Channel Census

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Today's Discussion

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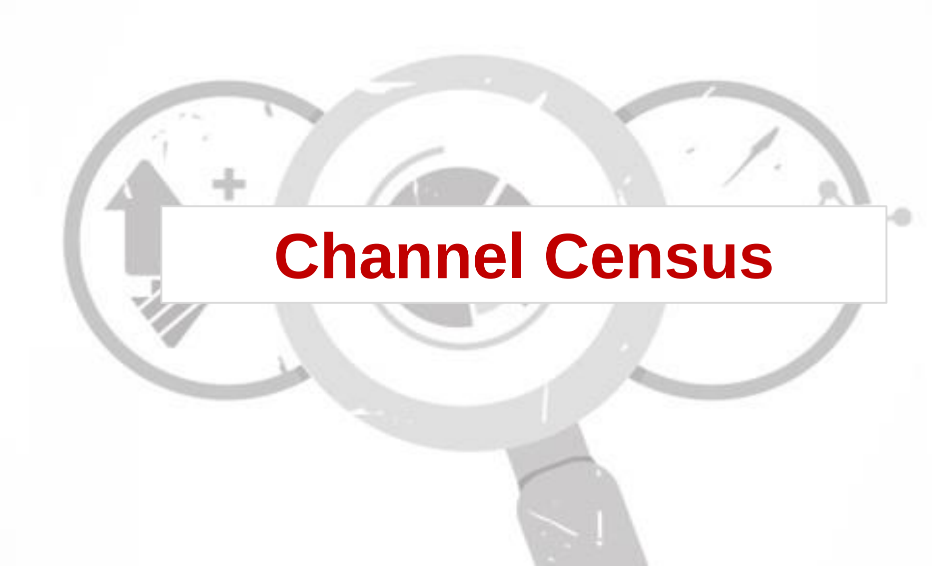
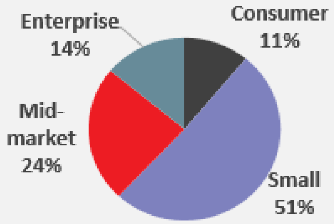
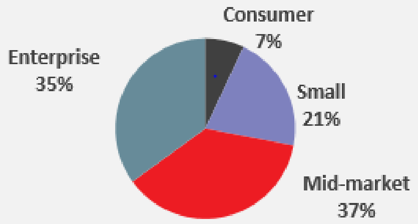
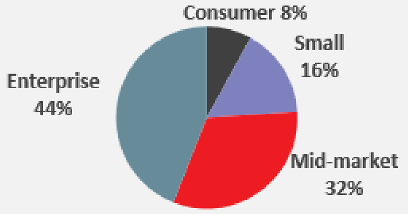


- 3rd year running
- Broad overview of the demographics of the N. American solution provider community
- Analysis of emerging solution provider business models
- Key insights into growth strategies, barriers and support expectations of each major partner type
- Critical benchmark against which to measure channel breadth and profile
- On-line survey fielded in Oct. – Nov. 2017
- **532** completed responses; selected **partner interviews** to clarify responses
- Data represents full-year 2016 data in most cases; in others (where noted) represents "last 12 months"

Channel Census - Three Biggest Takeaways

- CONTINUED GROWTH IN MSP BUSINESS MODEL
- EARLY DIGITAL TRANSFORMATION SUCCESS TIED TO CREATING BUSINESS VALUE
- PARTNERS NEED VENDOR RECURRING REVENUE SUPPORT

Over 2/3 of the N. American SP community are small regional firms catering to SMB who are reselling, doing SI work and providing managed services

	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 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 functions	1. VAR 2. Consultant	1. VAR 2. SI	1. VAR 2. MSP
Mix of revenues by customer type			

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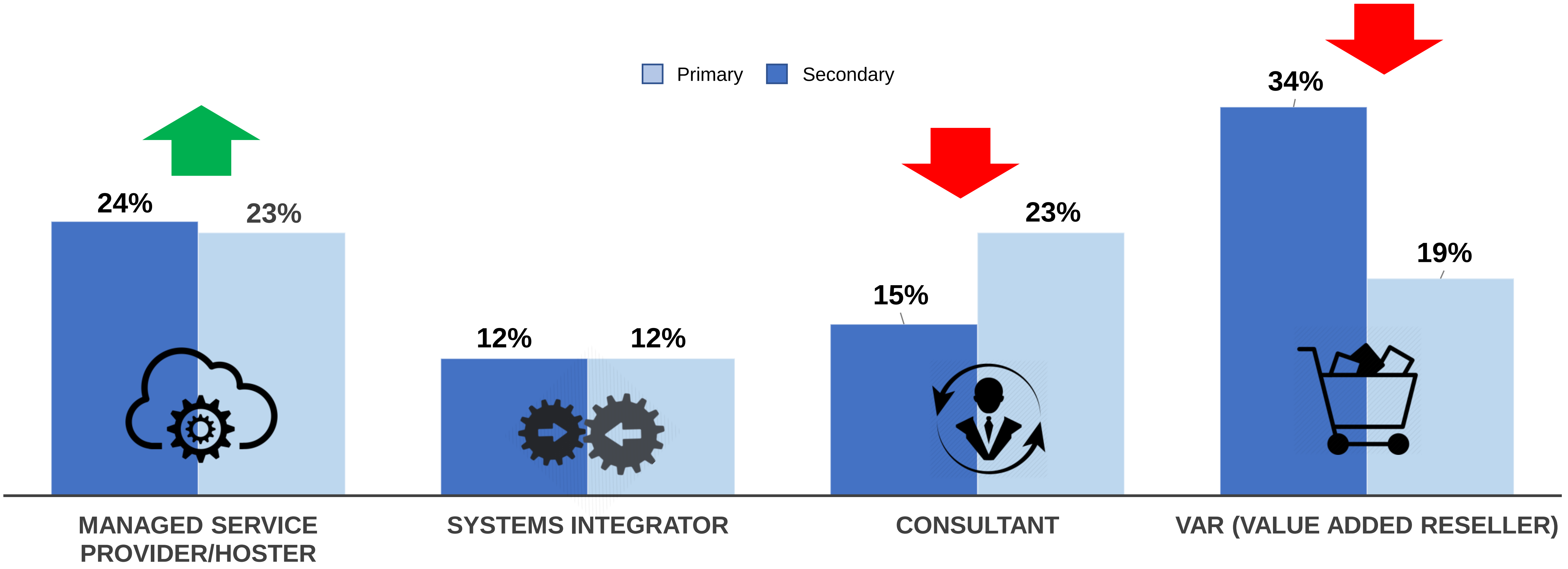
Channel Census - Three Biggest Takeaways

- CONTINUED GROWTH IN MSP BUSINESS MODEL

VAR still most common primary function, but Managed Service delivery continues fastest growth

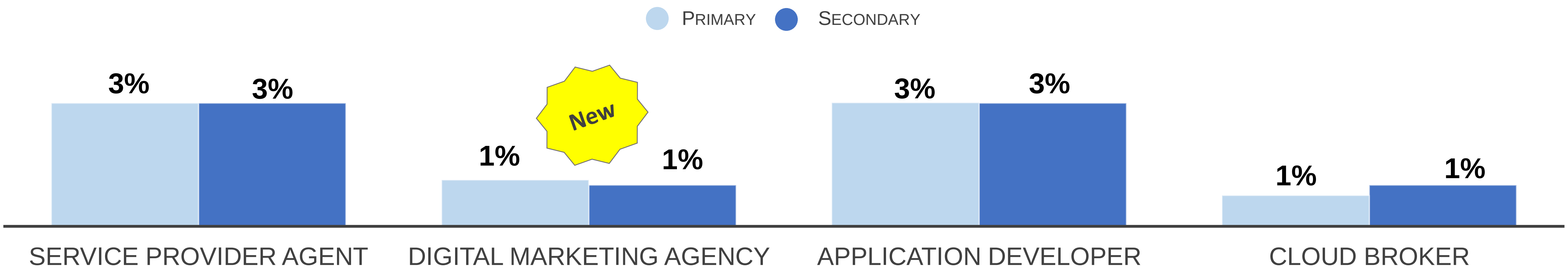


Q: Which of the following best describes your current primary business model (that which contributed the highest percentage of your 2016 revenues)? (n=532) Means

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

Emerging Business Models: Definitions

EMERGING BUSINESS MODELS



Service Provider Agent	Digital Marketing Agency	Application Developer	Cloud Broker
Service Provider Agent (or reseller) still aligned with legacy telephony focused partners; aligns with opportunistic selling of T1/T2 IaaS provider offerings and migration to MSP business model	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.	App. developer broken out from commercial ISV to reflect increase need for application skills and independent developers; top function for P2P teaming	Majority of revenues (>50%) come from the administration of public cloud services, including provisioning licenses, user additions/changes, access & security designations, license compliance management & reporting via a central portal access, ongoing billing and central help desk support.

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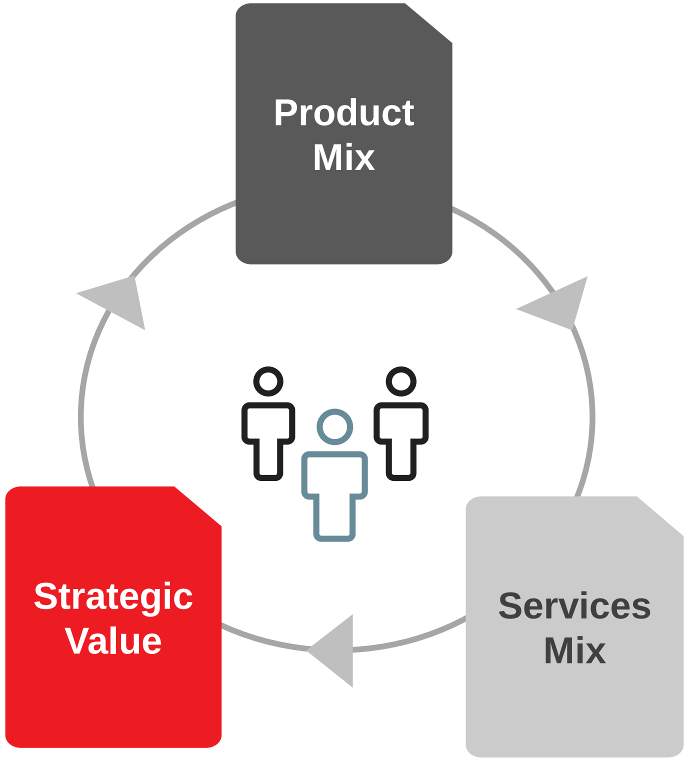
Evolution of “Strategic Service Provider”

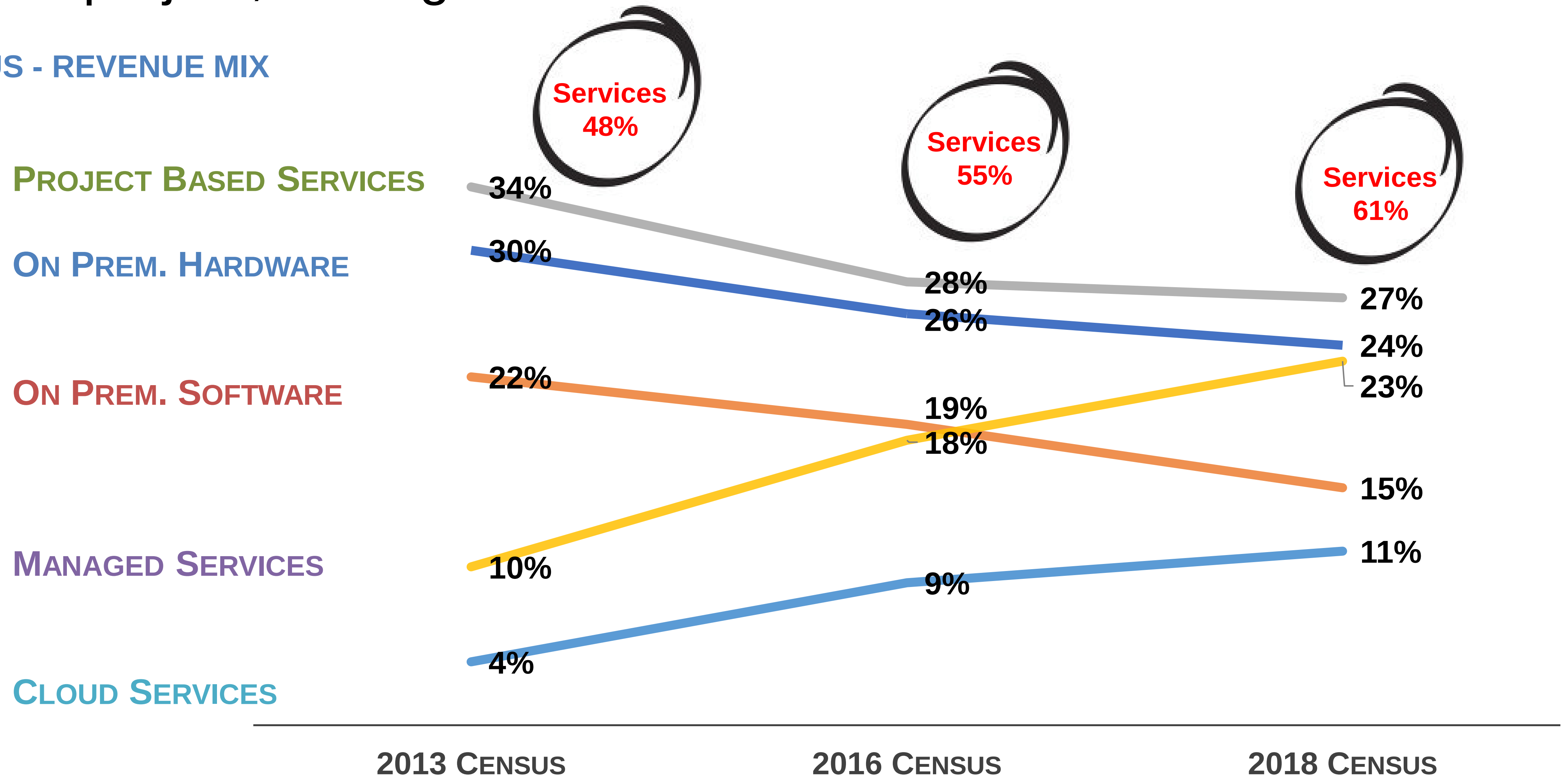


17% of Population

		Census SSP Profile	
1/3 of revenues from services (min.)	Product Mix	77%	of revenues
Recurring revenue services > project services	Services Mix	47%	of services revenue
Min. 20% strategic customer engagements	Strategic Value	65%	of customer engagements

Revenues continues 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 RECURRING REVENUES SERVICES IN 2018

YES – 70%

MSP REVENUES MIX – BY DELIVERY MODEL

Partner Managed Only
45%

Partner Owned & Managed
33%

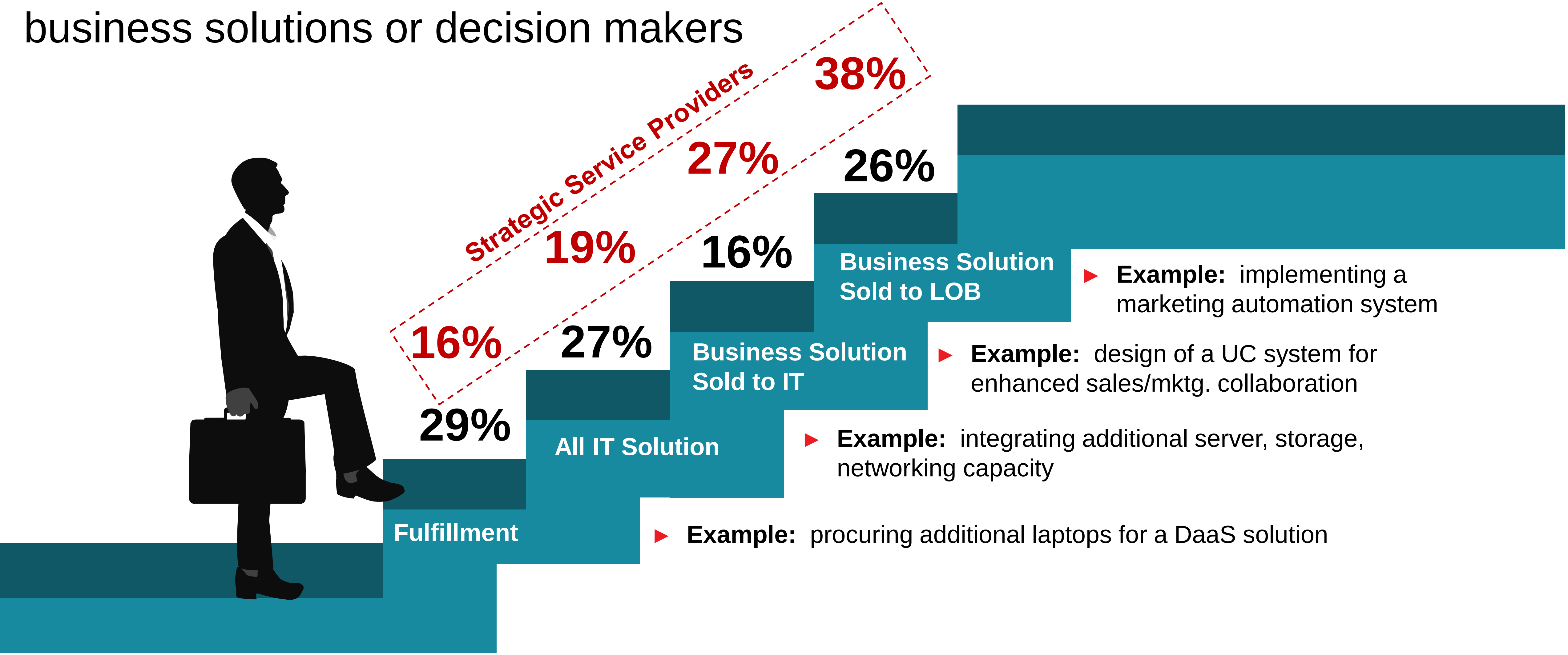
Resale
22%

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*

Three Biggest Takeaways

- EARLY DIGITAL TRANSFORMATION SUCCESS TIED TO CREATING BUSINESS VALUE

Less than half of current solution provider customer engagements focus on business solutions or decision makers



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. Nearly 20% already have deals

Vertical Success:

Healthcare
Retail
Manufacturing
Transportation
Agriculture
Automotive
Entertainment

- ✓ Warehouse asset tracking
- ✓ Cloud-based EMR
- ✓ Ruggedized tablets on forklifts
- ✓ Mobile enabled POS system
- ✓ Cloud based HR mgmt. system
- ✓ Factory automation

14% Don't see demand yet
11% Customers not asking for guidance

CHASM

32% Having customer conversations
21% Evaluating our skills & customer needs/interest

8% Have at least one deal
8% Have completed multiple deals

Market is too early

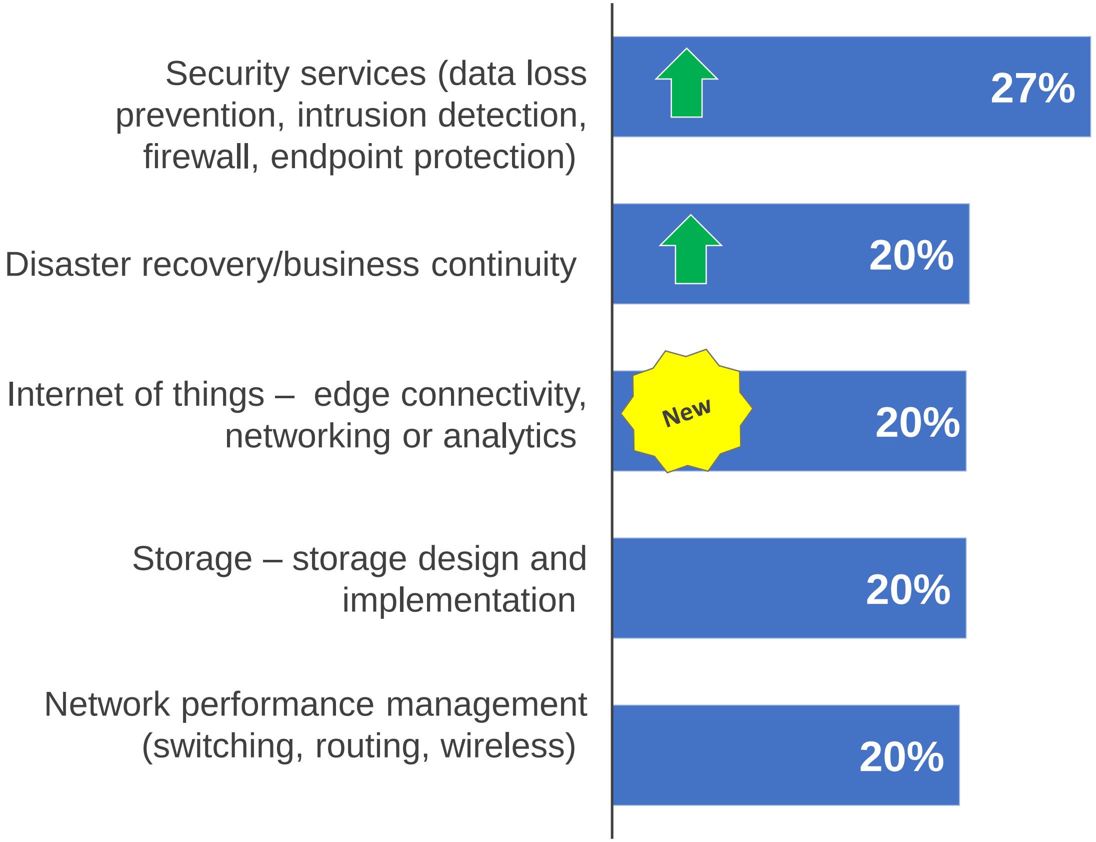
Sizing Demand & Skills

Doing deals & looking for repeatability

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

Top technology investments include security services, IoT, disaster recovery and storage design

CENSUS – TOP 3 PRODUCT/SOLUTIONS PLANNING TO INVEST IN



- Security services top 2018 investment plans; up from 21% response in 2016 Census
- DR/BC services still mainstay for many MSPs, receiving continued investment & expansion
- IoT makes the top 5 investments for the first time; beats out security services as more well-established offering
- Storage design & implementation continued focus; also #3 on today's top-producer rankings

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

Three Biggest Takeaways

▶ **PARTNERS NEED VENDOR RECURRING REVENUE SUPPORT**

Strategic vendor count and revenue stable; solution providers increasing their opportunistic vendor relationships

	Definition	# of Lines	% of Total Revenue
Strategic	*Generating a significant amount of revenue, highly involved with them at the sales, marketing and technical levels*	5	50%
Tactical	*Generate a significant amount of revenue with these vendors; product alternatives exist and we are not strategically invested in these lines*	5	28%
Opportunistic	*Infrequent and small purchases, reactive based on our customers' demands*	9	22%

Q: For each of the following categories of IT technology supplier relationship types, please indicate the number of technology suppliers with whom your company is currently engaged.

Q: For each of the following categories of IT technology supplier relationship types, please indicate the percent each type of technology supplier relationship represented of your company's total revenue in 2016? (n=597)

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

TOPLINE SALES GROWTH PLANS

1. Enhance Sales Methodology
   - services attach rate
   - sell to new buyer (LOB)
   - change prices on solutions & services
2. Increase marketing & branding

PROFITABILITY GROWTH PLANS

1. Increase the percentage of our recurring revenue services
2. Improve technical and services bench utilization

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

Biggest strategic supplier obstacles revolve heavily around services success and profitability

BIGGEST OBSTACLES WHEN WORKING WITH STRATEGIC VENDORS

1. **Pricing models** that support an IT-as-a-service delivery model
2. Ability to drive **enough services revenue** (project or recurring)
3. **Sufficient profitability** provided through their incentive programs
4. Effective **field engagement** with their sales or tech teams

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

Vendors - Key Considerations

1. **Profiling & Metrics** - increasing profiling for next-gen partner types & align program performance metrics

2. **Channel Programs** -- Must foster recurring revenue business models, holistically

3. **Marketing** - 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

Actionable Intelligence to Grow your Channel

Channelytics®

Research
- Market Intelligence
- Trending Data
- Vendor Imperatives

Insights
- Expert Perspectives
- Proven Practices
- Operational Guidance

Tools
- Frameworks & Guides
- Playbooks & Templates
- Channel Primers

Advisory
- Research Readouts
- Inquiry Appointments
- Executive Briefings

Partner Databases

CRN
- SP500
- MSP500
- + More Lists & Awards

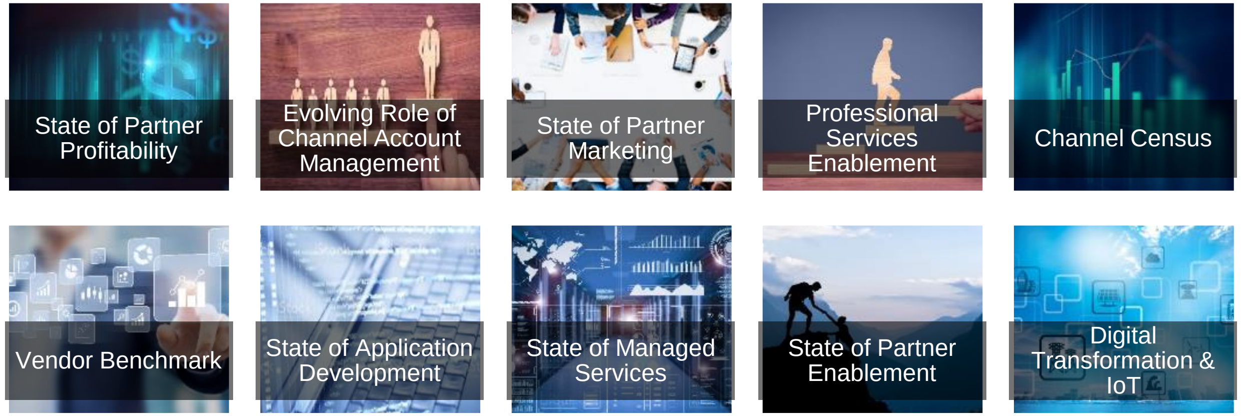
▶ Research on topics at the forefront of the channel

▶ Actionable insights to fully leverage the data

▶ Playbooks and tools for quicker execution

▶ Advisory services tailored to your objectives

▶ Executive communities to network and collaborate



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To Learn More About Taking Advantage of Channelytics
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Thank You

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