Channel Census

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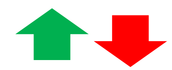
Channel Census Overview

OBJECTIVES

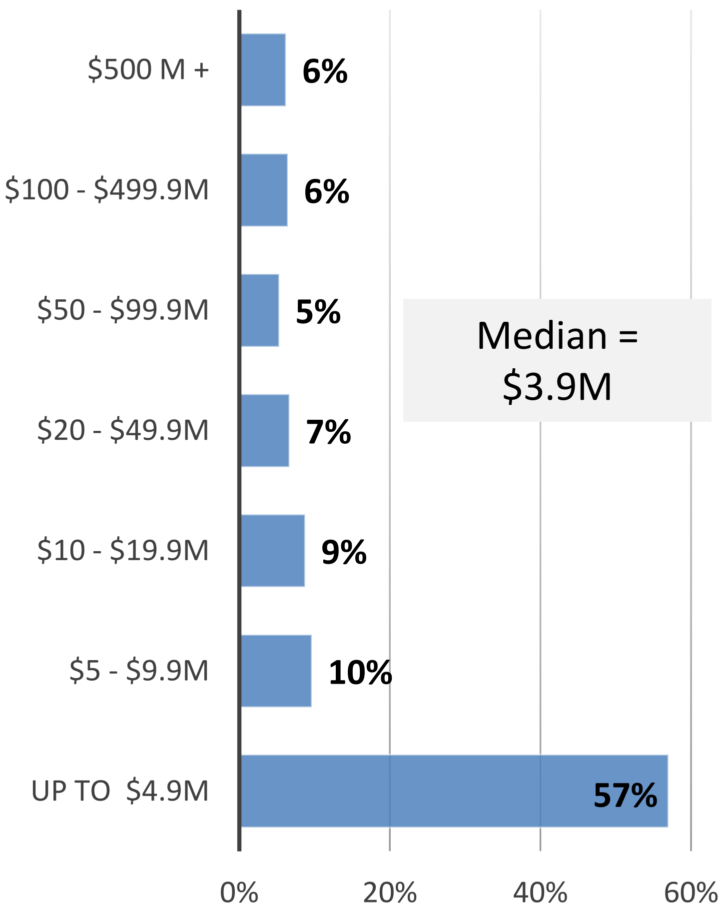
- Broad overview of the demographics of the N. American solution provider community
- Analysis of emerging solution provider business models
- Key insights into growth strategies, barriers and support expectations of each major partner type
- Critical benchmark against which to measure channel breadth and profile

METHODOLOGY

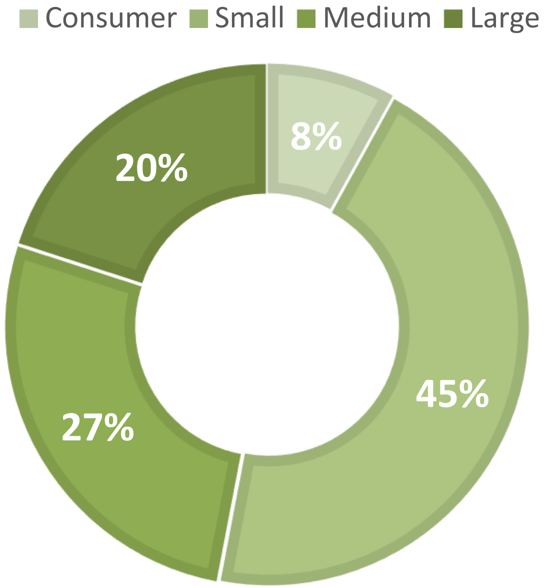
- On-line survey fielded in **January & February** 2019
- **435** completed responses
- Data represents full-year 2018 data in most cases; in others (where noted) represents "last 12 months"
- Data cleansed and normalized for outliers; data represents medians unless otherwise noted
- Selected **partner interviews** to clarify responses
-  Indicates year-over-year change or +/- 5%

The Average Respondent is a $4m MSP/VAR/Consultant who addresses SMB customers

ANNUAL REVENUES

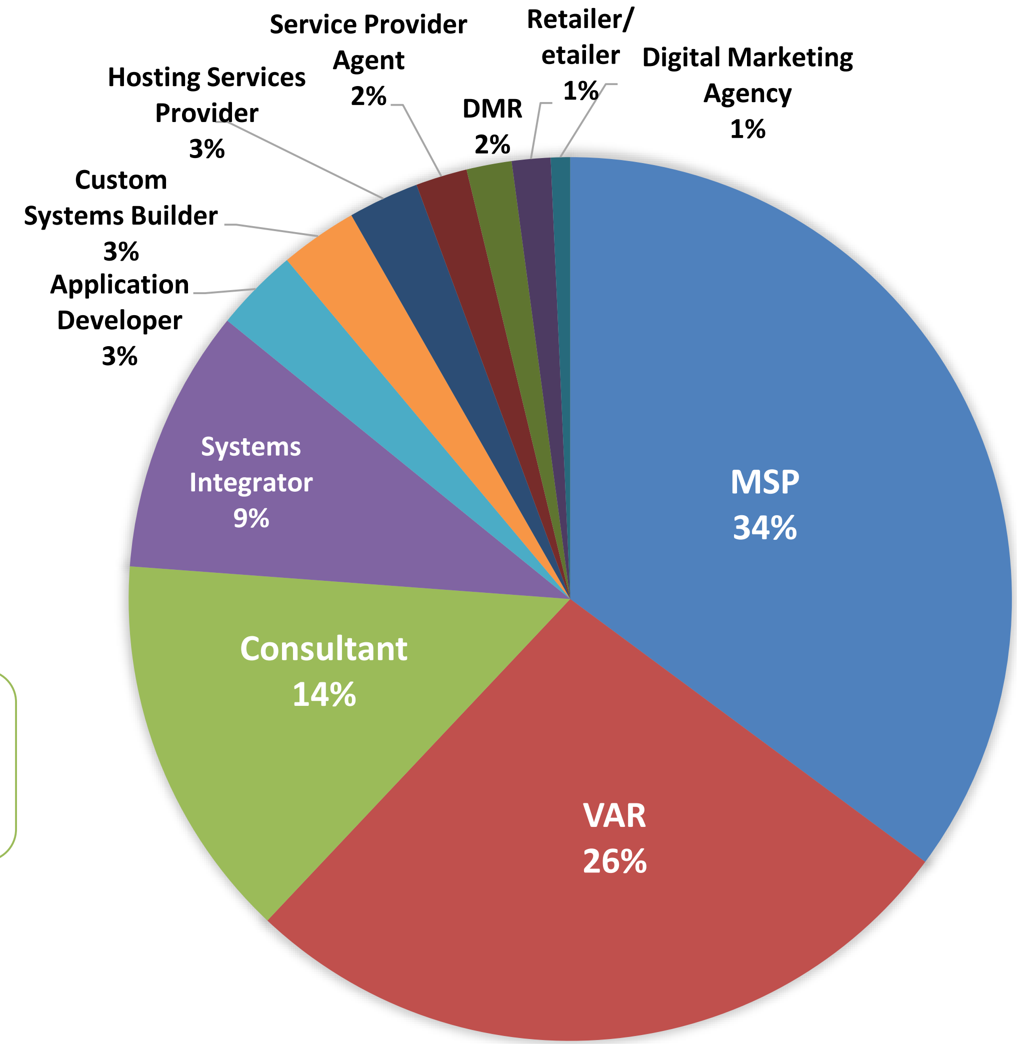


SALES BY CUSTOMER TYPE - ALL



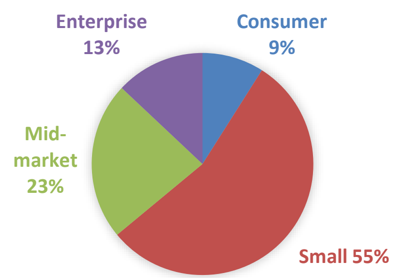
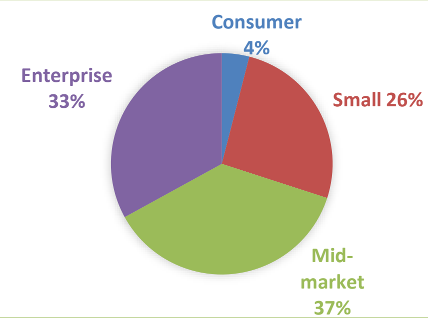
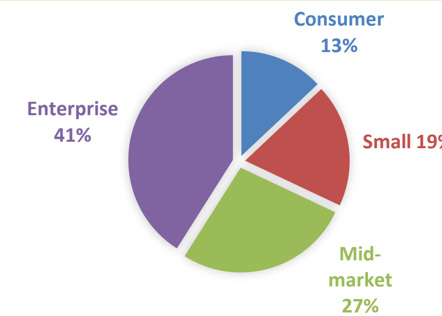
Estimated rate of growth for total revenues 2018 to 2019
16.0%

PRIMARY AND SECONDARY BUSINESS MODEL



Q: What were your company's annual 2018 revenues? (n=435)
Q: What do you expect to be your company's percentage of topline revenue growth in 2019 over 2018 (as projected in your current business plan) (n=435)
Q: What percentage of your revenue is sold to each of these profiles of business customer? (n=435)
Q: Which of the following best describes your current primary business model (that which contributed the highest percentage of your 2018 revenues)? (n=435)
Q: Which of the following best describes your current secondary business model (that which contributed the highest percentage of your 2018 revenues)? (n=435)

Overall solution provider segmentation:
Size is not a proxy for value in a services-led ecosystem

	SMALL REGIONAL	MEDIUM REGIONAL/NATIONAL	LARGE NATIONAL/GLOBAL
	Top Verticals: • Professional services • Manufacturing • Healthcare	**Top Verticals:** • Healthcare • Financial services/ insurance • Manufacturing	**Top Verticals:** • IT • Healthcare • Manufacturing, Fed Gov't, Telecommunications (t)
	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*
Percent of total North American Channel Partners	Down 1% 67%	Up 2% 27%	Down 2% 6%
Annual revenues	<$10m	$10-499m	$500m+
Primary & Secondary business models	1. MSP (no longer VAR) 2. Consultant	1. VAR 2. MSP (no longer SI)	1. VAR 2. MSP
Mix of revenues by customer type			

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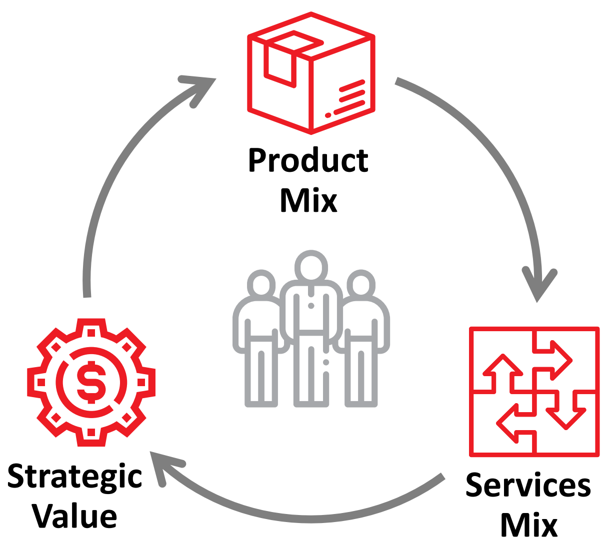
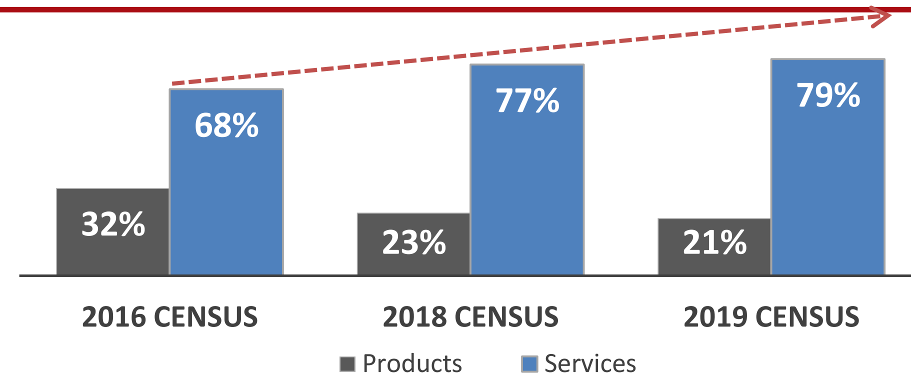
Strategic Service Providers still represent the aspirational business model for cloud and managed-services led success; still ~20% of partners



17-24%
of total population

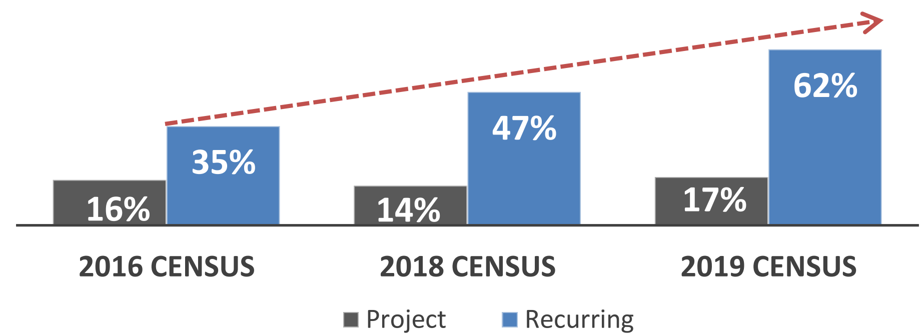
1/3 of revenues from services (min.)

Product Mix



Recurring revenue services > project services

Services Mix



Min. % of LOB strategic customer engagements

Strategic Value

% of customer engagements

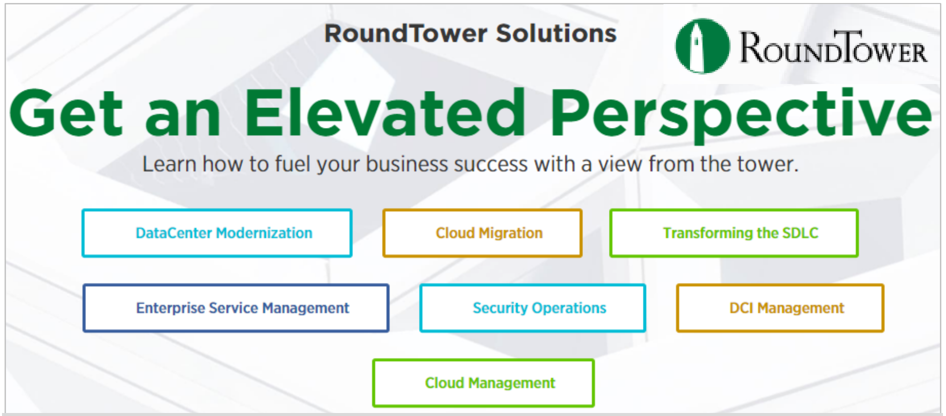
2016	**40%**
2018	**65%** (new model)
2019	**66%**

Product Mix and Services Mix numbers are represented as a % of total revenues.
* Strategic Value represented as a % of total annual customer engagements.

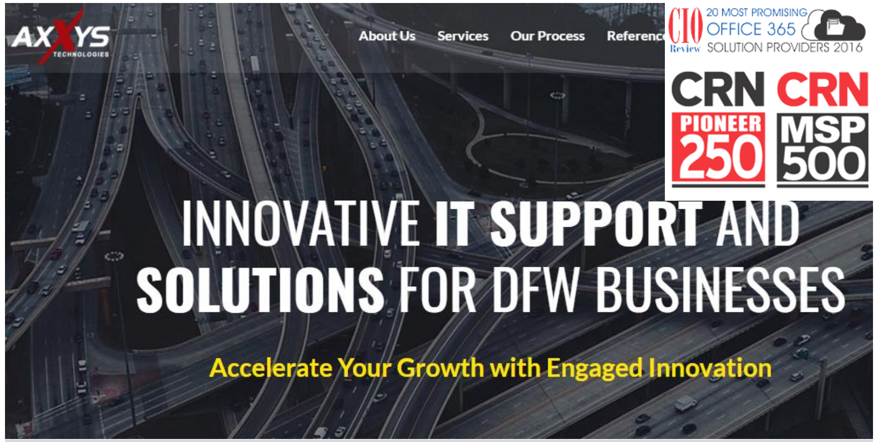
All – N = 435
SSP – N=104

Strategic Service Providers (SSPs) Come in All Shapes and Sizes

$70m+ annual revenues | 60% managed services
Specializing in end-to-end security solutions



$200m+ annual revenues | 30% managed services
Specializing in cloud migrations



$9m+ annual revenues | 45% managed services
Specializing in Microsoft Azure/O365 cloud solutions

$200m+ annual revenues | 60% managed services
Specializing in video streaming solutions

Four Biggest Takeaways

MSP BUSINESS MODEL REACHES A TIPPING POINT

Now 50% of the solution provider community, the MSP business model drives higher profits and differentiated services. Managing hybrid and multi- cloud environments is now the standard, but requires a different kind of channel support.

DIGITAL TRANSFORMATION PROJECTS & BUSINESS OUTCOME SELLING GAIN MOMENTUM

Selling business value solutions now requires hybrid IT skills, while 20% of solution providers have now successfully completed a digital transformation project.

TECHNOLOGY INVESTMENTS REFOCUS ON NETWORK DESIGN & SECURITY SKILLS

Network design / management services continue to become more ubiquitous and act as the gateway to an expanded view of customers' edge-to-datacenter plans and services management needs

CHANNEL PROGRAMS PIVOT TO GIVE EQUAL SUPPORT TO SERVICES-LED MODELS

Program metrics & rewards should support velocity in recurrent revenue services; enablement, performance metrics and rewards must change

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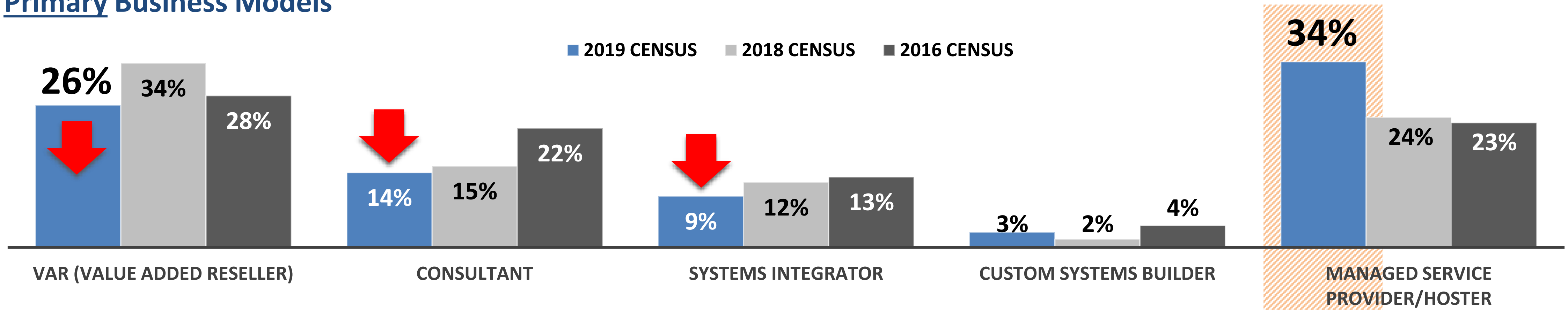
MSP business model continues to climb

Self-ID as VAR, Consultant or Integrator continues to decline

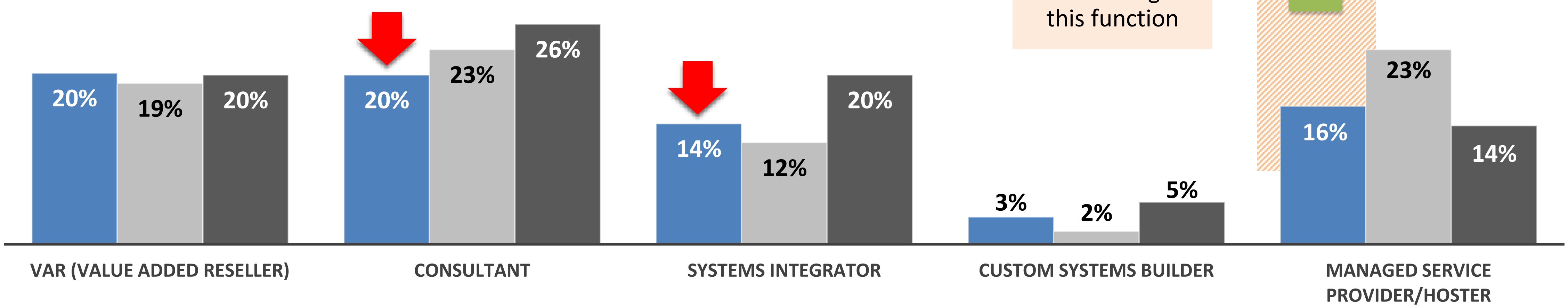
Primary Business Models



Secondary Business Models

31% P2P teaming for this function

10%



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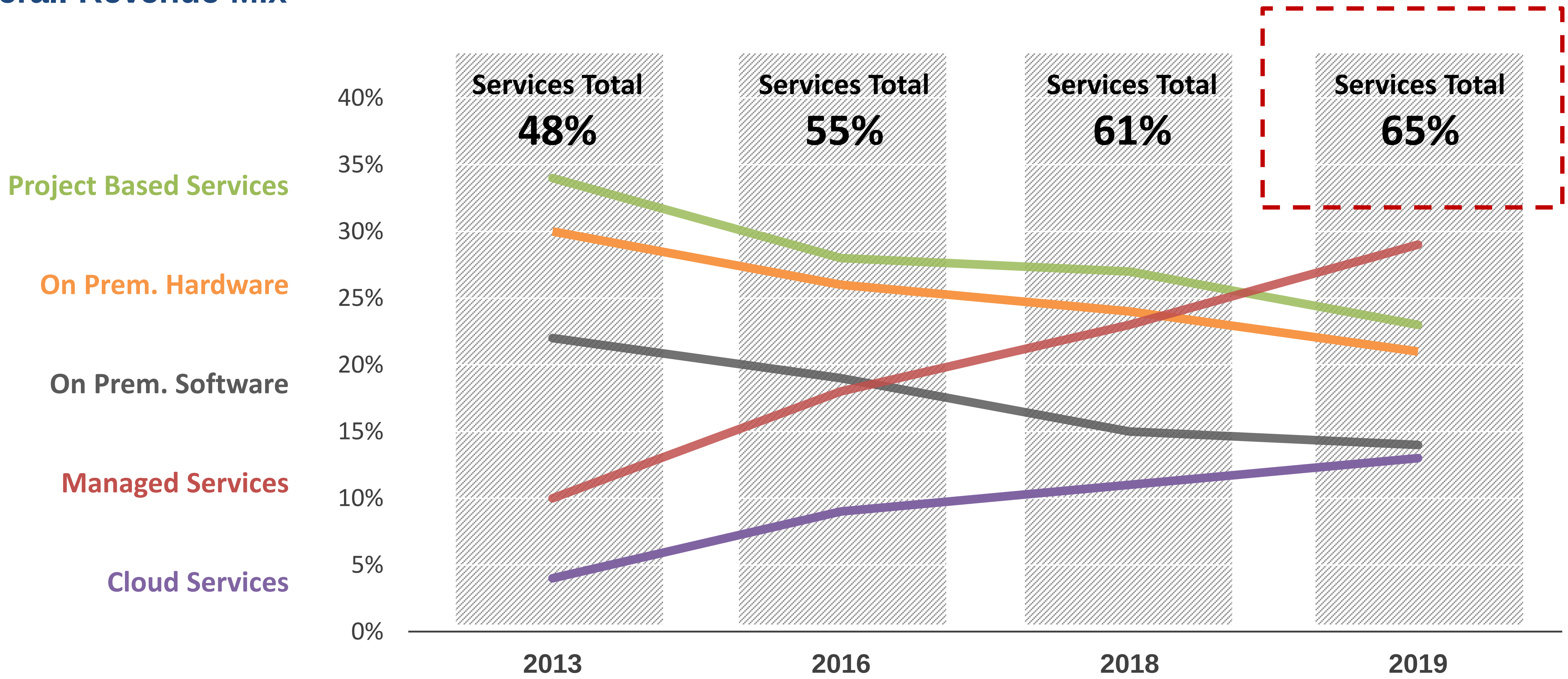
Services is now nearly 2/3 of overall revenues

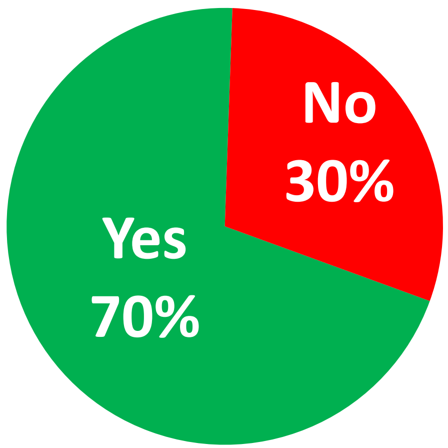
Overall Revenue Mix



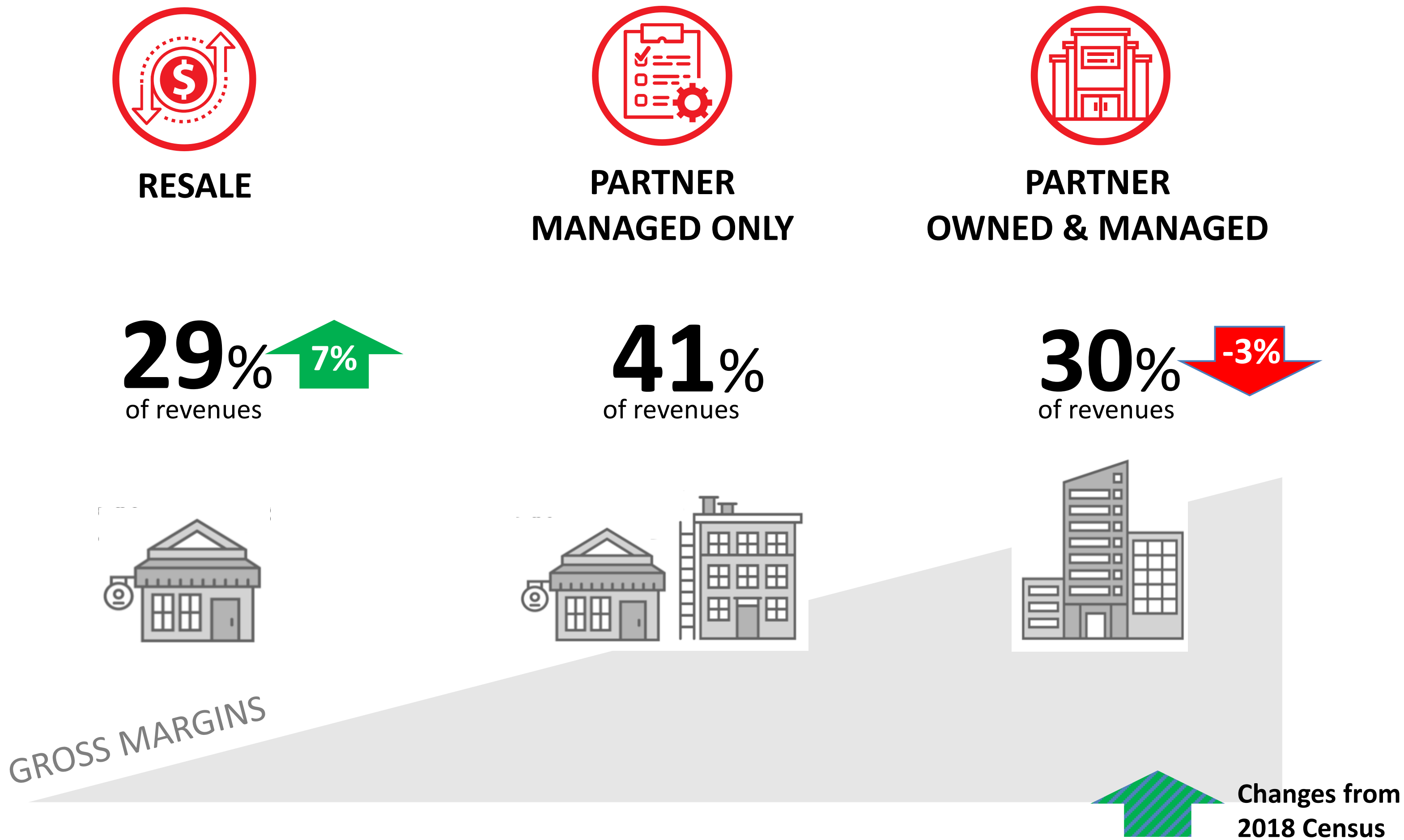
Q: What was your estimated mix of revenue in 2018, among the following major product/service categories? (n=532 Mean Data)

MSPs delivery models favor partner managed-only; profits favor ownership

Plans to Grow Managed or Recurring Revenues Services in 2019



MSP REVENUES MIX – BY DELIVERY MODEL



*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=216) *Asked of MSPs only*

Growth plans for MSP revenues vary based on size/maturity of partner

Growth Ranking	SMALL REGIONAL	MEDIUM REGIONAL/NATIONAL	LARGE NATIONAL/GLOBAL
1	**Add/expand our own managed services offering**	**Focus on attracting new customers**	**Add/expand our own managed services offering**
2	**Focus on attracting new customers**	**Add/expand our own managed services offering**	**Expand our technical capabilities**
3	**Change our pricing and packaging methods for existing services**	**Expand our technical capabilities**	**Expand our own datacenter facilities** (tied) **Focus on attracting new customers**
Vendor Opportunity	**Peer benchmarking**	**Balanced customer-facing & operational enablement**	**Attractive sell-in pricing models & incentives**

*Q: What are your top plans for 2019 as it relates to the growth of your managed services or hosting revenues? (n=217) *Asked of MSPs only*

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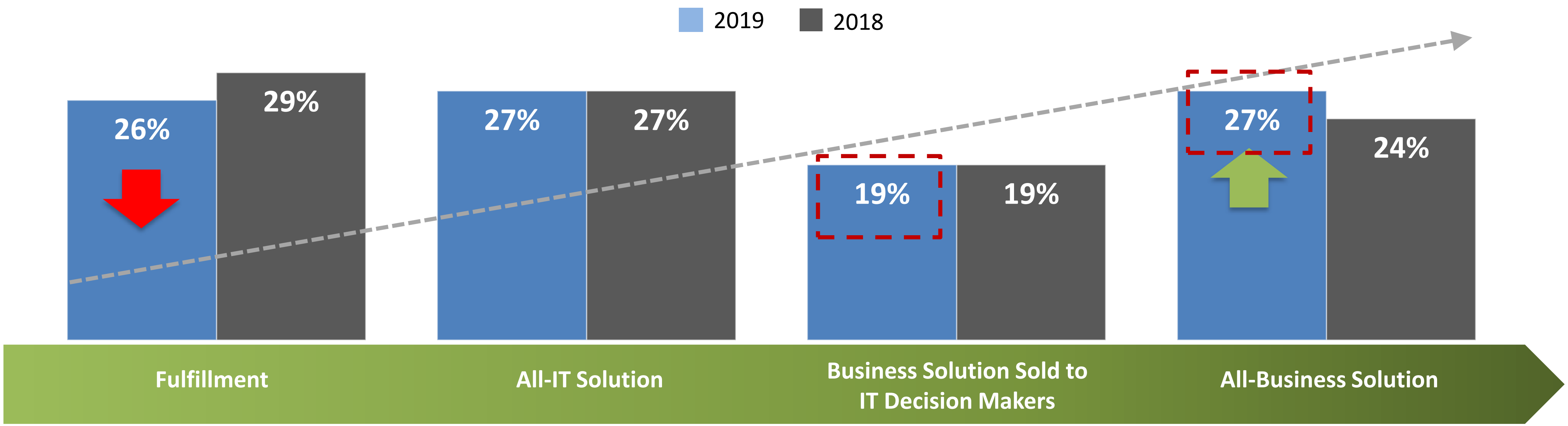
Selling business-designed solutions now represents nearly 50% of customer engagements;
Selling all-business solutions now demands hybrid IT and cloud skills

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

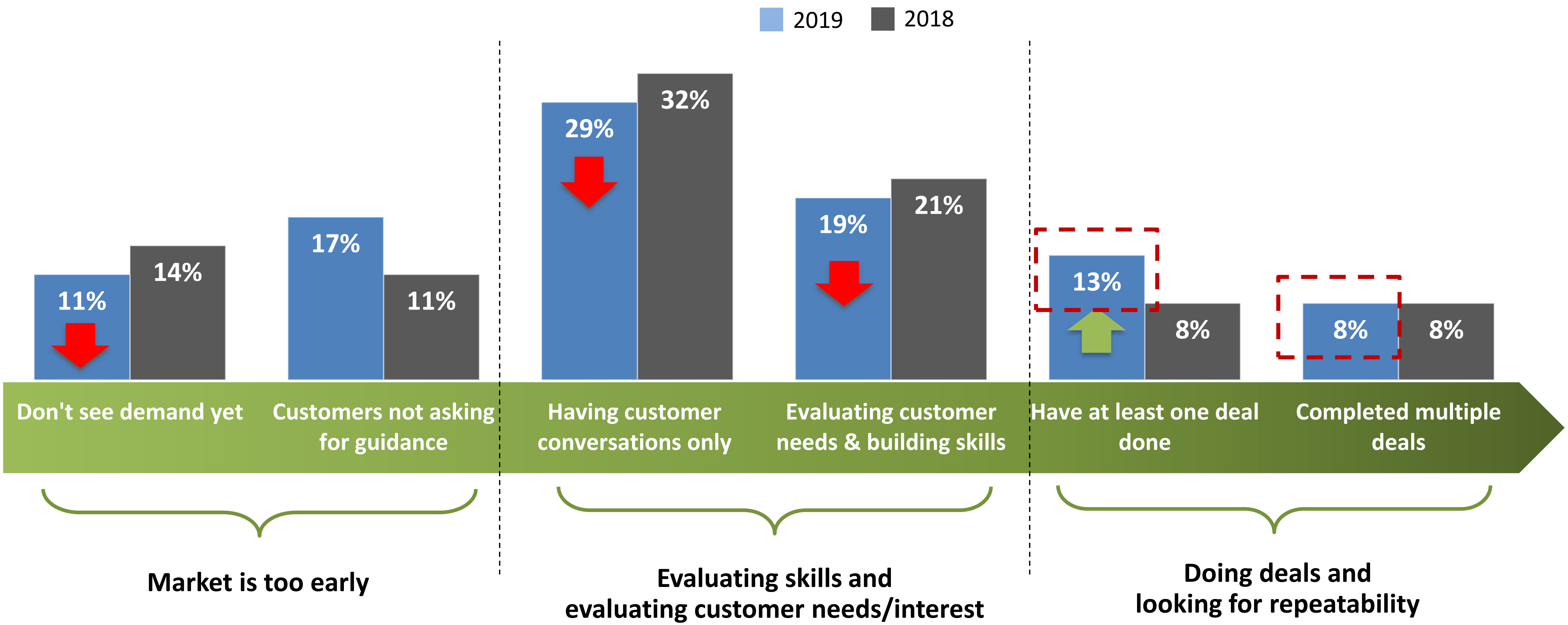
Focus

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? (435) - mean data

Nearly a quarter of respondents have completed one or more digital transformation projects

Degree of digital transformation implementation



Q: To what degree has your company designed and/or implemented a digital transformation solution in the last 12 months? (N-414)

Digital Transformation Activity – Customer Verticals & Use Cases

From the 21% who said they've completed one or more deals …

VERTICAL SUCCESS

Manufacturing
Retail
Biotech Pharmaceuticals
Transport/Logistics Distribution
Professional Services
K12 Education
Construction/Building
Media/Entertainment
Energy/Utilities
Hospitality/Travel
Agriculture
Insurance
Wholesale Distribution

"Manufacturing of metal parts with built in counterfeit prevention"

"Fleet management mobile application"

"Global distribution of live video streams for major sports events"

"Simplify lighting and heating in office building and provide construction 3D mapping"

"Automated education records collection at state-level"

"Monitor fleet and drivers to ensure delivery as well as safety"

"Video management solution to be used for process improvement"

"IoT-based solution for real time feedback for shoppers"

"Onboard metropolitan commuter rail and subway systems"

"Paperless communication between a volunteer ambulance service and local hospital"

Q: To what degree has your company designed and/or implemented a digital transformation solution in the last 12 months? Please describe the solution you offered? Please describe the customer use-case.

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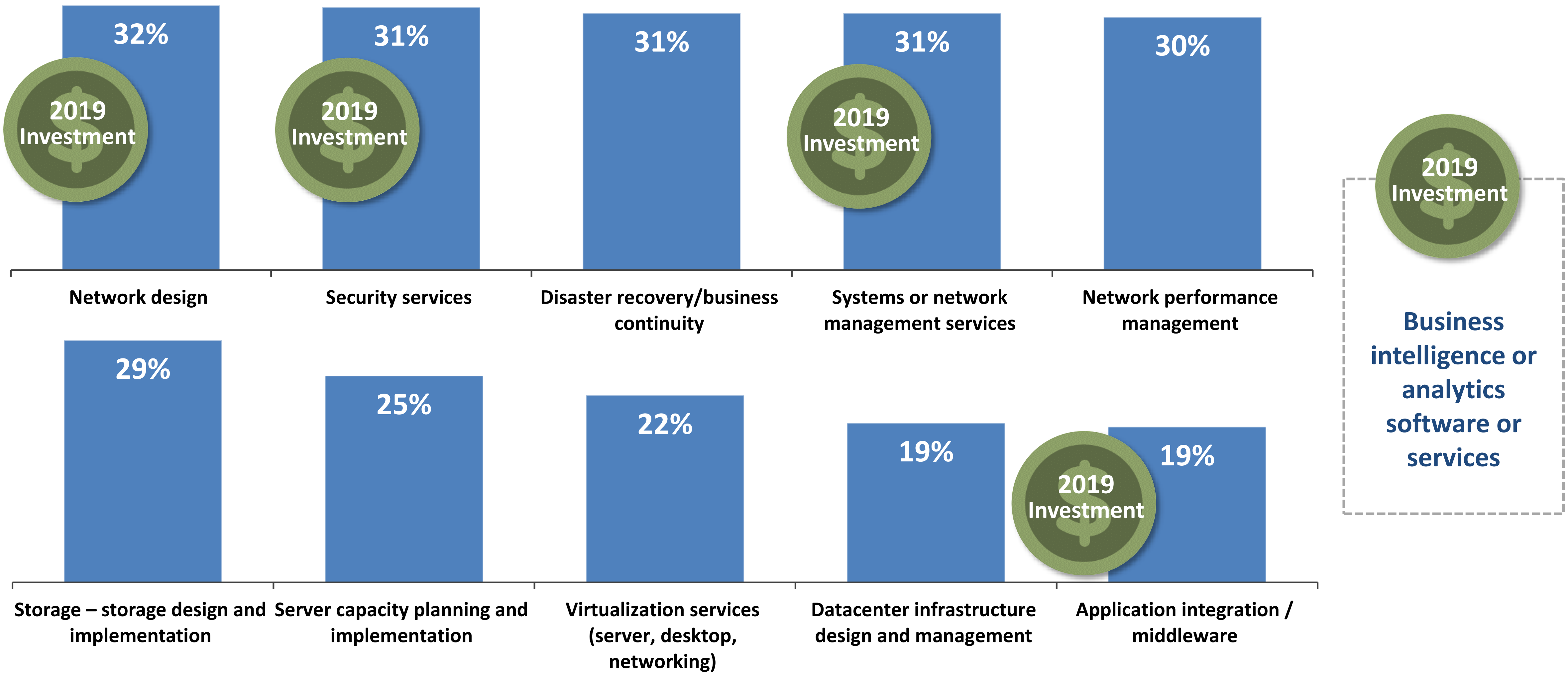
Network design, security and business intelligence are key 2019 investments

Products/solutions in 2018 generating > 10% of revenues



Q: In which of these product or solution categories will your company generate at least 10% of its annual revenues in 2018? (N - 426)

Multiple opportunities available for those with public cloud capabilities

% of solution providers providing each role around public cloud services

33%
Up to 39%
Recommending/ Referring

34%
Up to 46%
Reselling

35%
Up to 40%
Implementing / Integrating

20%
Up 23%
Building Applications

35%
Up 44%
Managing and Running

Customer Management Lifecycle

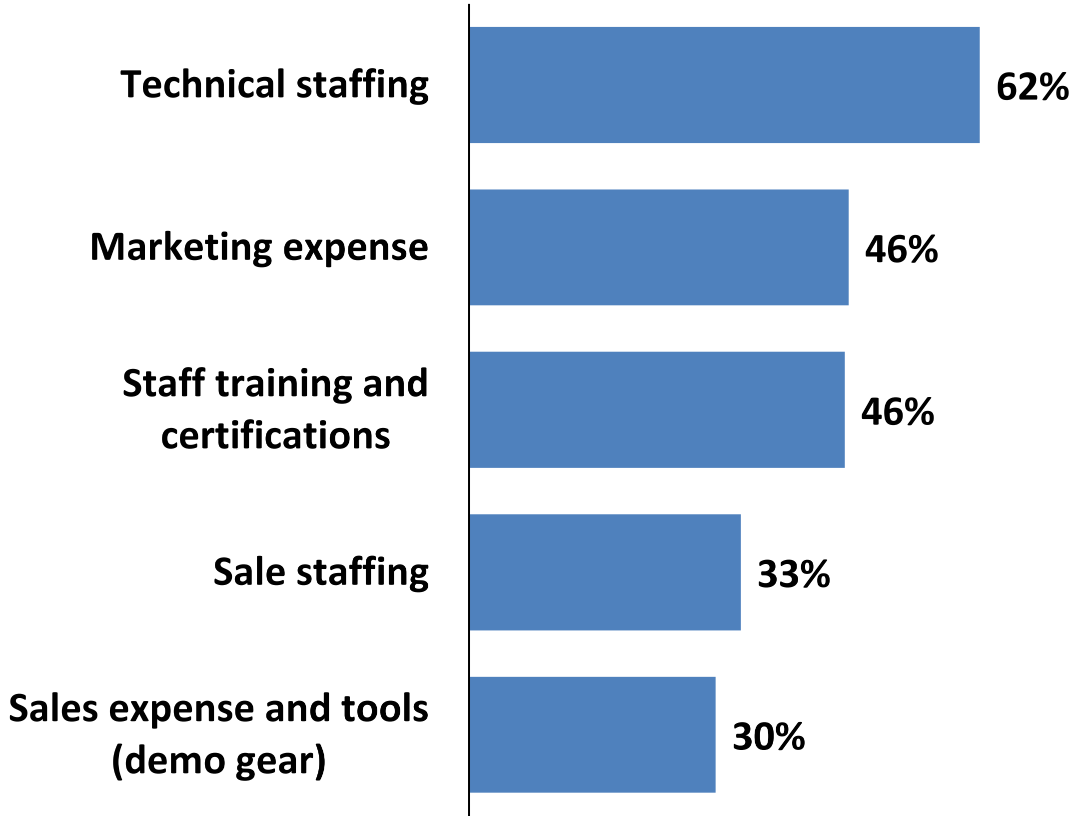
Microsoft Azure

amazon web services

Google Cloud Platform

Q: How is your company engaging with these cloud platform providers today? (n=204)

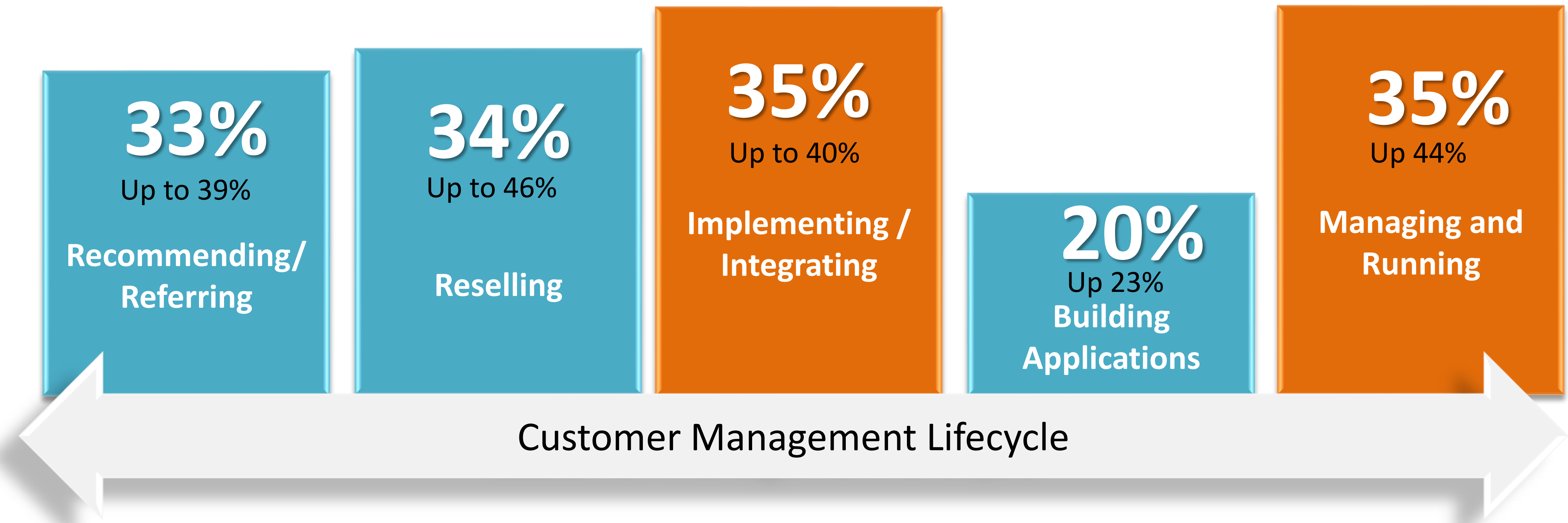
Solution providers continued to make strategic investments in staffing and certifications



Q: Which of these business expenses represent an area of strategic investment for your company in 2018 (over 2017)? (n=435)

Multiple opportunities are available for those with public cloud capabilities

PERCENTAGE OF SOLUTION PROVIDERS PROVIDING EACH
ROLE AROUND PUBLIC CLOUD SERVICES

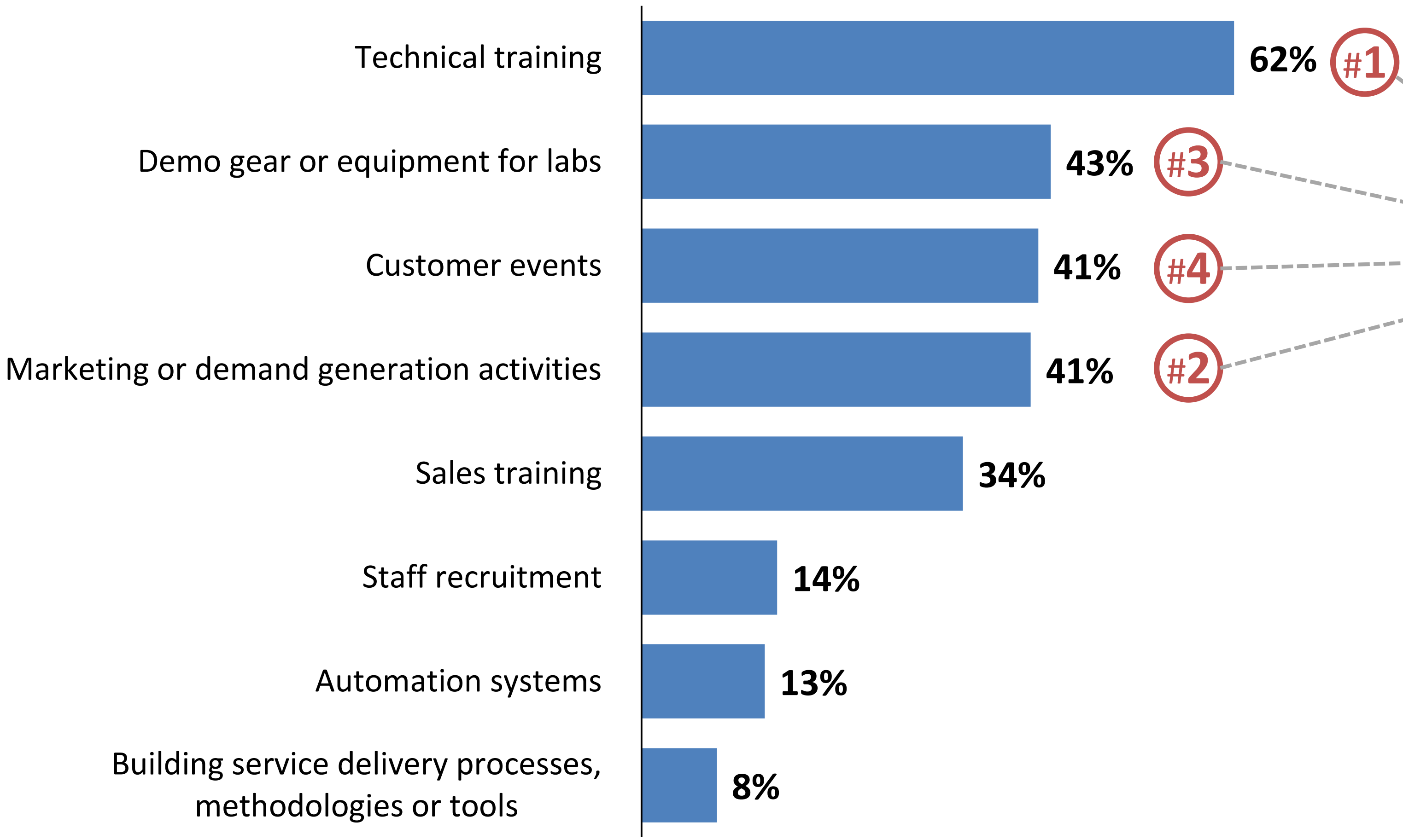


Microsoft Azure
amazon web services
Google Cloud

Q: How is your company engaging with these cloud platform providers today? (n=204)

Vendors helping with partner expenses in technical training, demo gear, customer events and marketing demand gen.

Cost Offsets or Reimbursement by Vendors



"Most Helpful"
cost offset by
IT vendors: (ranking)

Q: What expenses did your company incur in 2018 where your IT vendors provided some cost-offset or reimbursement? (n=435)

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Growth plans shift to focus on hybrid IT recurring revenue models

Topline Revenue Growth

1. New market or vertical expansion
2. Better branding and market visibility

1. Increase our recurring revenue services
2. Optimize technical and service staff utilization

Profitability Growth

Marketing Support

Compelling Training and Certifications

Recurring Revenue Growth

1. Expand our own managed services portfolio
2. Focus on attracting new customers

1. Obtain new technical certs / specializations
2. Hire new tech. talent with the certs. we want

Technical Skill Growth

Q: What are your top plans for 2018 as it relates to the growth of your company's profitability? (n=532)
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*Q: What are your top plans for 2019 as it relates to the growth of your managed services or hosting revenues? (N-216) *Asked of MSPs only*
Q: What are you top plans for 2019 as it relates to the growth of your technical capabilities? (N-532)

Biggest strategic vendor obstacles relate to services success

Lowest obstacles

1. Channel conflict (direct/ indirect)
2. Rate of new product acquisition and launch
3. Access to MDF for demand generation
4. Lack of support through their distributors

Moderate obstacles

1. Effective field engagement (sales or technical)
2. Too many other authorized solution providers
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

Q: What do you expect to be your biggest obstacles in working with your strategic vendors in 2019? (n=435)

Strategic vendors holding steady in number and revenue:
4 companies represent nearly 50% of revenues

	DEFINITION	# OF VENDOR LINES				% OF TOTAL REVENUES			
		2014	2016	2018	2019	2014	2016	2018	2019
STRATEGIC	Generating a significant amount of revenue, highly involved with them at the sales, marketing and technical levels	3	4	5	4	49%	50%	50%	46%
TACTICAL	Generate a significant amount of revenue with these vendors; product alternatives exist and we are not strategically invested in these lines	3	5	5	5	27%	26%	28%	28%
OPPORTUNISTIC	Infrequent and small purchases, reactive based on our customers' demands	5	5	9	5	24%	25%	22%	25%

Q: For each of the following categories of IT technology supplier relationship types, please indicate the number of technology suppliers your company was engaged with in 2018 (N-435)

Q: For each of the same types of Supplier relationships, please estimate the percentage of your 2018 revenues each type of vendor relationship represented (N-435)

Opportunistic & Tactical supplier relationships moving to Strategic

Highest ranked vendor relationships reflect focus on hybrid IT environments, multi-cloud competencies and hyperconverged infrastructure

Rank	Supplier
1	Microsoft, Microsoft Azure
2	Ingram Micro
3	amazon web services
4	Dell Technologies
5	Synnex Corporation
6	Cisco
7	Hewlett Packard Enterprise
8	IBM
9	Tech Data

Interesting to see traditional distributors ranked so highly among top 10 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 2019 and why?

Strategic Supplier relationships support growth in business-relevant solutions and recurring revenue services

Providing Business Outcome Solutions (Top IT Suppliers)

Rank*	Supplier
1	Microsoft, Microsoft Azure
2	Cisco
3	Hewlett Packard Enterprise
4	amazon web services™
5	Dell Technologies

* Three distributors (Ingram, Synnex and TechData) were ranked in the top 10, in that order

Growing Recurring Revenue Services (Top IT Suppliers)

Rank*	Supplier
1	Microsoft, Microsoft Azure
2	Cisco
3	amazon web services™
4	Dell Technologies
5	Oracle®

* Three distributors (Ingram, Synnex and TechData) were also ranked here in the top 10, in that order

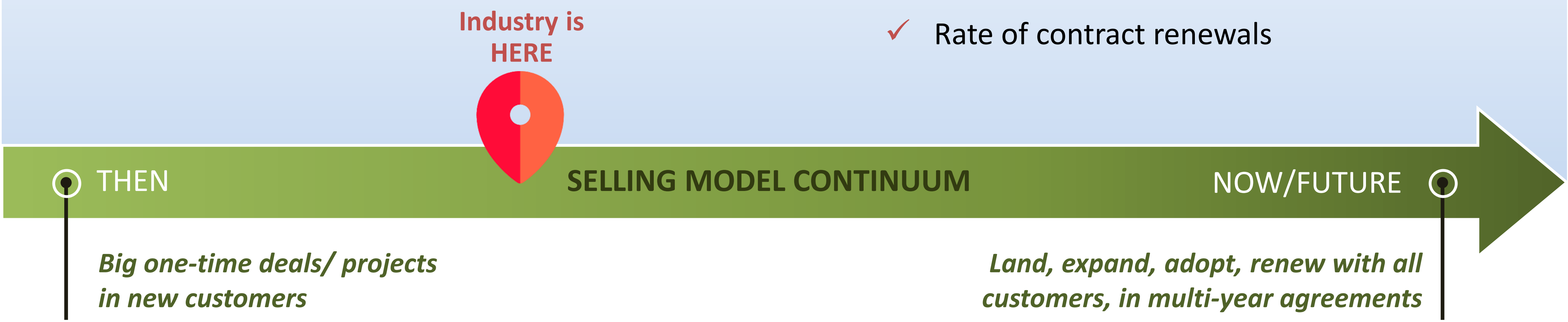
Evolving partner program performance metrics and rewards

TRADITIONAL METRICS - Products

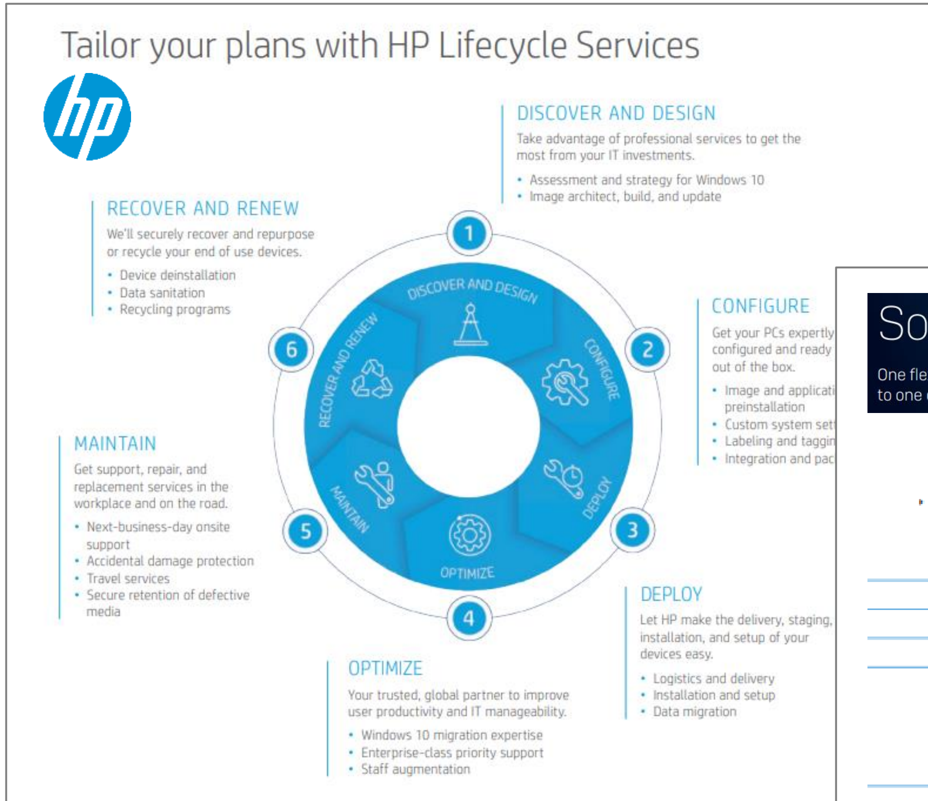
- ✓ Total revenue
- ✓ New customers (Deal Reg.)
- ✓ Services attach (support contracts)
- ✓ Product sell-through mix
- ✓ Breadth and depth of certifications

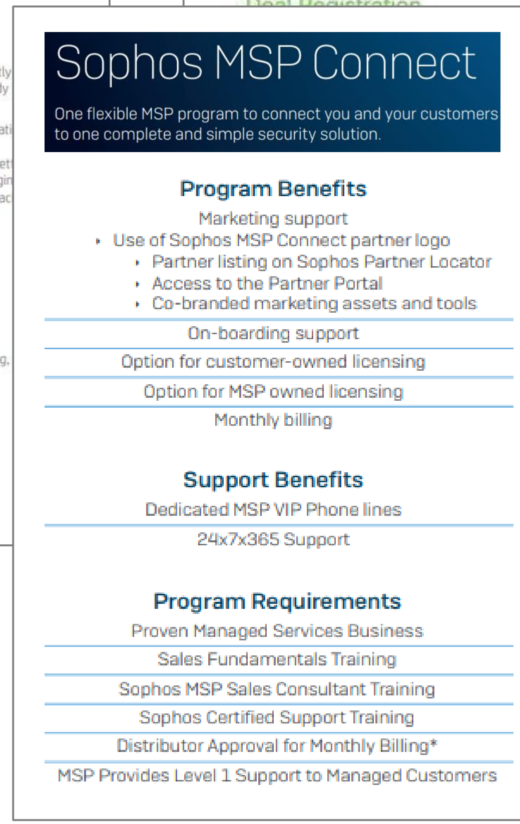
EMERGING METRICS – Services

- ✓ Total or Annual contract value (TCV) – total and partner-sourced
- ✓ Multi-year contracts
- ✓ How many users/devices under contract
- ✓ Multiple services on the same contract
- ✓ Expansion and adoption of service lines
- ✓ Rate of contract renewals



Evolving partner program performance metrics and rewards





Sophos MSP Connect

One flexible MSP program to connect you and your customers to one complete and simple security solution.

Program Benefits

Marketing support
- Use of Sophos MSP Connect partner logo
  - Partner listing on Sophos Partner Locator
  - Access to the Partner Portal
  - Co-branded marketing assets and tools

On-boarding support

Option for customer-owned licensing

Option for MSP owned licensing

Monthly billing

Support Benefits

Dedicated MSP VIP Phone lines

24x7x365 Support

Program Requirements

Proven Managed Services Business

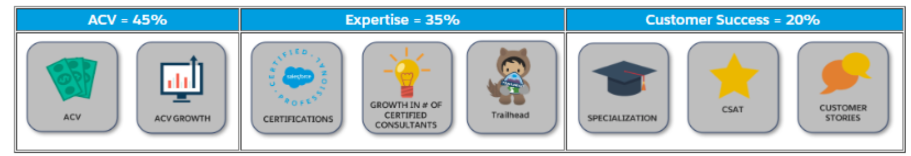
Sales Fundamentals Training

Sophos MSP Sales Consultant Training

Sophos Certified Support Training

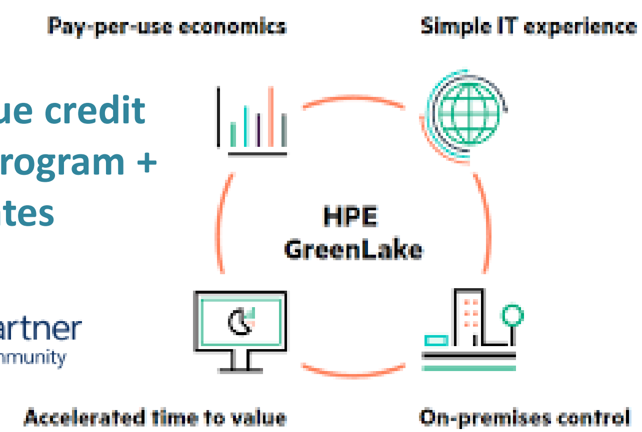
Distributor Approval for Monthly Billing*

MSP Provides Level 1 Support to Managed Customers



5x revenue credit toward program + 17% rebates

salesforce partner community



Vendors - Key Considerations

1. **CHANNEL PROGRAMS -** need to assume blended business models and a heavy services-led approach, with flexible service-delivery models (sell-to, resale and influence)

2. **NEW ENGAGEMENT MODELS -** Consumption and/or subscription based pricing is now considered program table stakes; influencer model should also exist to acknowledge MSP managed-only model

3. **CLOUD SKILLS -** Acknowledge existing public cloud program participation; focus enablement efforts on building cloud migration services & skills

4. **NEW METRICS -** Partner performance metrics, rewards and enablement must be redefined to support a recurring revenue services-led model and support overall customer lifecycle management

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IPED® Consulting

Channelytics®

Research

- Market Intelligence
- Trending Data
- Vendor Imperatives

Insights

- Expert Perspectives
- Proven Practices
- Operational Guidance

Tool Sets

- Frameworks & Guides
- Playbooks & Templates
- Channel Primers

Advisory

- Research Readouts
- Inquiry Appointments
- Executive Briefings

Partner Databases

CRN

- SP500
- MPS500
- + More Lists & Awards

Actionable Intelligence to Grow your Channel

- 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

Application Development Services	Partner Marketing	Channel Census
Professional Services Enablement	Internet of Things	Partner Profitability
Channel Account Management	Managed Services	Partner Enablement
Emerging Technologies	Partner Programs & Benchmarks	Subscriber Request