



Partner Financials

Continuing Education for IPED Channel Masters

Channel**Masters**[®]

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Agenda



Quick overview of the basics

Partner financials by partner type

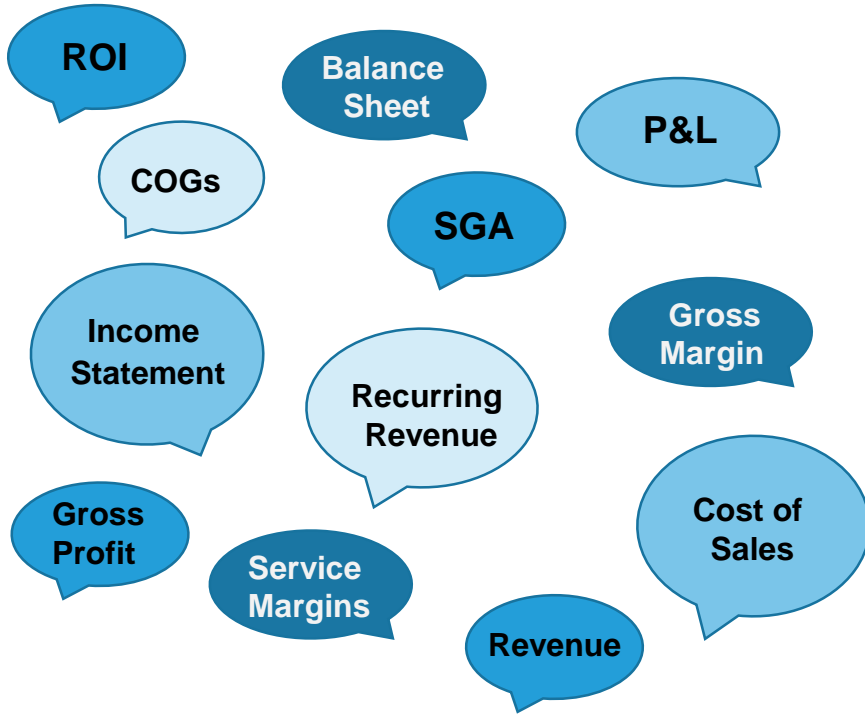
Partner examples

Financial concepts you think you know, but might not be willing to ask

- Margin vs. discount
- Rep compensation
- Impact of discounting and special pricing on partners

Q&A

Why do we need to talk about this?

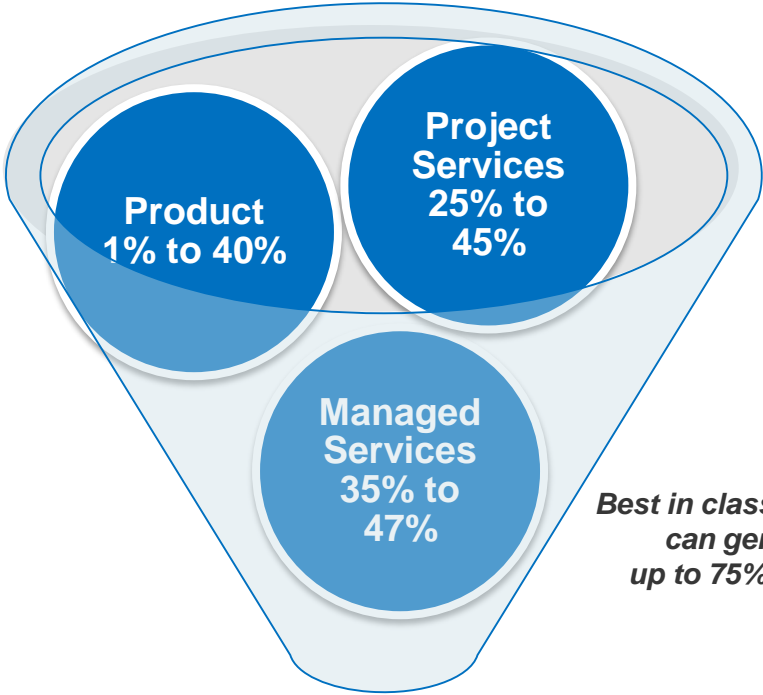
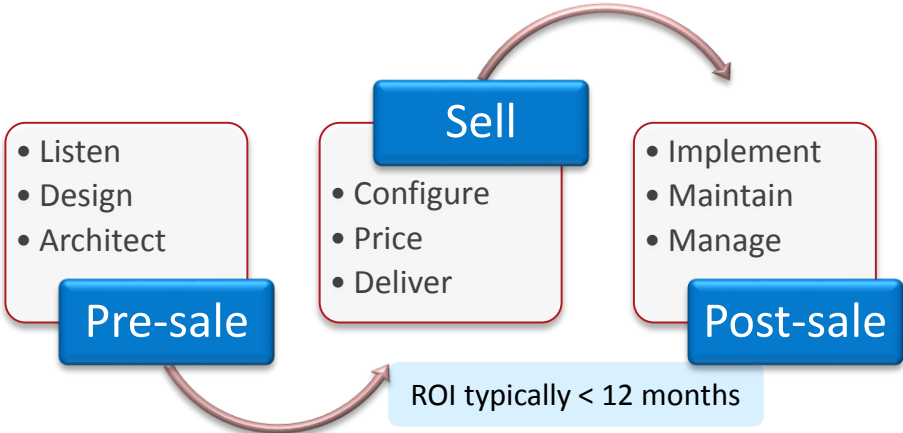


- Partners run their business on Gross Profit
- Vendors run their business based on Revenue
- A rule of thumb,
 - 2/3 of a partner's revenue comes from the sales of products
 - Whereas 2/3 of their profit is derived from their services

One of the main reasons a partners says no to a vendor is because there is not an obvious business opportunity.

What They Do To Make Money

The mix of *what they do* at the corresponding *gross margin* dictates *profitability*.



*Best in class MSP can generate up to 75% GM***

Technology Line of Business or Company
Sample Average Gross Margins*

* IPED Profitability Study and SME: data directionally correct
** according to 2015 Kaseya Profitability study

Basic Partner Business Model Structure

Target Audience

WHO THEY SELL TO ...

- Market segment
- Characteristics
- Business drivers
- Relationship
- Route to Market

Value Proposition

WHAT THEY SELL ...

- Value Proposition
- Solution Stack
- Process Alignment
- Deliverables
- Metrics / ROI

Business Operation

HOW THEY DELIVER ...

- Core Capabilities
- Resources
- Structure
- Operating Process
- Partner Network

Basic Partner Business Model Structure

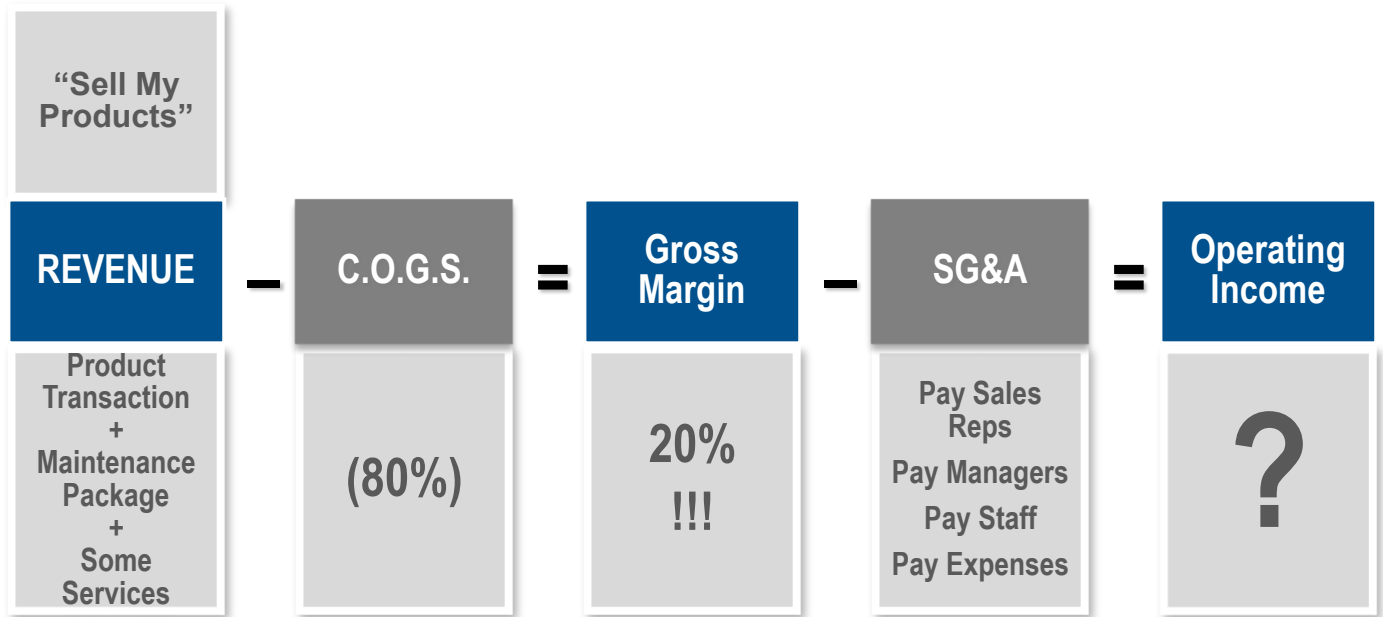


$$\text{REVENUE} - \text{C.O.G.S.} = \text{Gross Margin} - \text{S.G.\&A.} = \text{Operating Income}$$

Selling, General, Administrative

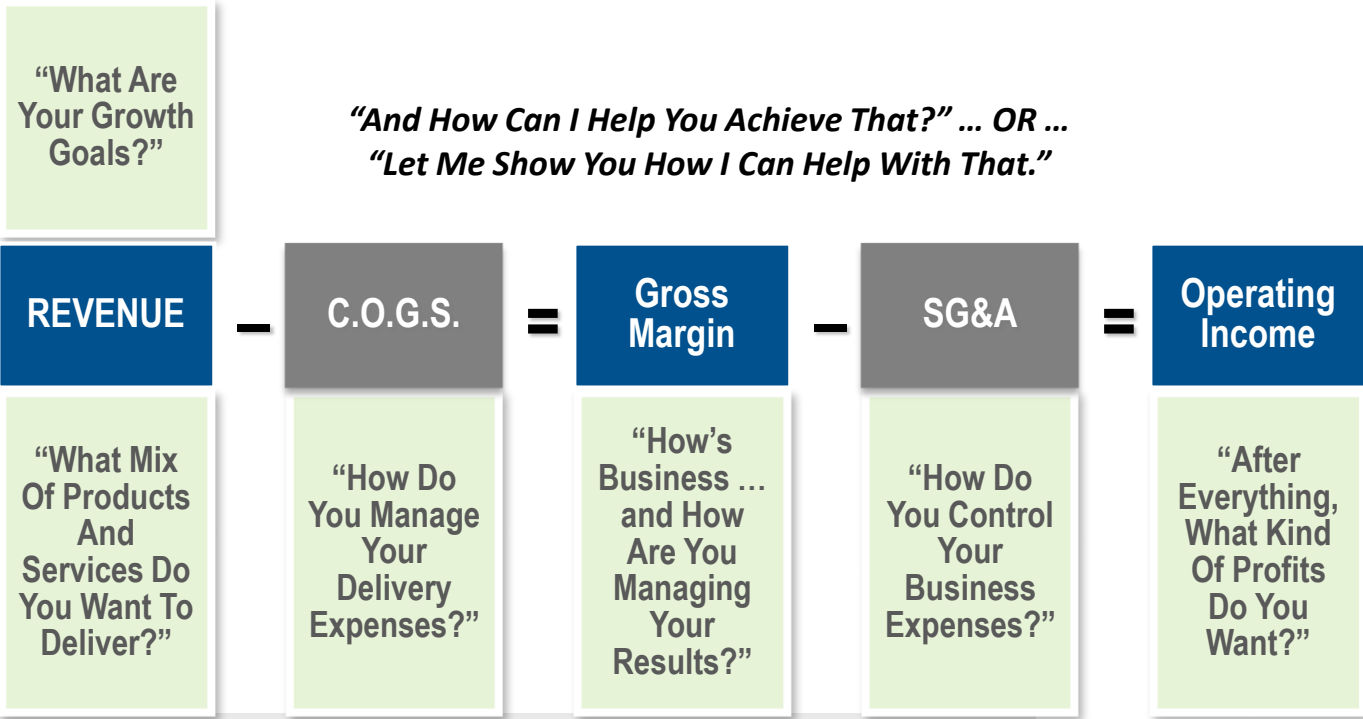
Mastering The Mechanics of PROFITABILITY

HOW DO CHANNEL REPS USUALLY ENGAGE PARTNERS?



Mastering The Mechanics of PROFITABILITY

IS THERE A BETTER WAY TO ENGAGE PARTNERS?



Defining The Factors of a Partner P&L

REVENUE



- ❖ **Hardware sales ...**
- ❖ **Software sales ...**
- ❖ **Technical Services sales ...**
- ❖ **Professional Services sales ...**
- ❖ **Managed Services sales ...**
- ❖ **Consulting Services sales ...**
- ❖ **Warranty / Maintenance add-ons ...**
- ❖ **Programs / Incentives / Rebates / etc. ...**

... TRANSACTION SIZE

... TRANSACTION QUANTITY

... TRANSACTION VELOCITY

Defining The Factors of a Partner P&L

C.O.G.S.



- ❖ **Hardware & Software Product costs ...**
- ❖ **Delivery Personnel, Time & Materials costs**
- ❖ **Data Center or NOC costs (MSP) ...**
- ❖ **IP Development costs ...**
- ❖ **Technical Training / Skills Development costs ...**

Defining The Factors of a Partner P&L

SG&A



- ❖ Sales Salary & Commissions & Costs ...
- ❖ Operational Tools ...
- ❖ Marketing Costs ...
- ❖ Business Operations (Rent, Utilities, IT) ...
- ❖ R&D, Demo & Briefing Center expenses ...
- ❖ Other Management ...

Very Simple P&L View



Sales Revenue	+
Cost of Goods	-
Gross Profit	
Operating Expenses	-
Sales and Marketing	-
General and Administrative	-
Total Operating Expense	
Income (EBITA)	
Depreciation, Interest, Taxes	-
Net Profit	

Cost Drivers

- Purchasing power and credit costs
- Fixed costs:
 - Rent
 - Electricity
 - Telephone bill
 - Etc.
- Variable costs:
 - Salaries
 - Commission
- Professional services utilization rates

Anatomy of a Solution Provider Balance Sheet

Monthly collections
vs.
one-time project
Accounts Receivable

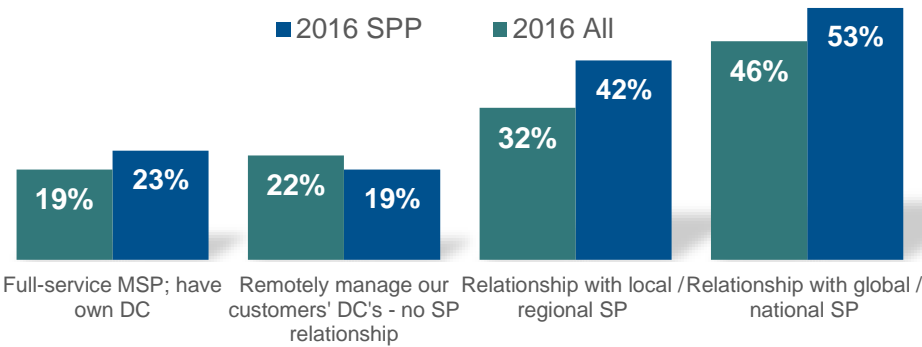
(+)	(-)
ASSETS:	
- Cash	
- A/R	
- Inventory	
- Equipment	
- Facilities/Offices	
LIABILITIES:	
	Accounts Payable
	Credit card debt
	Long-term debt/ loans
	Tax liabilities
NET ASSETS	\$



Anatomy of a Solution Provider Balance Sheet

Build vs. buy
NOC or
managed/
cloud services
datacenter?

Relationship with Service Providers Regarding Access to Data Center Capabilities



(+)	(-)
ASSETS:	
- Cash	
- A/R	
- Inventory	
- Equipment	
- Facilities/Offices	
	LIABILITIES:
	Accounts Payable
	Credit card debt
	Long-term debt/loans
	Tax liabilities
NET ASSETS	\$



Q. What is your relationship with the major regional, national or global service providers regarding having access to data center or network operations center (NOC) capabilities? N-387

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Business Partner P&L Structures



Quick taxonomy of the partner types used in the examples

	Product Focused VARs; Corporate Resellers	Solutions Focused VARs	Services Led VARs	MSP/ Hosting
Revenue Mix % (Product/Services)	85 / 15	70 / 30	50 / 50	30 / 70
Revenue	<p>Vast majority of revenue is derived from reselling products from vendors. Their business model is predicated on product margin.</p>	<p>Vendor products are the catalyst for their solutions sales which almost always include services they deliver.</p>	<p>Their consulting or services offerings drive the business. Product resell is not the primary driver for their business</p>	<p>They use vendor products to create offerings that they sell as a service. A smaller aspect of their business includes product resell.</p>
COGS				
Gross Margin				
Sales Cost				
General & Administrative; R&D				
Operating Income %				

Business Partner P&L Structures



	Product Focused VARs; Corporate Resellers		Solutions Focused VARs		Services Led VARs		MSP/ Hosting	
Revenue Mix % (Product/Services)	85 / 15		70 / 30		50 / 50		30 / 70	
Revenue								
COGS								
Gross Margin								
Sales Cost	COS		COS		COS		COS	
	MKTG		MKTG		MKTG		MKTG	
General & Administrative; R&D								
Operating Income %								

Business Partner P&L Structures



	Product Focused VARs; Corporate Resellers		Solutions Focused VARs		Services Led VARs		MSP/ Hosting	
Revenue Mix % (Product/Services)	85 / 15		70 / 30		50 / 50		30 / 70	
Revenue	100		100		100		100	
COGS	87		75		65		60	
Gross Margin	13		25		35		40	
Sales Cost	COS	4	COS	6	COS	6	COS	9
	MKTG	1	MKTG	1	MKTG	2	MKTG	6
General & Administrative; R&D	6		13		15		13	
Operating Income %	2		5		12		12	

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Partner Segments P&L Structures



Examples of Actual Partners



	Corporate Reseller	Solution Provider	Solution Provider	
	CDW	ePlus	Forsythe	Logicalis
Revenue	100%	100%	100%	100%
COGS	84%	82%	77%	76%
Gross Margin	16%	18%	23%	24%
Selling, General & Administrative (SGA + R&D)	12%	13%	20%	18%
Operating Income % (approx.)	4%	5%	3%	6%

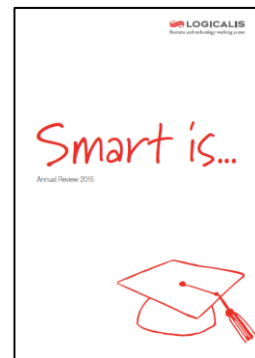
	2015	2014	2013
Income Statement - Dollars (\$M)			
Revenue	\$1,535.1	\$1,551.8	\$1,550.3
COGS	(\$1,163.5)	(\$1,190.9)	(\$1,042.1)
Gross Profit	\$371.6	\$360.9	\$310.3
SG&A	(\$274.6)	(\$270.6)	(\$231.7)
Operating Income	\$97.0	\$90.3	\$78.6
Income Statement - Percentage			
Revenue	100.0%	100.0%	100.0%
COGS	75.8%	76.7%	67.2%
Gross Profit	24.2%	23.3%	20.0%
SG&A	17.9%	17.4%	14.9%
Operating Income	6.3%	5.8%	5.1%
Revenue Breakdown			
Product Resell	67%	69%	73%
Pro services	12%	12%	10%
Maintenance/Managed Services	21%	19%	17%

2014



Revenues from total services were up 31%, with annuity service revenues up 26%

2015



"Our role is to be the strategic partner to our customers because we are a relevant and compelling partner to the CIO and we bring innovation that is relevant and compelling to the line-of-business executive."



	2015	2014	2013
Income Statement - Dollars (\$M)			
Revenue	\$12,988.7	\$12,074.5	\$10,768.6
COGS	(\$10,872.9)	(\$10,153.2)	(\$9,008.3)
Gross Profit	\$2,115.8	\$1,921.3	\$1,760.3
SG&A	(\$1,373.8)	(\$1,248.3)	(\$1,251.7)
Operating Income	\$742.0	\$673.0	\$508.6
Income Statement - Percentage			
Revenue	100.0%	100.0%	100.0%
COGS	83.7%	84.1%	83.7%
Gross Profit	16.3%	15.9%	16.3%
SG&A	10.6%	10.3%	11.6%
Operating Income	5.7%	5.6%	4.7%
Revenue Breakdown			
Product Resell	95%	96%	96%
Pro services	4%	3%	3%
other	1%	1%	1%

2014




The third component of our strategy is to expand our services capabilities. In 2014, we achieved another year of double-digit growth in Services Solutions, adding more than 65 coworkers to our services practice and opening two new markets. Today, we have technical specialists, service delivery and sales coworkers in more than 20 major


2015



Distribution

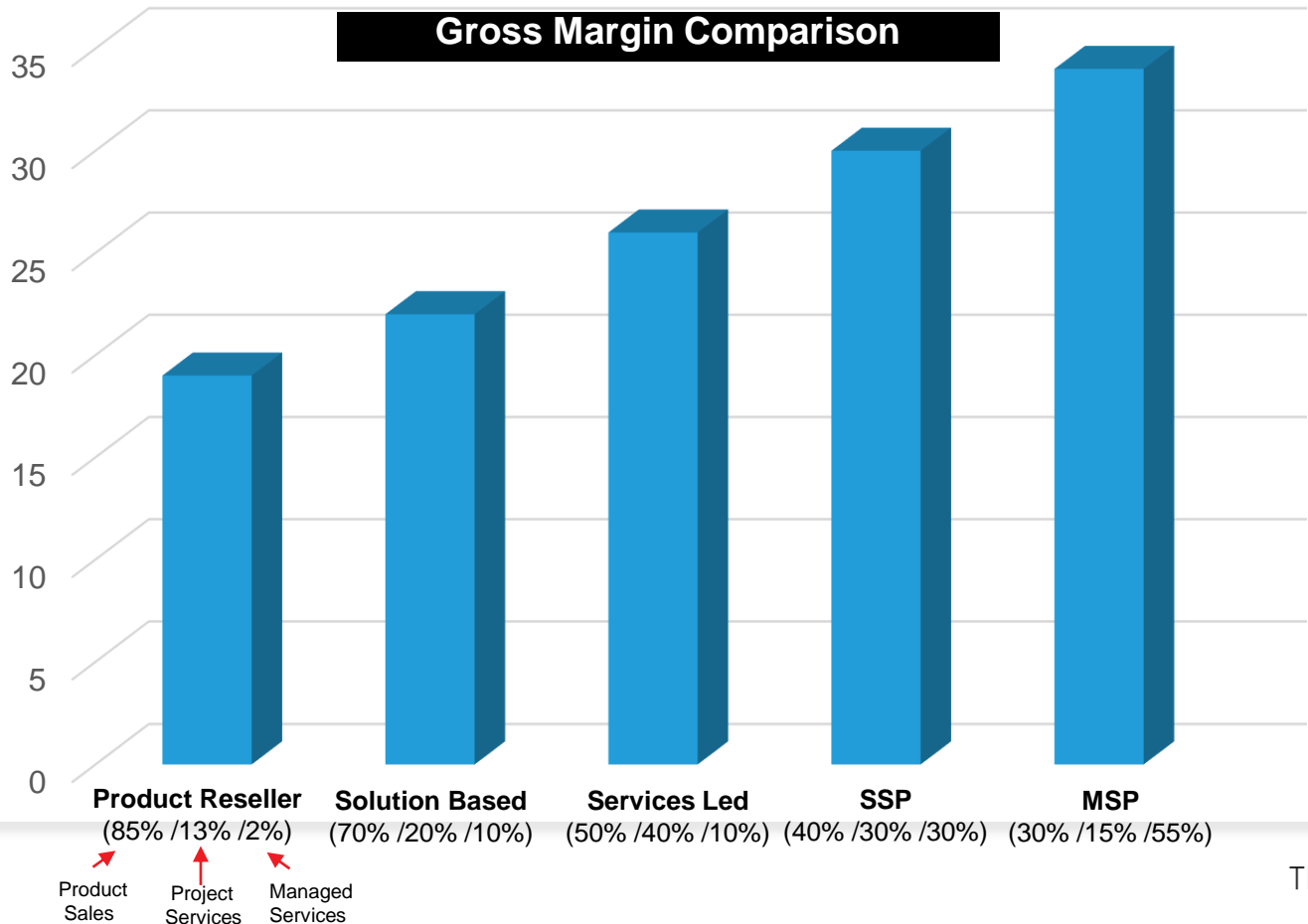


	2015	2014	2013
Income Statement - Dollars (\$M)			
Revenue	\$13,338.4	\$13,839.6	\$10,845.2
COGS	(\$12,146.6)	(\$12,740.6)	(\$10,190.2)
Gross Profit	\$1,191.8	\$1,099.0	\$655.0
SG&A	(\$837.2)	(\$790.5)	(\$414.1)
Operating Income	\$354.6	\$308.5	\$240.9
Income Statement - Percentage			
Revenue	100.0%	100.0%	100.0%
COGS	91.1%	92.1%	94.0%
Gross Profit	8.9%	7.9%	6.0%
SG&A	6.3%	5.7%	3.8%
Operating Income	2.7%	2.2%	2.2%
Revenue Breakdown			
Product	89%	92%	98%
Business consulting services	11%	8%	2%



	2015	2014	2013
Income Statement - Dollars (\$M)			
Revenue	\$46,487.0	\$42,553.9	\$42,553.9
COGS	(\$43,823.3)	(\$40,064.5)	(\$40,064.5)
Gross Profit	\$2,663.7	\$2,489.4	\$2,489.4
SG&A	(\$2,180.2)	(\$1,974.5)	(\$1,974.5)
Operating Income	\$488.1	\$514.9	\$514.9
Income Statement - Percentage			
Revenue	100.00%	100.00%	100.00%
COGS	94.27%	94.15%	94.15%
Gross Profit	5.73%	5.85%	5.85%
SG&A	4.69%	4.64%	4.64%
Operating Income	1.05%	1.21%	1.21%
Revenue Breakdown			
Product			
Business consulting services			

What might a new SSP partner look like?



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Deal Profit, Margin and Markup Definitions

{ Nearly all resellers operate/compensate on profit as measured by margin }

$$\text{Gross Profit} = \text{Sale Price} - \text{Cost of Goods Sold (COGS)}$$

$$\text{Gross Margin} = \frac{\text{Gross Profit}}{\text{Sale Price}}$$

EXAMPLE

An item costs \$4,000 and sells for \$5,000

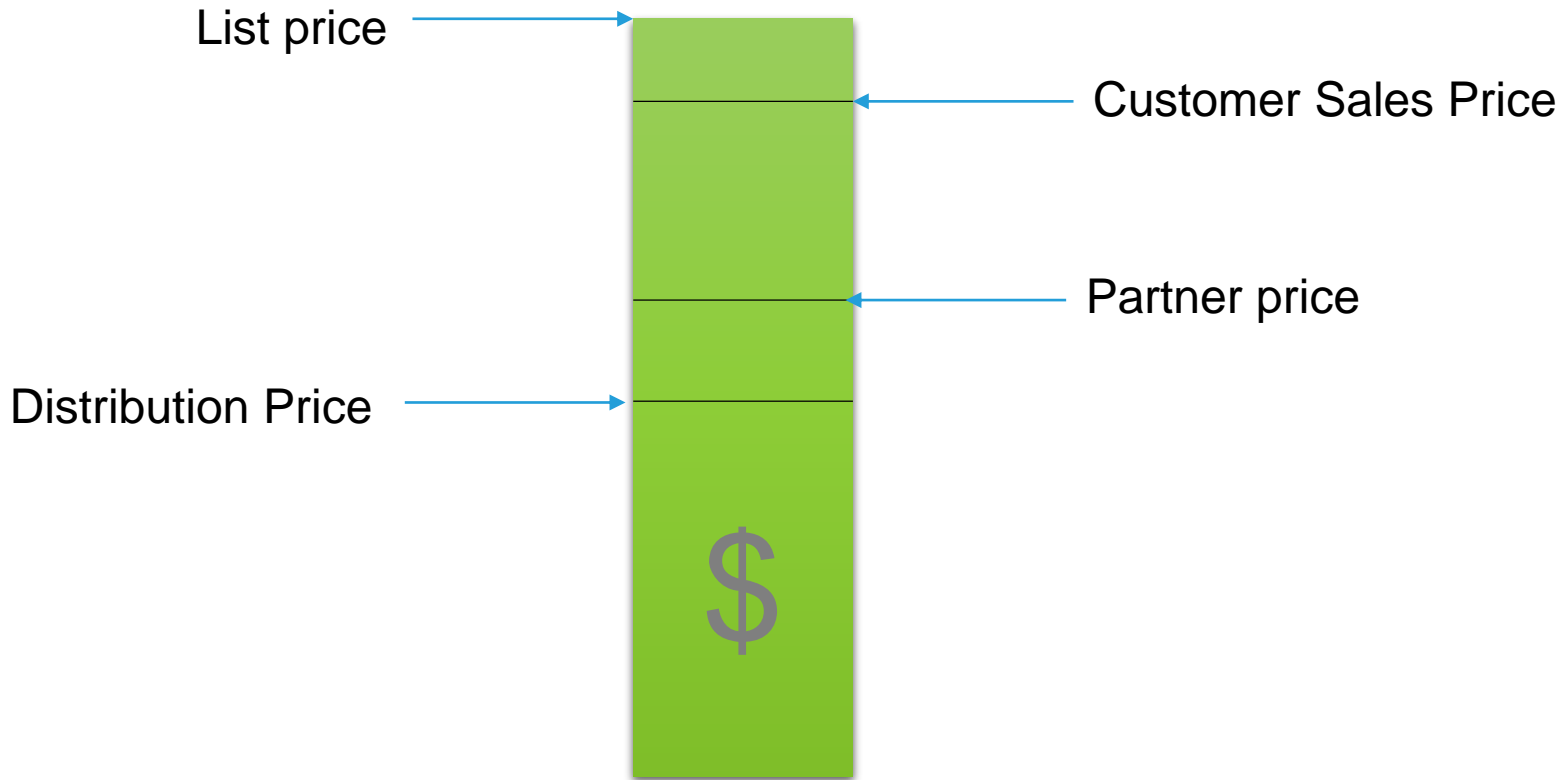
Markup is \$1,000 or 25% of the cost

Markup is profit expressed as a percentage of purchase price or COGS

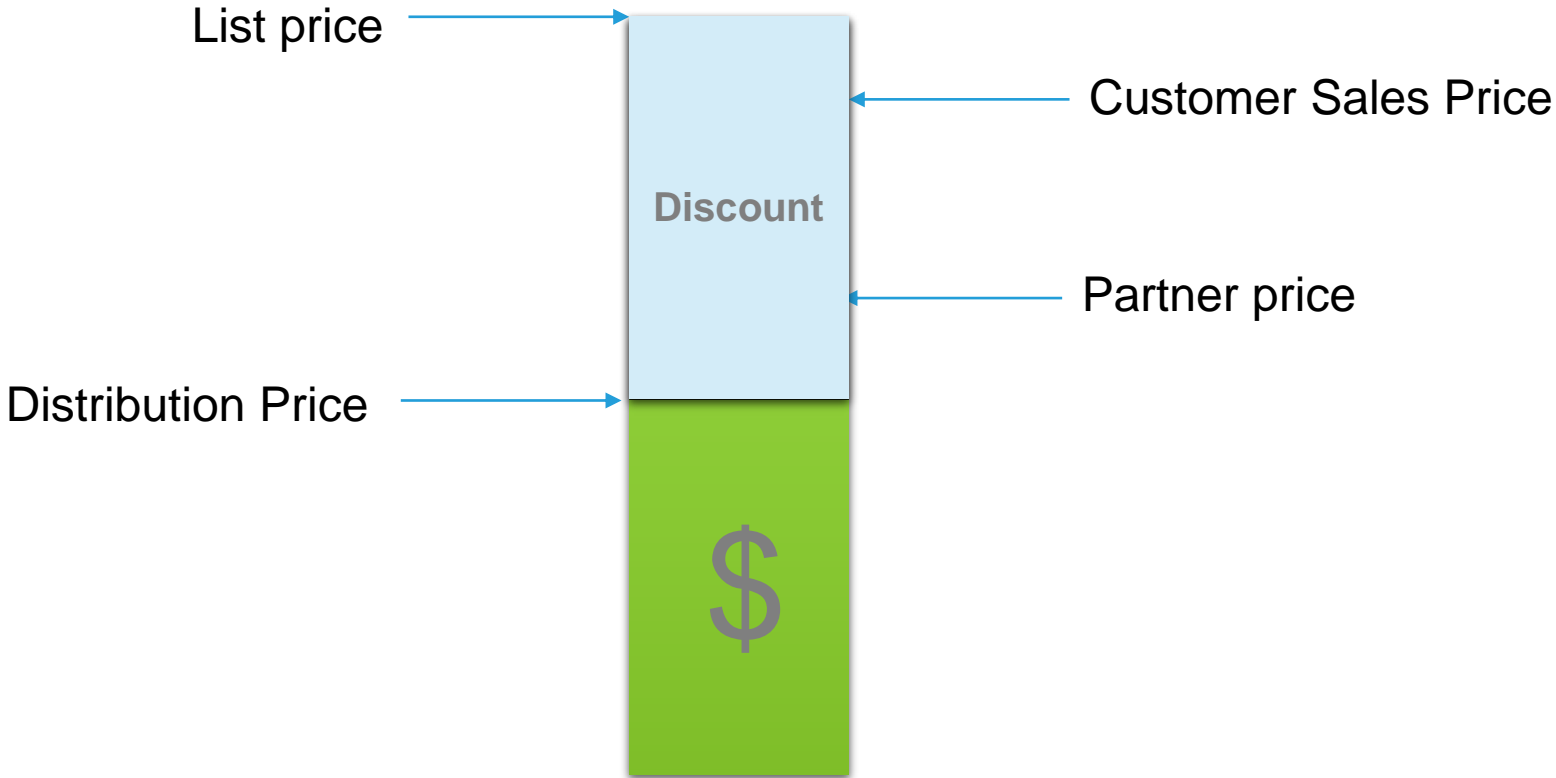
Margin is \$1,000 or 20% of the selling price

Margin is profit expressed as a percentage of sales price

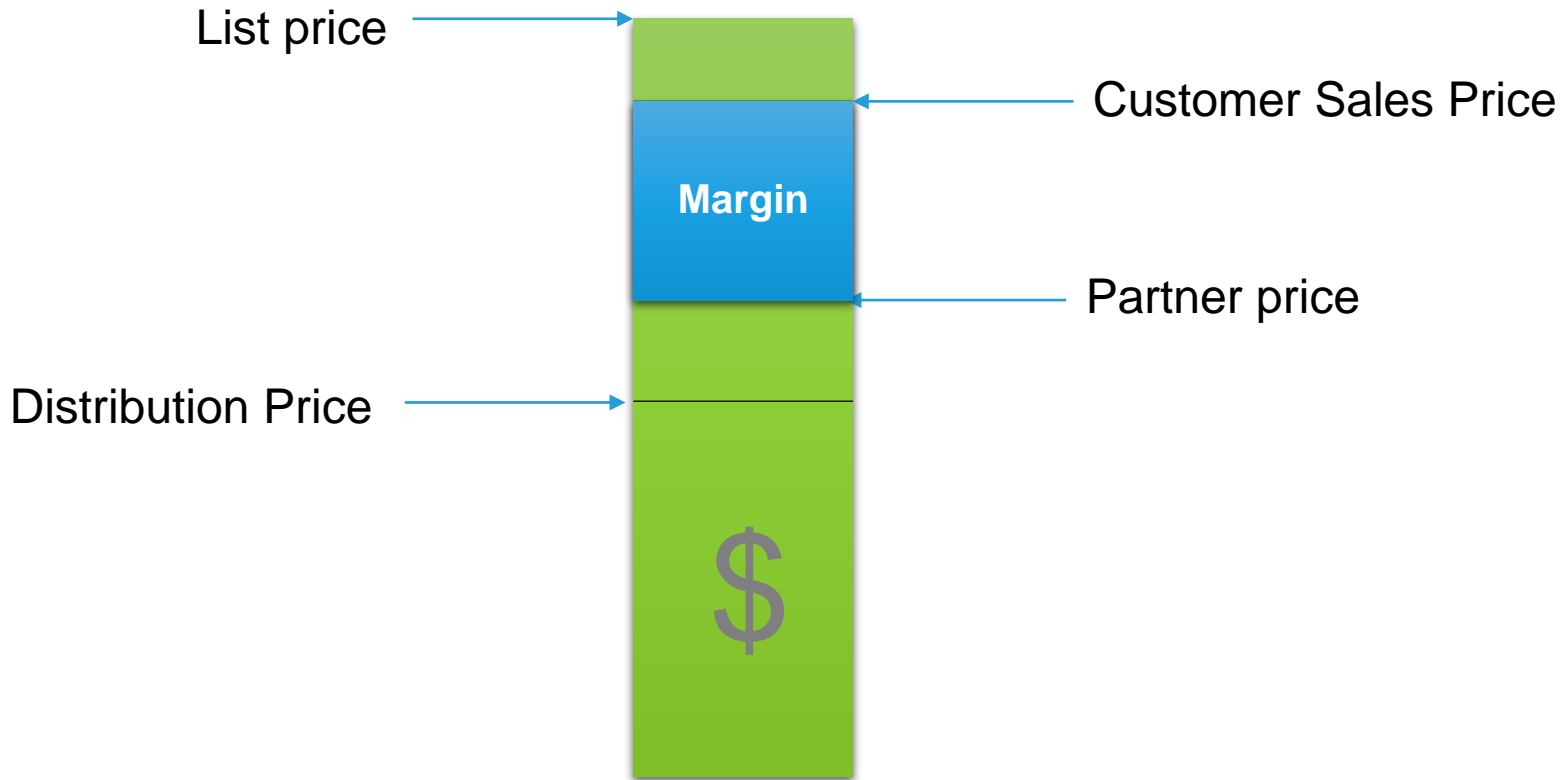
...which is different than the discount...



...which is different than the discount...

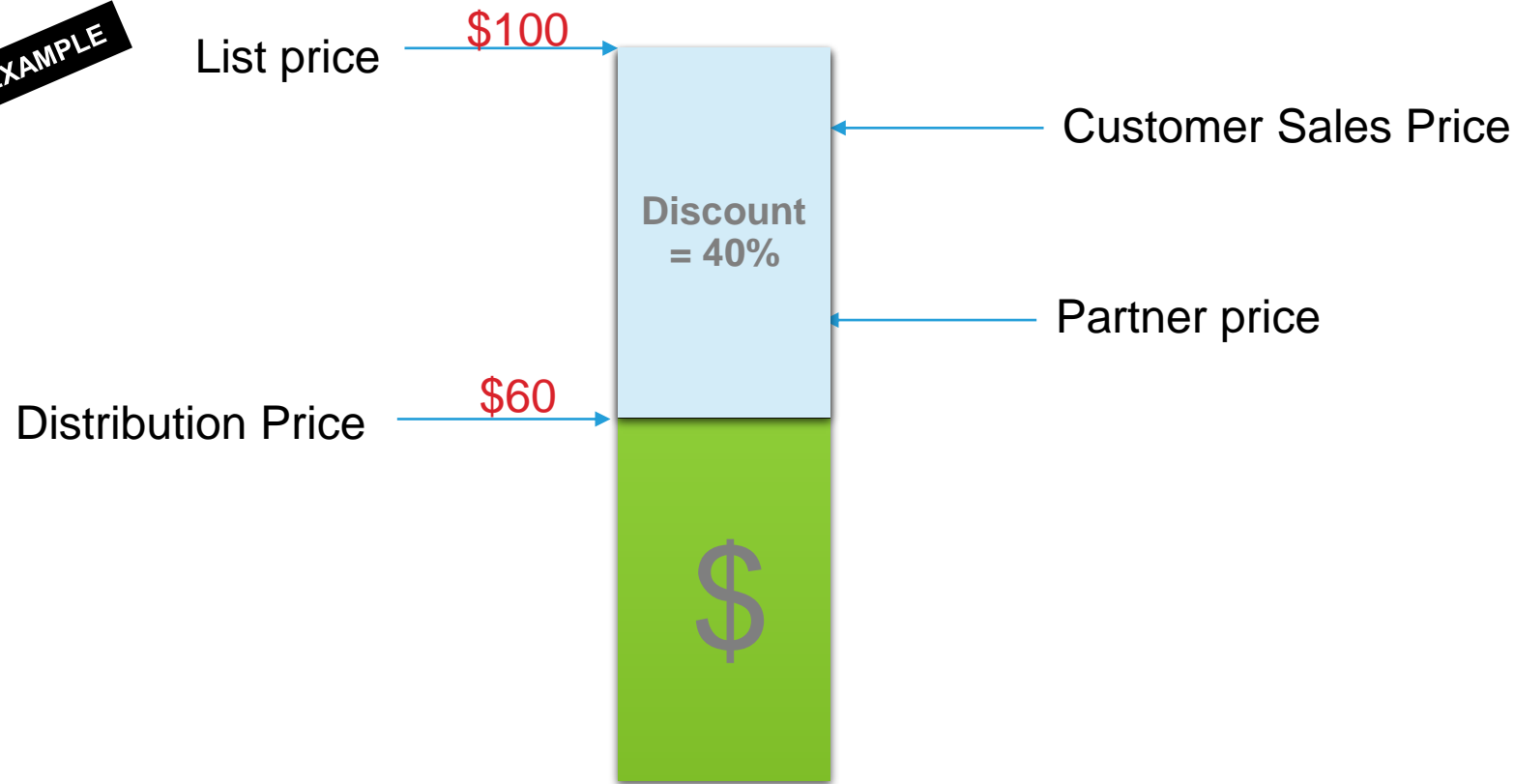


...which is different than the discount...



...which is different than the discount...

EXAMPLE

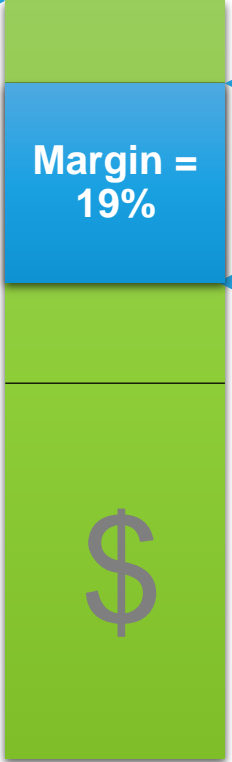


...which is different than the discount...

EXAMPLE

Discount
= 40%

List price → \$100



← \$85 — Customer Sales Price

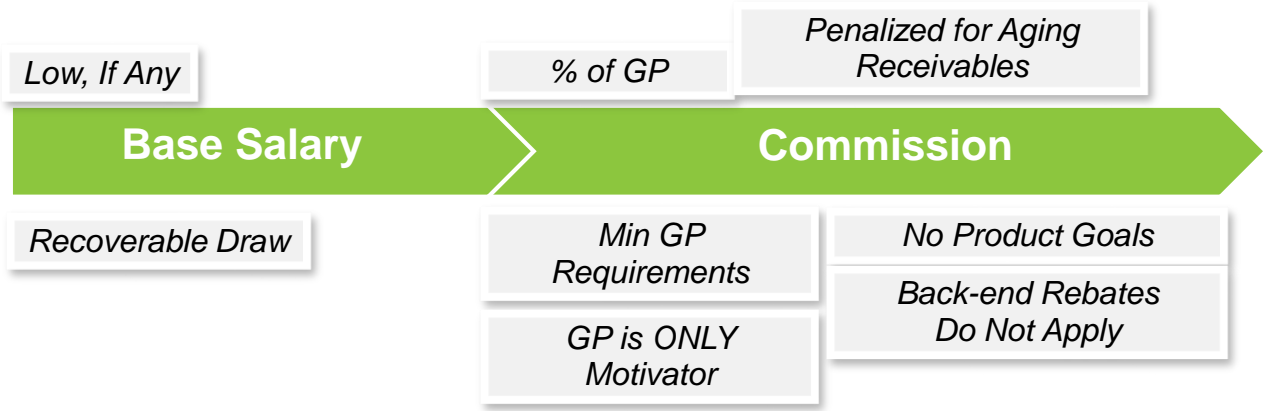
Margin = $(\$85 - \$69) / \$85 = 19\%$

← \$69 — Partner price

Distribution Price → \$60

Understanding Partner Sales Rep Compensation

Gross Margin is all that Matters



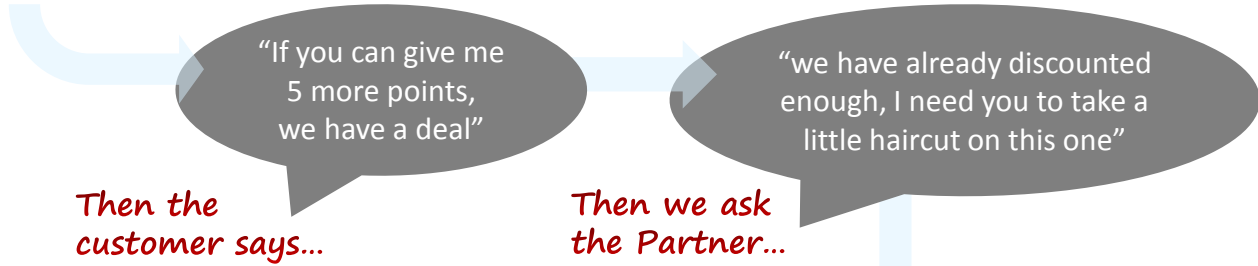
Which would you chase?



~\$370,833 Product Rev = \$44.5k in GP

What happens to a rep when we.....

Deal Size (Customer purchase price)	\$100,000
Partner Gross Profit	\$20,000
Partner Rep commission (assume 25%)	\$5,000



NEW Deal Size (Customer purchase price)	\$95,000
Partner Gross Profit	\$15,000
Partner Rep commission (assume 25%)	\$3,750

Bottom line...
In this scenario, a 5% customer discount = 25% reduction in Partner Rep Commission

Key Take-Aways



Product sales drive **revenue**
but services drive **profitability**

Managed services provides the highest GM opportunity for many partners today



Understanding how they make money on YOUR product is not enough

Use partner financials to better **UNDERSTAND** how you add value to their business



Questions?

THE **CHANNEL** CO.™

Thank You



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