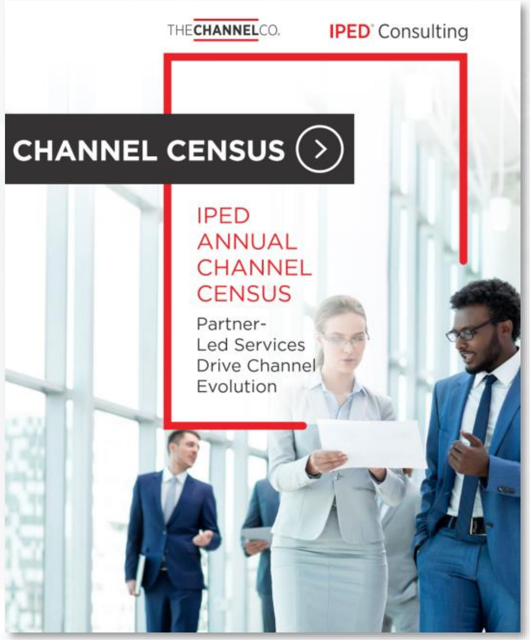


2020 Channel Census

THECHANNELCO. | IPED® Consulting

Channel Census Overview

Objectives

- 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

Methodology

- On-line survey fielded in **November 2019 – February 2020**
- **558** total responses
- Data represents full-year 2019 data in most cases; in others (where noted) represents "last 12 months"
- Data cleansed and normalized for outliers; data represents medians unless otherwise noted
- Selected **partner interviews** to clarify responses
- Indicates year-over-year change or +/- 5%

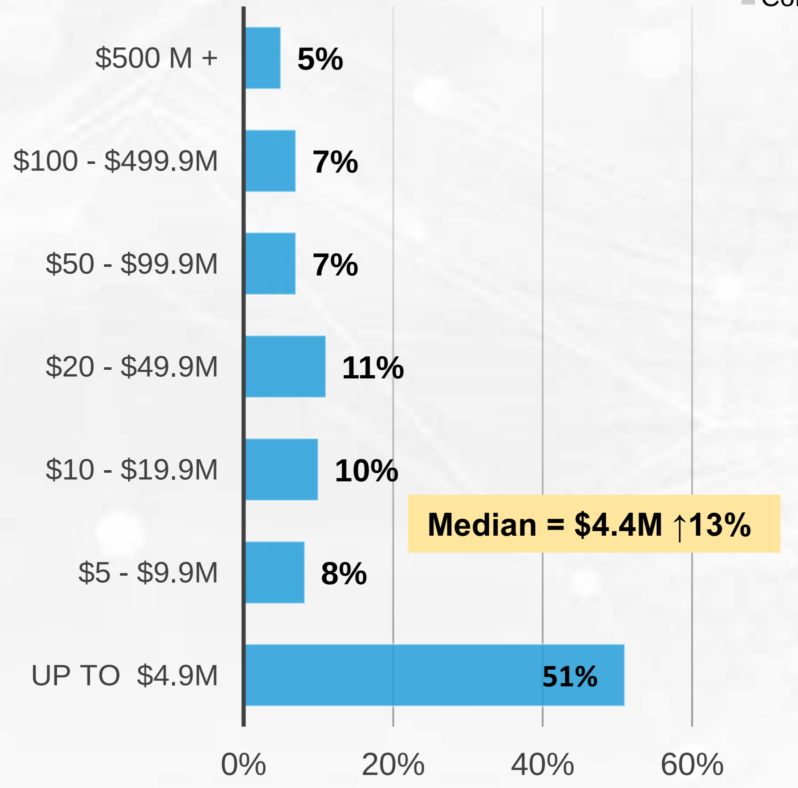
North American SP Population
170,000
Total SP Organizations

ChannelBase
150,000
Solution Provider Organizations

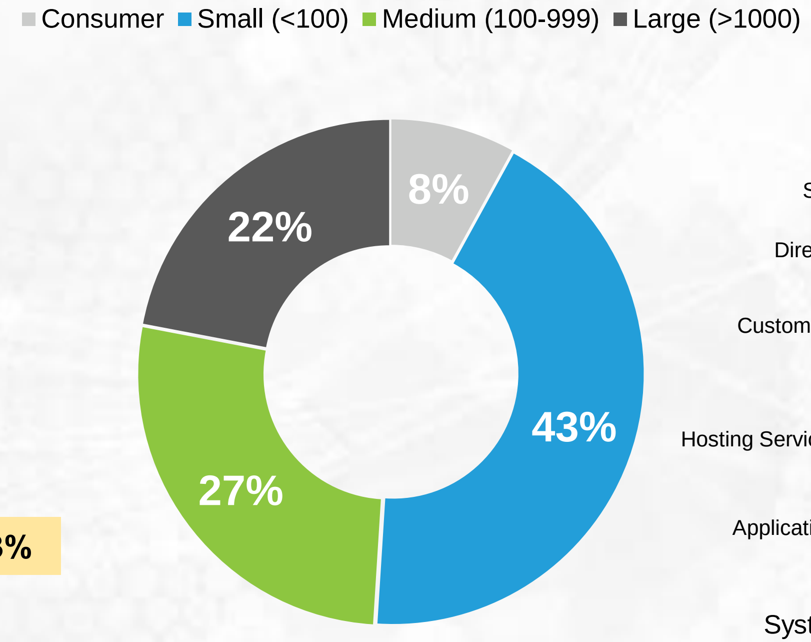
IPED STRATEGIC ADVISORY THECHANNELCO. BOARD MEMBER

The average respondent is a $4.4m MSP/VAR/Consultant who addresses SMB customers

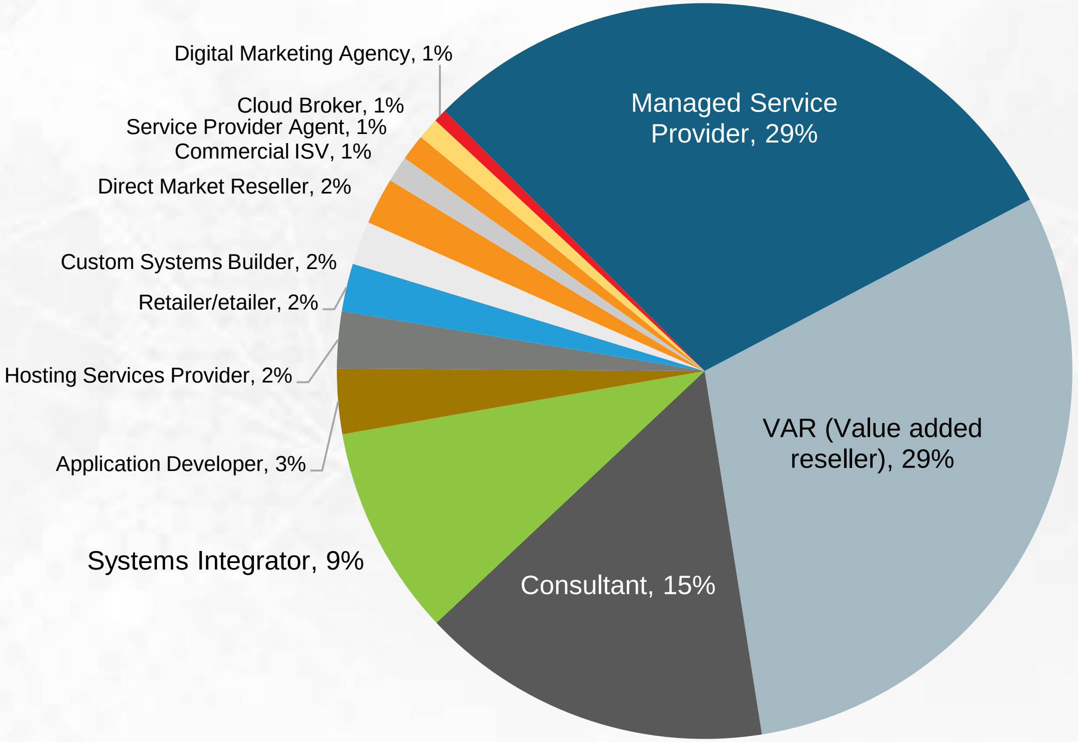
Annual Revenues



Sales by Customer Type - All



Primary Business Model



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Q: Which of the following best describes your current primary business model (that which contributed the highest percentage of your 2019 revenues)? (n=558)
Q: What were your company's 2019 total revenues? (n=546)
Q: What percentage of your revenue is sold to each of these profiles of business customer? (n=497)
Q: For 2019, what was your marketing spend as a % of company revenues? (including any cost-offset received from vendor co-op or MDF funding?) (n=352)

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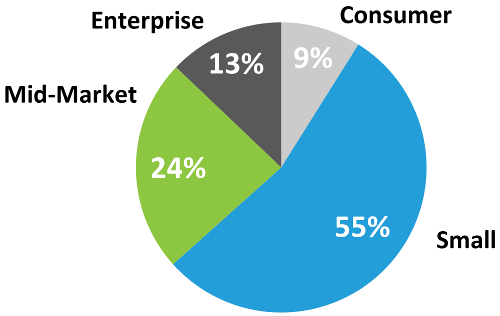
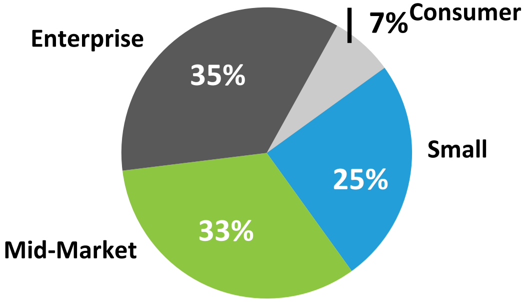
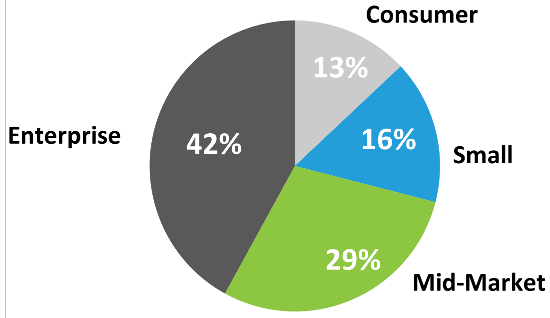
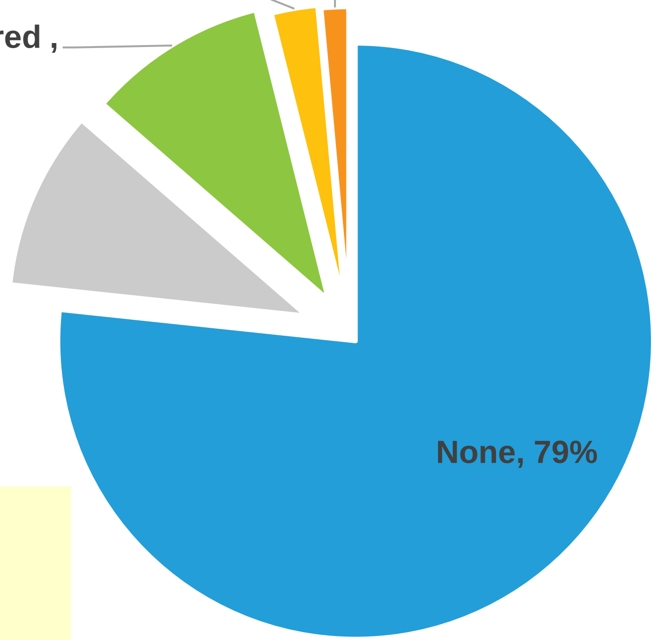
Overall Solution Provider Segmentation

	Small Regional	Medium Regional/National	Large National/Global
Top Verticals	• Professional Services • Manufacturing • Healthcare	• Healthcare • Financial Services/insurance • Manufacturing	• IT • State and Local Gov't & Financial Services (tied) • Healthcare & Retail (tied)
	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 Respondents	**59%**	**35%**	**5%**
Annual Revenues	<$10m	$10-499m	$500m+
Primary and Secondary Business Models	1. MSP 2. VAR	1. VAR 2. MSP	1. VAR 2. SI 3. MSP
Mix of Revenues by Customer Type			

Q: What were your company's annual 2019 revenues? (n=546)
Q: Which of the following best describes your current primary business model (that which contributed the highest percentage of your 2019 revenues)? (N-558)
Q: Which of the following best describes your current secondary business model (that which contributed the highest percentage of your 2019 revenues)? (N=553)

M&A and formal partnering activity is high and sustained for 2020; acquisitions seek specialized technical skills and recurring revenue capabilities

Merger or Acquisition in last 12 months



> "We purchased 4 businesses in 2019 and plan to purchase 4 more in 2020."
>
> VP, Managed IT Services
> $100m+ MSP

73% of March 2020 Channel Company XChange event attendees indicated they are considering M&A activity in 2020

20%*

involved in M&A activity in 2019

THECHANNELCO. CRN SOLUTION PROVIDER 500 2019

Top 5 Areas of Interest*

Cloud
Managed Services
Product Offering
App Dev / Integration
Digital Transformation

** From publicly available financial data*

Q: Did your company have any corporate merger or acquisition activity in the past 12 months? (buying, selling or merging with another commercial business) (n=487)

Four Key Takeaways

- **Revenue mix and business model investment continues to focus on building Professional Services and recurring revenue services momentum**
  Services are 60% of overall revenues and MSPs are now 50% of partner community; varying MSP delivery models attract broad profiles of SP's

- **Success with Digital Transformation highly linked to LOB selling process and degree of vertical orientation**
  Transformative IT work being done by SP's with a core Consultant/SI competency and a mature vertical-specific approach; rate of cloud and managed services adoption is gating factor to full Digital Transformation success

- **Cloud platform management now considered tablestakes, with future technology investments focused on IoT edge, software development and services**
  Cloud platform vendors now included in strategic vendor mix as solution providers pivot to differentiate around hybrid IT environments with software, IoT and service delivery skills

- **SP's focusing on fewer strategic IT vendors; channel programs still pivoting to a partner ecosystem focused on their own services & IP**
  Vendors' ability to support SP services-led business models and help accelerate cloud adoption are gating factors to this decade's partner/supplier relationships

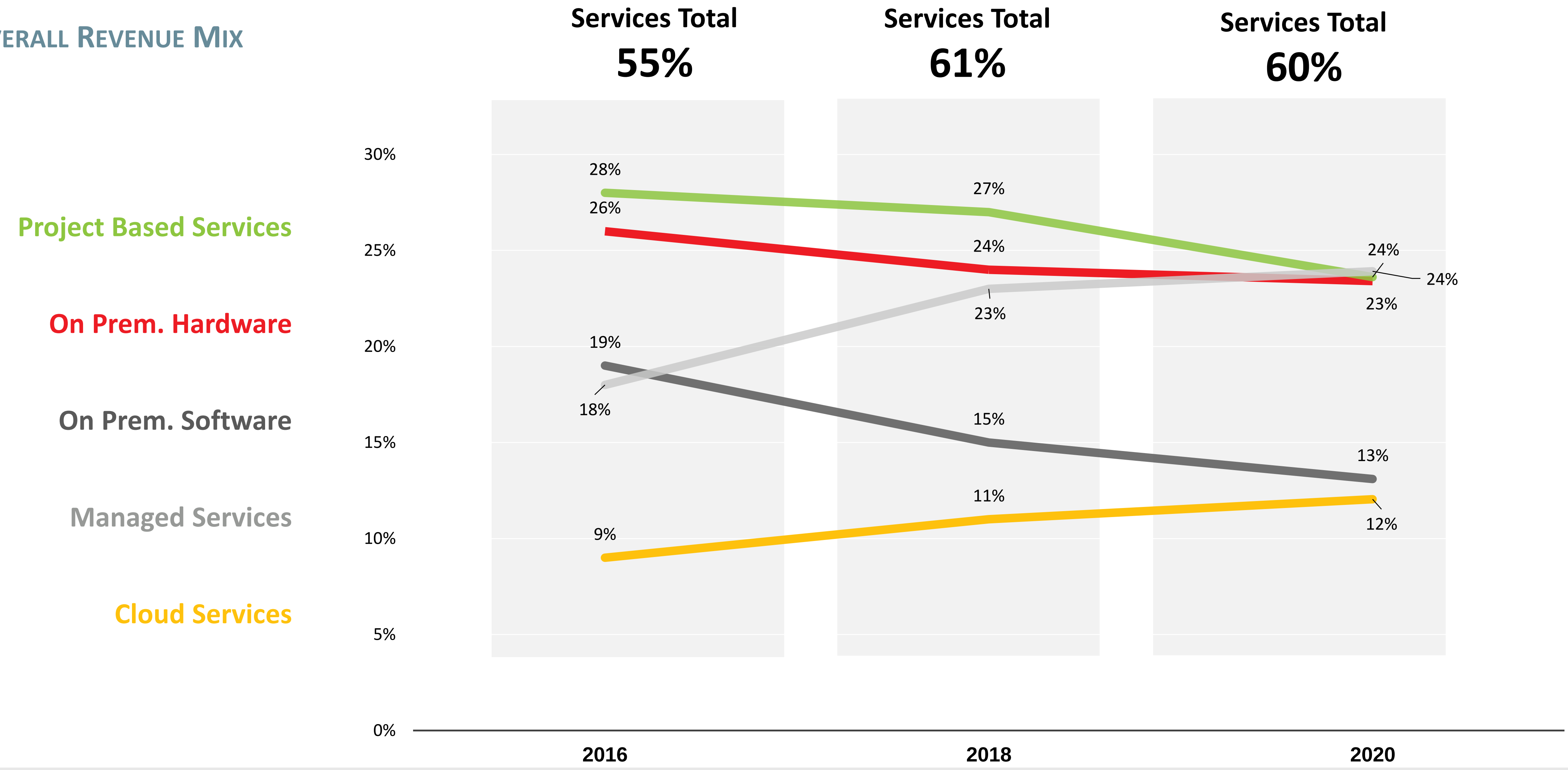
Four Key Takeaways

- **Revenue mix and business model investment continues to focus on building Professional Services and recurring revenue services momentum**

  Services are 60% of overall revenues and MSPs are now 50% of partner community; varying MSP delivery models attract broad profiles of SP's

Services continue to be majority of SP revenues; growth primarily coming from cloud and managed services

Overall Revenue Mix



Q: What was your estimated mix of revenue in 2019, among the following major product/service categories? (n=505)

Decline in partner owned/managed is due in part to SPs' ability to compete in crowded XaaS market and a reduced need to buy and create own services with more vendor utility pricing models available

MSP Revenues Mix – by delivery model

RESALE

28%
of revenues

1%

PARTNER MANAGED ONLY

46%
of revenues

5%

PARTNER OWNED & MANAGED

26%
of revenues

-4%

Q: Thinking specifically about your Managed Services business in 2018, what % of your total managed services revenue came from each of the following service delivery models? (N=199)
**Asked of MSPs only*
Q:What do you expect to be your biggest obstacles in working with your strategic IT suppliers in 2020? Please select your top three (3). (n=382)

Key Takeaways:

Revenue mix and business model investment continues to focus on building Professional Services and recurring revenue services momentum

Data Says ….	Key Consideration ….
1 Services are now 60%+ of SP revenues; driving Prof. Svs. & recurring revenues is a top priority	1 Profiling is a must-have: do your field teams and programs acknowledge a services-led motion?
2 Recurring revenue delivery models continue to favor the partner managed-only model	2 Do you have KPIs and metrics to track partner services success beyond the sell-in transaction?
3 LOB selling success remains a strategic 3-5 year goal for nearly 75% of SP's	3 Are you actively sharing & building IP and use cases with your partners around industry and LOB success? How are you measuring success here?

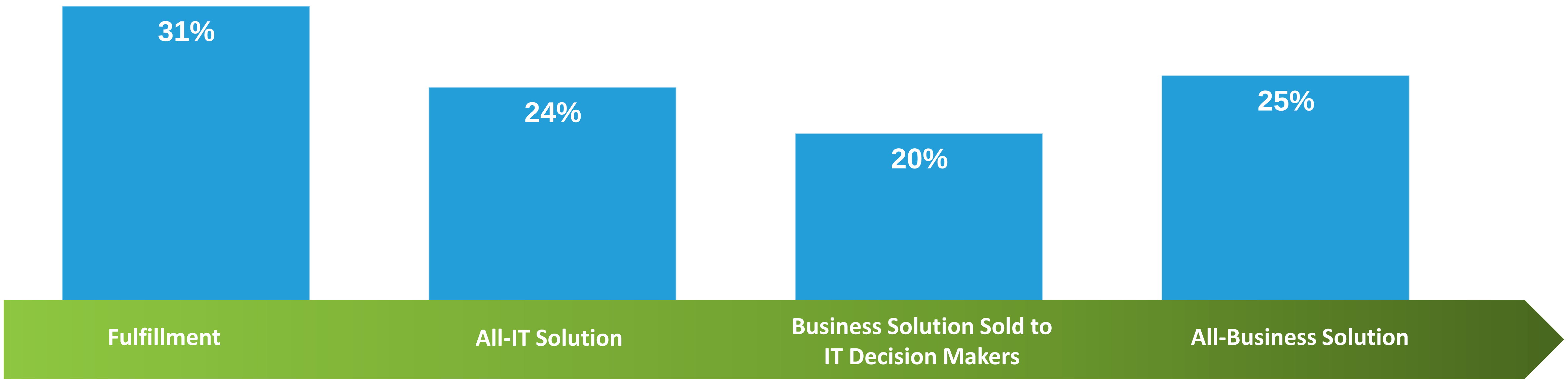
Four Key Takeaways

- **Success with Digital Transformation highly linked to LOB selling focus and degree of vertical orientation**

  Transformative IT work being done by Consultant/SI focused partners, with a heavy focus on vertical- specific expertise; rate of cloud adoption is critical factor to full Digital Transformation value

Selling business-designed solutions is approaching 50% of customer engagements; SP's with a consultant and SI business model lead LOB solution selling

CUSTOMER ENGAGEMENTS BY TYPE OF STRATEGIC GUIDANCE



Focus

Fulfilling pre-existing customer demand for IT products and services, either with established or new customers

Focus

Solving an IT problem, designed for and sold to IT decision makers

Focus

Products and services designed to solve a specific business problem; primary decision maker is an IT executive

Focus

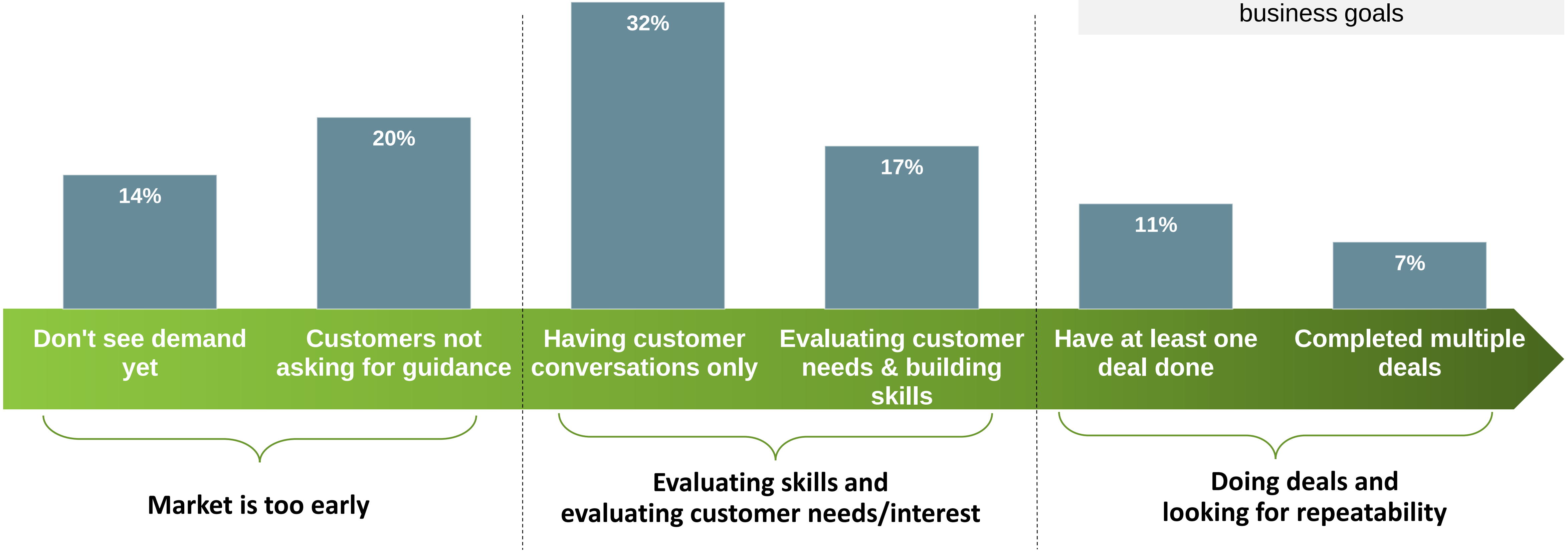
Solutions designed to solve a specific existing problem or automate a new business process; designed for and primary decision maker is LOB

Q: In what percentage of your total number of customer engagements for 2018 have you offered the following types of strategic guidance to your customers? (n=459)

Partners with a Consultant or SI primary business model leading the way with Digital Transformation engagements

DEGREE OF DIGITAL TRANSFORMATION IMPLEMENTATION

28% of SP's say the rate of cloud adoption is the #2 obstacle to achieving business goals



Q: To what degree has your company designed and/or implemented a digital transformation solution in the last 12 months? (n=425)

Strategic Supplier relationships now include cloud platform leaders; indicates cloud has become an IT and business consideration

PROVIDING BUSINESS OUTCOME SOLUTIONS
(TOP IT SUPPLIERS)

Rank*	Supplier
1	Microsoft / Microsoft Azure
2	amazon web services™
3	cisco
4	DELL Technologies
5	IBM®

Q:Please identify up to 5 IT Technology Suppliers that will be most important to your company's ability to provide line-of-business relevant solutions to business decision makers (not IT) in 2020, and why. (n=323)
(Distribution question here)

Key Takeaways:

Success with Digital Transformation highly linked to LOB selling focus and degree of vertical orientation

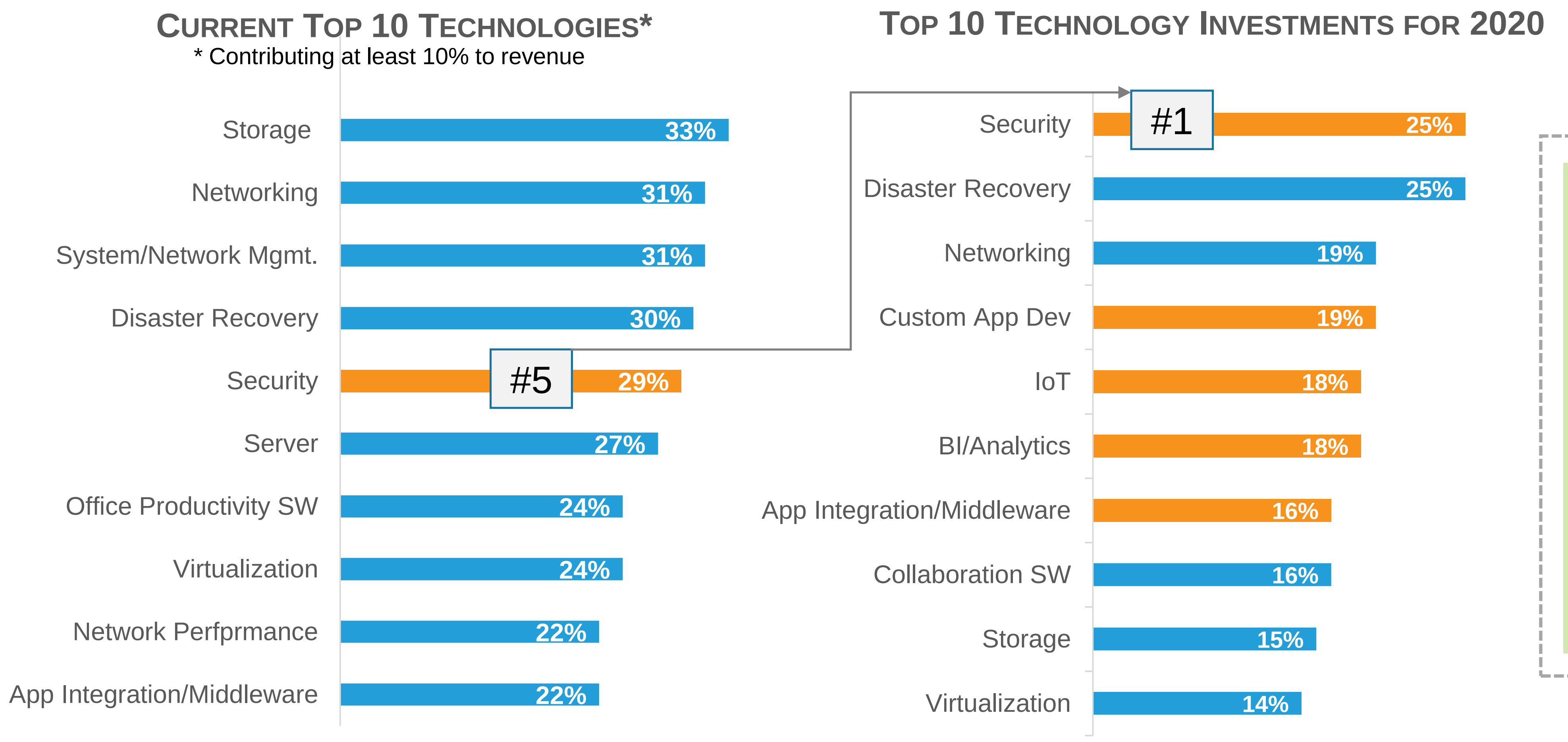
	Data Says ….		Key Consideration …
1	Designing for and selling to LOB decision makers is approaching 50% of SP customer engagements	1	How strong and role-based are your channel sales & marketing messages about creating business value?
2	~20% of solution providers are seeing digital transformation success, with now repeated deals; they indicate the rate of cloud adoption is critical	2	Is your solution messaging for DX solutions clear and packaged in enablement programs for your channel?
3	Majority of SP's indicate vertical orientation helps with profits and differentiation; less than 50% are investing in industry-specific resources	3	How are you sharing your vertical messaging, tools, content and success stories with partners? And highlighting theirs?

Four Key Takeaways

- **Cloud platform management now considered tablestakes, with future technology investments focused on IoT edge, software development and services**

  Cloud platform vendors now included in strategic vendor mix as solution providers pivot to differentiate beyond hybrid IT environments with IoT, software, and service delivery skills

Current and 2020 investments remain focused on optimizing core infrastructure; security is leading investment focus for 2020

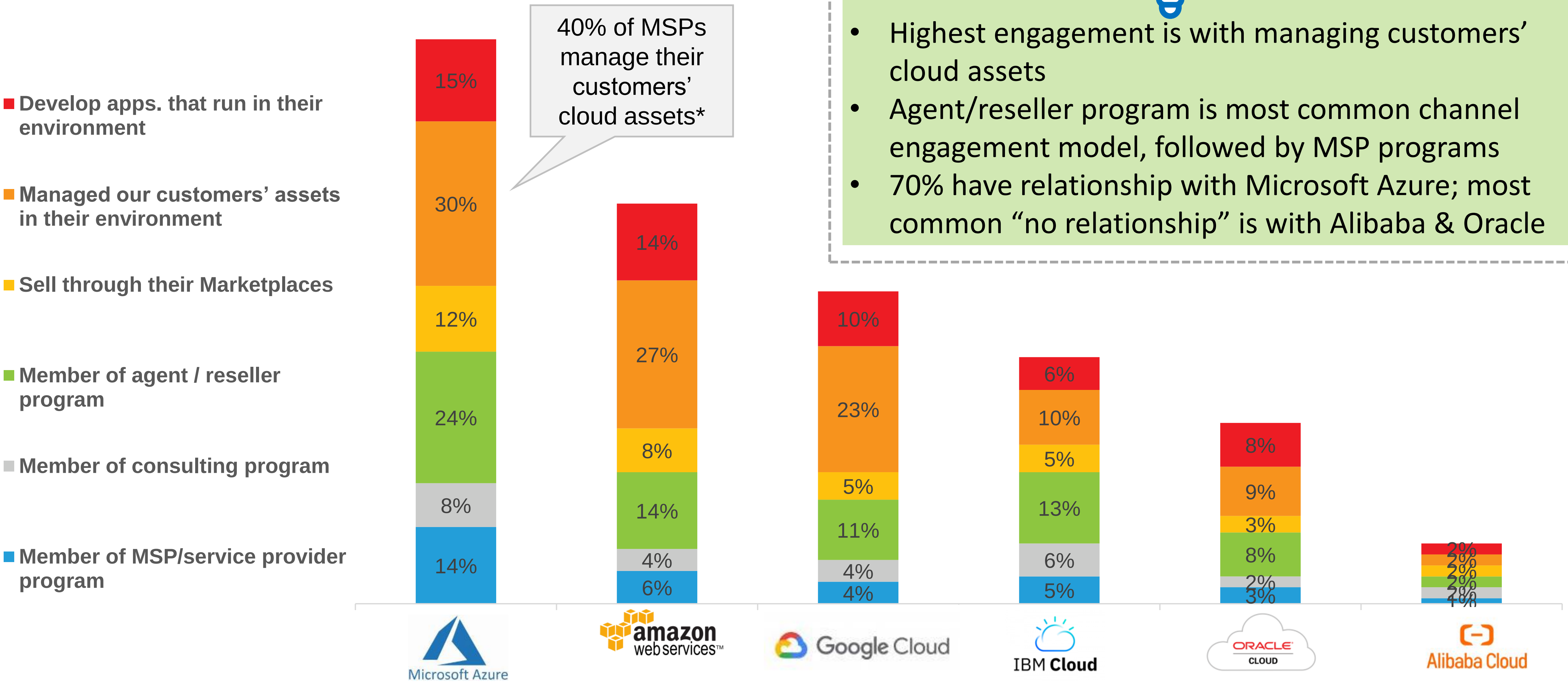


This year's investments broaden beyond core datacenter infrastructure to security and application centric offerings (BI/analytics, integration)

Q: In which of these product or solution categories will your company generate at least 10% of its annual revenues in 2019? (N - 437)
Q:Choose up to 5 product or solution categories your company is planning to strategically invest in during 2020 (n=434)

87% of all partners have a relationship with at least 1 public cloud / IaaS vendor

- Highest engagement is with managing customers' cloud assets
- Agent/reseller program is most common channel engagement model, followed by MSP programs
- 70% have relationship with Microsoft Azure; most common "no relationship" is with Alibaba & Oracle



Q: What is your company's current relationship with these categories of tier one Infrastructure as a Service (IaaS) cloud platform organizations? (n=444)

Key Takeaways:

Cloud platform management now considered tablestakes, with future technology investments focused on edge, software and services

Data says ….	Key Considerations ….
1 Security is the #1 near-term technology investment for SP's	1 Are you clearly demonstrating how your portfolio helps SP's build their security practice?
2 87% of SP's have some relationship with a leading public cloud platform vendor; 40% manage their customers' cloud assets	2 Do you have a robust Cloud Competency or Specialization? Is your hybrid and multi-cloud strategy clear and actionable for your channel?
3 Long-term (3-5 yr.) investments focus on analytics & application driven solutions	3 Do you have practice-building resources to help SP's monetize data or analytics? Are you featuring your software alliances to build joint enablement assets, or encourage P2P collaboration?

Four Key Takeaways

- **SP's focusing on fewer strategic IT vendors; channel programs still pivoting to a partner ecosystem focused on their own services & IP**

Vendors' ability to support SP services-led business models and help accelerate cloud adoption are key expectations for this decade's partner/supplier relationships

Cloud and platform vendors becoming increasingly strategic vendor relationships;

Public Cloud & IaaS vendors elevate in ranking as Strategic suppliers; reflects focus on hybrid IT environments & multi-cloud competencies.

Rank	Supplier
1 (1)	Microsoft, Microsoft Azure
2 (3)	amazon web services
3 (2)	INGRAM MICRO
T4 (6,4)	CISCO, DELL Technologies
5 (NR)	Google Cloud
6 (9)	Tech Data
7 (NR)	ORACLE
T8 (NR,8,5)	FORTINET, IBM, SYNNEX CORPORATION

Traditional distributors continue to rank highly among top suppliers; indicates their value to SP's in cross-brand solutions, enablement and supply chain services

Q: Which Opportunistic or Tactical vendor based on the categories above has the highest potential to become a Strategic Technology Supplier to your company in 2020 (n=286); minimum of 5 mentions) and why (n=250)

SP's see distribution as a critical partner in business success in the next 3-5 years; considered in top 10 strategic partners in providing LOB relevant solutions

Leading Distributors All Ranked in the Top 10 (Ingram, Tech Data & Synnex)

INGRAM MICRO

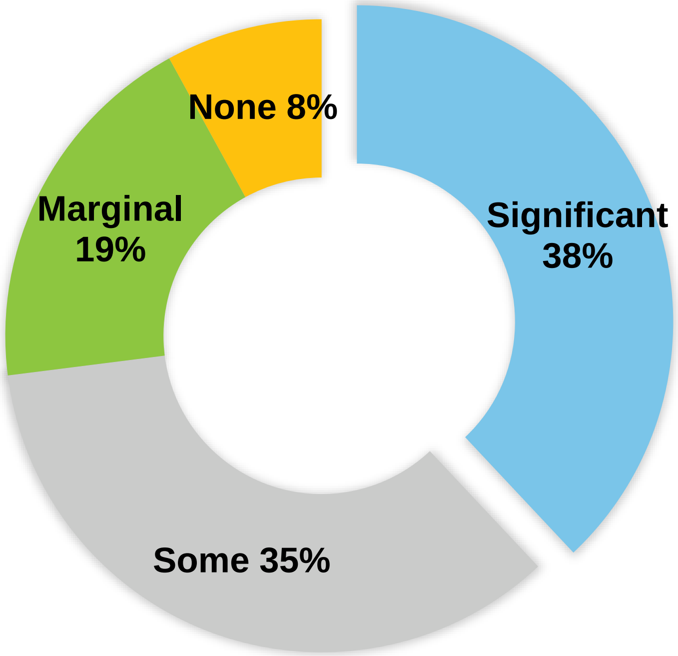
Tech Data

SYNNEX CORPORATION

aws INGRAM MICRO CLOUD

INGRAM MICRO CloudMarketplace

Importance of Utilizing Distribution In Next 3-5 Years



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Q:Please identify up to 5 IT Technology Suppliers that will be most important to your company's ability to provide line-of-business relevant solutions to business decision makers (not IT) in 2020, and why. (n=323)
Q: In looking at the next 3-5 years, what LEVEL of importance do you foresee your company placing in the utilizing your distributor relationships?

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Biggest strategic vendor obstacles relate to services success; subscription & consumption models more common but still emerging

Lowest obstacles

1. Channel conflict (direct/ indirect)
2. Too many other authorized solution providers
3. Access to MDF for demand generation
4. Lack of support through their distributors

Moderate obstacles

1. Effective field engagement (sales or technical)
2. Rate of new product acquisition and launch
3. Accessibility or affordability of their training and cert. programs

Biggest obstacles

1. Subscription or consumption-based pricing models
2. Ability to drive enough services revenue around vendors' products
3. Sufficient profitability provided through their incentive programs

"Vendors release products faster than we can saturate the market with existing products and we and our customers cannot keep up."

CEO, $20M MSP/Consultant

Q: What do you expect to be your biggest obstacles in working with your strategic IT suppliers in 2020? (n=376)

Key Takeaways:

SP's focusing on fewer strategic IT vendors; channel programs still pivoting to a partner ecosystem focused on their own services & IP

Data Says ….	Key Considerations …
1 Four strategic vendors represent an avg. 50% of SP revenues; accelerating cloud adoption is key to strategic value	1 Is your SP value proposition around Hybrid IT services monetization clear and compelling?
2 Although more prevalent, subscription & consumption based pricing models still in high demand by SPs	2 Do your pricing and engagement models help SP's monetize their recurring revenue services effectively?
3 Partners feel they are still at cross-purposes with many vendors' direct sales teams *(#1 barrier in achieving business goals)*	3 Have you recently reevaluated your channel rules of engagement to address a services-led channel ecosystem? (MSPs, SI's, consultants)

For Additional Information or If You Have Questions Please contact…..

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Top 3 areas of P to P collaboration are the same regardless of Partner type

★ Unique to particular Partner type