n=532 Mean Data)

MSP models vary widely; primary revenue coming from partners managing customers assets (only)

PLANS TO GROW MANAGED OR RECURRING REVENUES SERVICES IN 2018?

YES

70%

% of MRR revenues

Resale	Partner Managed-Only	Partner Owned
20%	**47%**	**33%**
• Resold another supplier or service providers' managed services	• Partner manages customer's asset *(on customer premise, at someone else's datacenter or on a public cloud)*	• Offered your own hosting services on your own data center and managed for a customer

Q: Thinking specifically about your Managed Services business in the last 12 months, what % of your total managed services revenue came from each of the following service delivery models? (n=209)
**Asked of MSPs only*

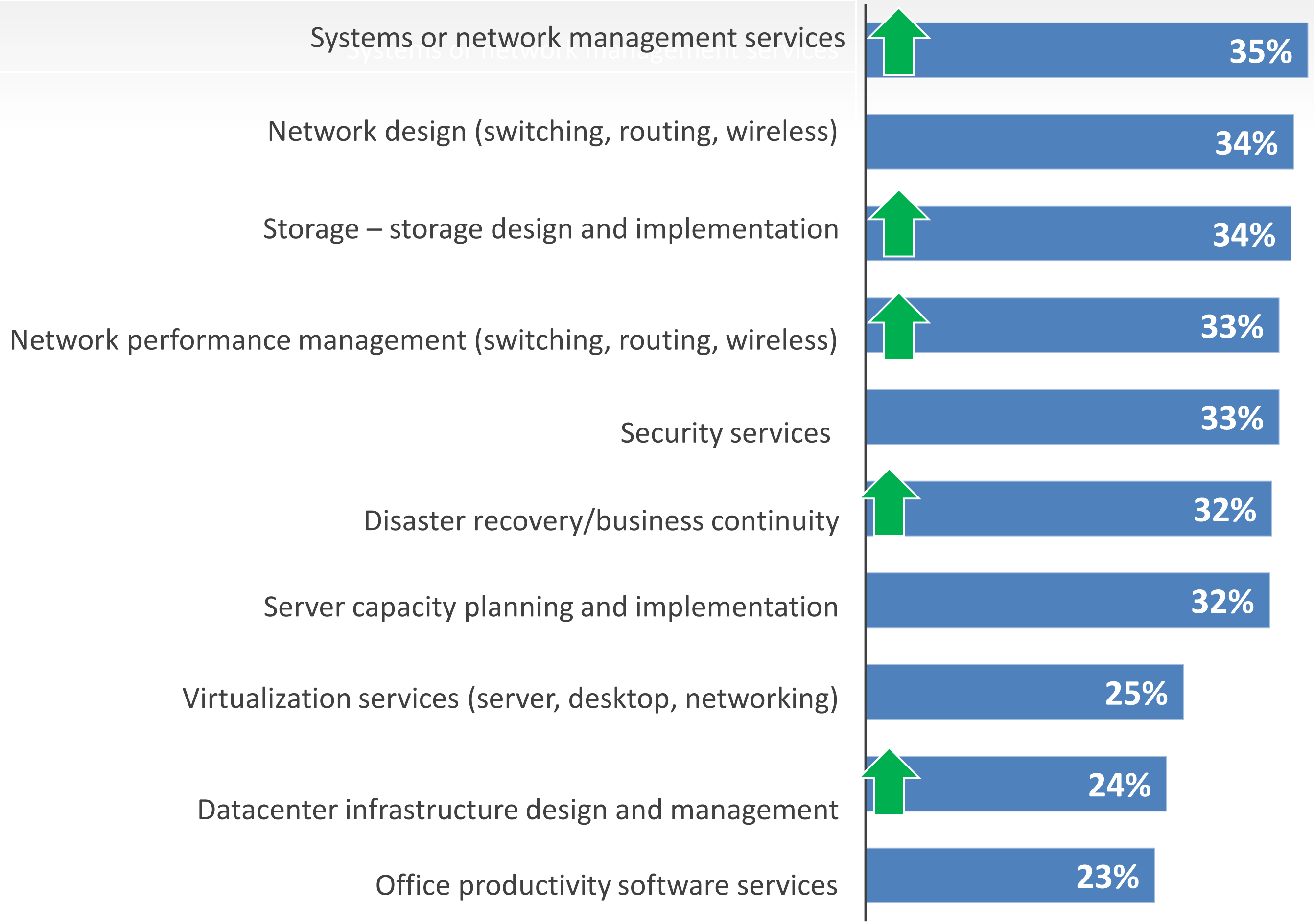
CONTINUED GROWTH IN MSP BUSINESS MODEL

NETWORK & SECURITY SKILLS REVITALIZED

Emerging technologies require refocus on core networking & security skills; both create expanded opportunity for transition to software-defined networking and enterprise-wide security

Systems and network management services top the list of 2017 money-makers; datacenter technologies still drive the most revenue, but are expanding to end-to-end network architectures

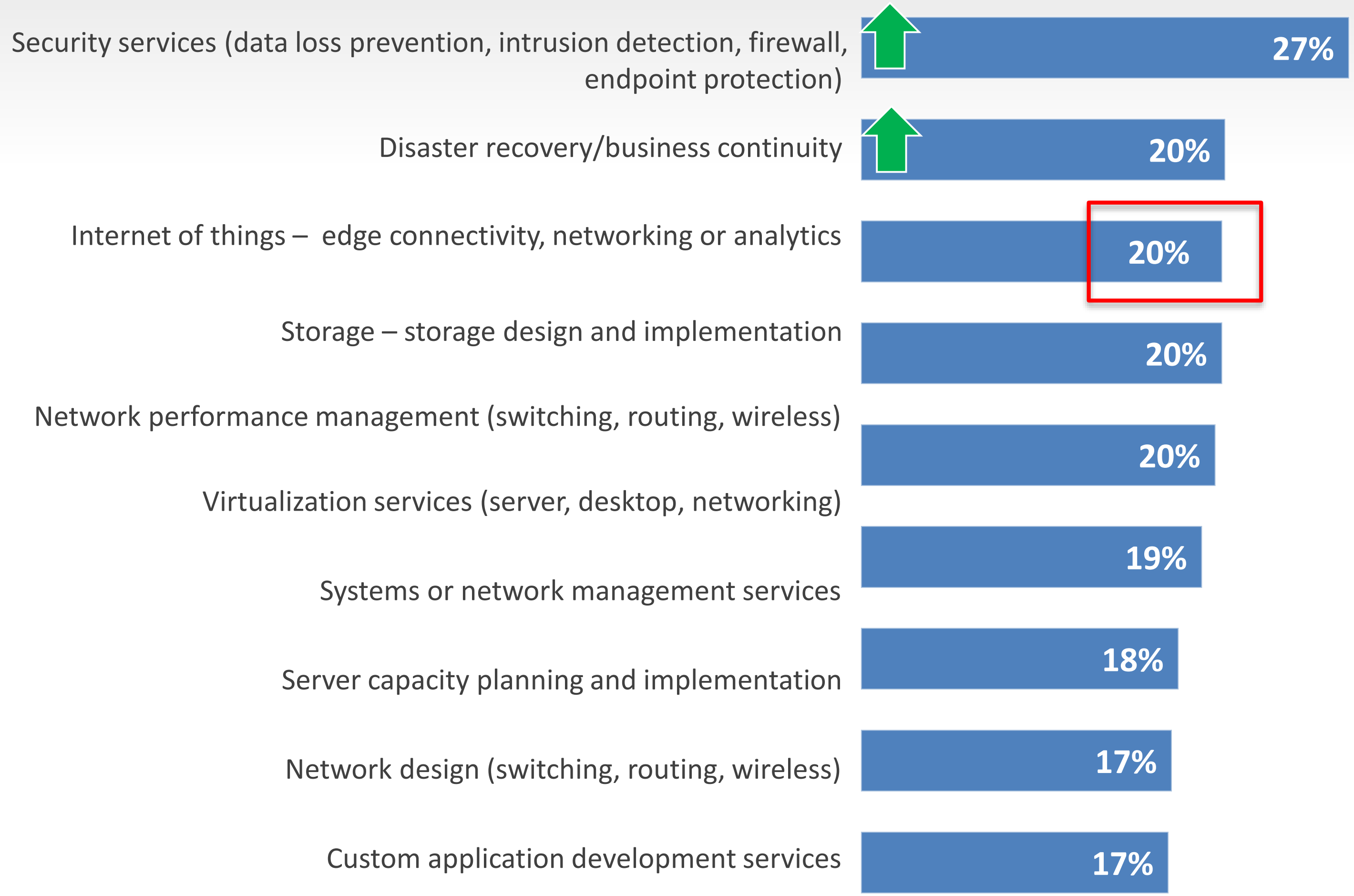
Technologies that represented at least 10% of revenues in 2017



Q: In which of these product or solution categories will your company generate at least 10% of its annual revenues in 2017? (n=532)

Security and disaster recovery/BC services top the list of 2018 investments; IoT makes the top 3 and core data center services (virtualization, storage) continue their focus

Top Technology Investments



Q: In which of these product or solution categories is your company planning to strategically invest further during 2018? (n=532)

CONTINUED GROWTH IN MSP BUSINESS MODEL

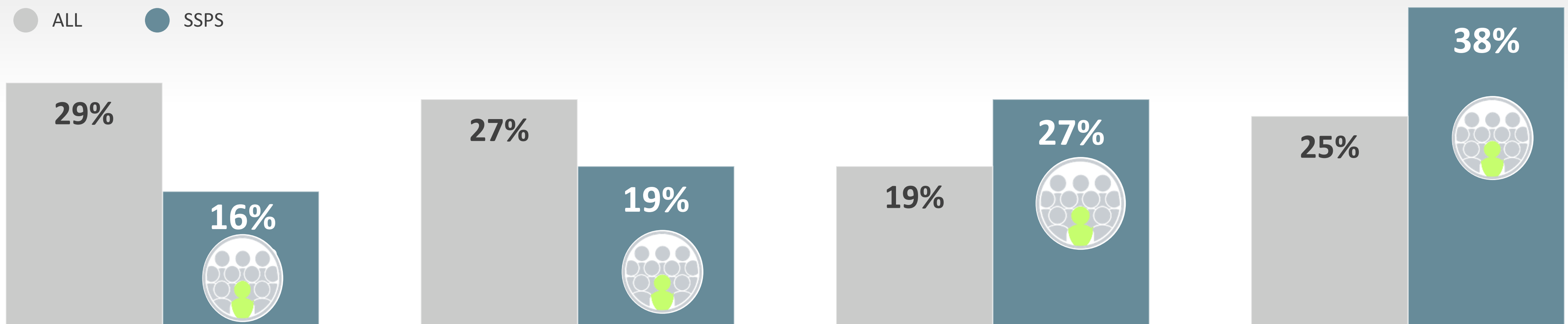
NETWORK & SECURITY SKILLS REVITALIZED

DIGITAL TRANSFORMATION CROSSES CHASM

Deal volume still small, but ~16% of solution providers (of all sizes) showing customer wins in infrastructure and application-led digital solutions in key verticals; IoT makes top five technology investments for the first time

Less than half of current SP customer engagements focus on business solutions or business decision makers; SSPs providing nearly 50% more business solutions vs. general SPs

CUSTOMER ENGAGEMENTS BY TYPE OF STRATEGIC GUIDANCE (MEANS)

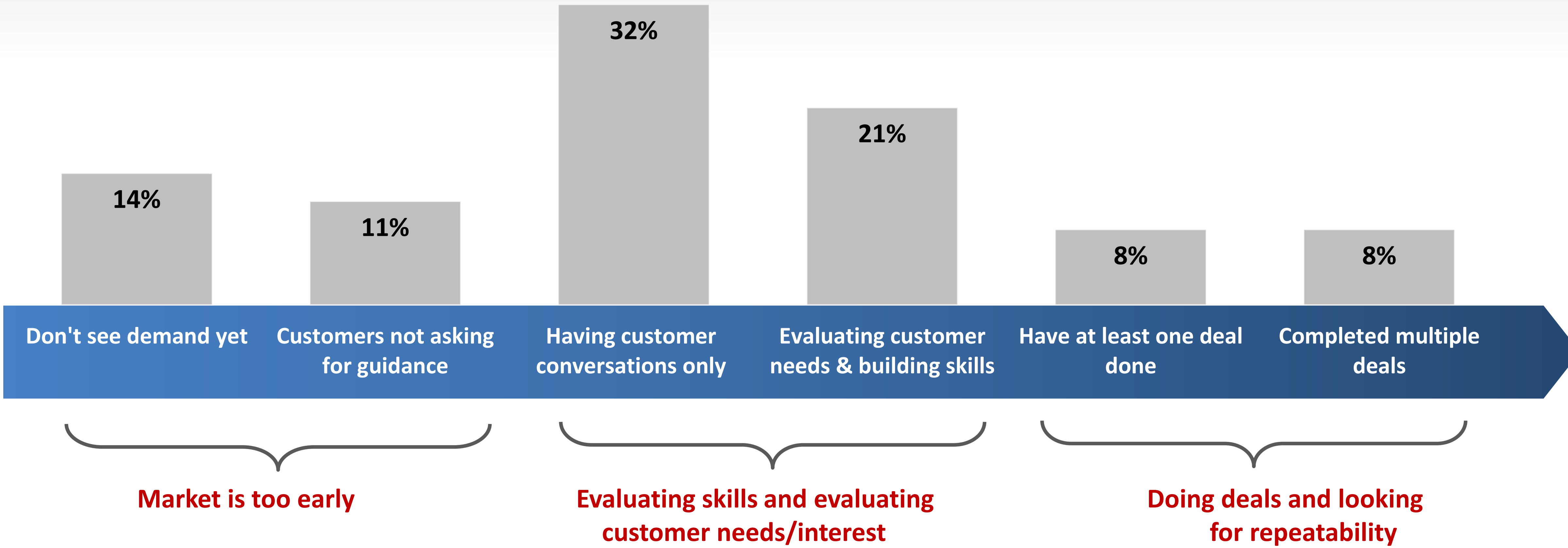


Fulfillment	All-IT Solution	Business Solution Sold to IT Decision Makers	All-Business Solution
Focus:	**Focus:**	**Focus:**	**Focus:**
▶ Fulfilling pre-existing customer demand for IT products and services, either with established or new customers	▶ Solving an IT problem, designed for and sold to IT decision makers	▶ Products and services designed to solve a specific business problem; primary decision maker is an IT executive.	▶ Solutions designed to solve a specific existing problem or automate a new business process; designed for and primary decision maker is LOB
▶ **Example:** procuring additional laptops for a DaaS solution	▶ **Example:** integrating additional server, storage, networking capacity	▶ **Example:** design of a UC system for enhanced sales/mktg. collaboration	▶ **Example:** implementing a marketing automation system

Q: In what percentage of your total number of customer engagements over the last 12 months have you offered the following types of strategic guidance to your customers? (532)

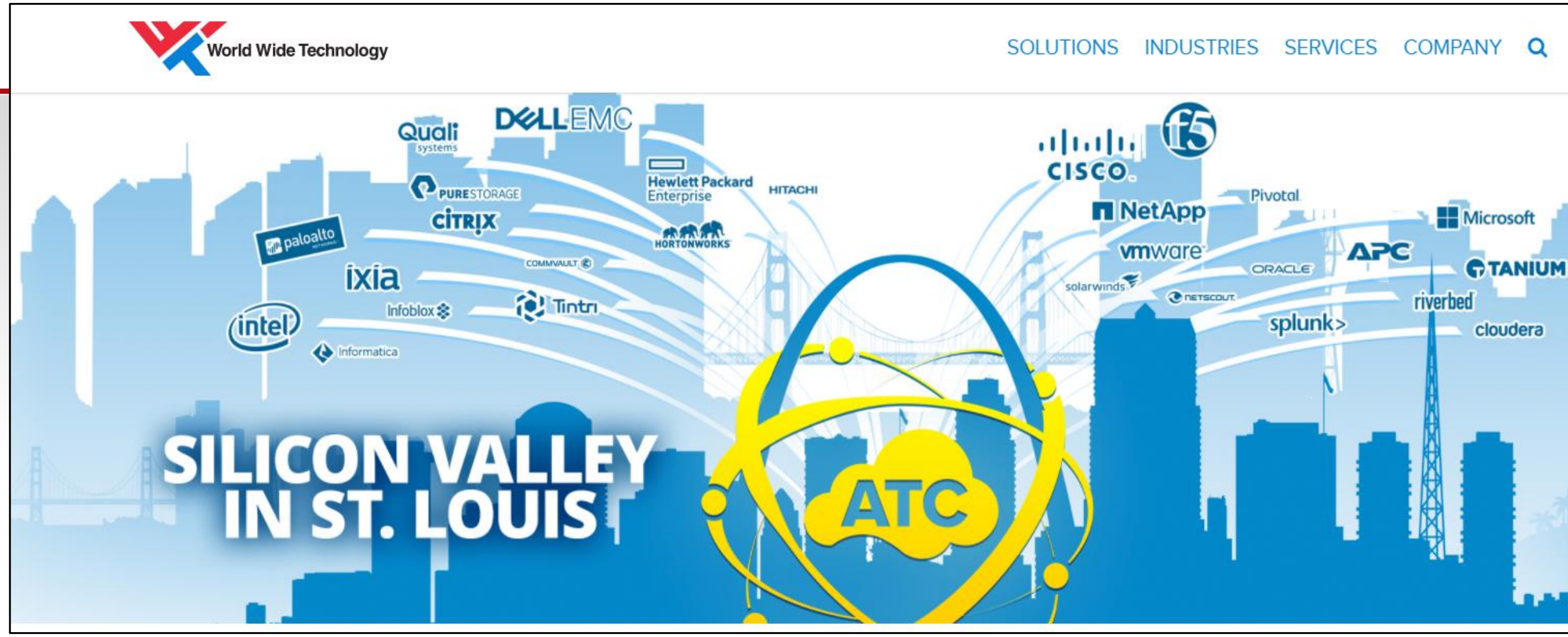
Digital transformation projects are defined broadly; majority still evaluating customer needs and their own assets. <20% have any deals yet

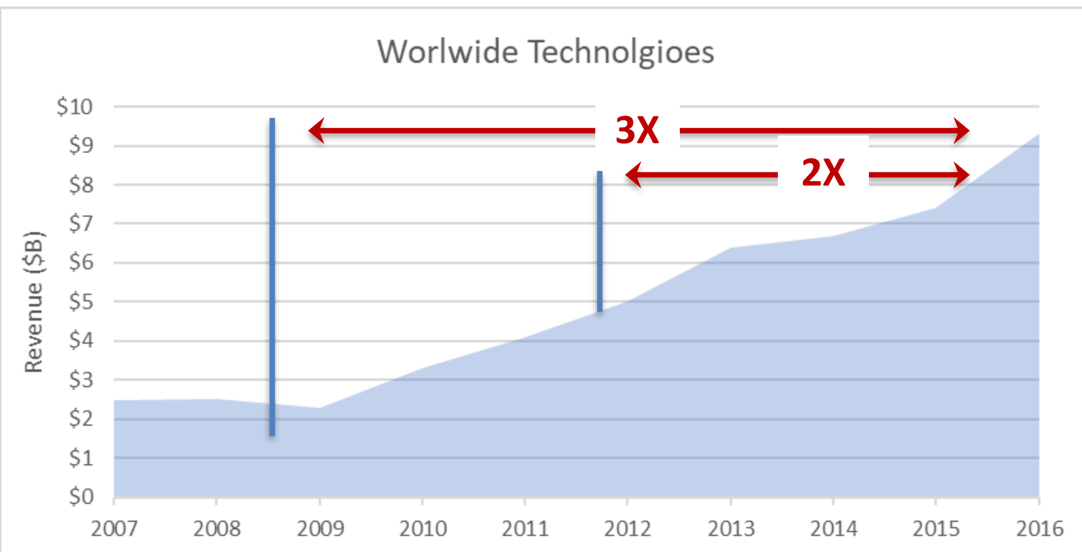
DEGREE OF DIGITAL TRANSFORMATION IMPLEMENTATION



Q: To what degree has your company designed and/or implemented a digital transformation solution in the last 12 months? (n=499)

Strategic Value

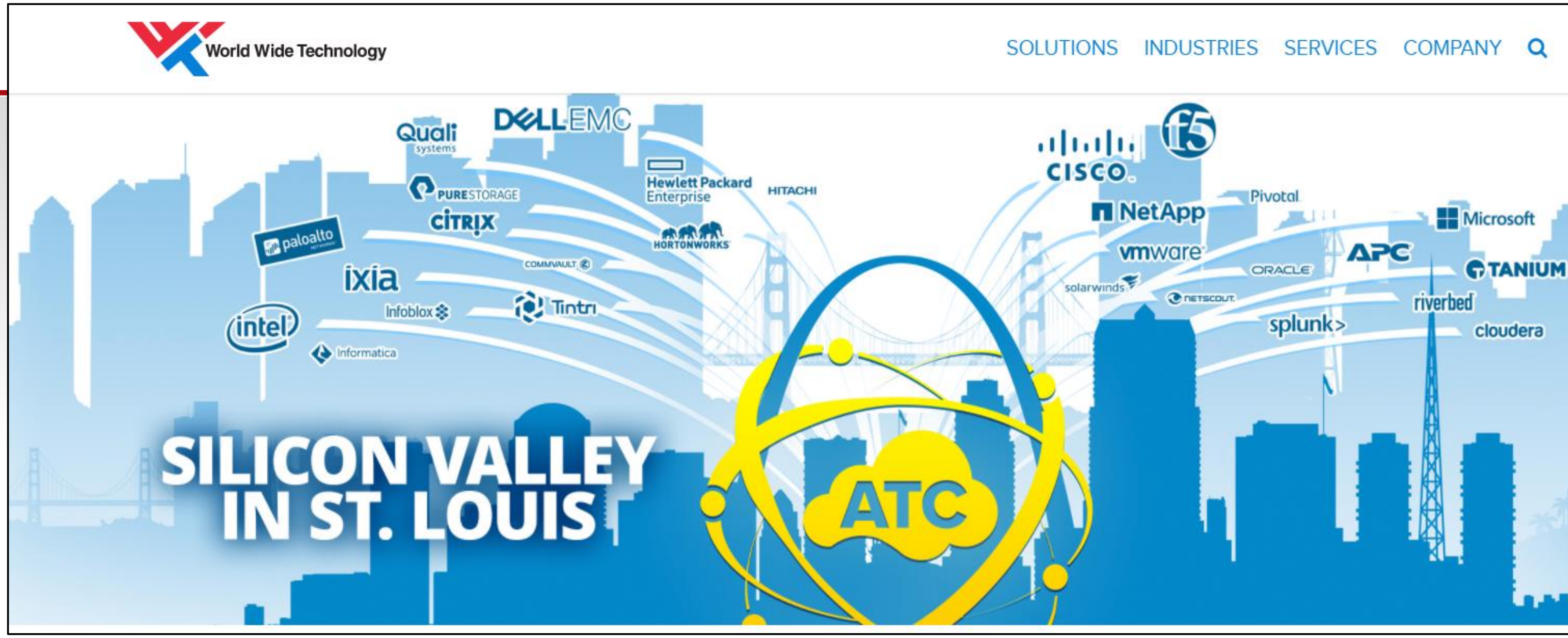




Innovate: but how?
Answer: Advanced Technology Centers

"The company was doing great but Jim wanted to make sure we were staying ahead of the competition…At the time(2010), our margins were fine, but not great. Jim's [Kavanaugh] brainchild was to develop these innovation labs — this playground for super-smart people with cutting-edge equipment to innovate and find better, faster ways of getting solutions to customers. I must have asked the same question three times: How do we monetize that?"
- Advisory Board Member

Strategic Value



Panera BREAD

World Wide helped Panera with its Panera 2.0 initiative, a $42 million effort to increase speed and accuracy of orders and drive sales. World Wide helped Panera integrate its mobile apps, point-of-sale kiosks and network infrastructure.

National pizza chain Papa John's enlisted World Wide to help develop a platform on which customers can order a pizza through an Apple TV app.

PIZZA PAPA JOHN'S Better Ingredients. Better Pizza.

Source: St. Louis Business Journal

- CONTINUED GROWTH IN MSP BUSINESS MODEL
- NETWORK & SECURITY SKILLS REVITALIZED
- DIGITAL TRANSFORMATION CROSSES CHASM
- **PARTNERS WANT EXPANDED RECURRING REVENUE SUPPORT**

  Partners' top support asks of vendors focus on recurring revenue success, including expanded service offerings, utility based pricing models, help hiring new sales & technical talent and help to create better marketing differentiation

Topline sales priorities focus on continuing to evolve sales methodologies and increased marketing and branding

TOPLINE SALES GROWTH PLANS

1. Enhance our sales methodology or approach (43%)
   - services attach rate (28%)
   - sell to new buyer (LOB) (22%)
   - change our prices on solutions & services (22%)

2. Increase marketing and branding (31%)

3. Expand into a new market or vertical (30%)

4. Increase our sales staff (hiring) (28%)

Q: What are your top plans for 2018 as it relates to the growth of your company's top-line sales? (n=532)

Profitability plans continue to depend on rate of recurring revenue increases; services-led market forces bench utilization rates

PROFITABILITY

Top 2 Priorities

1. Increase the percentage of our recurring revenue services (58%)
2. Improve technical and services bench utilization (47%)

Lower Priorities

- Drop under-performing suppliers (30%)
- Maximize supplier rebates/ incentives (23%)
- Reduce overall SG&A expenses (22%)

Q: What are your top plans for 2018 as it relates to the growth of your company's top-line sales? (n=532)

Biggest obstacles when working with strategic suppliers are utility based pricing models, ability to drive services revenue & ease of field engagement with vendor

BIGGEST OBSTACLES WHEN WORKING WITH STRATEGIC VENDORS

1. Pricing models that support an IT-as-a-service delivery model (utility or consumption based) (45%)

2. Ability to drive enough services revenue (project or recurring) around their core technologies (43%)

3. Sufficient profitability provided through their incentive programs (42%)

4. Ability to engage effectively in the field with their sales or tech teams (33%)

Q: What do you expect to be your biggest obstacles in working with your strategic vendors in 2018? (n=532)

Vendors - Key Considerations

1 **Channel Programs** -- must cater to a recurring revenue business model; retrofit enablement programs, MDF and pricing models to make sure they equitably support MSPs

2 **Profiling & Metrics** - continue to profile for SSP "next-gen" partner criteria; program performance metrics must evolve to capture influencers, services delivery success & business value selling

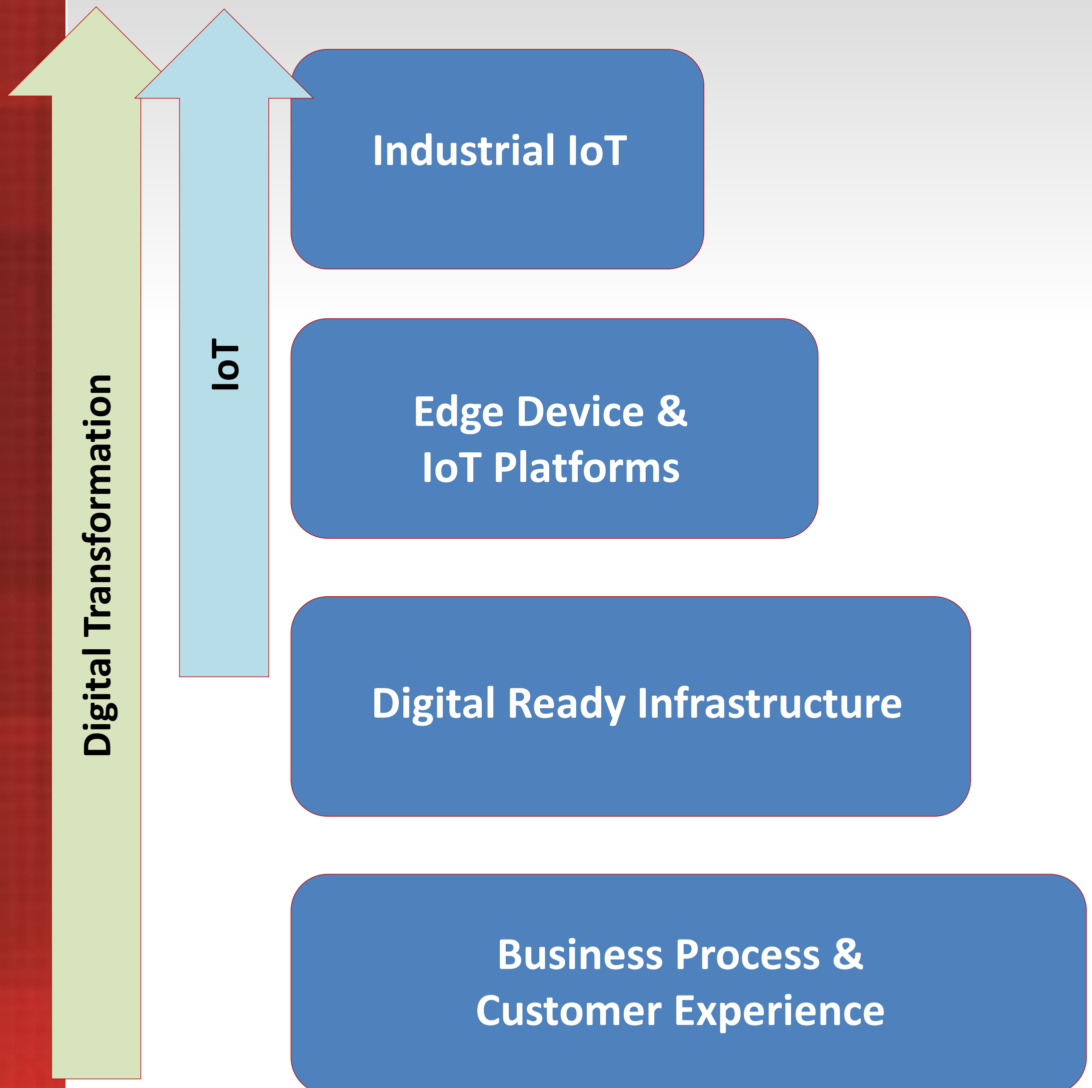
3 **Marketing** - Now is the time to invest heavily in MDF to help strategic partners pivot their marketing around new capabilities and decision makers

4 **Digital Transformation** - Share early wins and help partners benchmark investments and resources against their peers as they grow their practices; extend to staff recruitment support

A Word on Digital Transformation or IoT

Digital Transformation Framework

Use Cases: data science provides business insight or foresight



- GPS or sensor enabled machine, vehicle, process or operation
- Remotely managed, local or abroad, SCADA or other industrial point product systems (e.g. Bosch, Siemens, etc.)

- Asset management, loss prevention
- Last mile package delivery via drone or robot
- 24 x 7 medical vitals monitoring
- Agricultural irrigation via drones

- Retail clothing selection
- Sports venue navigation and food service

- Electronic medical records
- Social media, video laced marketing content

Security required within each Digital Transformation category

Digital Transformation Framework

Technology Examples

Digital Transformation

IoT

Industrial IoT

- Focus: decrease human costs, accuracy, new abilities, new data
- Leverage: ability to monitor or sense temperature, pressure, direction, speed, etc.
- Industrial control systems integration to cloud or with edge devices, e.g. Siemens, GE Digital, Bosch, etc.

Edge Device & IoT Platforms

- Focus: new approaches to business problems
- Leverage: Edge sensors & metering devices with an
- IoT Platform both IT centric (e.g. Azure, AWS, PTC) and OT centric (e.g. GE Predix, Siemens MindSphere, etc.)
- Application Development or a Market Ready IoT Solutions

Digital Ready Infrastructure

- Focus: technology driven differentiation
- Leverage: retail Zebra RFID clothing tags or Aruba wireless location based services to navigate a venue on mobile device

Business Process & Customer Experience

- Focus: business process & customer experience
- Leverage: digitally enhanced or cloud enabled commerce, marketing, data, applications, e.g. EMR: Allscripts or Marketing Agency: SapientRazorfish

Security required within each Digital Transformation category

Teaming with Partners Makes Sense in Light of the Typical IoT Sales Pursuit!

The Partner with access in stage 1 of sales pursuit

Vertical Decision Makers

Business Problem Discovery

Solution Vision, POC Proposal

Decides the Infrastructure during later stages

Critical POC Components

POC Bill of Materials

IoT Platform, App. Dev. Skills, Edge Devices, Vertical Workflow

Based on the Solution Providers Skills, Research

Example IoT Solution Components… Your Telephony, IT or OT Legacy Biases Each View

Industrial Control Systems

red lion

Robotics, Critical Response Systems

Edge Devices

KMC CONTROLS

Things with Sensors, Data

Edge & Control Hubs, Gateways

CISCO

Secure Transport of Data, Fog Computing Logic

Cloud Logic, Analysis

amazon web services

Predix

IoT Platform, Logic, Analysis (BI), Data Storage

Data Center (Processing)

sas

COGNOS

IoT Platform, Logic, Analysis (BI), Data Storage

IP/MPLS Network

Source: IPED Secondary Research & Interviews

Successful IoT Partners are Teaming to Ensure a Total Solution

"GE is a vendor, a partner, a client."

IT partner, Dimension Data

"We have partnered with Dell on "brownfield buildings" smaller than class A buildings that have little to no automation."

Operational Technology partner, Encon Mechanical

54%

The percentage of partners indicating a desire to team for:

Edge security skills: OT partners

Access to vertical LOB decision makers: IT partners

2017 IPED Intel IoT Study

52%

The percentage of partners who look to IT vendors to foster collaboration between OT and IT partners within the community.

2017 IPED Intel IoT Study

Critical Capabilities to Capture End Customer Mindshare and Budget Start with a Solution Vision & POC

Skills Critical to the Sale of IoT:

- Vertical Expertise
- Solution Design Capability
- Development Capability

Sample IoT Platforms

AWS IoT

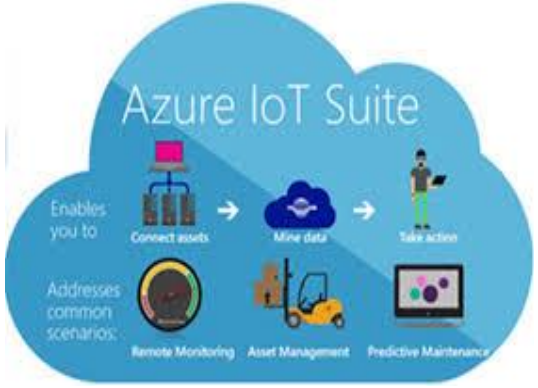
SIEMENS MindSphere

VS

thingworx

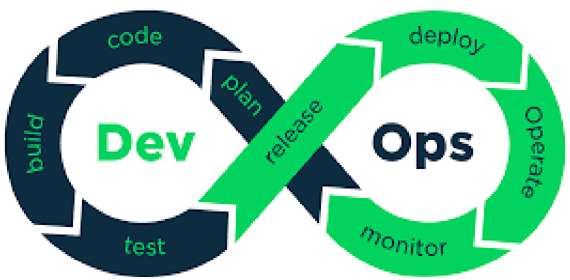
Predix

Schneider Electric EcoStruxure



Critical Capabilities to Capture End Customer Mindshare and Budget Start with a Solution Vision & POC

docker



Why do Containers matter in IoT? … virtual machines (VMs) are too slow and too for use in IoT endpoints. Most endpoints require a light OS that uses few resources and can work quickly to automate various processes… these requirements are largely responsible for the increasing use of containers in IoT.

Peter Dykes March 24, 2017 IoTNow

What is Docker?

DevOps is the combination of cultural philosophies, practices, and tools that increases an organization's ability to deliver applications and services at high velocity: evolving and improving products at a faster pace than organizations using traditional software development and infrastructure management processes.

Source: AWS

Avaya & Cisco Reseller Chooses Wireless as IoT Entry Point

"We … enable smart devices to talk back. We started with municipal ball fields then added smart trash cans.

Most devices have control panels, we just have to turn them on, but every device is managed differently. Dashboards matter.

From the IT side, it's just wireless which we do with Meraki.

We don't do large industrial IoT projects, we don't see an easy path to success for us."

SIGMAnet®
We Take Care of IT™

ConvergeOne