

# Channel Vision 2020

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# Hosts



**Mark Williams**  
Sr. Consultant



**Beth Vanni**  
Sr. Consultant &  
Director of Research

2020

# Welcome

1. Solution Provider M&A Activity
2. Partners' Automation Investments
3. State of IoT

2020

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1. Solution Provider M&A Activity
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# M&A and How it is Affecting the Channel

- **Solution Provider 500 is transforming via M&A**
- **Valuations for Solution Providers closely tied to recurring services**
- **What this means to you?**

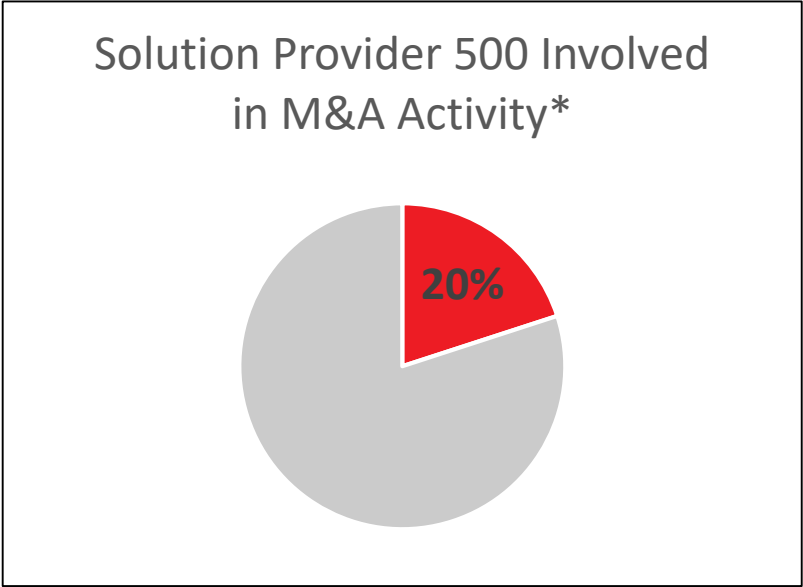


# M&A and How it is Affecting the Channel

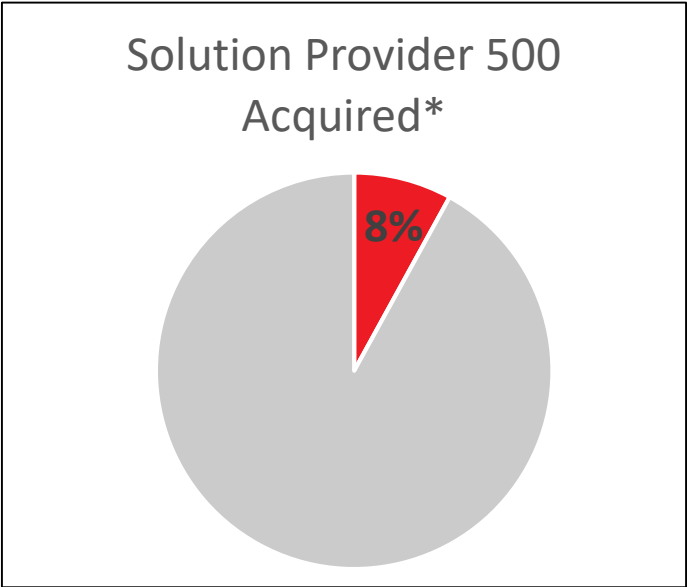
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# M&A Activity is Redefining Key SP500 Solution Providers



- 50% in Top 100 SP500
- 13% Channel at Large (2020 Census)
- Multiple acquisitions common



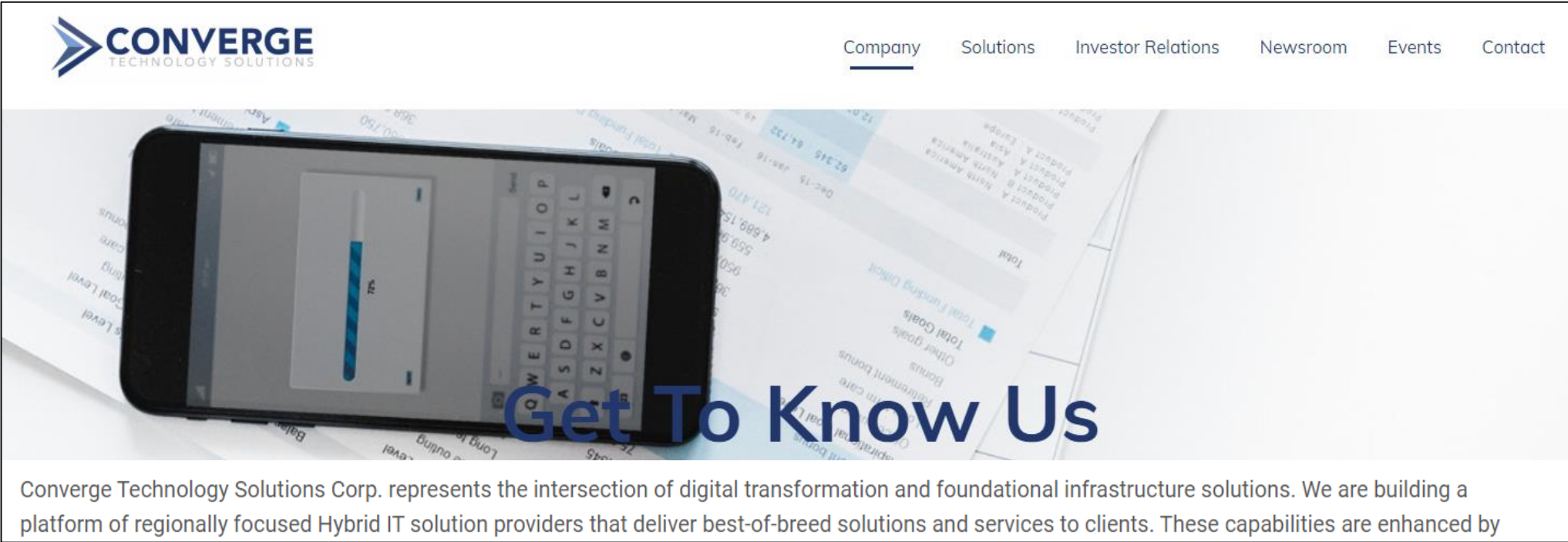
- Top partners are a primary target
- Private equity major player in many acquisitions



- Top 5 Areas of Interest\***
- Cloud
  - Managed Services
  - Product Offering
  - App Dev / Integration
  - Digital Transformation

# Example: SP #36 – Creating a Hybrid Solution Provider with Scale

11  
acquisitions  
completed  
by Converge  
since  
October 2017



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## Get To Know Us

Converge Technology Solutions Corp. represents the intersection of digital transformation and foundational infrastructure solutions. We are building a platform of regionally focused Hybrid IT solution providers that deliver best-of-breed solutions and services to clients. These capabilities are enhanced by

**Converge’s family of companies includes:**

- Corus Group
- Northern Micro
- Becker-Carroll
- Key Information Systems
- BlueChip Tek
- Lighthouse Computer Systems
- Software Information Systems
- Nordisk Systems
- Essex Technology Group
- Datatrend Technologies



# Example: Insight (SP#14) buys PCM (SP#30) – Global expansion with services capabilities



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more businesses than ever before



*“Combined strength expands company’s footprint in US, Canada and the UK  
while accelerating Insight’s value proposition as end-to-end solution integrator”*

## Key Facts:

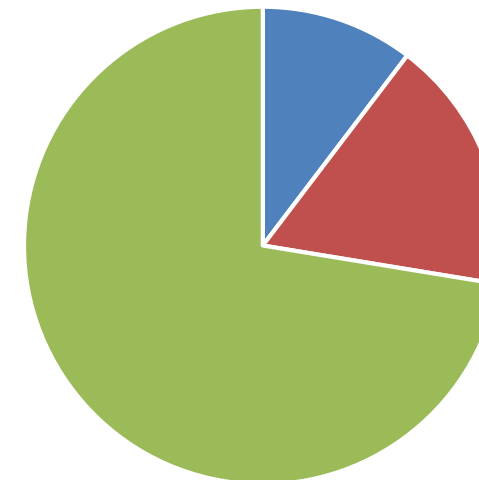
- Geography expansion in UK, Canada and US
- 2,700 additional customer facing employees
- \$580M transaction value
- Insight 2018 Revenue \$7.0 B
- PCM 2018 Revenue \$2.1 B

# Market Rationale for Channel M&A Activity

- Private equity intervention continues to be a key driver
- M&A is perceived to be quicker and easier than organic growth/transformation
- Shift to partner recurring revenue models are making them more attractive targets
- Geographic expansion (national and international)
- Need for vertical and business outcome orientations

BUT skills, people and capabilities are what companies are actually buying

Rationale for M&A



- Vertical Offering
- Geographic expansion/scale
- Skills/capabilities

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# Insights from an M&A Leader

## What Buyers Care About: 4 Key Drivers

*All financial buyers will take the following factors into consideration when determining their **interest level in your company and your company's valuation***

### Size

- Most buyers will have a **minimum threshold for revenue and/or EBITDA**.
- Size indicates a strong competitive position, a fully formed management team beyond the founder and the ability to serve as a platform investment

### Revenue Mix

- Buyers care a lot about revenue mix and many will have a requirement for % **recurring revenue**
- Service revenue is more valuable than product revenue and recurring revenue is more valuable than non-recurring revenue

### Retention

- Customer and revenue **retention is the most important analysis we run at Evergreen**
- Evergreen companies have 107% recurring revenue retention, implying that the business can sustain itself without adding a single new customer

### Growth Rate

- Buyers value growth rate, particularly in recurring managed services revenue and EBITDA
- Buyers like to see companies that are growing revenue and EBITDA at a similar rate. **Growing EBITDA faster than revenue is an unsustainable dynamic**

- MSP consolidation experts
- \$115M plus in revenue
- Equity backed
- 7+ companies acquired

# Examples: MSP Valuations



The Evolution of Profitability:  
Then and Now

**Differentiation: “Valuable”**

- Intellectual property
- Monthly recurring revenues
- Customer retention & expansion rates
- Vertical insights & LOB relationships
- Services diversity

**Foundation: “Profitable”**

- Gross margins
- New customers
- Prof. Services growth
- Solvency

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## VAR w/ some MSP

21% Recurring revenue  
acquired for  
**~0.5X Revenue**

## Blended MSP

40% Recurring revenue  
acquired for  
**~1X Revenue**

## Pure Play MSP

85% Recurring revenue  
acquired for  
**~1.5X Revenue**

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# Things to Consider...

1. Competitive displacement possibilities
2. Programs that help build value
  - Helping them sell is good for you
  - BUT, helping them build their recurring revenue services that sells your product is good for everyone
3. Partner to partner initiatives– for more than just technology
4. Contracts – still a partner?
5. Business planning may take a backseat, be prepare to have other partners step up

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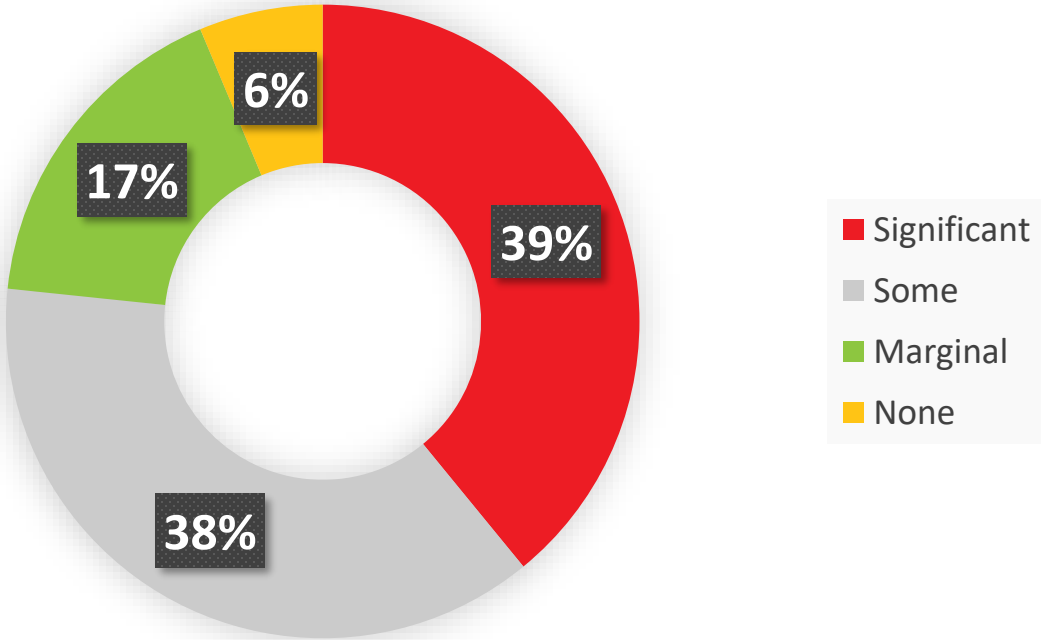
# Is Automation a Priority?



In looking at the next 3-5 years, what type of importance do you foresee your company placing on expanding your use of **business or services automation**?



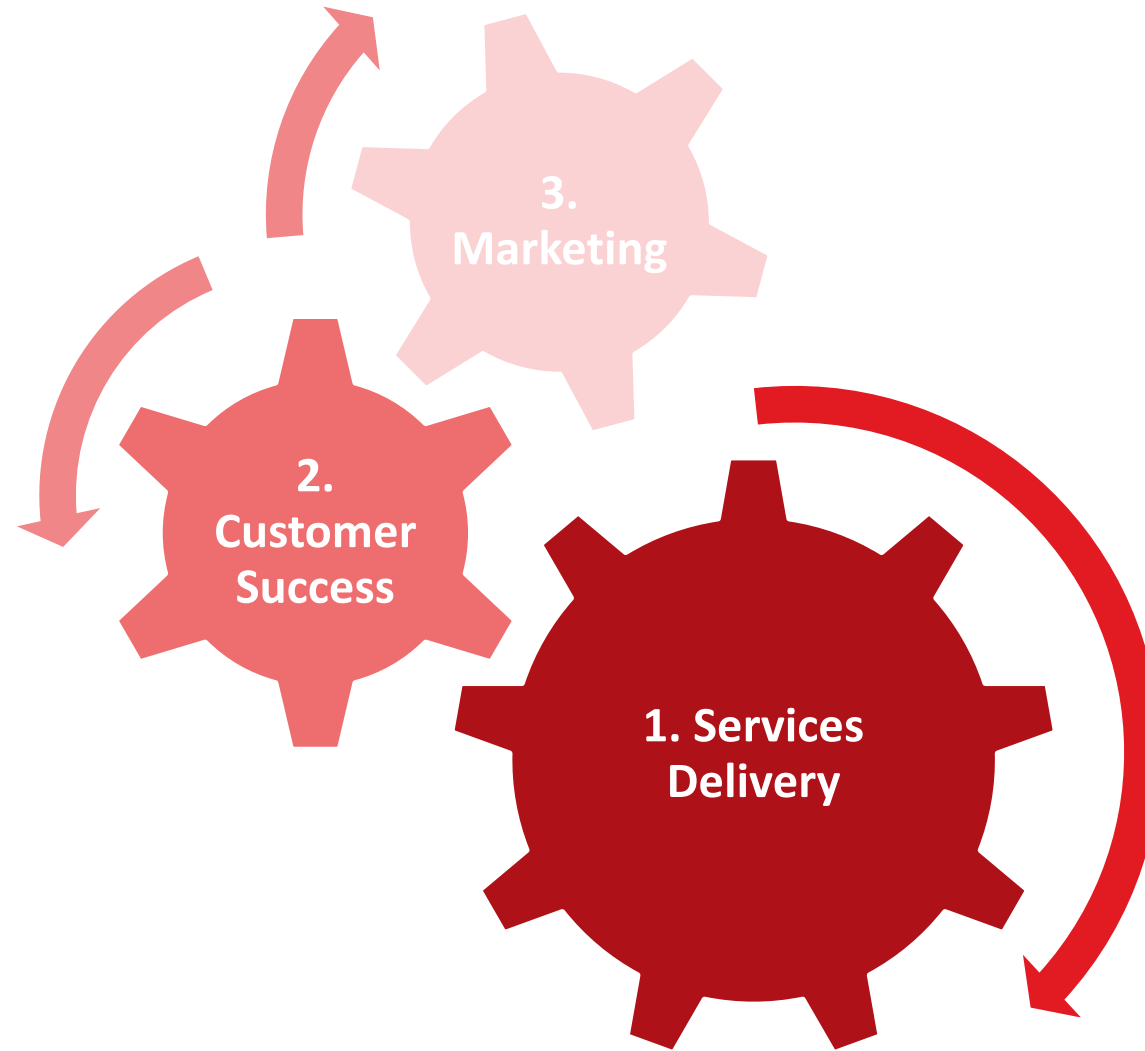
**>75%**  
plan some or  
significant focus on  
**expanding  
automation**



# Solution Provider Automation Priorities



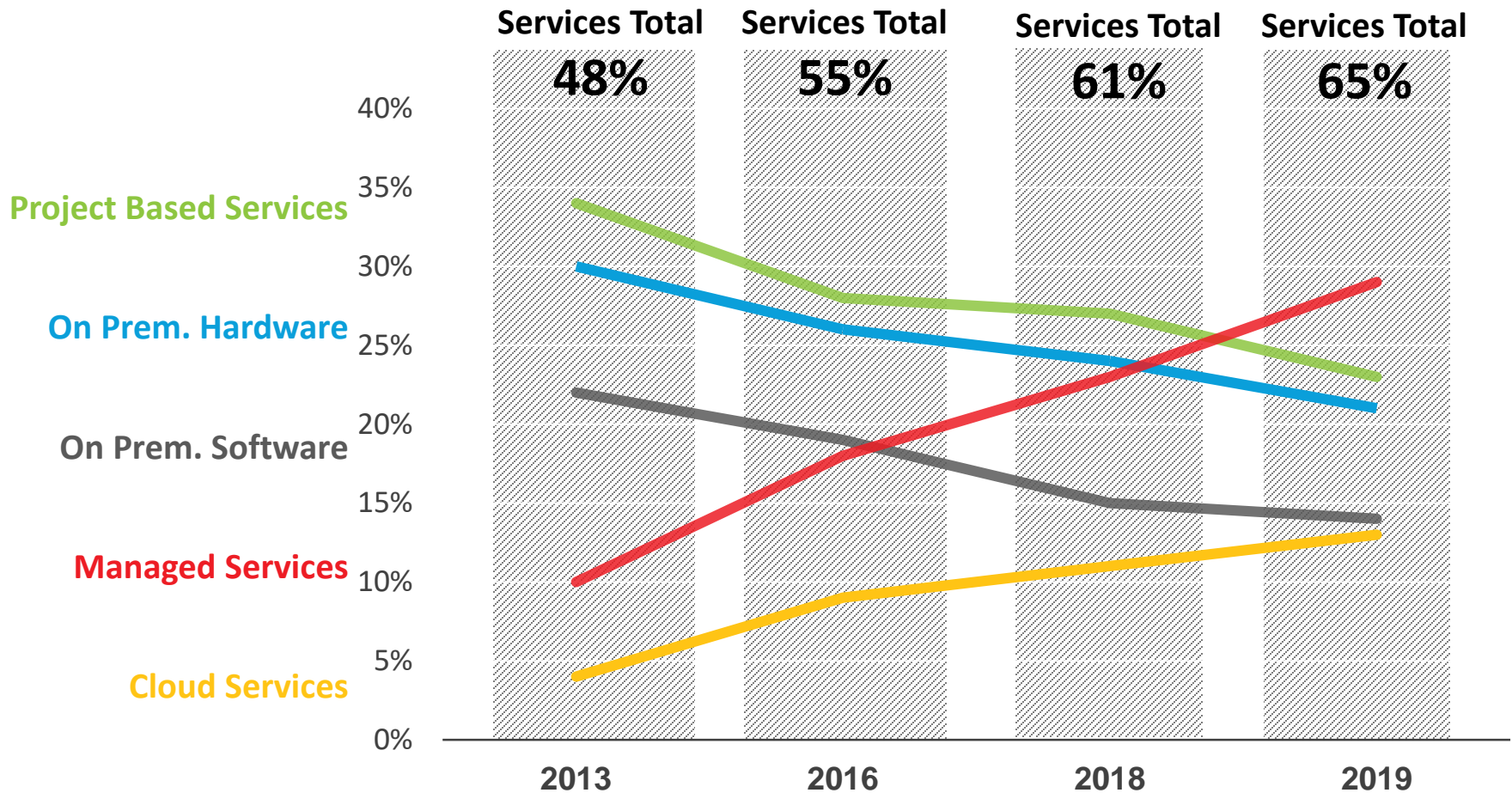
**CUSTOMER FACING**



**BACK-OFFICE**

# Services-Driven Business Models are Driving the Need for Automation

## OVERALL REVENUE MIX



**% of population**  
(primary & secondary business model)

MSP – **50%**

Consultant – **33%**

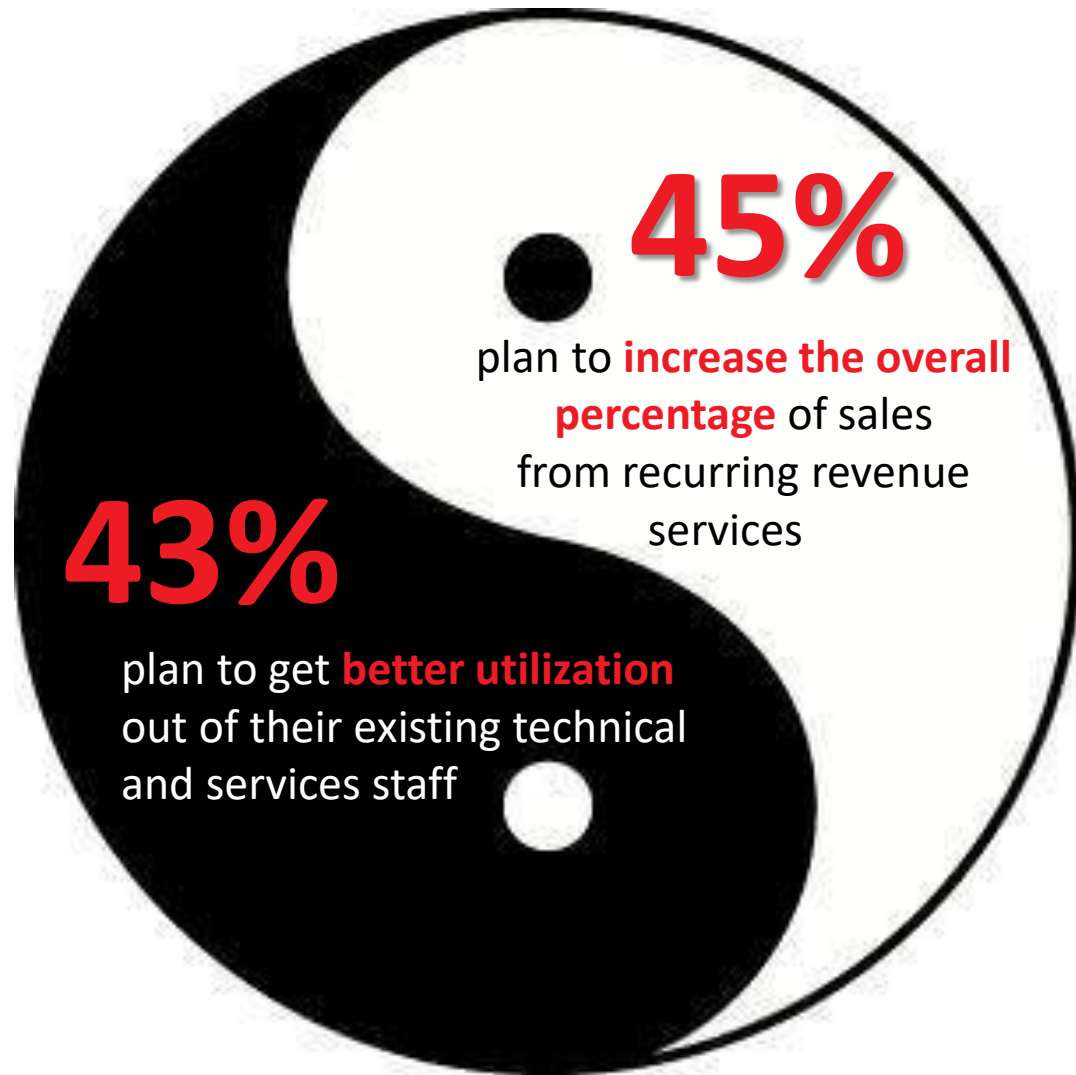
SI – **27%**

Source: IPED 2019 Channel Census

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

Q: Which of the following best describes your current secondary (secondary) business model? (N=377)

# Automation Priority #1: Services Delivery



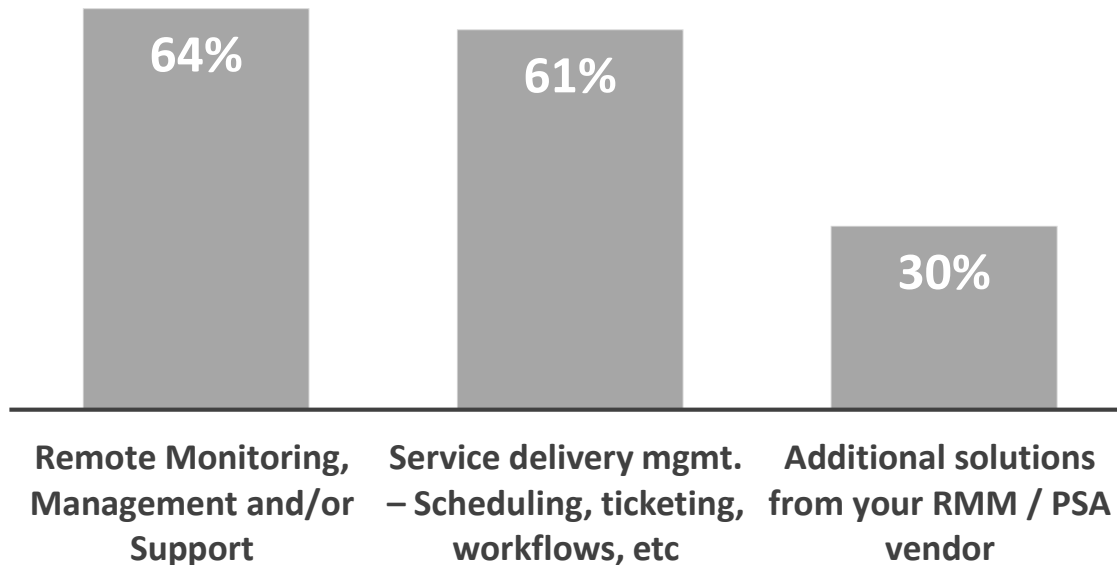
“You don’t want to deliver a managed service with a bunch of humans. Ideally, your managed service is code, so that whether it’s 1 client or 100 clients, you just click a button.”



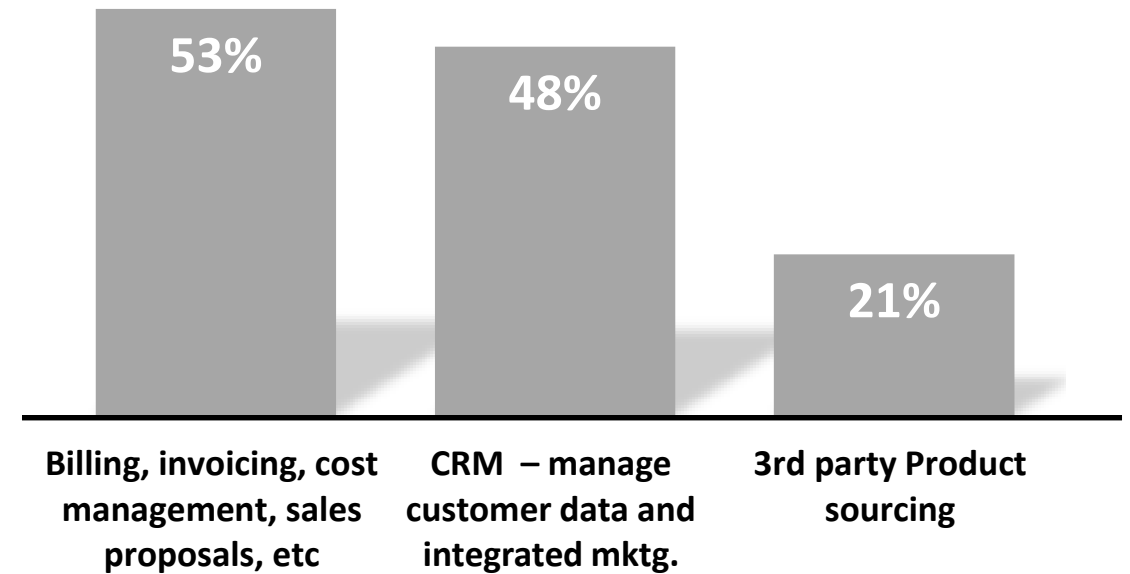
# Services Automation Platforms Used for Both Delivering the Service and Managing the Business



## Delivering Services



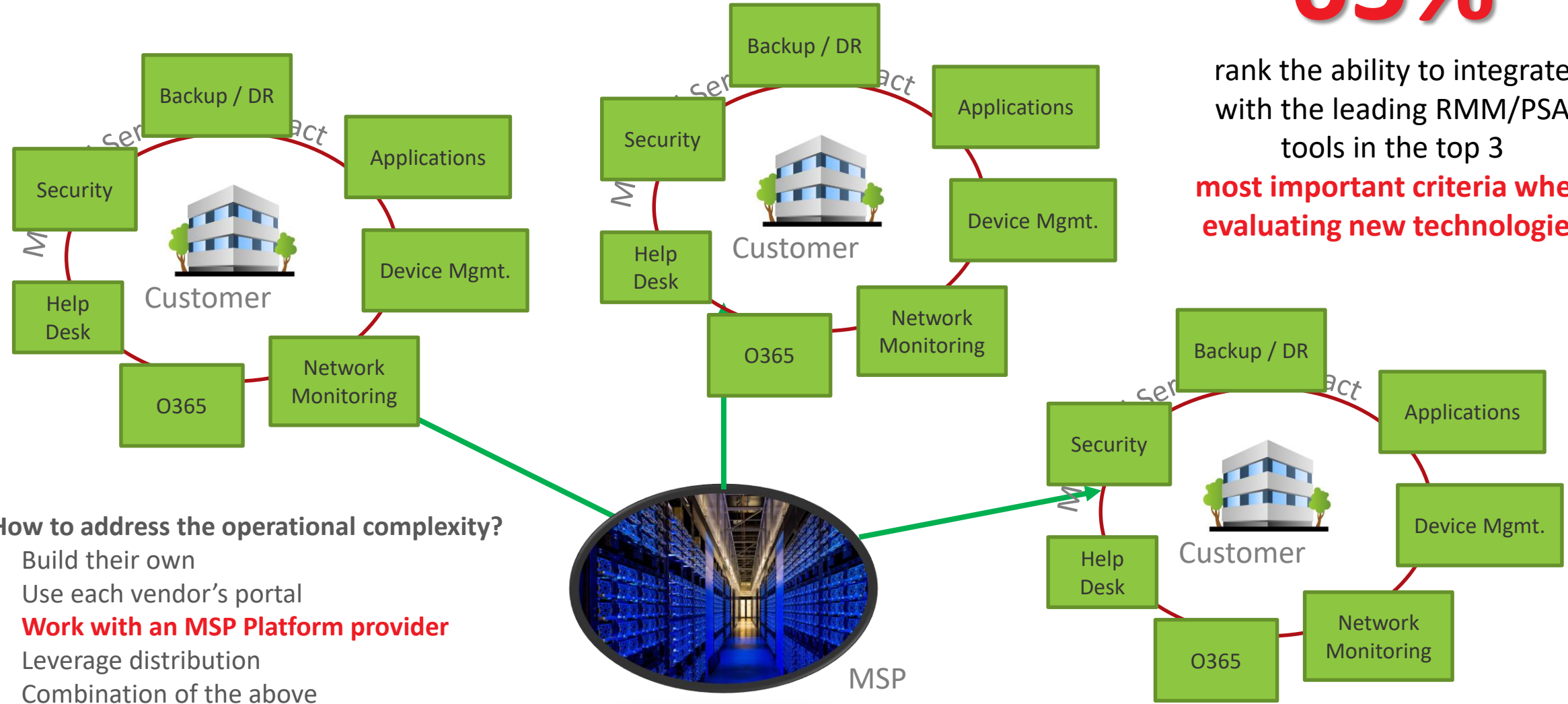
## Managing the Business



# The MSP Operational Perspective

65%

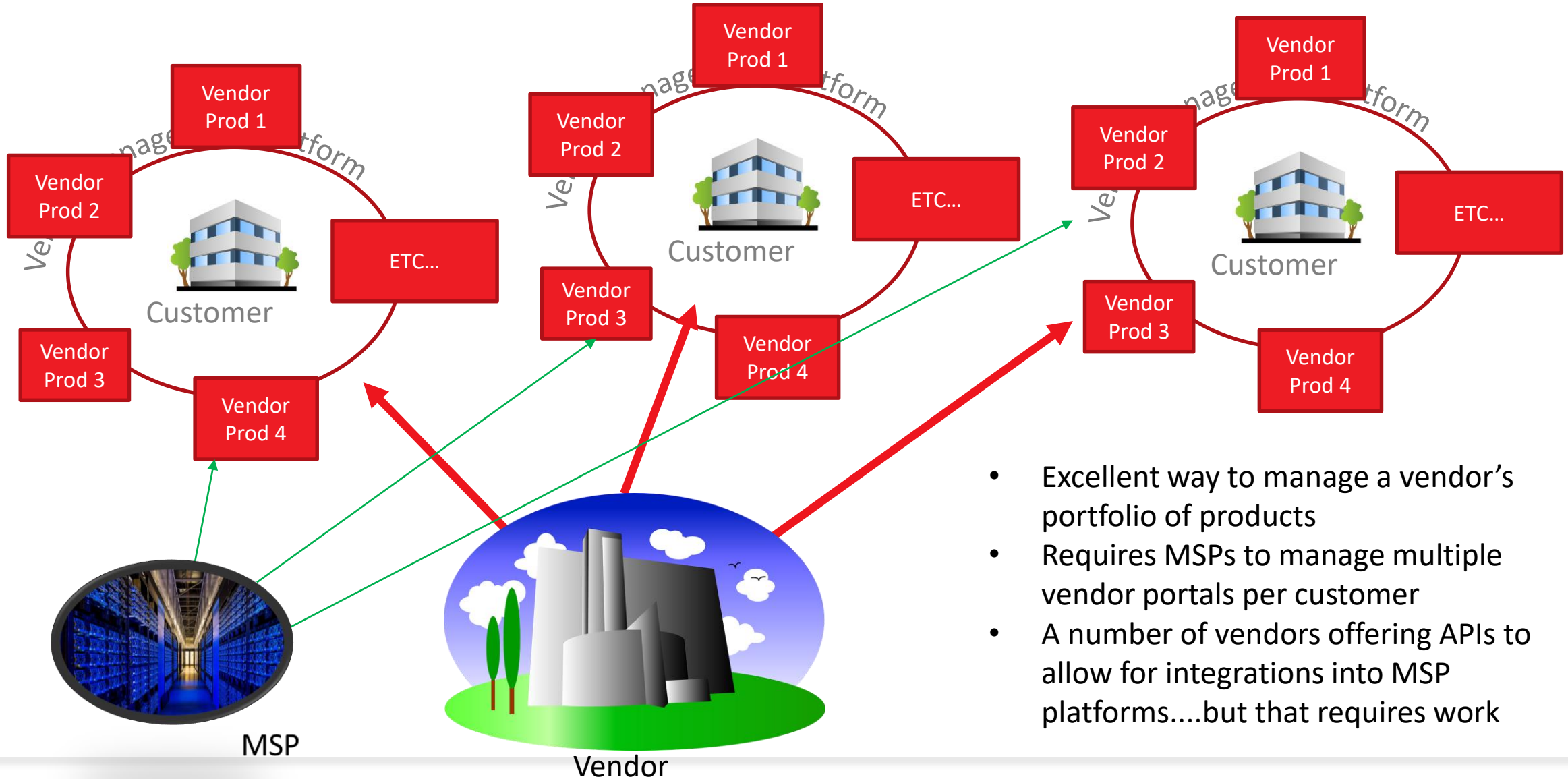
rank the ability to integrate with the leading RMM/PSA tools in the top 3 most important criteria when evaluating new technologies



## How to address the operational complexity?

- Build their own
- Use each vendor's portal
- **Work with an MSP Platform provider**
- Leverage distribution
- Combination of the above

# The Vendor Operational Perspective

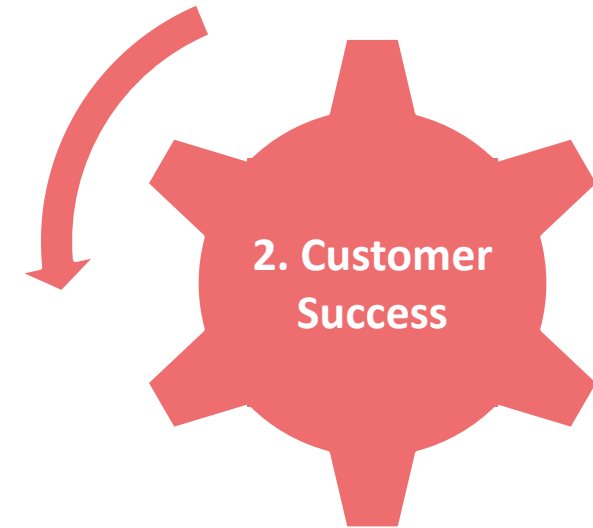
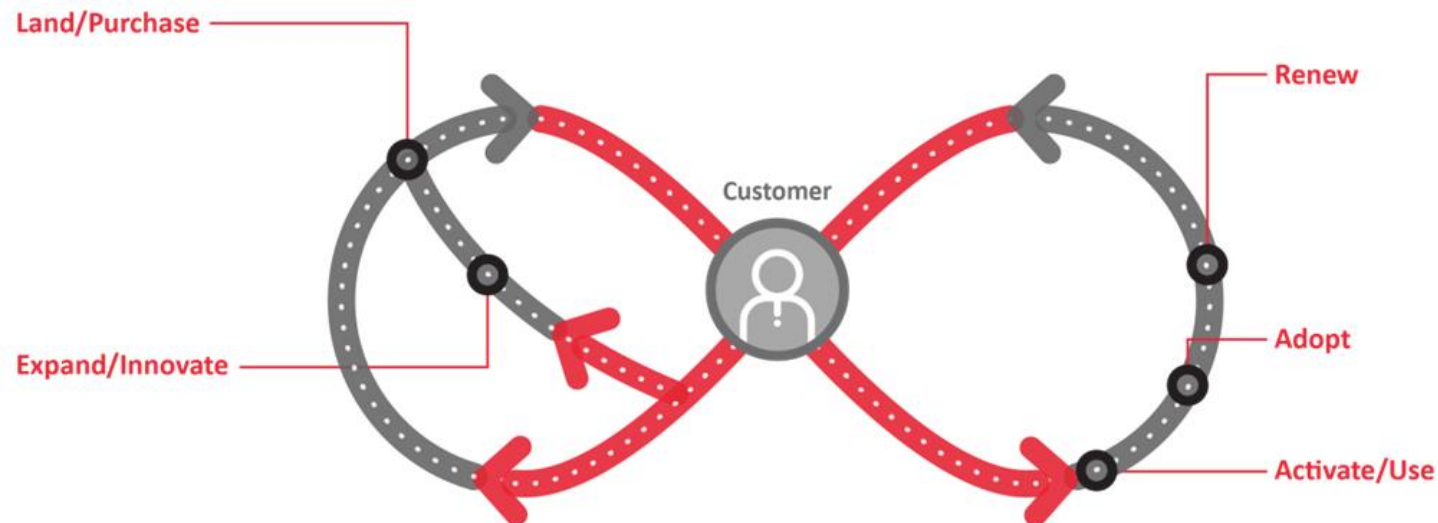


- Excellent way to manage a vendor's portfolio of products
- Requires MSPs to manage multiple vendor portals per customer
- A number of vendors offering APIs to allow for integrations into MSP platforms....but that requires work

# Automation Priority #2: Customer Success

# 13%

plan to institute a more formal process for measuring and growing current **customer satisfaction**





# Automation Priority #2: Customer Success

In nearly 50% of MSPs, the field salesperson is primarily responsible for driving the renewal and expansion of managed services offerings



**Primary Field Salesperson**  
**45%**



**Customer Success Manager**  
**19% - 22%**



**Customer Svs./Support Team**  
**17%**



**Renewals Salesperson**  
**8%**



**Automation System (online prompt for renewal)**  
**4%**



**LinkedIn**  
**(Dec. 2019)**

**20,000 open jobs**  
for Customer Success Managers

# Automation Priority #3: Marketing



27%

plan to increase their investment in **company branding & market visibility**



22%

plan to change their **sales process** (how they ID projects, do needs assessments, convert leads from marketing)



25%

plan to expand sales contact with **new types of customer contacts**



# Automation Priority #3: Marketing

**BUT ...**



**58%**

do NOT have  
marketing automation  
today



For those that DO have marketing automation, many **want training** on how to leverage it effectively:

From marketing svcs. firm: **36%**

From vendors: **31%**

Third party (non vendor): **26%**

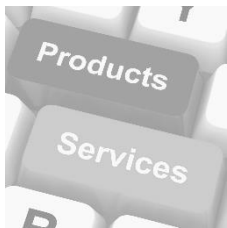
# Vendor/ Partner Barriers

**Q:** What do you expect to be your biggest obstacles in working with your strategic IT suppliers in 2020?

## TOP TWO RESPONSES:



1. Pricing models that support an ITaaS delivery model (subscription or utility based)



2. Ability to drive enough services revenue (project or recurring) around their core technologies

**= It's not enough to just have a service delivery opportunity; partner has to be able to scope it, staff it, bill it, collect it**

**AUTOMATION IS CRITICAL!**

# Things to Consider .....

Are APIs to leading service automation tools a fundamental part of your product roadmaps?



Do your partner program dollars encourage/allow selective automation investments?

Are you creating automation-ready business processes in your partner programs?



Does your partner enablement approach address operational roles?

Do you highlight automation success stories ?



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# IoT Channel Research Highlights

**1**

**Growth expectations tied to a more packaged approach**

**2**

**Sales motion still focused on relationships and existing customers**

**3**

**Ability to navigate partnerships critical**

# IoT Channel Research Highlights

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**Growth expectations tied to a more packaged approach**

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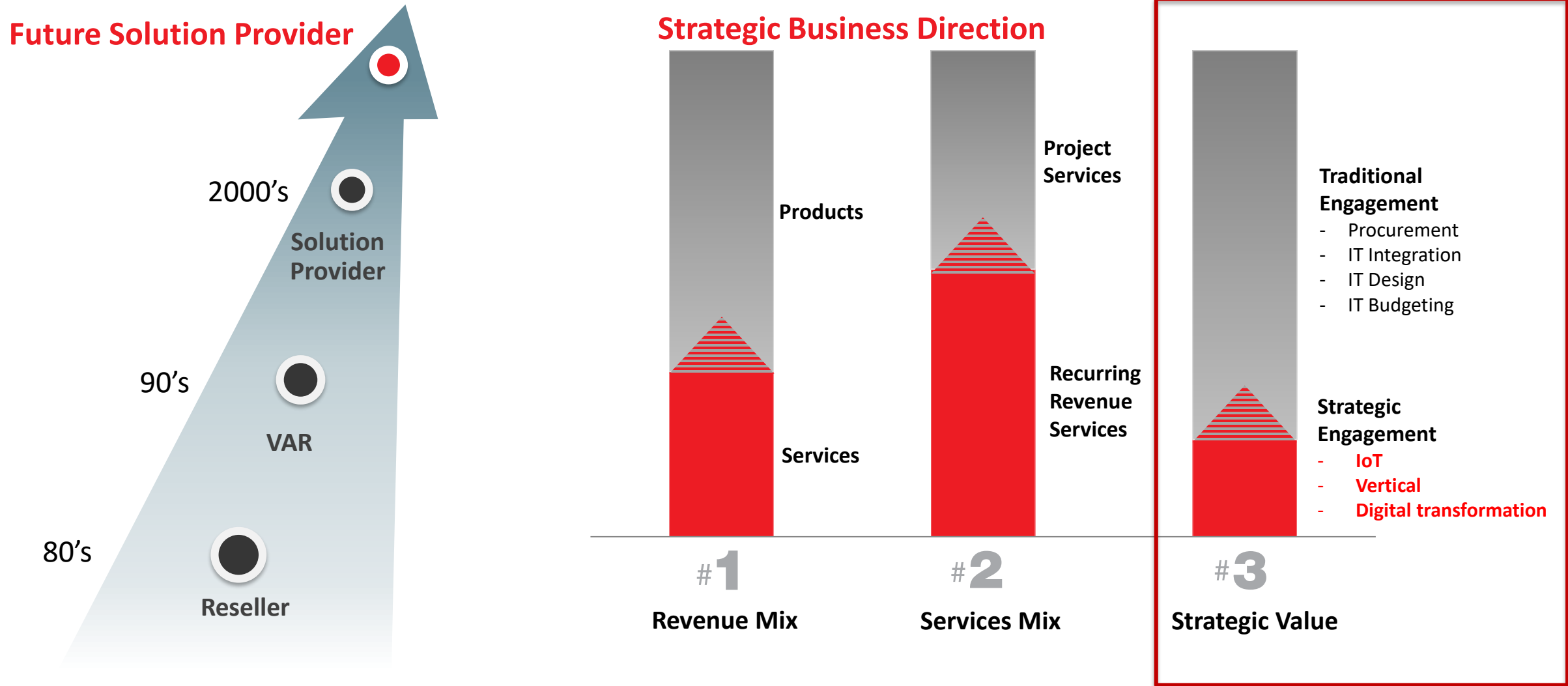
Sales motion still focused on relationships and existing customers

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Ability to navigate partnerships critical



# The "IT Solution Provider" is Evolving – IoT Requires Strategic Value Approach



# Impact of Packaged Solutions

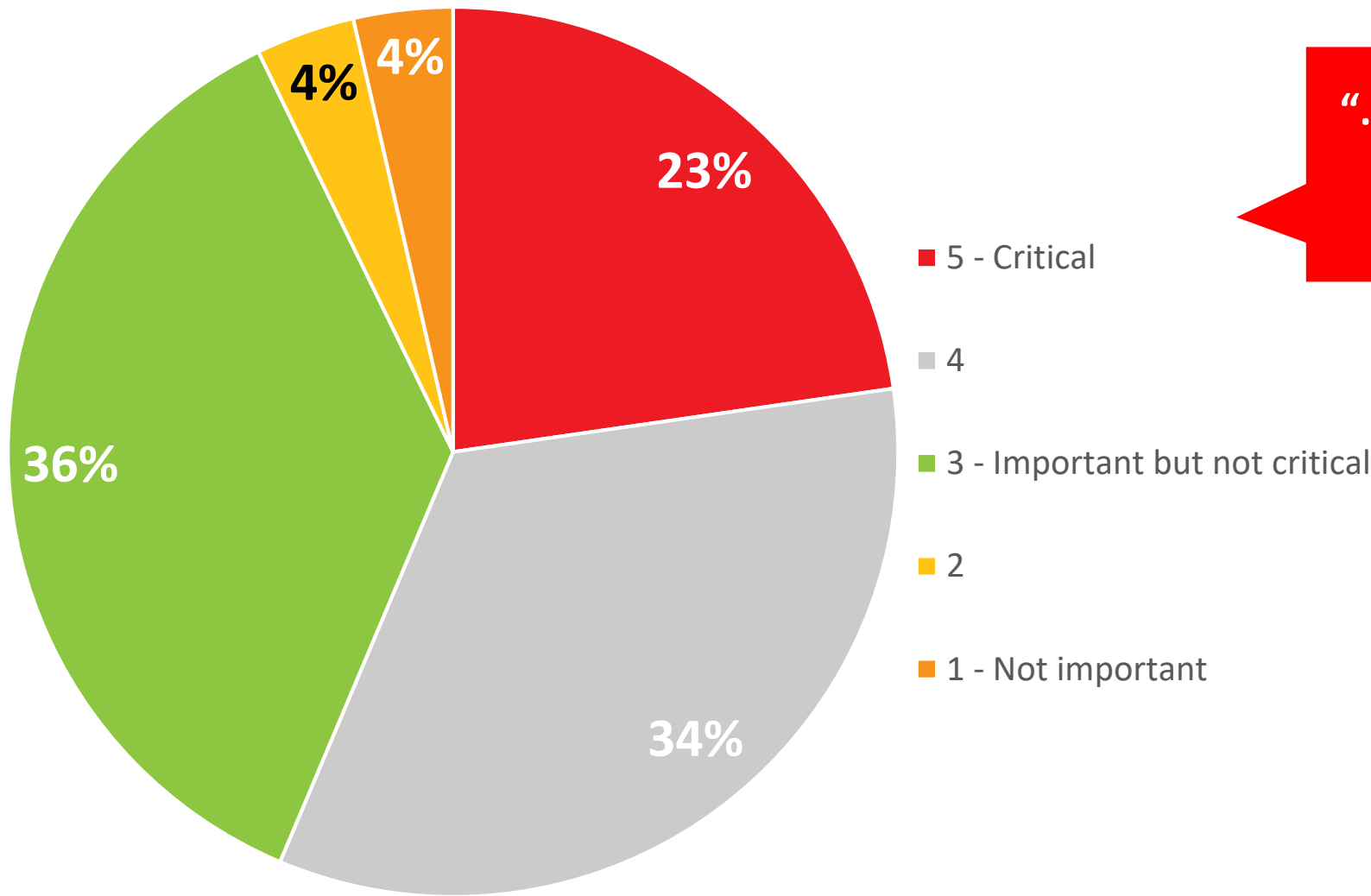
A futuristic digital network diagram with nodes and connections. The background is a blurred server room with blue and red lights. Overlaid on this are several nodes labeled 'NODE 02', 'NODE 03', 'NODE 04', 'NODE 05', 'NODE 06', and 'BLOCK 01'. These nodes are connected by glowing lines, representing a complex network structure.

**57% of solution providers consider “packaged solution offerings” important or critical** to their IoT practice going forward

**48% of solution providers offer “packaged solution offerings”**

**49% of solution providers consider “packaged solution offerings” effective** in helping create opportunities

# Importance of Packaged Solution Offerings



“...I don’t have time for science projects...”  
*(critical)*

“...innovation is my differentiation...”  
*(important)*

# IoT Channel Research Highlights

1

Growth expectations tied to more packaged approach

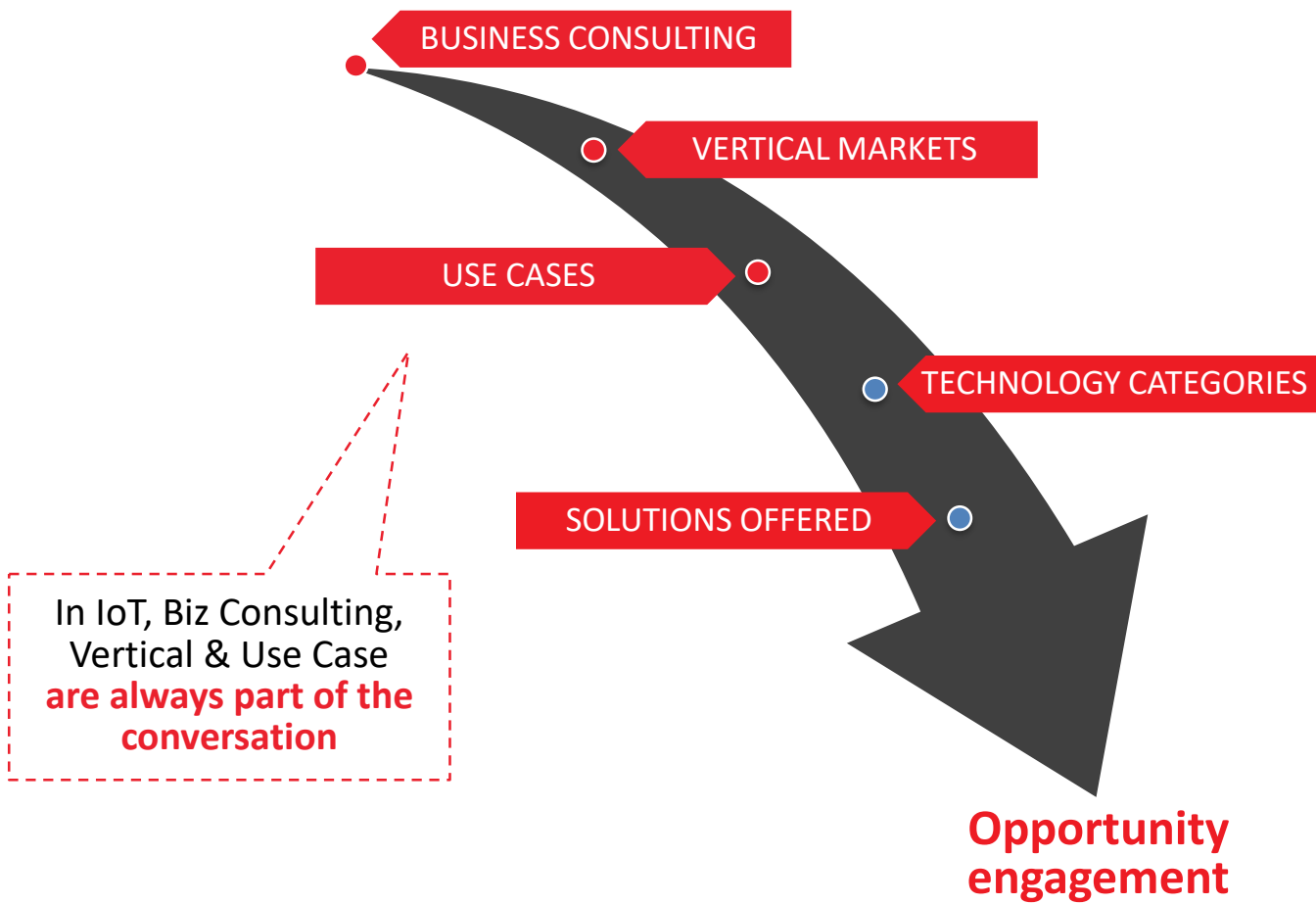
2

**Sales motion focused on relationships and existing customers**

3

Ability to navigate partnerships critical

# Use Case and Vertical Selling Critical in Almost All IoT Engagements



Opportunities still primarily driven with existing customers via high touch efforts (78% created from General Sales activity)



# Sales motion still evolving

A futuristic digital network diagram with nodes and connections. The background is a blurred server room with blue and red lights. Overlaid on this is a network of glowing lines and nodes. The nodes are labeled 'NODE 02', 'NODE 03', 'NODE 04', 'NODE 05', 'NODE 06', and 'BLOCK 01'. The nodes are connected by a complex web of lines, some solid and some dashed, representing a data network or IoT infrastructure.

## **Proof of concepts still common**

~50% of solution providers state that at least 25% of IoT deals start with proof of concept

## **Conversion to production is slow**

56% of solution providers state that less than half of their IoT deployments reach production

# IoT Channel Research Highlights

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Growth expectations tied to more packaged approach

2

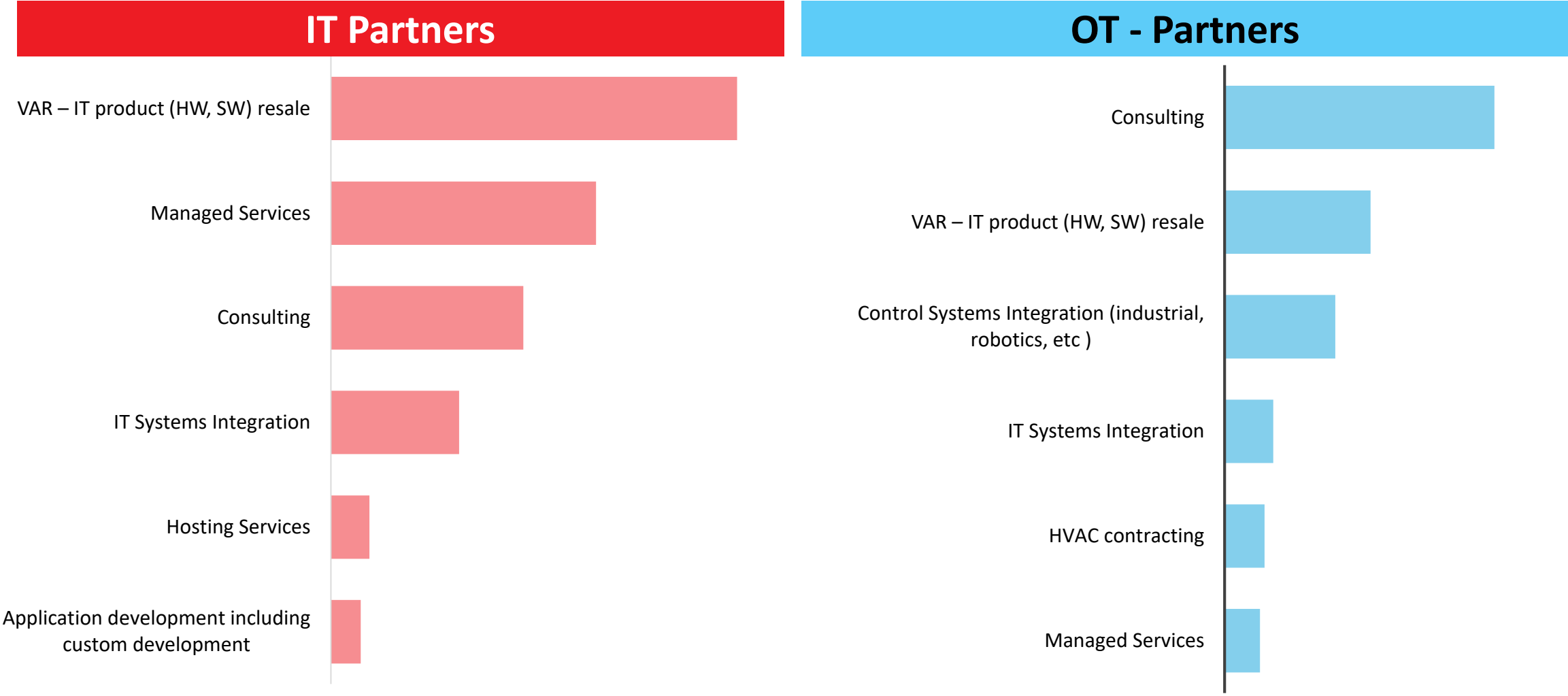
Sales motion focused on relationships and existing customers

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**Ability to navigate partnerships critical**

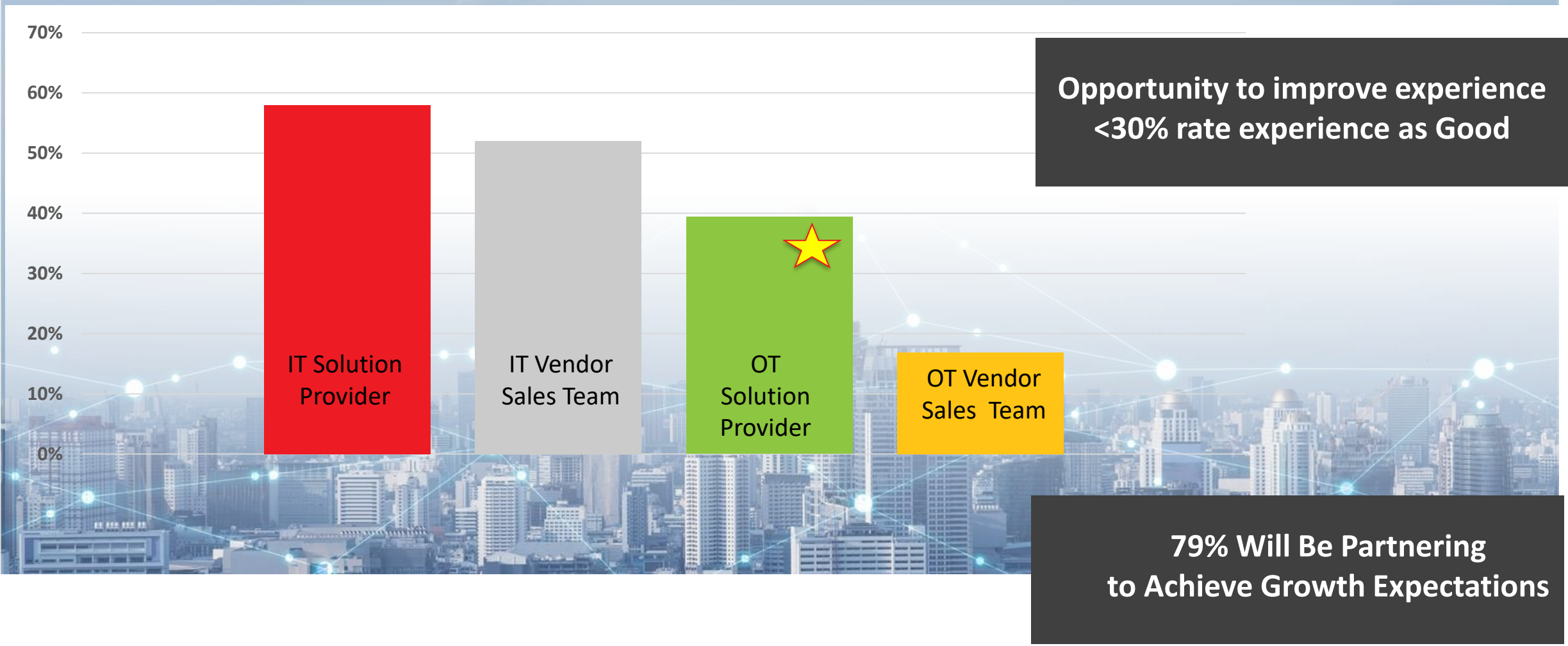
# Revenue Sources are Different, BUT Converging....

## Solution Providers Looking for Complimentary Business Engagements





# Field Partnerships Critical to Success in IoT Engagements



29. In your IoT opportunities in the past 12 months, what “partners in the ecosystem” did you engage with in a sales pursuit? (select all that apply)  
30. Please rate your experience in working with “partners in the ecosystem”? (on a scale from 1-5 where 1=bad experience and do plan to engage in the future, 3=useful experience, but needs improvement 5= good experience and plan to engage in future opportunities)

# Things to Consider..

- Emergence of new partner types?
- Edge (no matter how you define it) will have a big effect on partner motion and opportunity
- Scale only comes with repeatability – expect more standardize / defined offerings (80 / 20 rule)
- Partners that sell “products” or “IoT” will have trouble capitalizing on the opportunity
- OT partners will start to show up more and more in IT related partner programs

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For additional information:

**Lisa Sabourin**

**C 561.339.5517**

[lsabourin@thechannelco.com](mailto:lsabourin@thechannelco.com)

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