Welcome Channel Masters October 2019 Class!

LEADERS

	Team 1	Team 2	Team 3	Team 4
Phase 1	87.7875	91.1625	89.1875	88.5000
Phase 2	91.5000	90.7500	92.2500	88.5000
Phase 3	82.5000	82.0000	81.5000	84.5000
Total	261.7875	263.9125	262.9375	261.5000

State of Partner Profitability

Funding the Future

THECHANNELCO. | IPED® Consulting

Partner Perspective: Less than ½ of Vendor Reps Understand Their Profitability

15% SAY — CAMs **fully understand** all the elements of profits and costs

21% SAY — CAMs understanding is **limited to transactional gross margins**

29% SAY — CAMs **understand most** of the margin and cost factors

19% SAY — CAMs 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)

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**

Profitability Factors Vary Distinctly by Business Model

Profit Factors

Maximize:

REVENUE

GP

Minimize:

SG&A

VAR

Revenue

Product Gross Margin

Service Gross Margin

Total Gross Margin

SG&A

VAR Profitability Drivers

Profit Factors

Drivers

Increase:

Revenue: Growth Rate | Competitive Win Rate | Avg Deal Size | Financing

Product Gross Margin: Product % GM | Discount Rate | Incentives/Promotions

Service Attach: Service $/Product $ | Hourly Billing Rate | Engagement Duration

Service Gross Margin: Services % GM | Utilization | Follow-on Business | Improve Process

Total Gross Margin: Product + Service % GM | Additional Offerings

Decrease:

SG&A: Shorter Sales Cycle | Marketing Funds/Tools | Training & Certif. | Business Dev. Funds | Supplier Program Complexity and Fees

MSP Profitability Drivers

(with blended partner managed & partner owned model)

Profit Factors — **Drivers**

Increase:

Revenue	Monthly Recurring Revenue	Services Offered Per Customer	Existing Customer Retention Rate	New Customer Win Rates

Service Delivery (SLA)	SLA terms	Partner Managed-Only Offerings	Partner Owned Offerings	Vendor Solution Aggregation (Utility based pricing)

Service Gross Margin	Managed Service GM %	Partner-owned vs. Customer-owned Service	Per-Customer Profitability	NOC/DC Efficiency	Single vs. Multi-year Contract

Total Gross Margin	Managed Service GM% (Managed-only)	Managed Service GM% (Owned)

Decrease:

SG&A	Training & Certification (Tech. & Operational)	Marketing Funds/Support	Quality of Products and Service

MSP Terminology: Profitability Drivers

Reference Material

Services offered per Customer – the quantity of managed services sold (by any measure -- user, device, server) sold to one customer across their infrastructure

SLA Terms - the MSP's ability to effectively manage the terms of their service-level agreement; includes staffing, help desk access, response times, etc.

Partner Managed-Only Offerings – the MSP's ability to meet SLA commitments and effectively deliver the service when the equipment is owned by the customer, either on their premise or in a colocation facility; the partner's role is that of management only

Partner Owned Offerings – the MSP's ability to meet SLA commitments and effectively delivery the service when the equipment is owned and managed by the MSP

Vendor Solution Aggregation - the extent to which the MSP bundles or incorporates a public MSP offering from another IT vendor or solution provider in their total service

MSP Terminology: Profitability Drivers Continued

Reference Material

Managed Services GM% - the ultimate measure of the MSP's staff and resource utilization, as applied across whatever unit of measure they use to measure profitability (device, user, customer, etc.)

NOC/DC Efficiency - for partners with their own hosting infrastructure, this is a measure of how scalable and efficiently the infrastructure performs, e.g., uptime, network latency, planned outages, etc.

Training and Certification - this is not just for the MSP's technical staff but for their NOC/DC and SLA management operational staff; training includes best practices in technical service administration, contract management and NOC/DC performance

Quality of Product or Service – for MSPs that bundle or integrate a 3rd party vendor or service provider's MSP offering within their overall managed service, this is a measure for how well architected that offering is and to what it requires bug fixes, patch management and other technical support services to keep it running smoothly

Research Overview 2019

Objectives

1. **Quantify and validate trends in solution provider profitability,** based on geographic scale and business models.
2. **Understand impact of various service-delivery models** (Professional Services, Cloud, XaaS) on partner gross margins and SG&A cost structures.
3. **Identify priorities** for IT vendor support to maximize profitability.

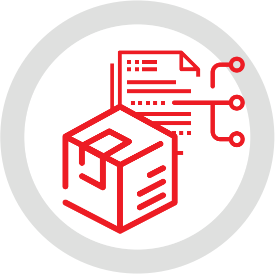
Methodology

Combination of quantitative and qualitative research from **2019 Census**:

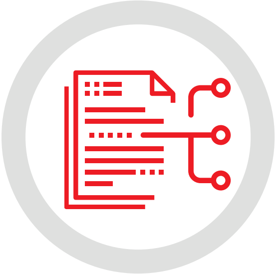
- Online survey fielded against The Channel Company general community, CRN Elite lists and research panel (N – 532)

Series of 28 in-depth partner interviews to deeply explore the quantitative elements of revenue mix, gross margins and SG&A cost structures

11 product-led



10 blended



7 services-led

Typical Vendor usage: Full economic understanding
Support based on partner profits
Business planning / CAM alignment

The Evolution of Profitability: Market Dynamics

1

Blended Business Models

Now the default, with few exceptions; everyone is trying to accelerate recurring revenue scalability, while containing cost structures

2

Building Assets

Solution Providers' differentiation (and profitability) is proportional to the level of IP and consultative skills they have cultivated

3

It Just Costs More

SG&A is higher than ever, but profits can be too! Acquisition costs, automation tools, staffing and benefits

Business Outcome Culture

- ✓ combination of products and services
- ✓ blending of Professional with Managed Services
- ✓ an integrated service-led offering that manages the overall customer lifecycle

Discussion Topics

1. Gross Margins
2. Services Scalability
3. Investments and SG&A
4. Vendor Support

Discussion Topics

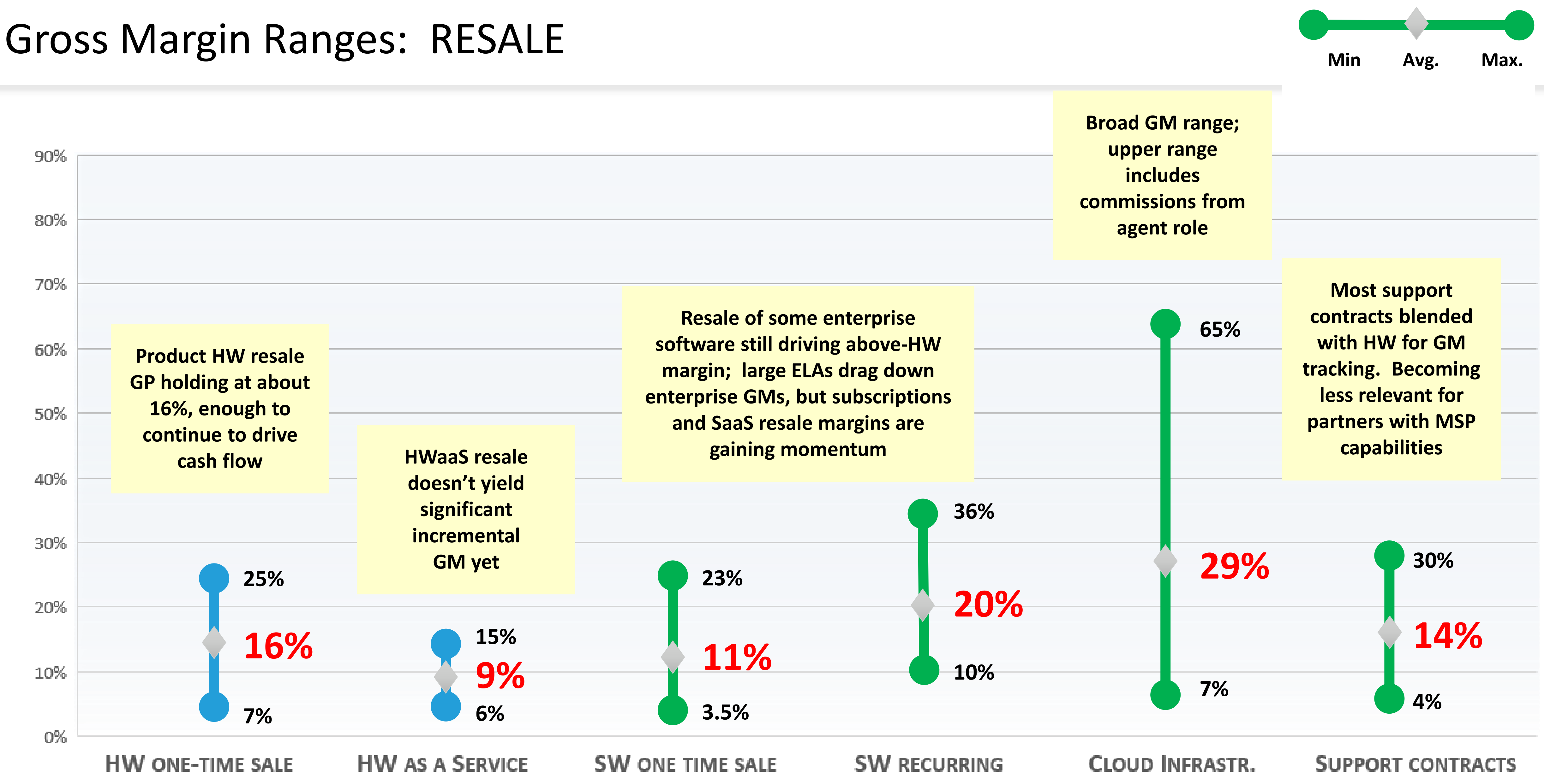
1 **Gross Margins**

2 Services Scalability

3 Investments and SG&A

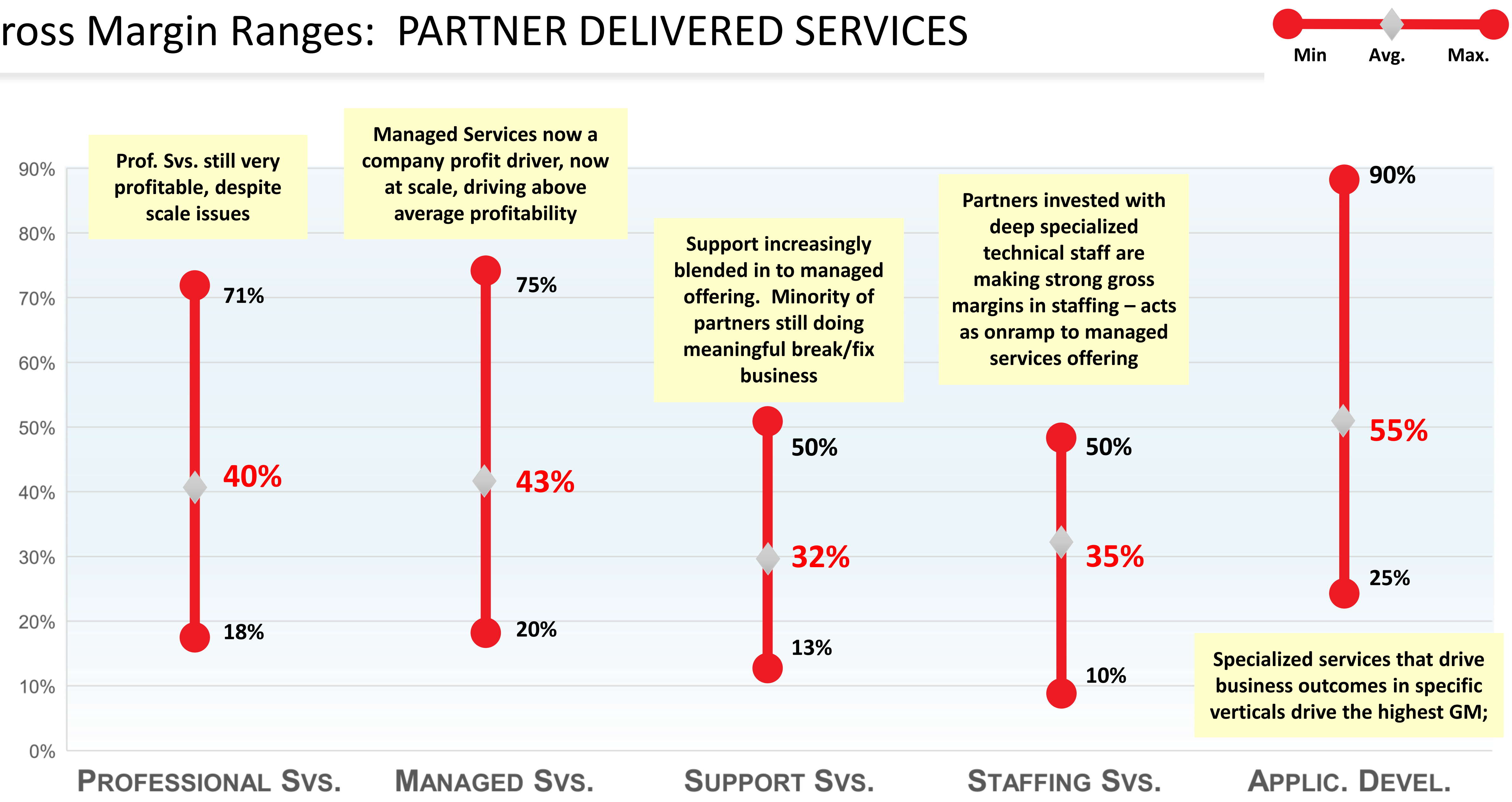
4 Vendor Support

Gross Margin Ranges: RESALE



Source: Detailed Partner P&L Interviews (N-28)

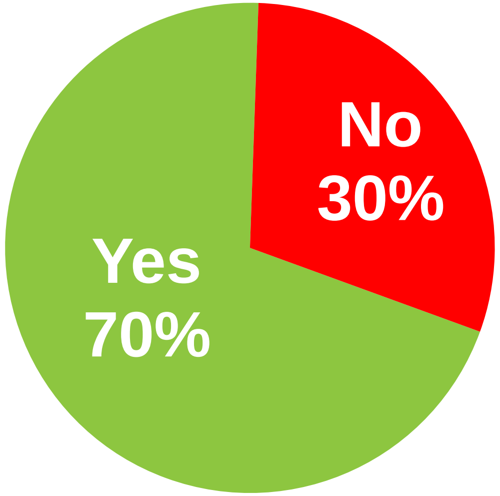
Gross Margin Ranges: PARTNER DELIVERED SERVICES



Source: Detailed Partner P&L Interviews (N-28)

MSPs Delivery Models Favor Partner Managed-Only; Profits Favor Ownership

Plans to grow managed or recurring revenues services



MSP Revenues Mix – by delivery model

RESALE

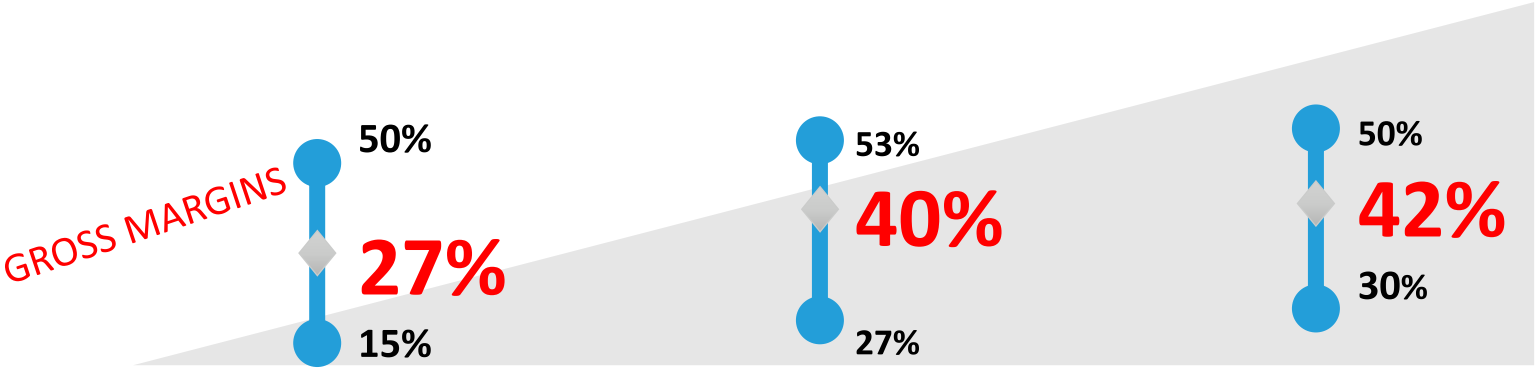
29%
of revenues

PARTNER MANAGED ONLY

41%
of revenues

PARTNER OWNED & MANAGED

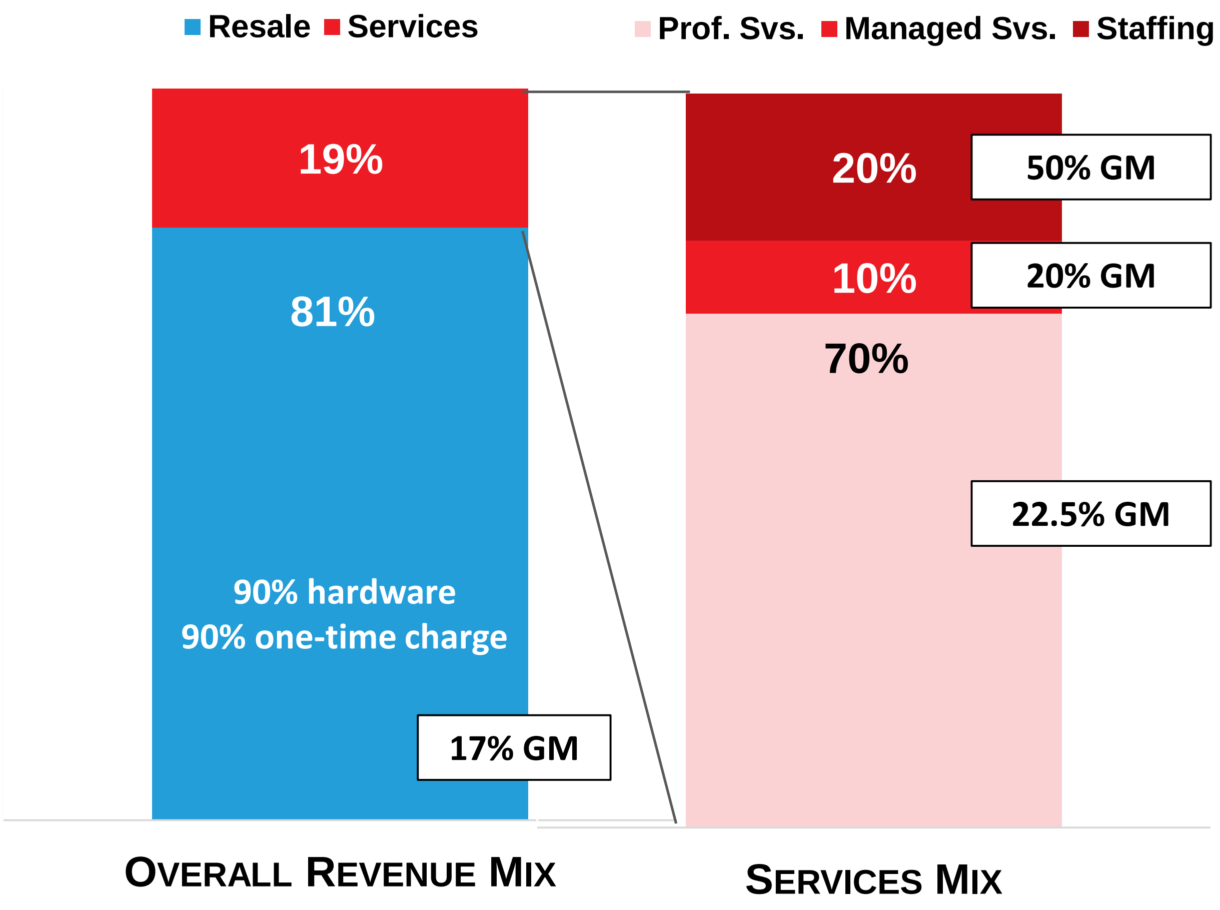
30%
of revenues



*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*

The Profit Model: PRODUCT-LED EXAMPLE

<$300 m topline revenues



Differentiators

- Enterprise storage architectures
- Longstanding relationships with EMC, Dell
- Dedicated call center & staff business

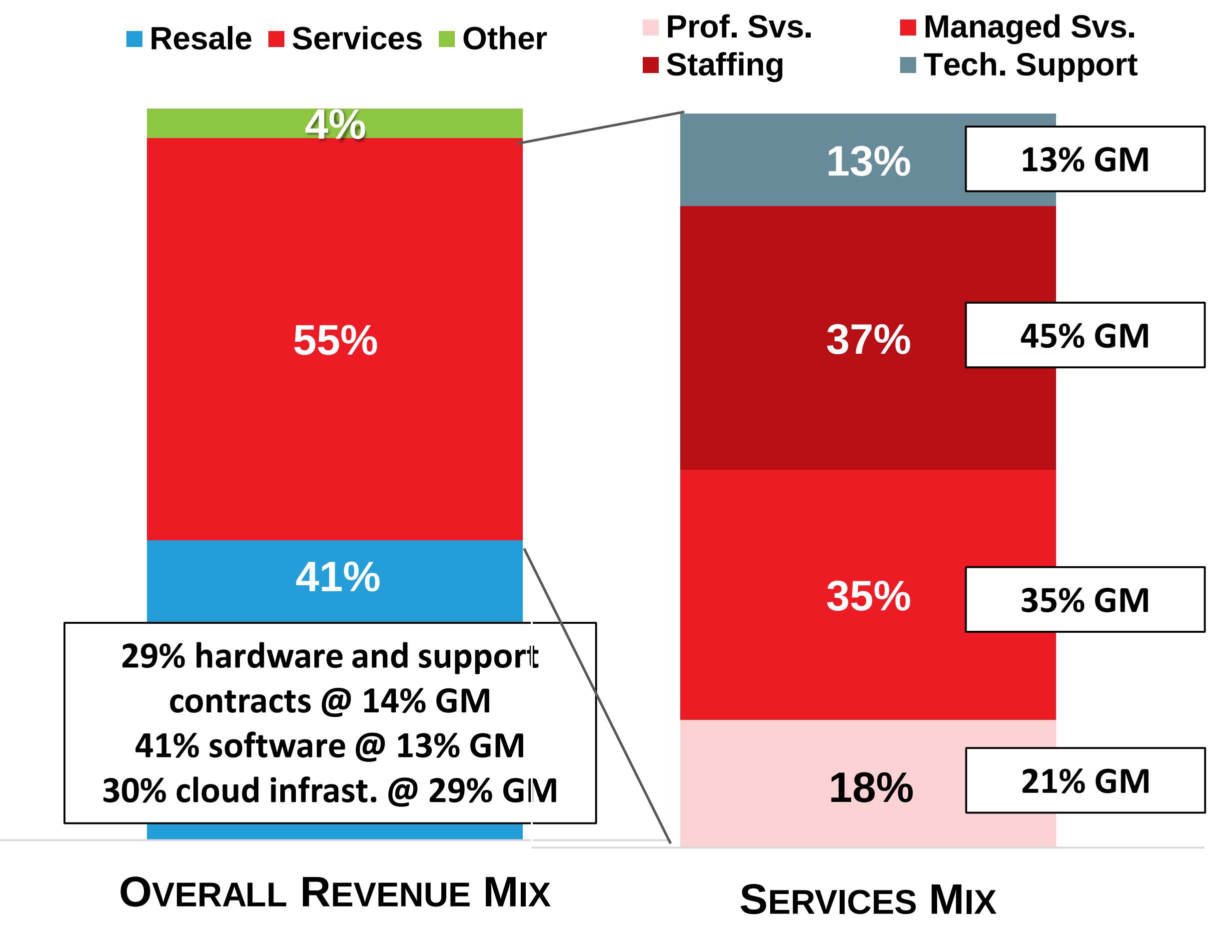
Profit Growth Plans

- Aggressive spending on technical staffing, with cloud skills (35% increase)
- Building out MSP delivery (building own NOC)

Overall GM: 17%
Overall Services GM: 28%
Operating Income: 2.5% - 3%

The Profit Model: BLENDED BUSINESS MODEL EXAMPLE

$12.5 m topline revenues



Differentiators

- Package managed offerings
- Cyber security competency
- IoT / Cloud Platforms – investing for future growth (Azure & AWS)

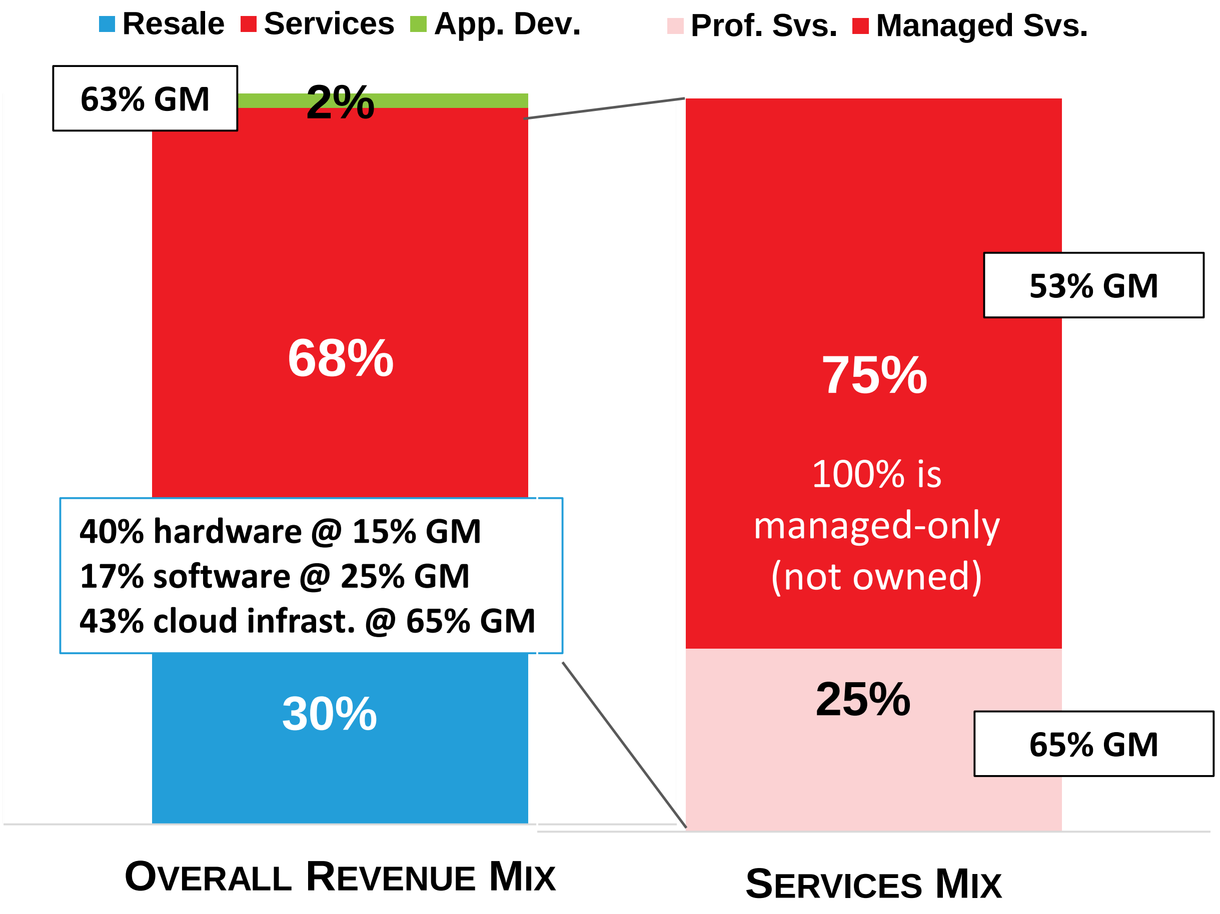
Profit Drivers

- UCaaS conversion – shift from “on-site” services to “at-your-desk” services (telephony roots)
- “Own Managed Services” IP – no longer just reselling
- 3rd Party Advice – using external consultants to benchmark

Overall GM: 30%
Overall Services GM: 34%
Operating Income: 4.5%

The Profit Model: SERVICE-LED EXAMPLE

$260 m topline revenues



Differentiators

- 4 NOC's – 1 for each time zone and 3 datacenters
- Nearly all assets are customer-owned, partner managed

Profit Growth Plans:

- Growth through MSP acquisition
- Expansion of application development capabilities

Overall GM: 46%
Overall Services GM: 50%
Operating Income: 5%

accenture

$42.8 billion topline revenues (12% growth)
35% GM and 15% Operating Income

PRESIDIO®
Future. Built.

	2018	2017	2016
Income Statement - Dollars ($M)			
Revenue	$2,857	$2,817	$2,715
COGS	($2,273)	($2,231)	($2,174)
Gross Profit	$584	$586	$541
SG&A (plus amort/deprec/transaction)	($470)	($478)	($442)
Operating Income	$114	$108	$99
Income Statement - Percentage			
Revenue	100.0%	100.0%	100.0%
COGS	79.6%	79.2%	80.1%
Gross Profit	20.4%	20.8%	19.9%
SG&A (plus amort/deprec/transaction)	16.5%	17.0%	16.3%
Operating Income	4.0%	3.8%	3.6%
Revenue Breakdown			
Product revenue	82%	84%	85%
Service Revenue	18%	16%	15%
Maintenance/Managed Services			
Gross Profit Percentage			
Product Gross Profit	20.6%	20.6%	19.5%
Service Gross Profit	20.1%	21.8%	22.1%

"…97% of our revenue comes from customers that continue to purchase from us year after year and trust us with their most complex projects"

"..Presidio's recurring Managed and Cloud services grew in excess of 30% year over year…"

"…Today, less than 10% of our clients have a managed services contract with us, making this a significant and lucrative opportunity as these clients spend 400% more per year with Presidio than the average client"

BC Partners acquires IT services firm Presidio for $2.1B

BY DUNCAN RILEY

August 14, 2019

Information technology services firm Presidio Inc. is going private two years after its initial public offering as the company's board accepted a $2.1 billion all-cash acquisition offer from private equity firm BC Partners.

Discussion Topics

1 Gross Margins

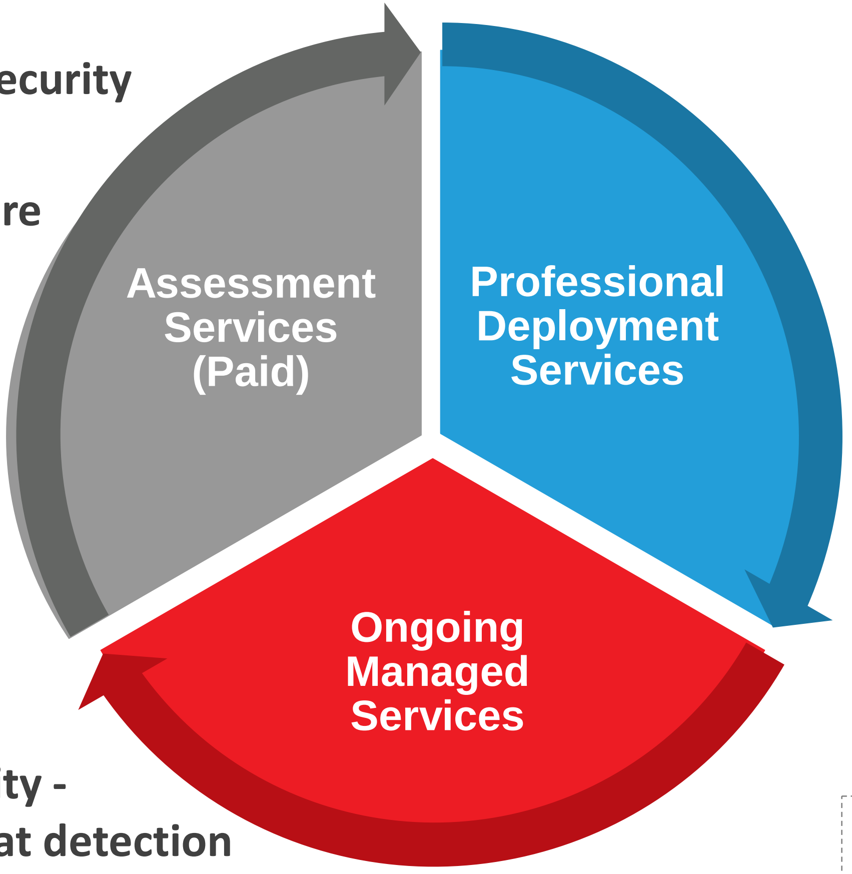
2 **Services Scalability**

3 Investments and SG&A

4 Vendor Support

Top Products/Solutions Drive Higher Margins: 2019 and Beyond

- ✓ Core & Advanced Security Assessments
- ✓ Network architecture



- ✓ Cloud data migration & hybrid cloud deployment
- ✓ Business intelligence/analytics
- ✓ IoT at the Edge

"Our most profitable service is Cloud DevOps, hands down. Cloud migration has become highly commoditized already and automated, requiring less skilled architects. So, there's less margin for us."

- ✓ Ongoing security - advanced threat detection
- ✓ Data protection
- ✓ Disaster recovery/business continuity

"Cybersecurity doesn't suffer from commoditized thinking. Assessments and penetration testing are going well and are paid. It's an entry point for account engagement."

Q: In which of these product or solution categories is your company planning to strategically invest in the next 12-18 months? (n=435)

Building Intellectual Property & Repeatable Assets

Business Process / IT Design

- Design and architecture services
- Business process / vertical expertise
- Financial ROI and modeling

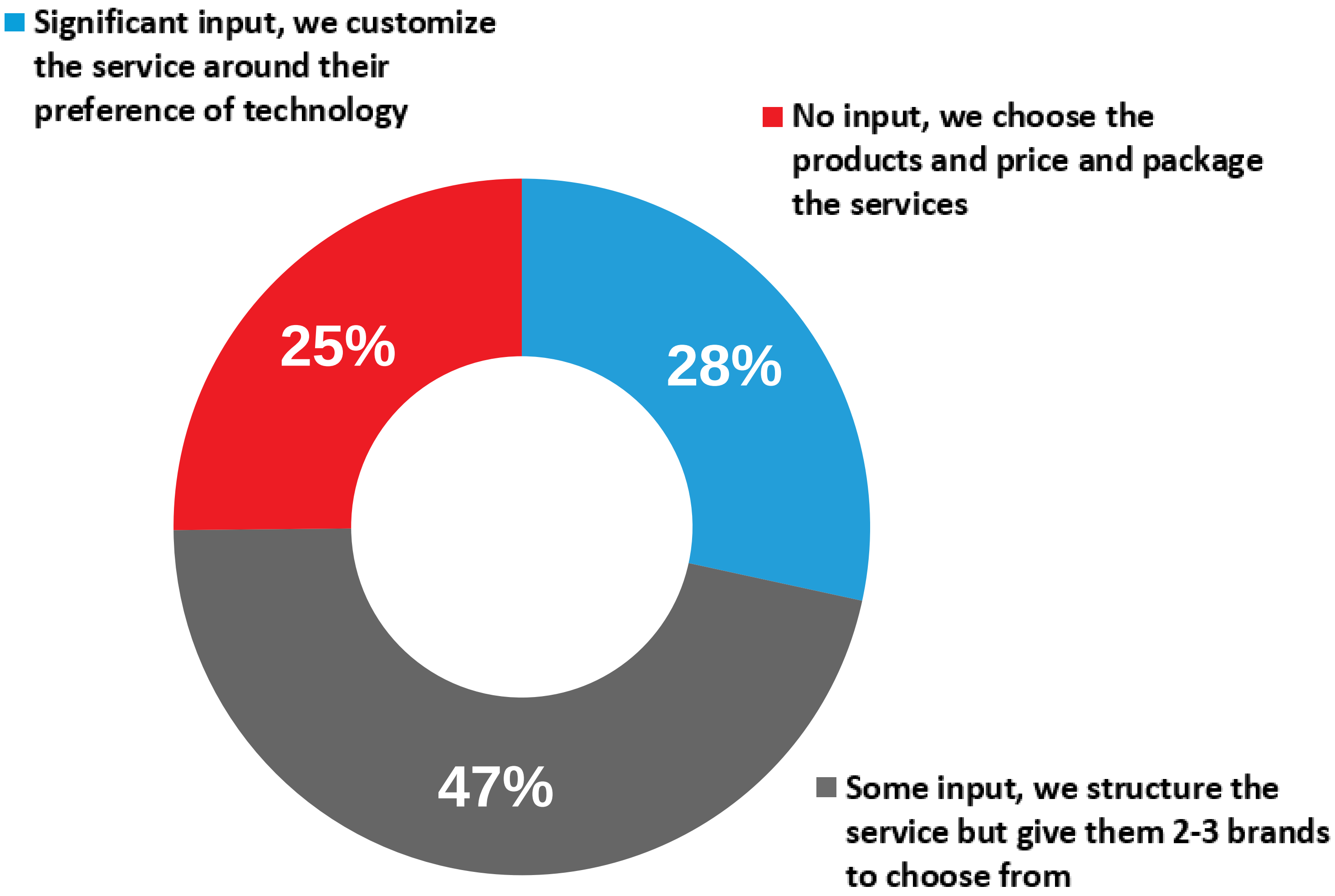
Applications
Middleware

- Custom app. dev.
- Application integration

Database
Virtual Servers
Networking
Storage
Compute
O/S

- Audits and assessments
- Performance and latency testing
- Ongoing predictive management
- Predictive security services – advanced threat protection

Influence Of Customers on MSP's Service Catalog (Products/Services)



- Services-led partners state this is one of the **primary drivers of profitability**
- Partners with a strong service catalog adherence experience **Gross Profit approaching 60%**
- Partners without had GM 35% or less.

Q: How much influence do you allow your customers to have on the way you deliver (the component products you use) your managed services, relative to which IT vendor brands of products are powering them? (n=338)

Automation in the MSP world is becoming table stakes…

> 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."

— Enterprise focused SI with fast-growing MSP practice and AWS relationship

61% **say a single automation view is important or critical**

> …I standardized on ConnectWise. I do not represent products that are not "manageable" via ConnectWise…I have been able to double my gross margins due to automation"

Discussion Topics

1 Gross Margins

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Strategic Investments for 2019 and Beyond

Priority SG&A Spending:
(in priority order)

1. Technical staffing
2. Sales commissions & benefits
3. Training and certifications
4. Services automation tools

Staffing Challenges

- Cost of labor & benefits
- Bench utilization for higher-priced roles
- Retiring work force; training & mentoring millennials
- $$ Cost of compensation packages to drive retention

“ We’re making strategic investment in hard-core cloud technical training. Our goal is to have 100% of our technical staff to have cloud specific technical skills, with a focus on O365 and Azure.”

($600m national VAR/SI/MSP)

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

Another Less Obvious Consideration: Corporate Financial Strategy

Keeping it in the Family

- Transactional, VAR-oriented
- Maximizing close-to-the-box margins but no long-term investment in assets/IP
- Self-funding the business
- Most concerned with cash flow
- **Plan to hand the business down, not sell it**

Managing for Growth & Differentiation

- Focus is a services-led business model
- Growing faster than the market
- Strategic focus on building recurring revenues
- Have a conscious teaming model with complementary SPs
- Building both short and long-term IP / assets
- **Actively soliciting private funding or M&A activity**

Managing To Sell

- Blended product & services revenue
- Building technical specialization, industry expertise or IP
- Keeping debt to a minimum & maximizing cash flow
- **Plan to sell the business to a third-party, with greater scale and assets; maximizing buy-out valuation**

Discussion Topics

1 Gross Margins

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4 **Vendor Support**

Vendor Impact on Partner Profitability

" I don't want to run the business based on vendor incentives, because those will go away."

— $600m National VAR/SI/MSP

" Enable us for services delivery. Get us up to speed. We're just as good as the vendors."

— $60m Services-led SI/MSP

Expenses with Vendor Cost Offset or Reimbursement

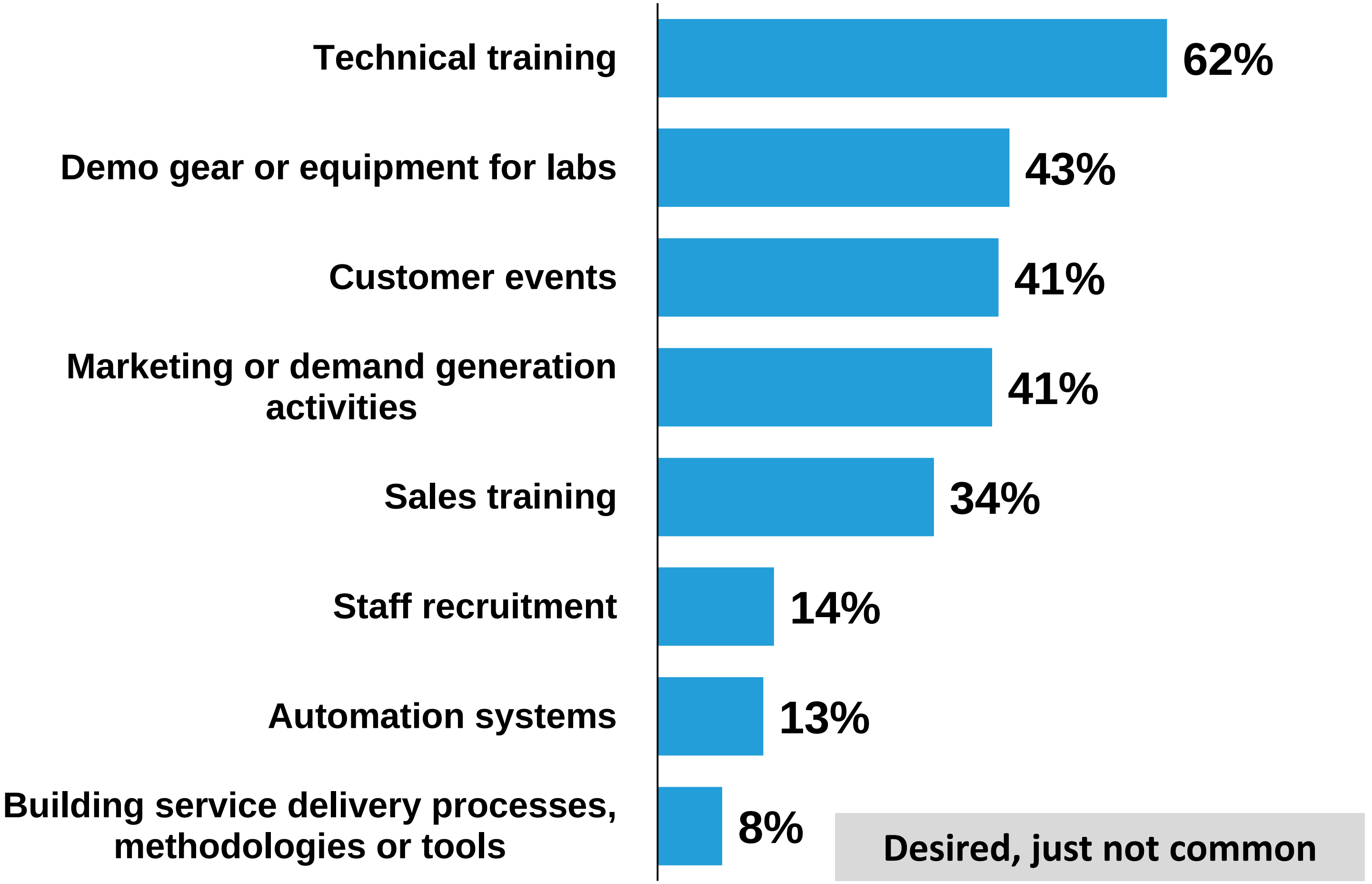
The cost of complexity?

" We are in 31 different partner programs with (vendor). **I expect their ecosystem to get more complex before it simplifies.**"

— Service-led Cloud Solution Provider

" Their Deal Reg. is so complex that they do it FOR me. **I absolutely dread registering deals with them.**"

— $4m Blended Partner



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

What’s Working and What’s Not?

Profitability Awareness

Profitability Detractors

1. Complexity -- pricing, programs, funding, training
2. Vendor direct sales – channel conflict, esp. in large account co-selling
3. Unpredictable vendor incentive programs
4. Costly technical certifications & specializations
5. Excessive non-standard pricing
6. Publishing price lists on corporate web sites

Profitability Accelerators

1. Effective sales teaming
2. Professional Services delivery enablement & IP sharing
3. Subscription & consumption-based pricing
4. Peer benchmarking for pricing, packaging, service catalog development
5. Flexible MDF and BDF funds to fund asset creation
6. API integration to service management tools
7. Marketing execution and training assistance

Key Takeaways

1

Move Beyond the Transactional

2

Shift Enablement to Building Services Delivery IP

3

Get Creative on Cost Savings & Reinvestment Models

CREATE ONGOING INTERNAL AWARENESS

- ✓ Partner-led services delivery dynamics
- ✓ Holistic profitability (gross margins, costs, net income)
- ✓ Vendor as ingredient of a services, not as the final product

Research
- Market Intelligence
- Trending Data
- Vendor Imperatives

Insights
- Expert Perspectives
- Proven Practices
- Operational Guidance

Channelytics®

Tool Sets
- Frameworks & Guides
- Playbooks & Templates
- Channel Primers

Advisory
- Research Readouts
- Inquiry Appointments
- Executive Briefings

Partner Databases
CRN
- SP500
- MSP500
- + More Lists & Awards

Actionable Intelligence to Maximize 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

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