



State of Professional Services

Research Methodology: Respondent Profile (177 Participants)

This Study's Participants: (medians)
 \$2.1m projected annual revenues
 11 employees total; 4 Sales, 6 delivery



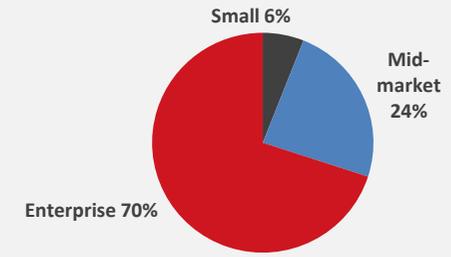
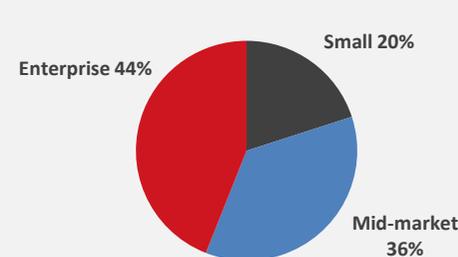
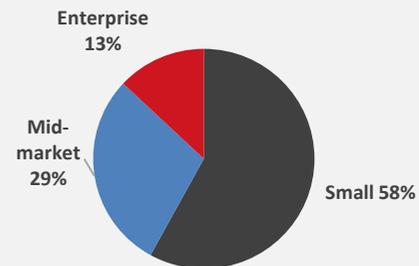
Small regional
Local IT generalist or specialized services firms

Medium regional/national
Established SMB integrators with expanding service portfolios

Large national/global
Diverse enterprise solution providers and Global SIs

% of total N. American solution providers	66%	28%	6%
Annual revenues	<\$10m	\$10-499m	\$500m+
# of employees (total); sales/technical	7 total; 3 sales, 3 delivery	48 total; 17 sales, 28 delivery	285 total; 80 sales, 180 delivery
Top Business Models	<ol style="list-style-type: none"> 1. Consultant (39%) 2. VAR (22%) 	<ol style="list-style-type: none"> 1. VAR (30%) 2. Consultant (28%) 	<ol style="list-style-type: none"> 1. Consultant (55%) 2. MSP / SI (18%)

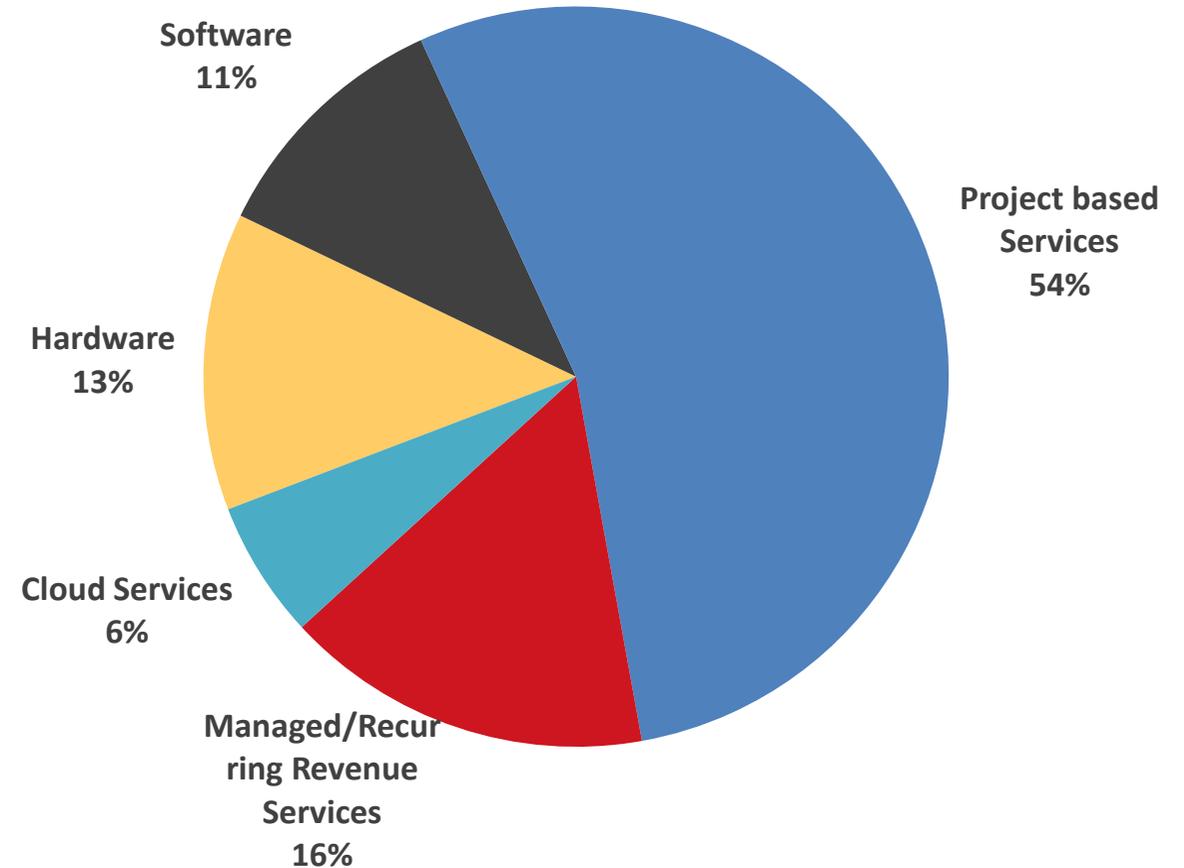
Mix of revenues by customer type



Respondent Revenue Mix

- ▶ Threshold for inclusion was a minimum 30% of revenue in project based services; key inflection point – respondents drop off from 20% to 30% of Prof. Svs. revenue was nearly 50%
- ▶ ~10% of respondents met our 3 criteria for Strategic Solution Provider (SSP), illustrating the challenge of having meaningful Managed Svs. revenues and a Consultant/SI business model
- ▶ ~ 50% of Partners met 2 out of 3 criteria for SSP (30% minimum services revenue and 20% minimum Strategic customer engagement)

2016 REVENUE MIX – ALL



Profit Highlights – Pre Sales

Top Delivered Pre-Sales Service Offerings	Profit Profile
#1 Solution Design	35-40% Margins; 75% of VARs offer this
#2 Assessment	27-30% Margins; The most offered pre-sales by VARs
#3 Financial Cost Analysis	27-32% Margins; SI's offer 3x more often than VARs

Performance and Capacity Analysis – Least Offered 13%

Most Profitable Pre-Sales Service Offerings	Average Offering Profit
#1 Solution Design	35% Margin; SI's make 40%
#2 Performance and Capacity Planning	35% Margin; Consultants make 44%
#2 Roadmap to Future State	32% Margin; SI's make 44%

Financial/Cost Analysis– Least Profitable 27%

Profit Highlights – Post Sales Services

Top Post Sales Service Offerings	Profit Profile
#1 Integration with existing technology	34-45%; SI's get 45%
#2 Technical Support	33-41%; Consultants shy away from technical support
#3 Customization and Deployment	27-33%; Consultants lead

Training and Knowledge Transfer– Least Offered 16%

Most Profitable Post Sales Offerings	Average Offering Profit
#1 Application Development	32-45%; most profitable for consultants
#2 Technical Support	33-41% margins
#3 Integration with existing technology	34-45%; SI's enjoy highest margins

Four Biggest Takeaways



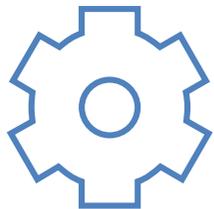
▶ **TALENT MANAGEMENT IS THE DRIVING ISSUE FOR SERVICES FOCUSED PARTNERS**

People are the product. Finding and training consultants are the key to scaling professional services.



▶ **THE INFLUENCERS DILEMMA PLAGUES PARTNER RELATIONSHIPS**

Big services projects demand resources before the sale, leaving gaps in future business development. The approach raises the win ratio of the deal at the expense of future sales.



▶ **PROJECT-BASED PS AND MSP BUSINESSES DON'T SCALE WELL TOGETHER**

Few partners have robust project-based PS businesses and sizable MSP businesses. Investment profile, cost structure and selling motions are all very different.



▶ **THE BIG GET BIGGER**

The dynamics of the market and the dynamics of vendor programs work against services focused, smaller partners.

Key Takeaways: Talent Management

Data Says ...

- 1 Finding qualified talent with the skills they need is the #1 challenge for solution providers.
- 2 Top partner request was to reduce the cost of training & certification – 55% ranked this #1.
- 3 Partners were split on in-person vs. online training preferences – but everyone loved the idea of more hands on mentoring.
- 4 Staff related costs in general accounted for 3 out of the top 4 cost increases in 2016.

Vendor Imperative ...

- 1 Provide subsidized access to recruiting and job listing services for partners at certain program levels. NEVER poach employees from a partner.
- 2 Provide heavy discounts on training, remove any incentives promoting training as a profit center internally.
- 3 Build mentoring into programs, especially for new product launches. Consider mentoring as part of certification program.
- 4 Audit all aspects of the channel program that impact staffing, # of trained personnel, cost of training.

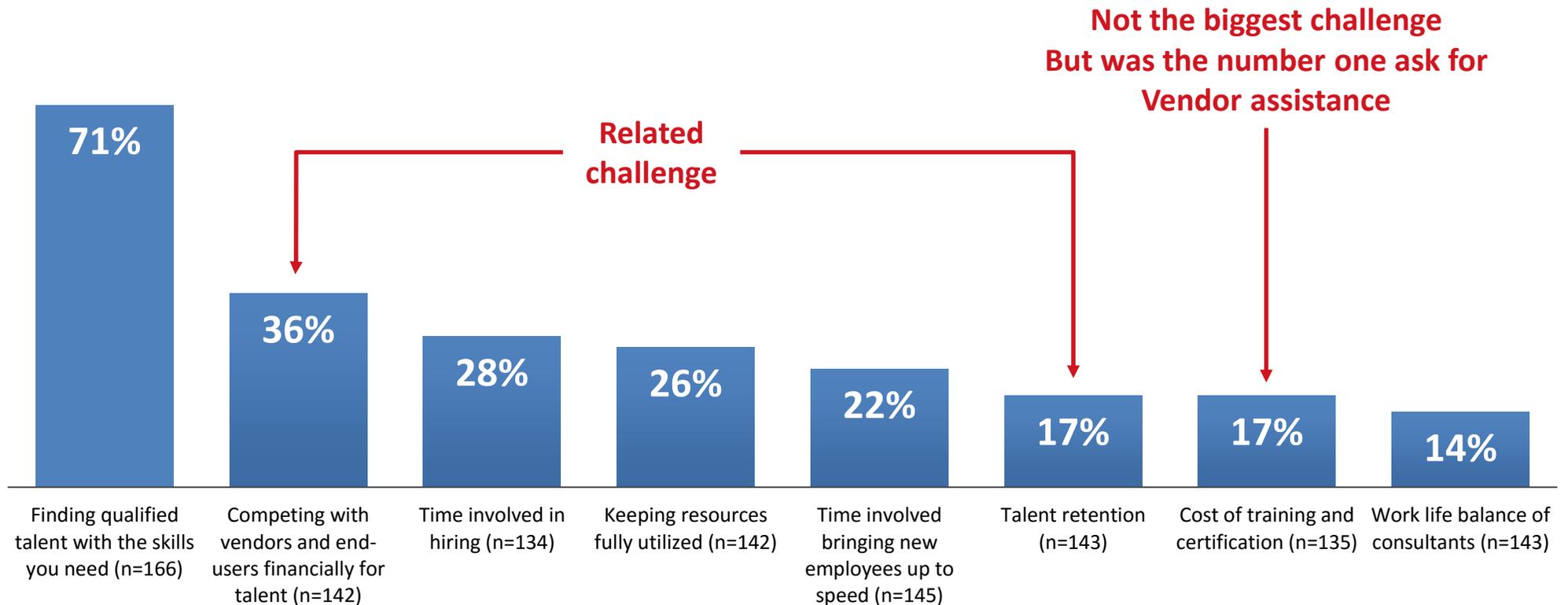
Talent Acquisition is the Biggest Challenge in Overall Talent Management

▶ CHALLENGES – TALENT MANAGEMENT (RANKED 1ST OR 2ND BIGGEST CHALLENGE)



Finding talent is the #1 challenge

Part of retention challenge (ranked 5th) is perceived competition with vendors and customers for staff compensation



Partners Perspectives on Training

▶ FEELINGS ARE SPLIT ON TRAINING

- “4-5K to send a guy to training is a ton of money, some vendors offer free training, but not enough”
- “Training and certifications are overwhelming, training has to be online, we carry too many different products”
- “I don’t mind paying for training, free has no value”

▶ MANY FEEL MENTORING AND HANDS-ON TRAINING ARE MORE VALUABLE

- “Mentoring is great, Cisco now requires you to work along side of them to deploy one of their new telephony systems. Nimble and Fortinet also do a great job at mentoring consultants”
- “Mentoring is definitely valuable, we take advantage of it – Pure storage built it into their program, first online training, then they sign off on an install on-site with us.”

▶ IN THE END, ITS ABOUT COST AND ACCESS

- “Just make it competitive, and don’t make it a profit center.”
- “Need more in-person, good training, training needs to be onsite in-person”
- “Training is the biggest obstacle, training should be free”

*“The rate of acceleration toward emerging technologies and digital transformation projects is increasing SO fast. It has create a big staffing and service delivery scale challenge for us **and** our partners.”*

SAP Global Services leadership

Key Takeaways: The Influencers Dilemma

Data Says

- 1 Partners said on average 30% of their engagements fall into the “all business solutions” category.
- 2 Sixty-Five percent of proposals contain project-based services. Proposals that include services have a 16% average higher close rate than proposal without services included.
- 3 More partners align external marketing along vertical industries than technology expertise.
- 4 Resources intensive sales cycles draw focus away from new business development.

Vendor Imperative ...

- 1 Vendors must support with business and marketing training to assist partners in speaking the language of business and prospecting to line of business executive.
- 2 Training and awareness for the field sales team to embrace partners who deliver complete proposals and/or pre-sales services.
- 3 Consider vertical specialization in both certifications and training as well as robust vertical content.
- 4 Vendors must consider programs which reward influence and services capacity/success for partners to progress in to higher tiers

Influencer's Dilemma

Selling process heavy in technical resources for solution design, statement of work and proposal Development – often billable but sometimes not. PS led partners swarm big deals.

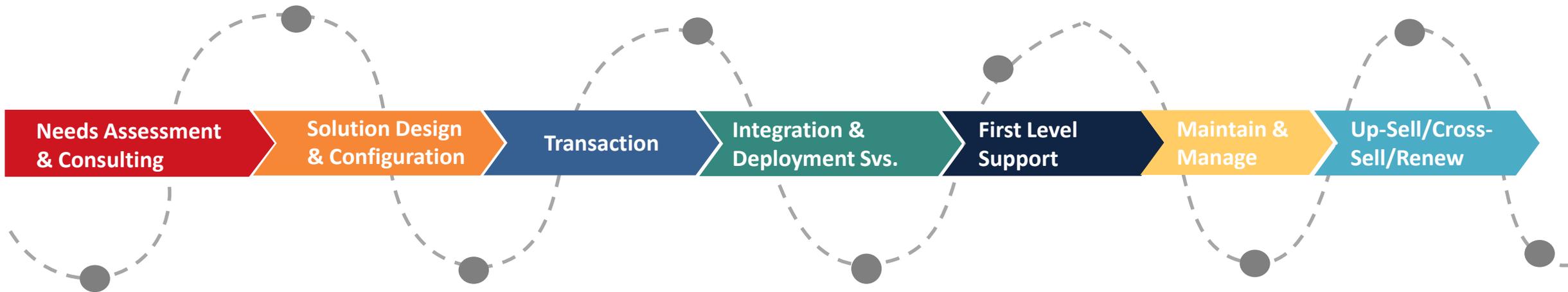
Upside – These partners are in a great position to influence the sale

Managed Services Focus

Not focused on recurring revenue services, unless MSP model is firmly established as secondary business model or defined practice

Getting the Next Project

Staffing (residency) services for ongoing administration may prove insightful for



Early Consulting

These partners engage 62% of the time before the product is purchased, with consulting and pre-sales architecture services

Architecture & Design

Higher rate of selling success (16%) when Prof. Svs. are attached
Less likely to advocate until they understand the customer situation

Service vs. Product Focus

Not driven by product profit margins
Marshalling pre-sales resources for diagnosis, design and delivery leaves fewer people for sales and pre-sales; big deals dominate their time

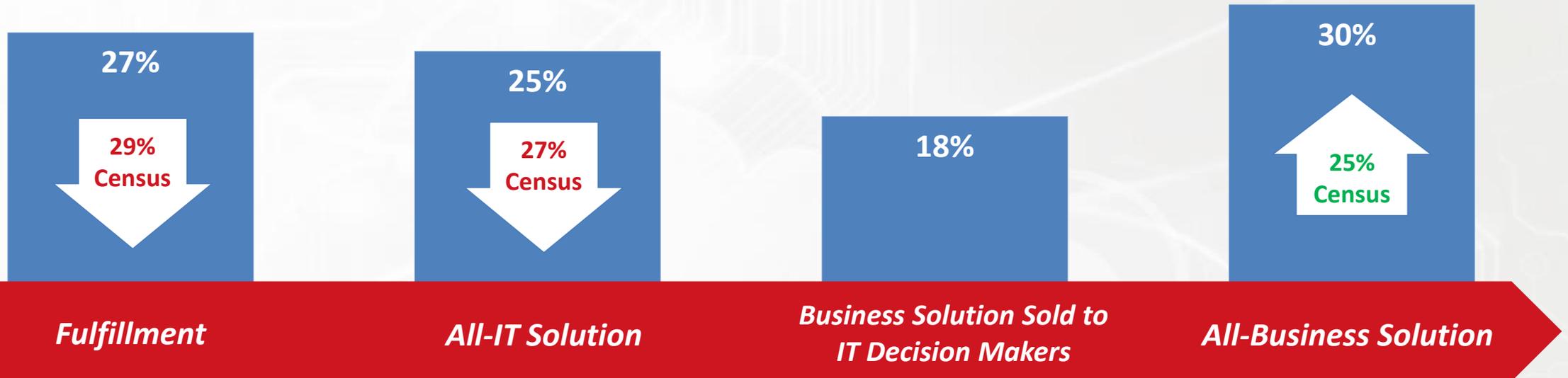
Sr. Resources involved in pre-sales often bleed into Project kickoff's, or are required in delivery as part of customer satisfaction.

Downside – Extended pressure on selling resources which inhibits new business development

Service Heavy Partners Engage Line Of Business for Selling

Percentage of Customer Engagements by Type of Strategic Guidance (Means)

Services Focused partners engage most often at the Line of Business level, having strategic conversations



Focus:

- ▶ Fulfilling pre-existing customer demand for IT products and services, either with established or new customers
- ▶ *Example:* additional laptops for a DaaS solution

Focus:

- ▶ Solving an IT problem, designed for and sold to IT decision makers
- ▶ *Example:* additional server, storage, networking capacity

Focus:

- ▶ Products and services designed to solve a specific business problem; primary decision maker is an IT executive.
- ▶ *Example:* design of a UC system for enhanced sales/mktg. collaboration

Focus:

- ▶ Solutions designed to solve a specific existing problem or automate a new business process; designed for and primary decision maker is LOB
- ▶ *Example:* implementing a marketing automation system

Key Takeaways: Running the Business

Data Says ...

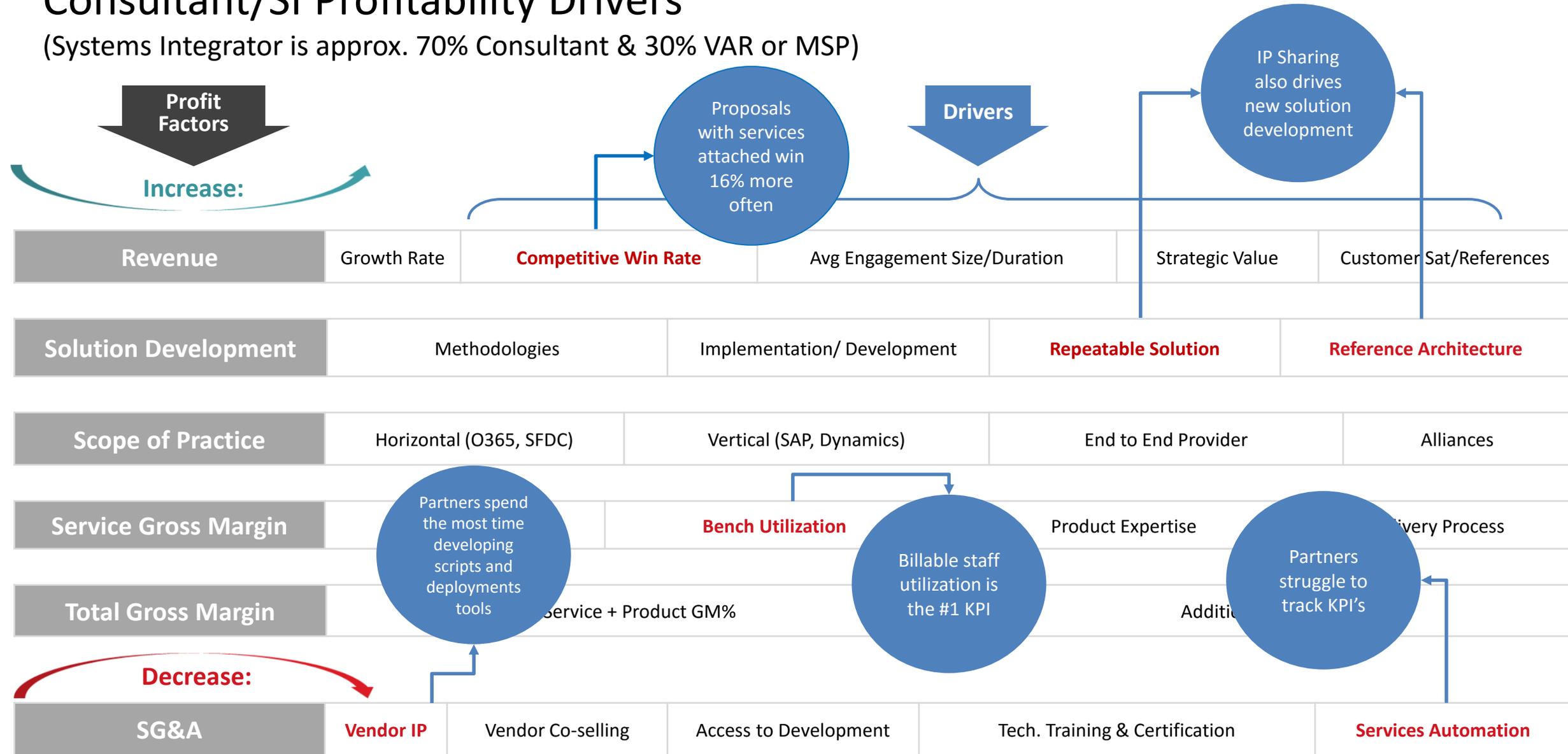
- 1 Intellectual Property is critical for profit and competitiveness. Scripts and deployment tools are the top two investments
- 2 Billable staff utilization is the top metrics tracked. The IPED partner profitability study showed lower than industry average utilization at 55.
- 3 VARs utilize assessments in the sales cycle far more than Consultants or SI's which yield 31% margin for them.
- 4 Consultant/SIs cite only 5% of revenue coming from recurring services. The models carry different investments profiles, staffing plans, profit models and selling motions.

Vendor Imperative ...

- 1 Connect internal service teams with partners to share IP freely – treat partner service delivery resource just like internal resources.
- 2 Partners need help with services automation and KPI tracking.
- 3 Provide IP and tools where available to facilitate assessments.
- 4 Vendors can provide guidance on developing recurring revenue models and utility based pricing on products to assist firms getting into this space.

Consultant/SI Profitability Drivers

(Systems Integrator is approx. 70% Consultant & 30% VAR or MSP)



Top 3 Investments in Intellectual Property

Scripts and/or tools for deployment

- Scripts to pull and compile reporting on performance
- Script to deploy standard instances of software over multiple systems

On-site Solution Documentation

- Documentation of back-up schedule and procedures

Delivery Methodologies

- Runbooks for software/hardware operations and support

From State of Partner Profitability – Consultants

- 34% wanted more IP to build next generation services
- 30% wanted better access to service delivery tools and best practices

“Partners really value our blueprints most. Because they’re based on customer demand globally, with 100’s of engagements behind them.”
SonicWall channel leader

“Enablement is a tough thing in the security market because threats change so fast. It’s an “always on” model. So, keeping partner skills current is a constant challenge.”
SonicWall channel leader

Key Takeaways: Vendor Programs & Engagement

Data Says ...

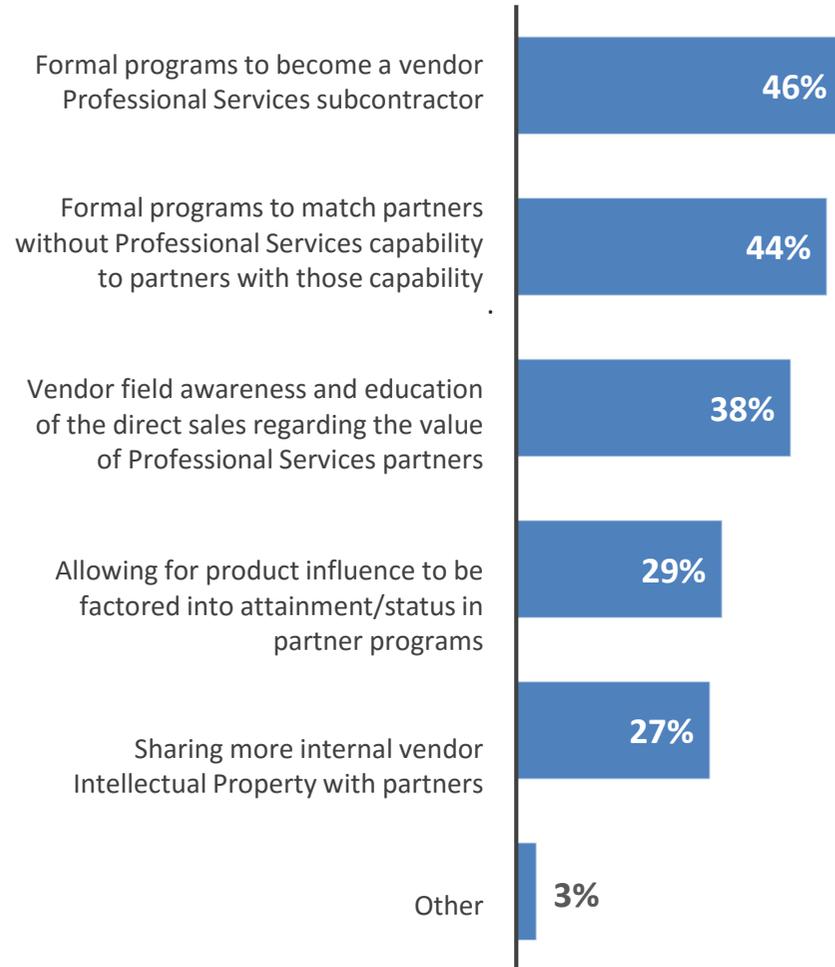
- 1 Potential revenue from professional services ranks only slightly behind product revenue as reasons partners choose a vendor.
- 2 Services focused partners lead the conversation with the customer.
- 3 Utilization is a major area partners need help.
- 4 Partners not rewarded for focus on building expertise.

Vendor Imperative ...

- 1 Vendors must have a professional services value-proposition and story linked to partner profitability.
- 2 Vendors sales teams must treat partners as equals in the sales cycle and recognize where partners are capable of leading the conversation.
- 3 Making sure partners are signed on a subcontractors for vendor deals, matching partners with partners who have bandwidth.
- 4 Delivery capability and capacity must be rewarded and encouraged in and of itself, with vendors assisting with managing capacity and utilization.

Vendor Program Support

VALUE OF CHANNEL PROGRAM INNOVATIONS



BIGGEST FRUSTRATION WITH IT VENDORS RULES OF ENGAGEMENT





Thank You