

Advanced Partner Financials

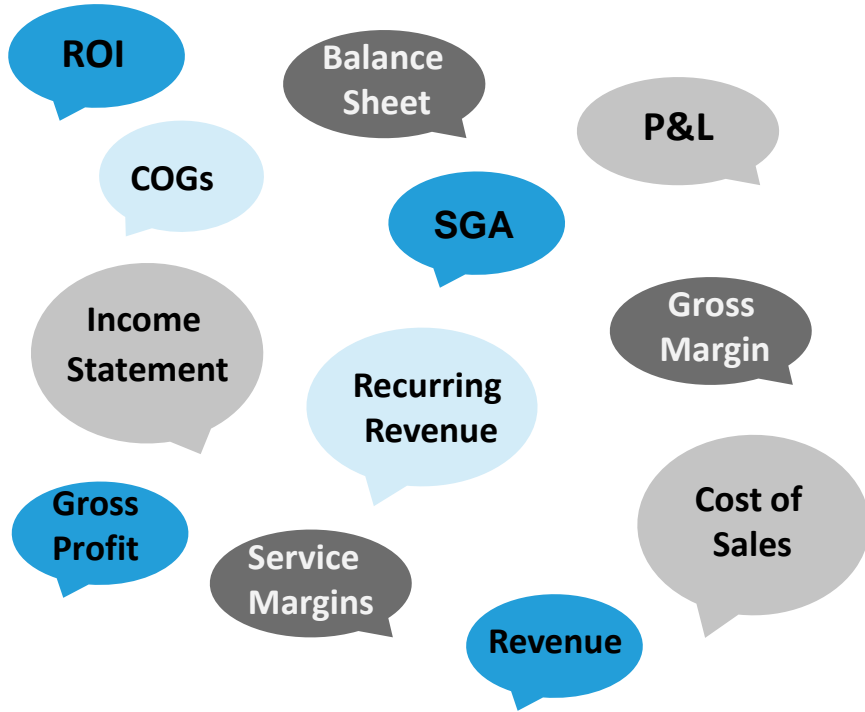
Impact on Programs

Continuing Education for IPED Channel Masters

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 partner**
- **Summary / 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.

Vendor Channel Managers: Understanding of 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



21% say

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



19% say

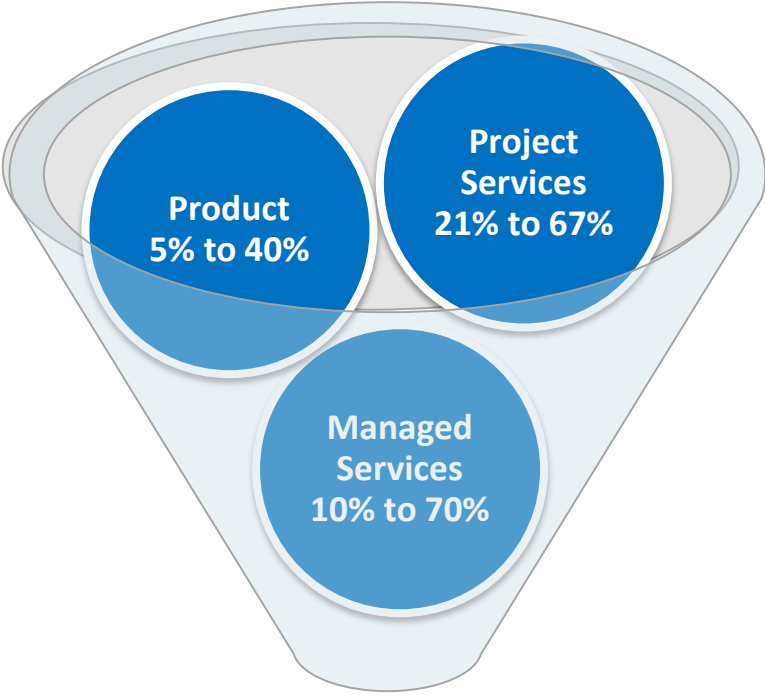
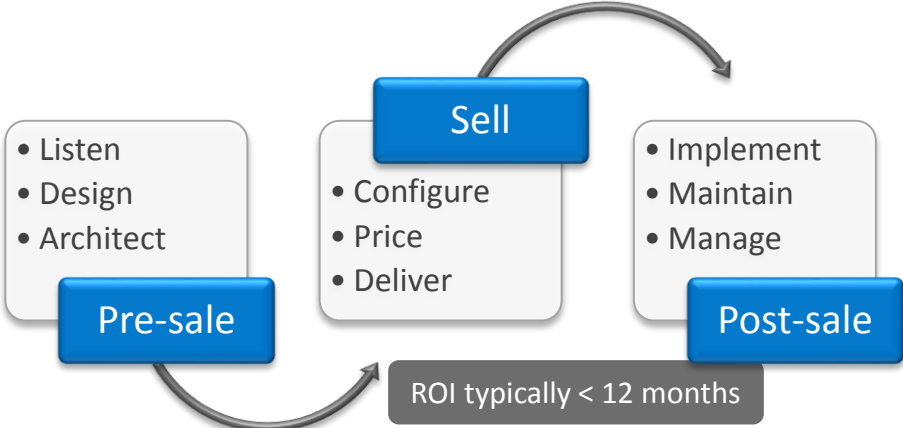
Say CAM's have a **very limited understanding** of both real margins and sales expenses



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)

What They Do To Make Money

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



Technology Line of Business or Company
Sample Average Gross Margins*

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 ...

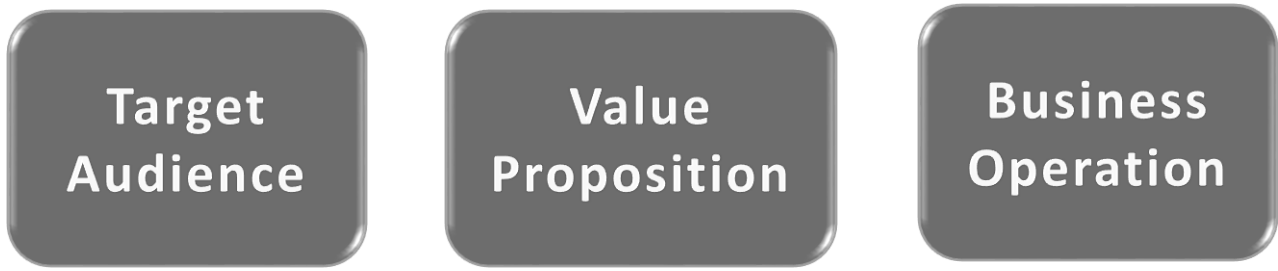
- Value Proposition
- Solution Stack
- Process Alignment
- Deliverables
- Metrics / ROI

Business Operation

HOW THEY DELIVER ...

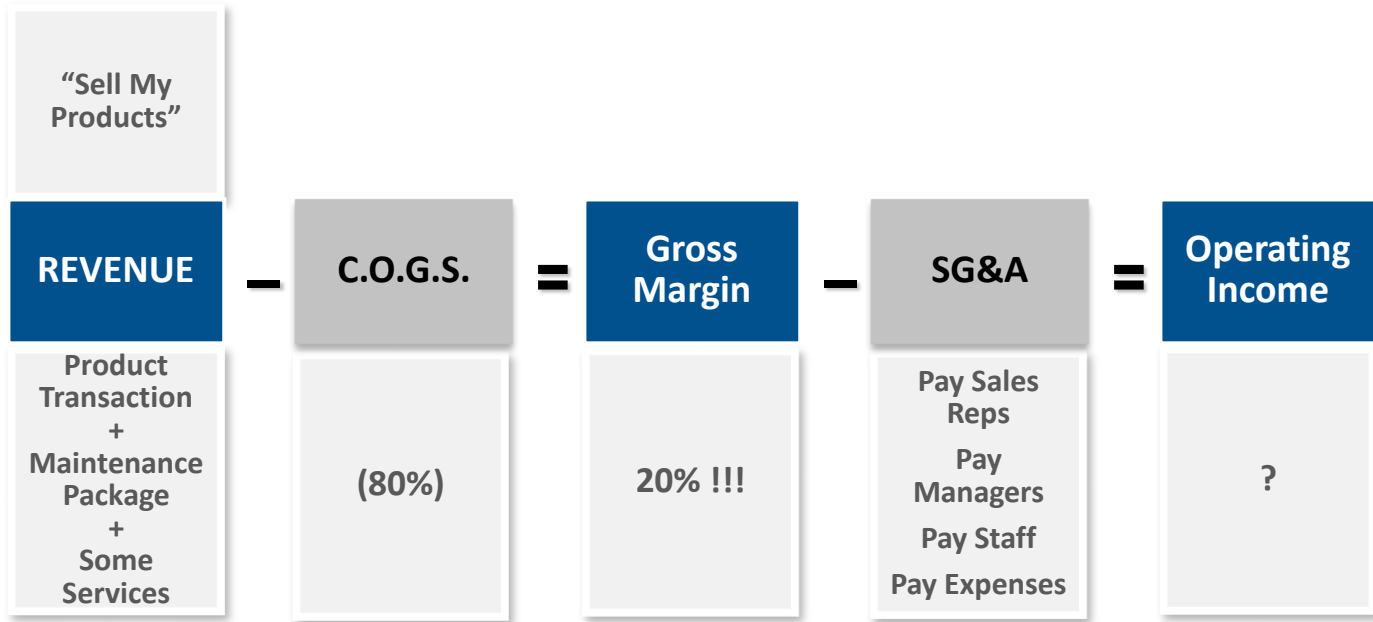
- Core Capabilities
- Resources
- Structure
- Operating Process
- Partner Network

Basic Partner Business Model Structure



Mastering The Mechanics of PROFITABILITY

HOW DO CHANNEL REPS USUALLY ENGAGE PARTNERS?



Mastering The Mechanics of PROFITABILITY

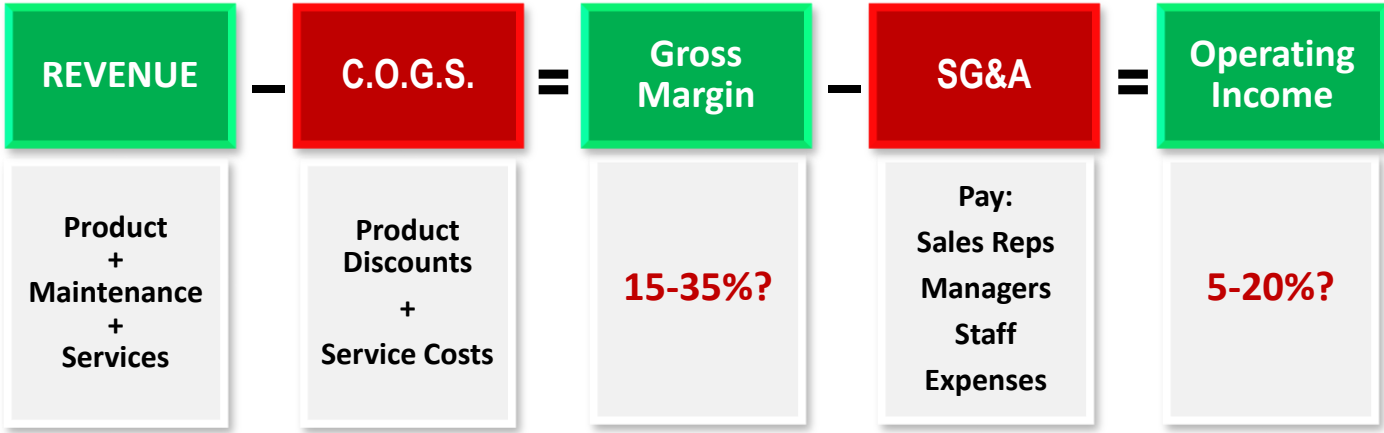
IS THERE A BETTER WAY TO ENGAGE PARTNERS?



A Business Owner or Department Leader in a Larger Business Thinks Profit & Loss



PARTNERS THINK IN GROSS MARGIN % AND \$...
THEY TYPICALLY PAY SALES REPS ON GROSS MARGIN GOALS...
MANAGEMENT THEN CONTROLS SG&A...



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

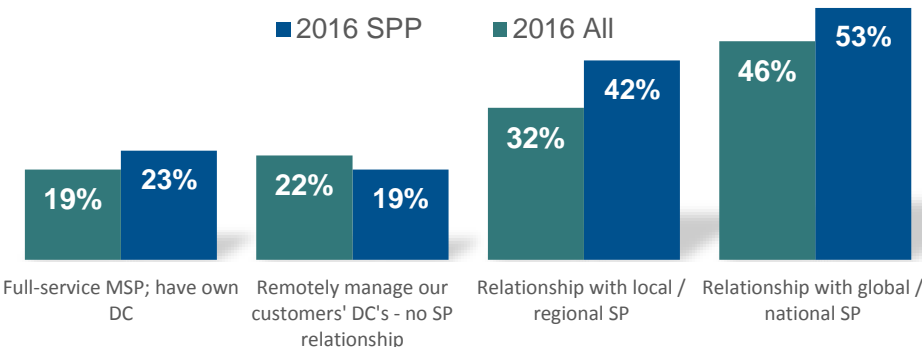
(+)	(-)
ASSETS:	
- Cash	
- A/R	
- Inventory	
- Equipment	
- Facilities/Offices	
	LIABILITIES:
	Accounts Payable
	Credit card debt
	Long-term debt/ loans
	Tax liabilities
NET ASSETS	\$



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

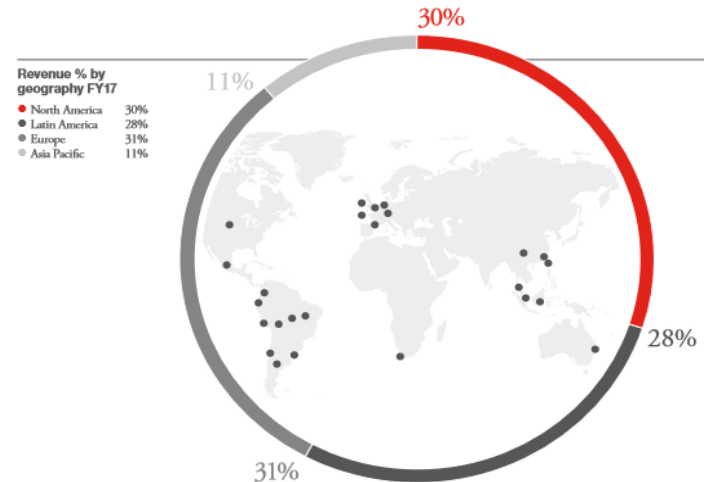


	2017	2016	2015
Income Statement - Dollars (\$M)			
Revenue	\$1,513.1	\$1,533.9	\$1,535.1
COGS	(\$1,149.8)	(\$1,180.5)	(\$1,163.5)
Gross Profit	\$363.3	\$353.4	\$371.6
SG&A	(\$282.1)	(\$272.5)	(\$274.6)
Operating Income	\$81.2	\$80.9	\$97.0

	2017	2016	2015
Income Statement - Percentage			
Revenue	100.0%	100.0%	100.0%
COGS	76.0%	77.0%	75.8%
Gross Profit	24.0%	23.0%	24.2%
SG&A	18.6%	17.8%	17.9%
Operating Income	5.4%	5.3%	6.3%

	2017	2016	2015
Revenue Breakdown			
Product Resell	63%	67%	67%
Pro services	15%	12%	12%
Maintenance/Managed Services	22%	21%	21%

With over 4,000 employees across 25 countries worldwide, we are a leading provider of global IT solutions and managed services.



“Executive Chairman’s statement Jens Montanana

Although this was a year of no revenue growth for Logicalis, the organization is, however, in better shape with improved profitability, mostly due to increased sales of services, which we see continuing to grow. Services now account for a third of the revenue mix.”

	2017	2016	2015
Income Statement - Dollars (\$M)			
Revenue	\$1,513.1	\$1,533.9	\$1,535.1
COGS	(\$1,149.8)	(\$1,180.5)	(\$1,163.5)
Gross Profit	\$363.3	\$353.4	\$371.6
SG&A	(\$282.1)	(\$272.5)	(\$274.6)
Operating Income	\$81.2	\$80.9	\$97.0
Income Statement - Percentage			
Revenue	100.0%	100.0%	100.0%
COGS	76.0%	77.0%	75.8%
Gross Profit	24.0%	23.0%	24.2%
SG&A	18.6%	17.8%	17.9%
Operating Income	5.4%	5.3%	6.3%
Revenue Breakdown			
Product Resell	63%	67%	67%
Pro services	15%	12%	12%
Maintenance/Managed Services	22%	21%	21%

2016



IT moving from a support service to a major source of business innovation

IT infrastructure positioned as a major enabler of business agility and growth

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."

	2016	2014
Income Statement - Dollars (\$M)		
Revenue	\$2,715	\$2,266
COGS	(\$2,174)	(\$1,812)
Gross Profit	\$541	\$454
SG&A (plus amort/deprec/transaction)	(\$442)	(\$363)
Operating Income	\$99	\$92
Income Statement - Percentage		
Revenue	100.0%	100.0%
COGS	80.1%	80.0%
Gross Profit	19.9%	20.0%
SG&A (plus amort/deprec/transaction)	16.3%	16.0%
Operating Income	3.6%	4.0%
Revenue Breakdown		
Product revenue	85%	86%
Service Revenue	15%	14%
Maintenance/Managed Services		
Gross Profit Percentage		
Product Gross Profit	19.5%	19.7%
Service Gross Profit	22.1%	21.8%

FUTURE. BUILT.

We enable our clients to be agile, intelligent and successful. Explore how organization

DIGITAL INFRASTRUCTURE

The right infrastructure is more important than ever. Digital Infrastructure solutions from Presidio offer everything needed to decode the ever evolving IT landscape.

Discover our [digital infrastructure solutions](#)

Company facts

- 2,000+ IT professionals including over 1,000 highly certified consulting engineers
- 3,500+ technical industry certifications
- Local delivery model with 50+ offices located across the United States
- 15+ years of sustained annual double-digit growth rates
- CRN's Top 50 Solution Providers



CDW

	2016	2015	2014
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Income Statement - Dollars (\$M)

Revenue	\$13,981.9	\$12,988.7	\$12,074.5
COGS	(\$11,654.7)	(\$10,872.9)	(\$10,153.2)
Gross Profit	\$2,327.2	\$2,115.8	\$1,921.3
SG&A	(\$1,508.0)	(\$1,373.8)	(\$1,248.3)
Operating Income	\$819.2	\$742.0	\$673.0

Income Statement - Percentage

Revenue	100.0%	100.0%	100.0%
COGS	83.4%	83.7%	84.1%
Gross Profit	16.6%	16.3%	15.9%
SG&A	10.8%	10.6%	10.3%
Operating Income	5.9%	5.7%	5.6%

Revenue Breakdown

Product Resell	95%	95%	96%
Pro services	4%	4%	3%
other	1%	1%	1%

2015



Our Strategy



2016

Thomas E. Richards Chairman and CEO
August 1, 2017

"In 2016, we also made progress against all three of our strategic priorities for growth. These include capturing market share, enhancing our ability to deliver high-growth integrated solutions and expanding our service capabilities."

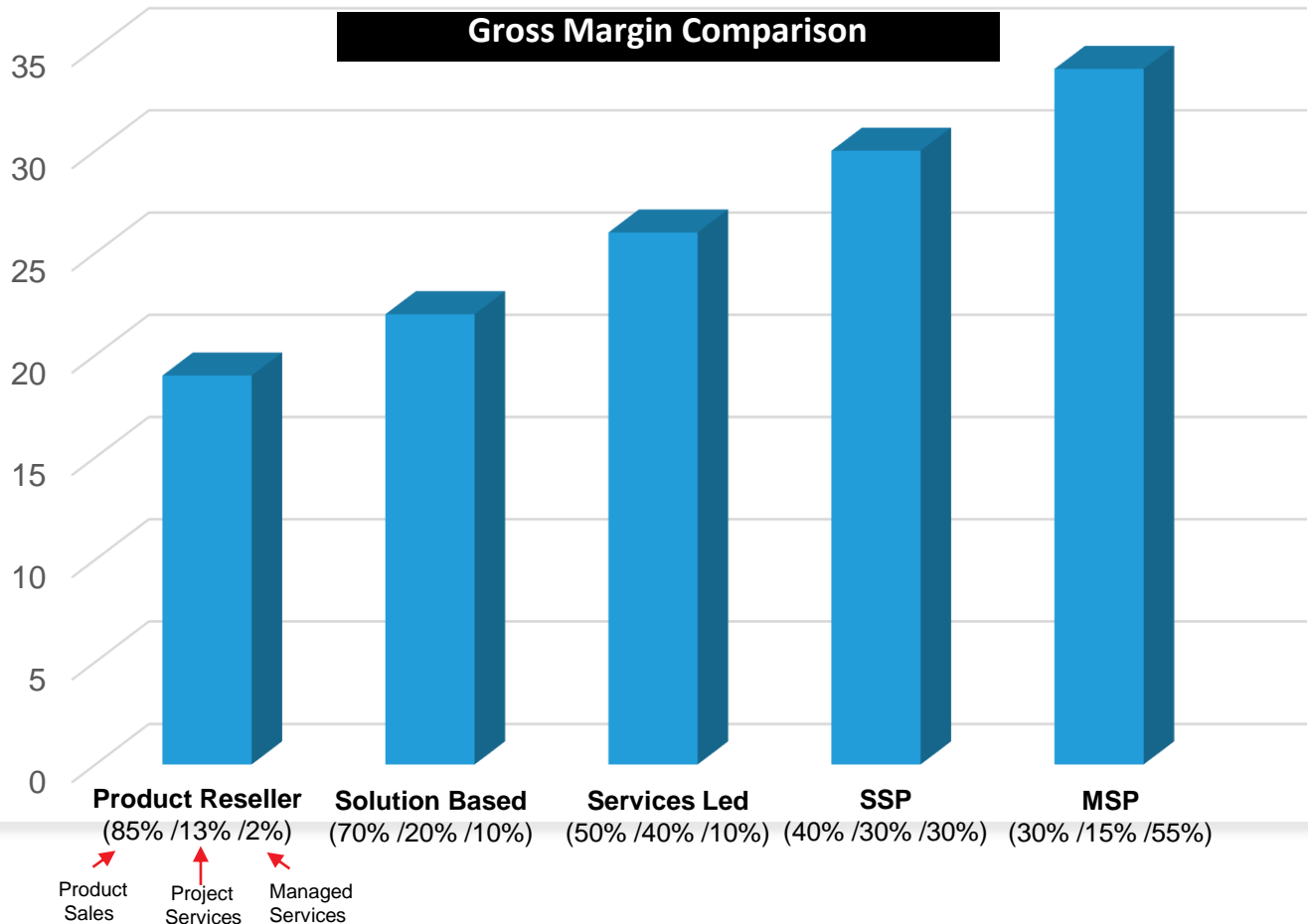


CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended December 31, 2016		Year Ended December 31, 2015 ⁽¹⁾		Year Ended December 31, 2014 ⁽¹⁾	
	Dollars in Millions	Percentage of Total Net Sales	Dollars in Millions	Percentage of Total Net Sales	Dollars in Millions	Percentage of Total Net Sales
Notebooks/Mobile						
Devices	\$ 2,934.3	21.0%	\$ 2,538.5	19.5%	\$ 2,352.9	19.5%
Netcomm Products	1,950.9	14.0	1,912.3	14.7	1,613.9	13.4
Desktops	1,054.8	7.5	968.6	7.5	1,058.2	8.8
Enterprise and Data						
Storage (Including Drives)	1,057.6	7.6	1,065.5	8.2	1,023.9	8.5
Other Hardware	3,981.4	28.5	3,798.3	29.2	3,492.3	28.8
Software ⁽²⁾	2,406.9	17.2	2,161.3	16.6	2,065.8	17.1
Services ⁽²⁾	579.0	4.1	472.8	3.6	371.1	3.1
Other ⁽³⁾	17.0	0.1	71.4	0.7	96.4	0.8
Total Net sales	\$ 13,981.9	100.0%	\$ 12,988.7	100.0%	\$ 12,074.5	100.0%

- (1) Amounts have been reclassified for changes in individual product classifications to conform to the presentation for the year ended December 31, 2016.
- (2) Certain software and services revenue is recorded on a net basis for accounting purposes, so the category percentage of net revenues is not representative of the category percentage of gross profits.
- (3) Includes items such as delivery charges to customers and certain commission revenue.

What might a new SSP partner look like?



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Deal Profit, Margin and Markup Definitions

Nearly all solution providers 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

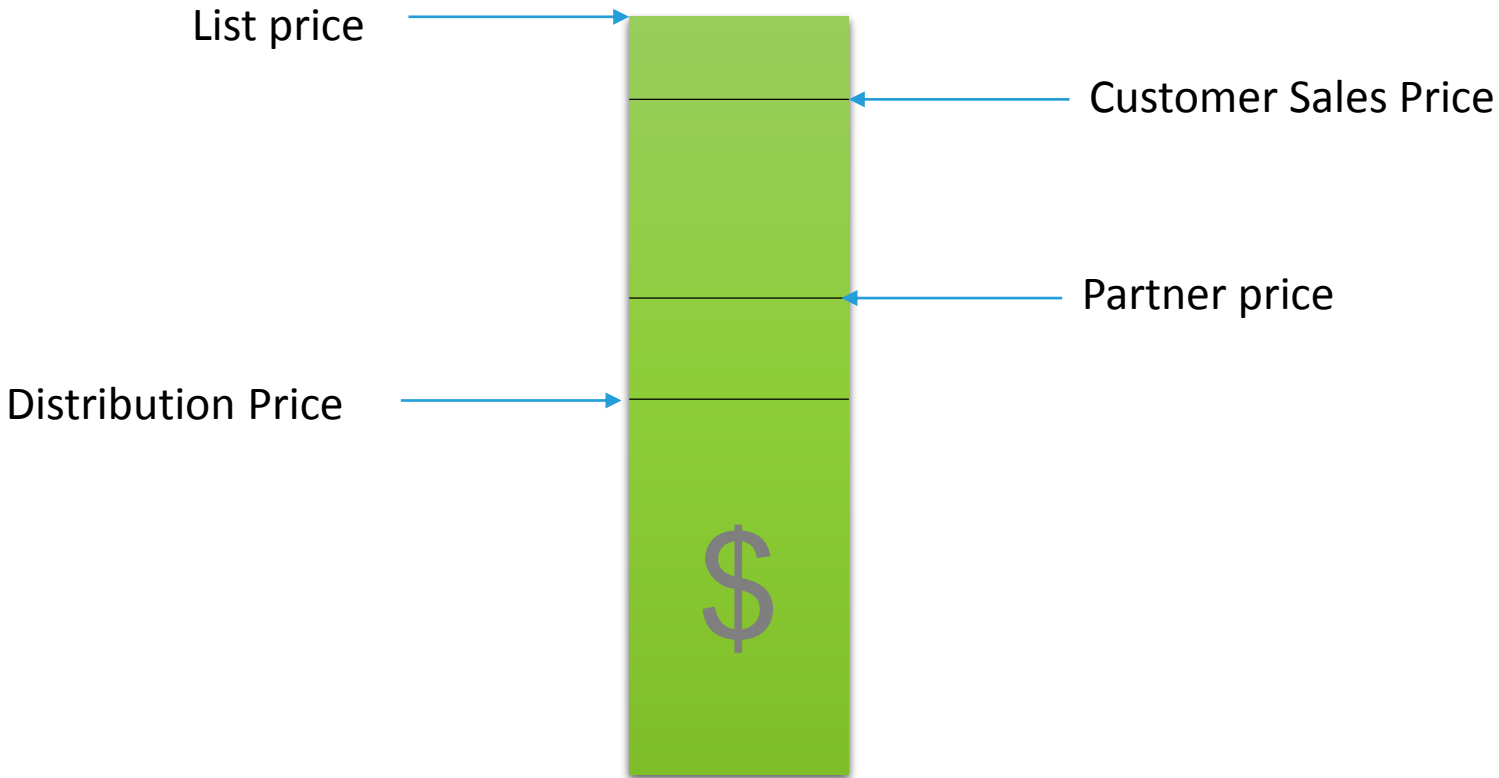
Markup is \$1,000 or 25% of the cost

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

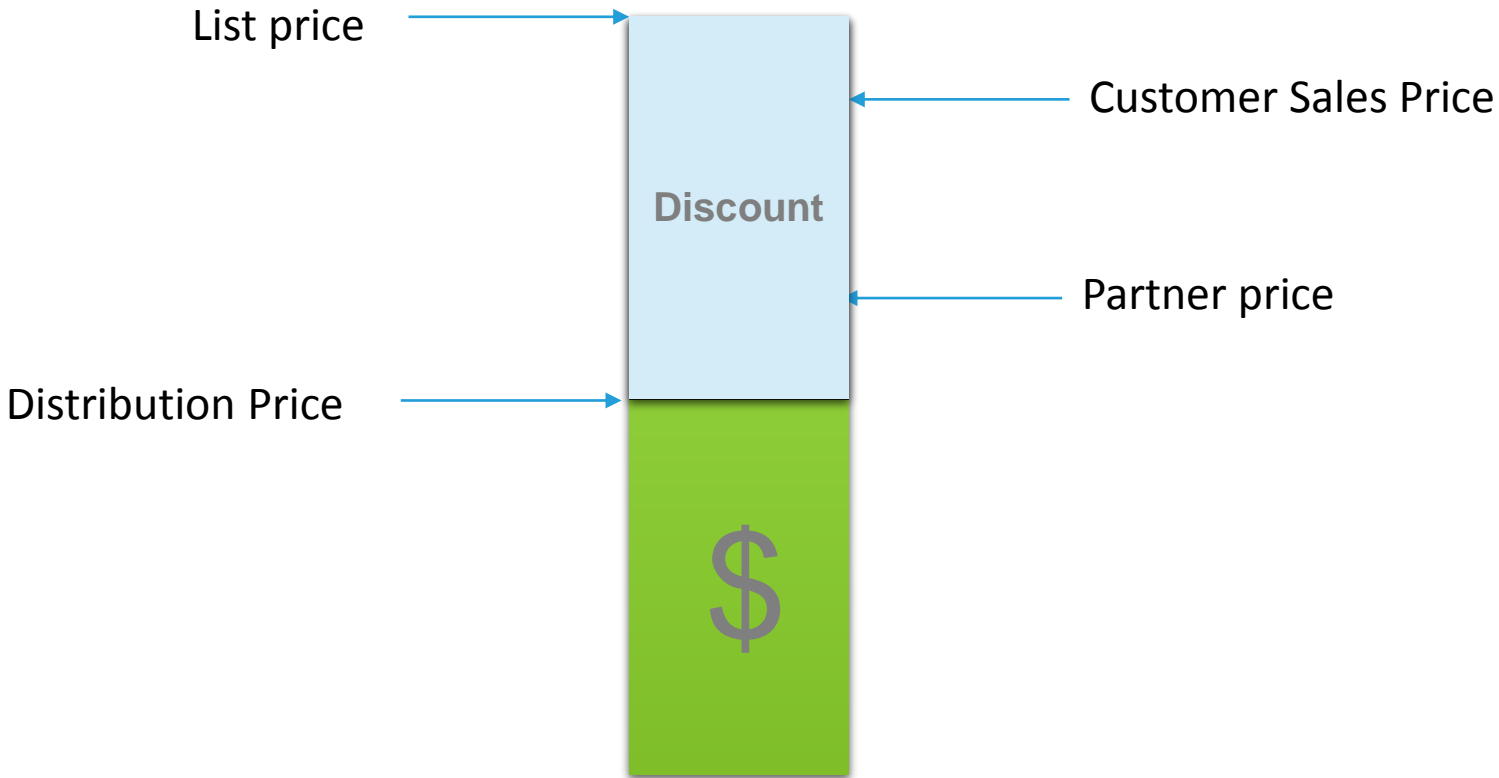
Margin is \$1,000 or 20% of the selling price

Margin is profit expressed as a percentage of sales price

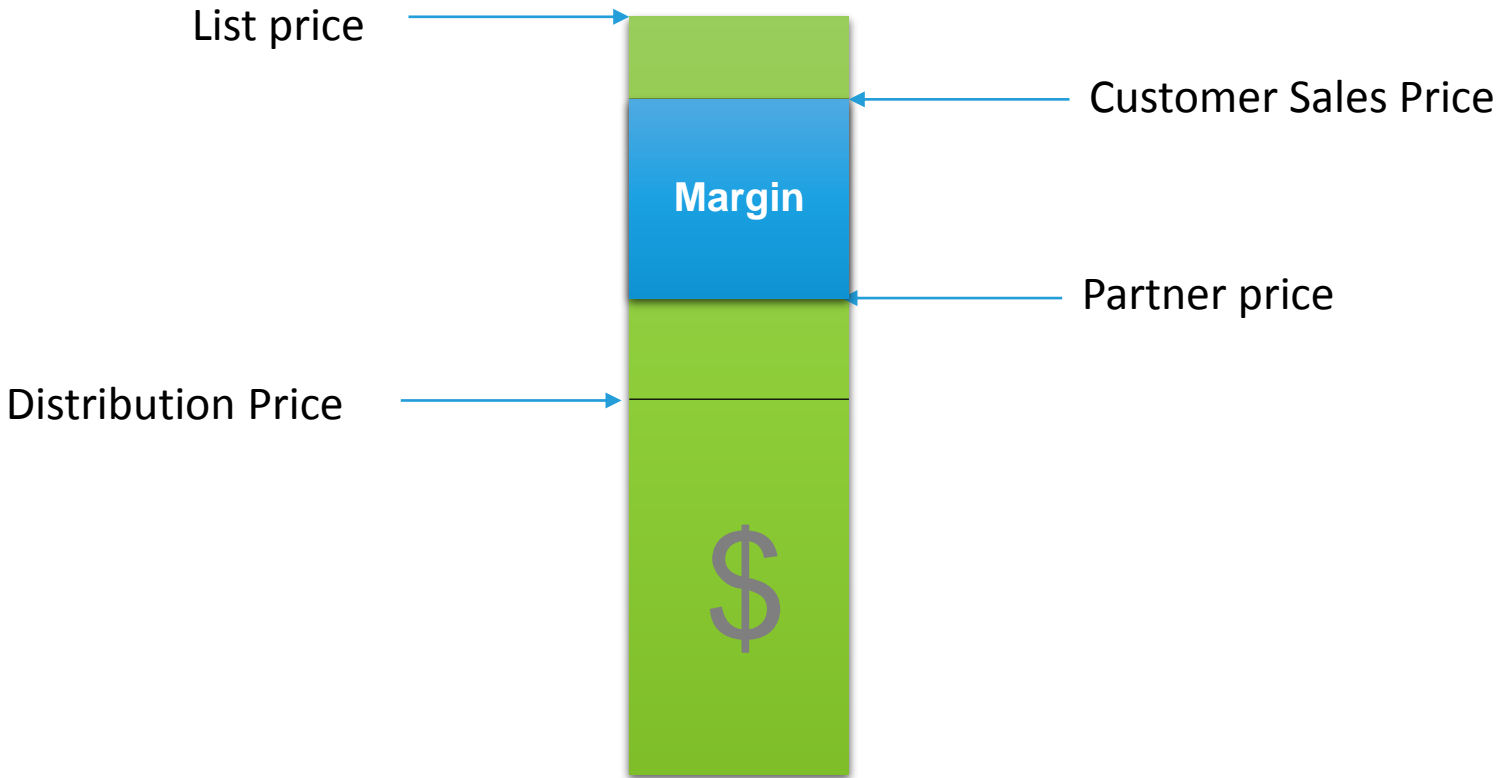
...which is different than the discount...



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

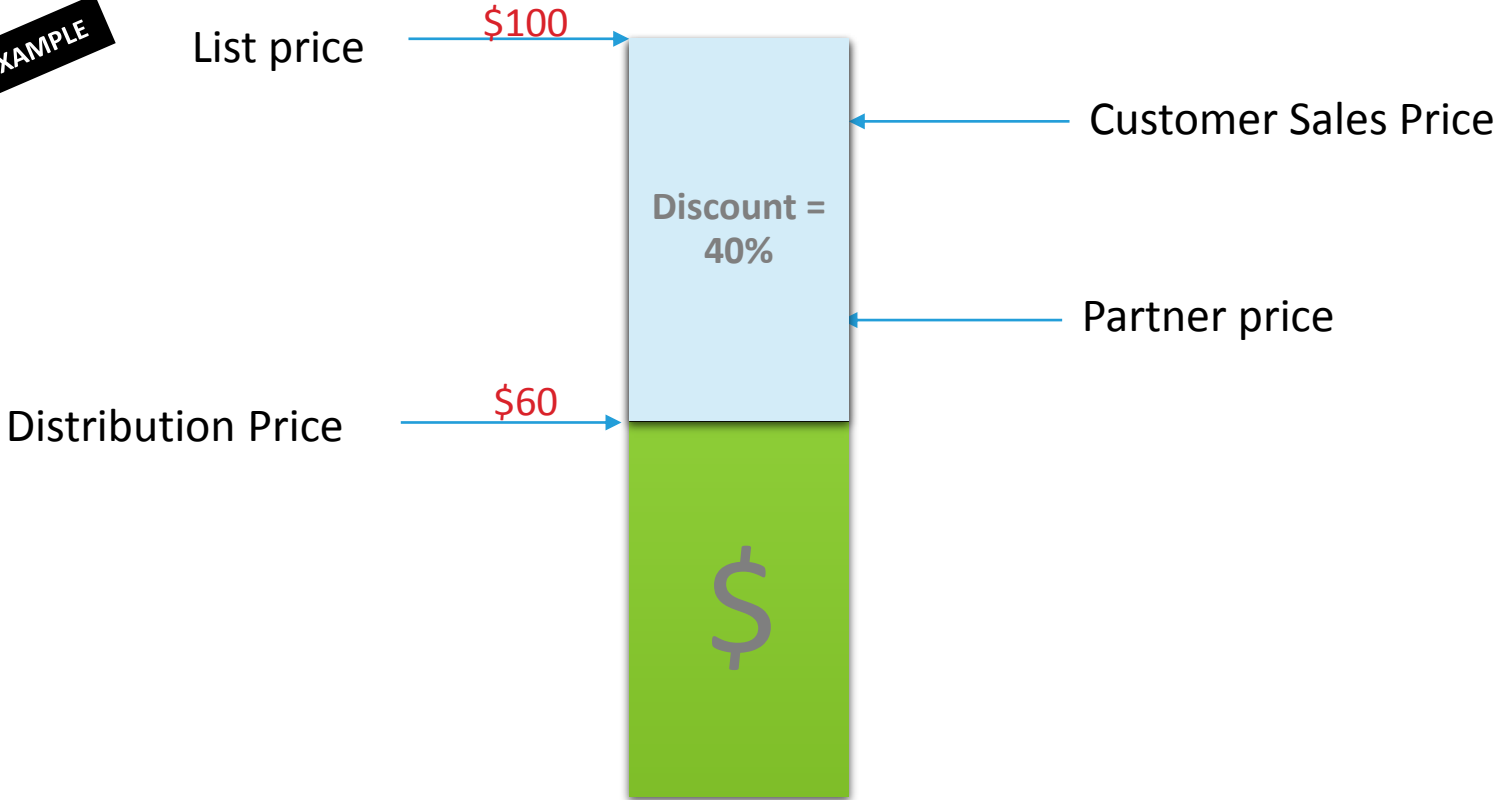


...which is different than the discount...



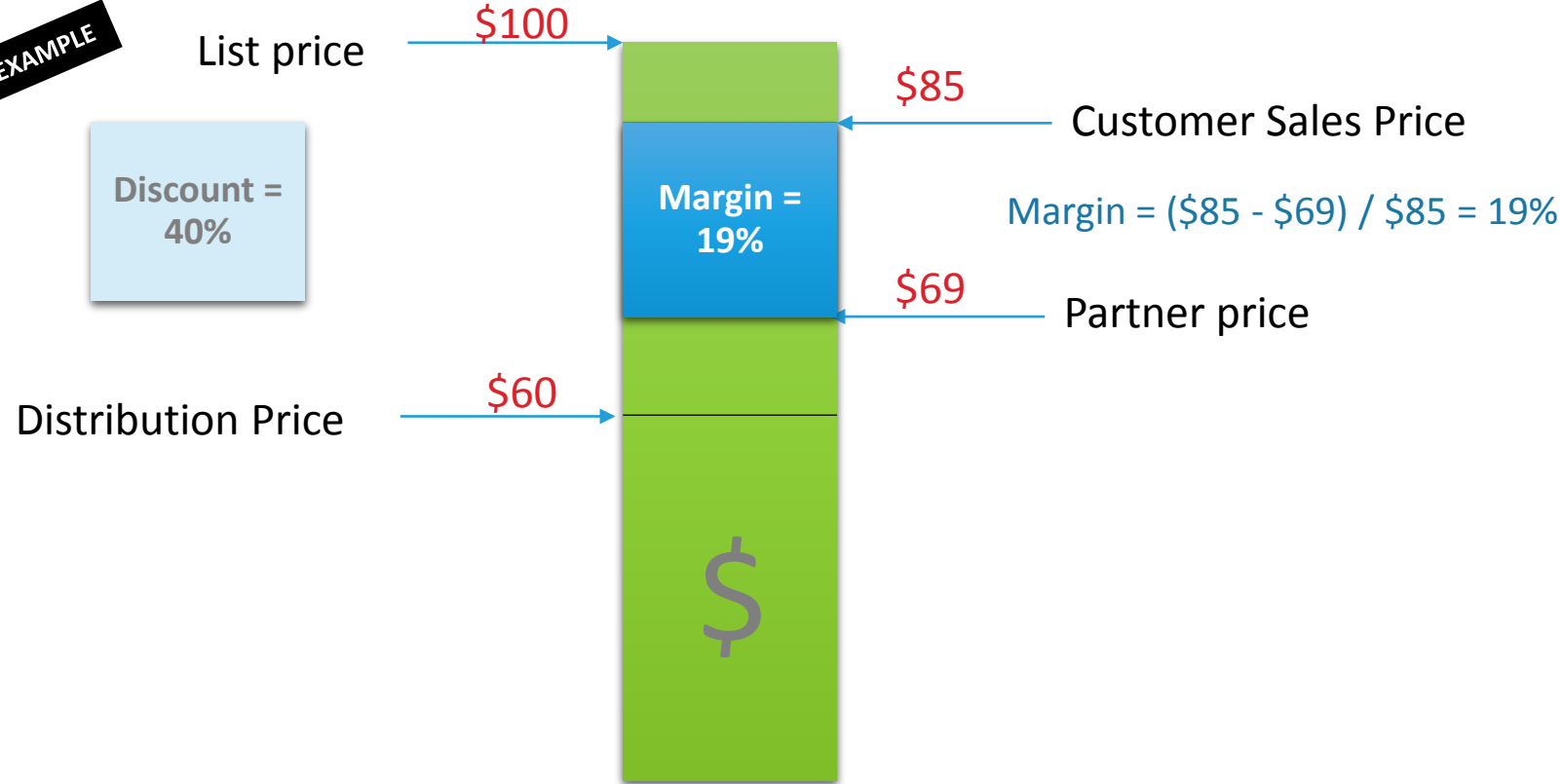
...which is different than the discount...

EXAMPLE



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

EXAMPLE



Rule of 78 (The exponential potential for recurring revenue)

If a partner adds 1 new customer at \$1,000 per month for a year,
how much revenue do they end up with at the end of the year?

The Rule of 78 - A Visual

	January	February	March	April	May	June	July	August	September	October	November	December
Customer 1	\$1,000											
Customer 2		\$1,000										
Customer 3			\$1,000									
Customer 4				\$1,000								
Customer 5					\$1,000							
Customer 6						\$1,000						
Customer 7							\$1,000					
Customer 8								\$1,000				
Customer 9									\$1,000			
Customer 10										\$1,000		
Customer 11											\$1,000	
Customer 12												\$1,000

Rule of 78 (The exponential potential for recurring revenue)

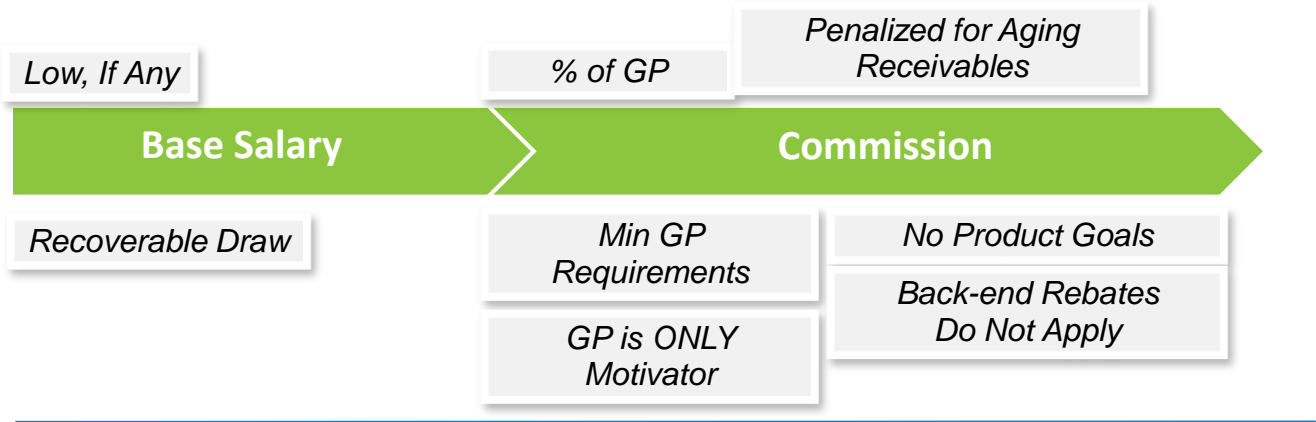
If a partner adds 1 new customer at \$1,000 per month for a year,
they end up with \$78,000 in revenue for the year.

The Rule of 78 - A Visual													
	January	February	March	April	May	June	July	August	September	October	November	December	Total Yearly Revenue
Customer 1	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$12,000
Customer 2		\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$11,000
Customer 3			\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$10,000
Customer 4				\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$9,000
Customer 5					\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$8,000
Customer 6						\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$7,000
Customer 7							\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$6,000
Customer 8								\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$5,000
Customer 9									\$1,000	\$1,000	\$1,000	\$1,000	\$4,000
Customer 10										\$1,000	\$1,000	\$1,000	\$3,000
Customer 11											\$1,000	\$1,000	\$2,000
Customer 12												\$1,000	\$1,000
	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	\$7,000	\$8,000	\$9,000	\$10,000	\$11,000	\$12,000	\$78,000

And they enter Year 2 with MRR=\$12,000 and ARR=\$144,000

Understanding Partner Sales Rep Compensation

Gross Margin is all that Matters

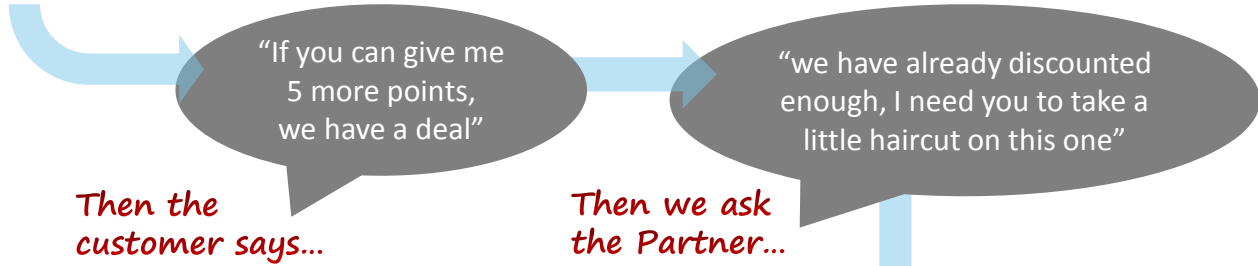


Which would you chase?



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

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Impacts to programs

Key Advanced Financial Topics	Impacts to Program
Drive to services based business	<ul style="list-style-type: none">• Need to significantly improve partner services programs (IP, mentoring, field engagement, etc.)• Program modifications to reward services delivery
Partner's drive to recurring revenue (partner sales rep comp)	<ul style="list-style-type: none">• Adjust to account for equivalent product vs. services- field sales compensation• Provide financing programs (either direct or via 3rd parties)• Utility / subscription pricing models
Move from product reselling model to land/expand	<ul style="list-style-type: none">• Provide lifecycle customer management (training and resources)• Ensure availability of business transformation initiatives• Simplified certifications and adjust to new roles• Revamp incentive programs for recurring revenue

Questions?

THE **CHANNEL** CO.™

Thank You



For More Information Contact:

Lisa Sabourin

Director of Engagements

C 561.339.5517

lsabourin@thechannelco.com

The Channel Company

thechannelco.com