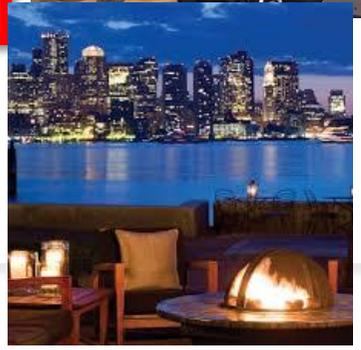


Welcome Channel Masters June 2019 Class!



The State of VAR Profitability

Research Review and Discussion

Continuing Education for IPED Channel Masters

Mark Williams



Over 25 years of operational experience helping large and small companies generate greater revenue through direct and indirect channels.

- Unique experience of leading teams on the sales as well as strategic marketing side of organizations. Throughout his career, Mark has been responsible for developing channel strategies, defining channel programs as well as leading sales teams to drive revenue.
- He has been one of the lead channel consultants for the IPED Consulting team for the past 10 years and currently leads The Channel Company's IoT Advisory Board.
- Prior to joining IPED Consulting, Mark held executive leadership positions in sales, marketing and operations with IBM, Vignette, and BakBone software.
- Mark earned a BA in Computer Science from The University of Texas at Austin and spent his early career as a software developer and development project manager.

IPED Consulting

 **BakBone**

 **VIGNETTE**

IBM

Beth Vanni



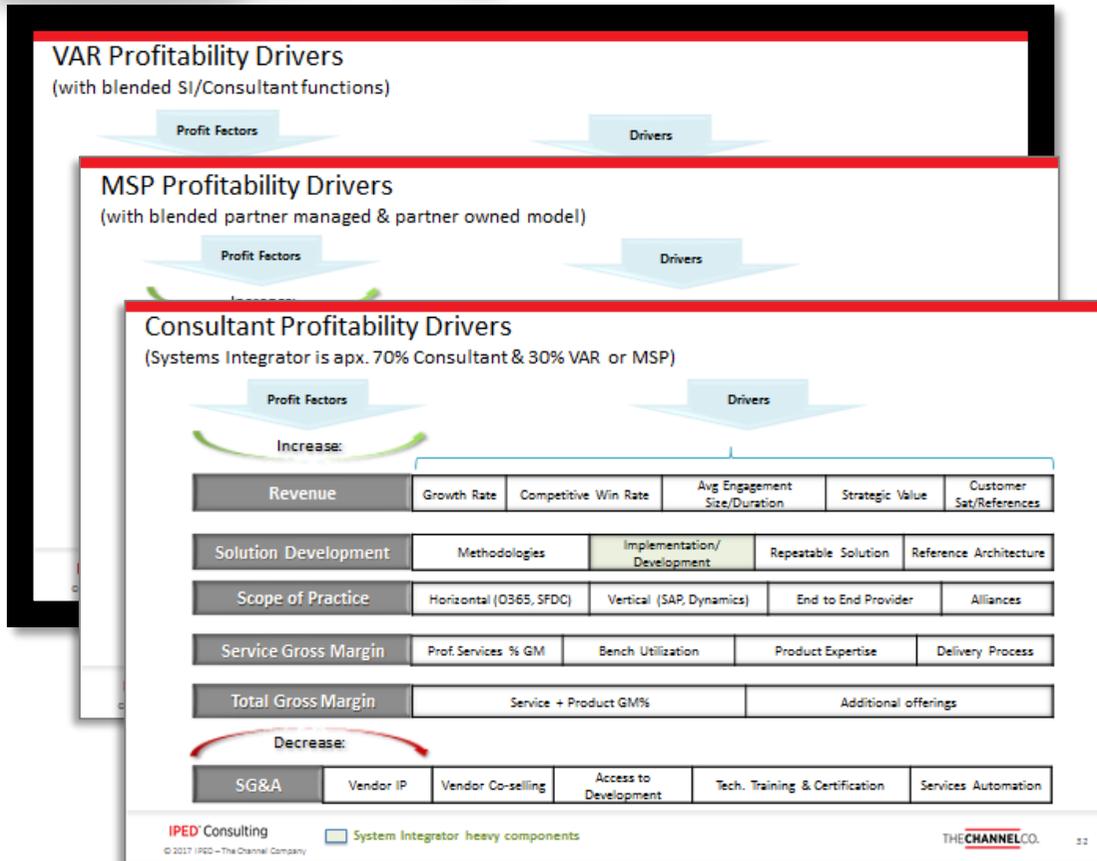
Over 30 years of experience in technology channel strategy, sales, marketing and operations

- For the majority of her career, Beth has had a specialty focus on partnering economics, service delivery engagement models and field sales operational plans
 - 11+ years working at sr. management levels in commercial distribution (Merisel, Ingram Micro)
 - Started and ran Sun (MOCA) enterprise products division of Merisel (now Arrow Electronics)
 - Director of SMB Commercial Market Development – Cisco Systems
 - Sr. Director of Partner Strategy and Operations – BEA Systems
 - Vice President, Research and Consulting – PartnerPath
- Beth brings together a unique blend of skills and experience. With a combination of IT vendor, distributor and research/consulting experience, her insights are not just headquarters-based and theoretical, but grounded in practical application, operational efficiency and field experience.
- Beth is an industry-recognized speaker, analyst and BLOG'er, having written hundreds of pages of channel research in various publications throughout the years.



Three pure-play models from which you can have a granular view of profitability and benchmark your program

Partner Profitability



Vendor Support Needs

Lever of Partner Profitability: VAR

Partner P&L Levers	Type	Vendor Tools / Resources
	Increase Revenue	Stronger sales tools 23%

Lever of Partner Profitability: MSP

Partner P&L Levers	Type	Vendor Tools / Resources
	Increase Revenue	Offer utility based or consumption based pricing 53%
	Decrease SG&A	More marketing visibility as part of vendors MSP partner ecosystem 38%

Lever of Partner Profitability: Consultant/Systems Integrator

Partner P&L Levers	Type	Vendor Tools / Resources
SOLUTION DEVELOPMENT		
Intellectual Property	Increase REVENUE	More IP to help us Architect Next-Generation Services 34%
DELIVERY EFFICIENCY		
Service Delivery Tools	Decrease COGS	Better Access to Service Delivery Tools, Best Practices (Architectures, SOWs, Integration Guides) 30%
STAFFING		
Resources and Development	Decrease SG&A	Easier Access to Field SEs for Joint Engagement 43%
	Decrease COGS	Field Mentoring for Consultants 35%
	Increase REVENUE	Access to Field Salespeople for Joint Engagements 26%
Sales Process Program	Decrease COGS	Help us Get Access to Certified Technical Talent to Expand our Bench 29%
	Decrease COGS	Better Access to Demo Gear 22%
COST OF SALES		
Sales Process	Decrease SG&A	Sales Influence Fees to Reward Co-selling 26%
Program	Decrease SG&A	Reduce/Eliminate Channel/Alliance Program Fees 47%

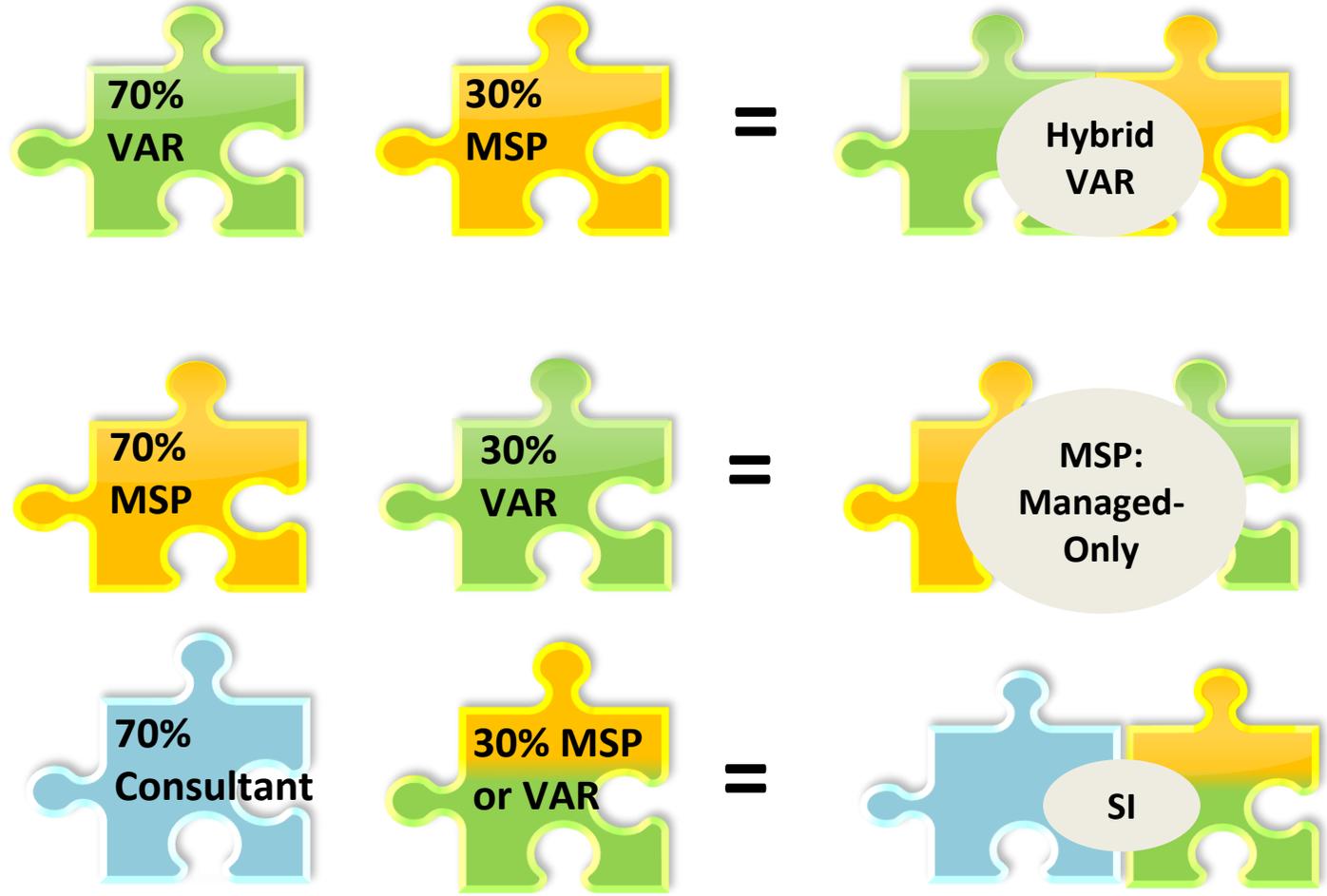
REVENUE
C.O.G.S.
SG&A

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Why role-based programs matter: hybrid business models

How to Use These Models:

- Dissect your ideal partner profile
- VAR, MSP and Consultant models are the 3 pureplay roles
- Factor in the correct percentage of the 3 pure models to achieve the hybrid mix of your ideal partner profile
- Then benchmark partner needs to your program



- Illustrative -

-  **Strategic Backdrop for Profitability**
-  **Dissecting VAR Profit and Expenses**
-  **Refining the Value Proposition Around Profitability**

Start with your relative position

Strategic

We are generating a significant amount of revenue with these technology suppliers and are highly involved with them at the sales, marketing and technical levels

Tactical

We generate a significant amount of revenue with these technology suppliers, but product alternatives exist and we are not strategically invested in these lines

Opportunistic

We infrequently buy small amount of products from these technology suppliers, and re-actively based on our customers' demands



The impact of profitability: then and now

S U C C E S S

THEN – “Profitable”

- Gross margins
- New customers
- Professional Services growth
- Solvency

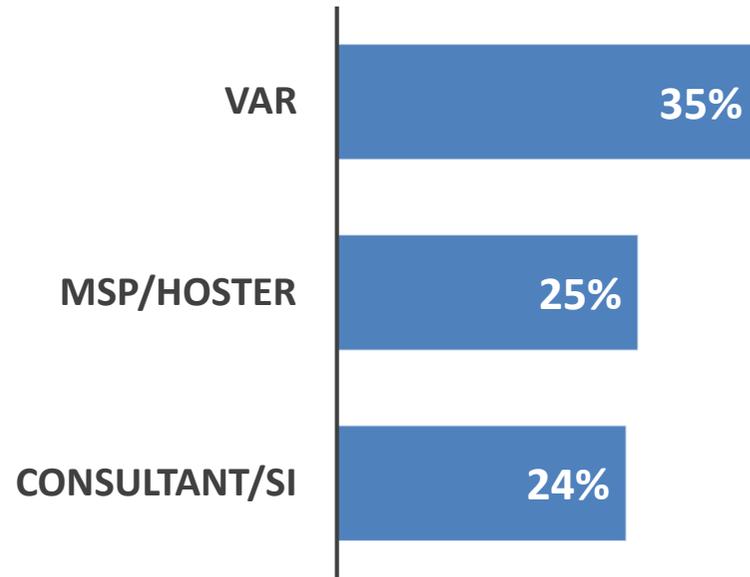


NOW – “Valuable”

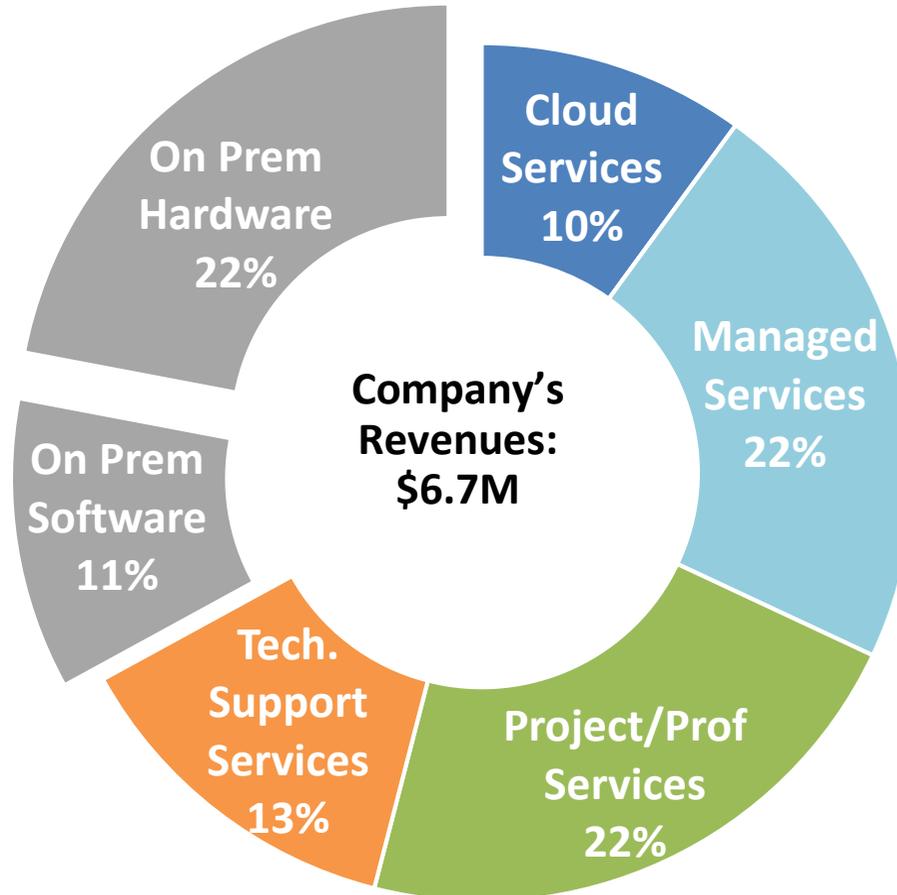
- Intellectual property
- Monthly recurring revenues
- Customer retention and expansion rates
- Vertical insights and LOB relationships
- Services diversity

Respondents are hybrid VARs and MSP/Consultants leading with professional and managed services, then on-premise hardware

Primary Business Models



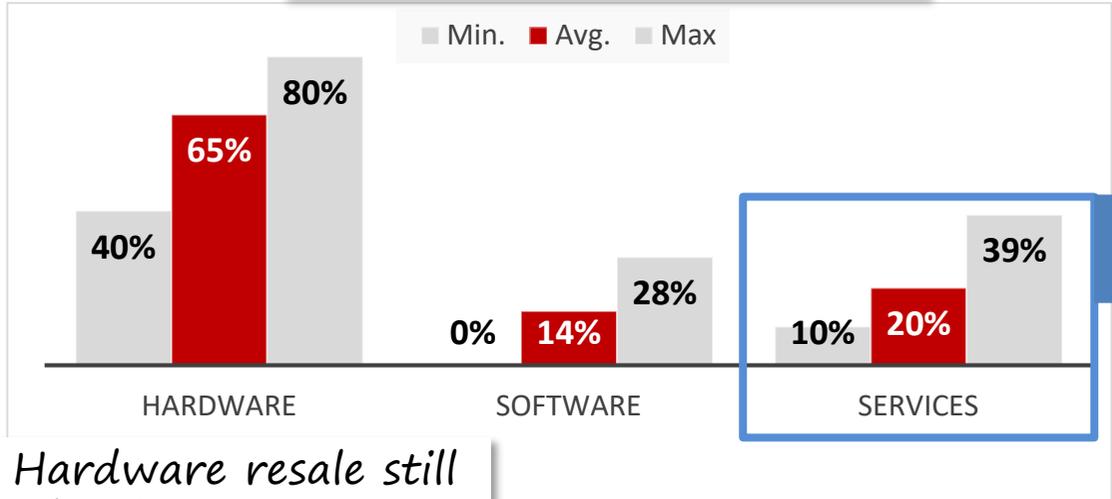
Revenue



- Don't get too hung up on the numbers. We are refreshing this data right now.
- The focus of this session is on how these partners make money
- The next session will show the MSP model and how that is different

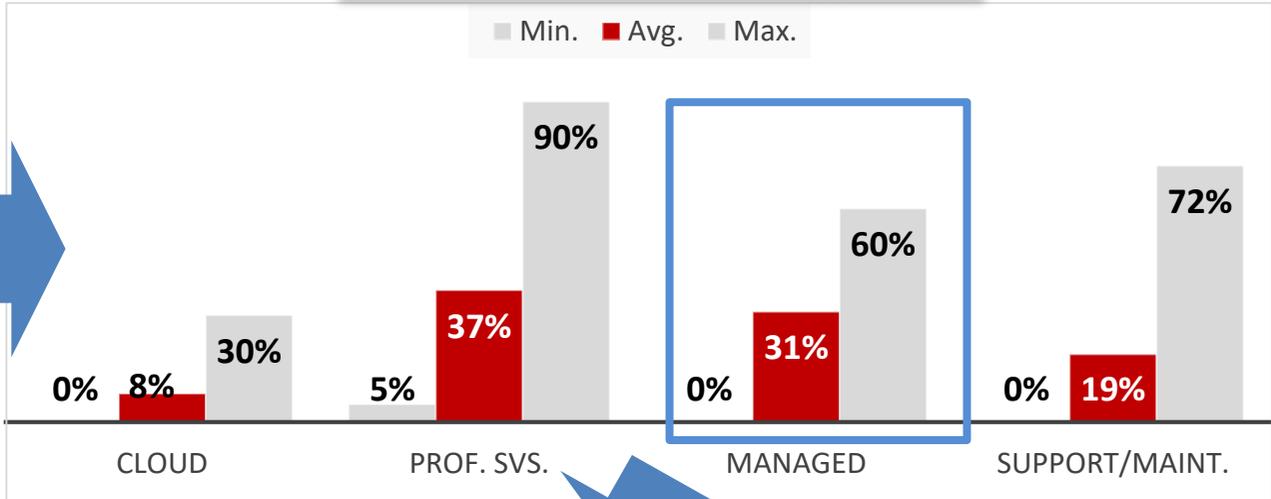
Revenue Mix: VARs

MIX OF TOTAL REVENUES



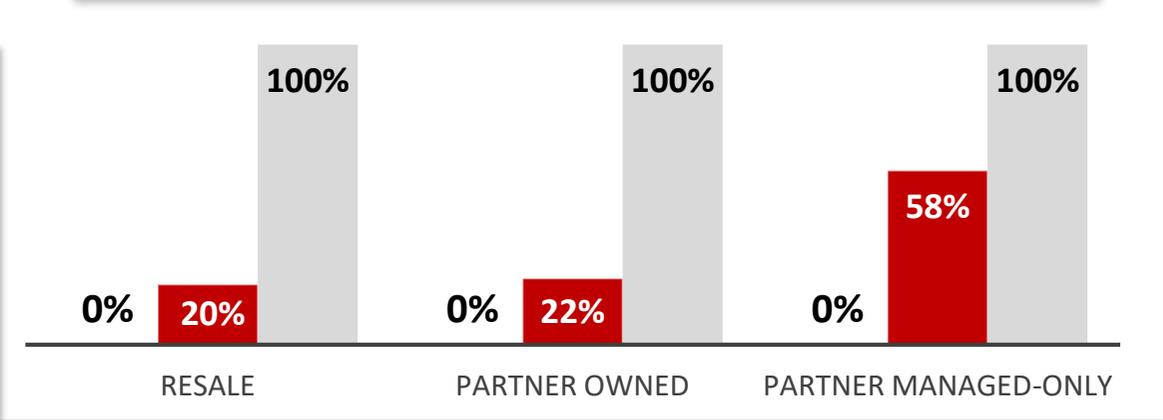
Hardware resale still dominate revenues

SERVICES MIX - % of REVENUE



Professional services remains leading services element, with managed services close behind

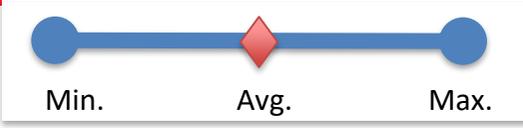
MANAGED SERVICES REVENUE by DELIVERY TYPE



Reselling managed services alone yields insufficient margins.

VARs don't frequently own hosting infrastructure

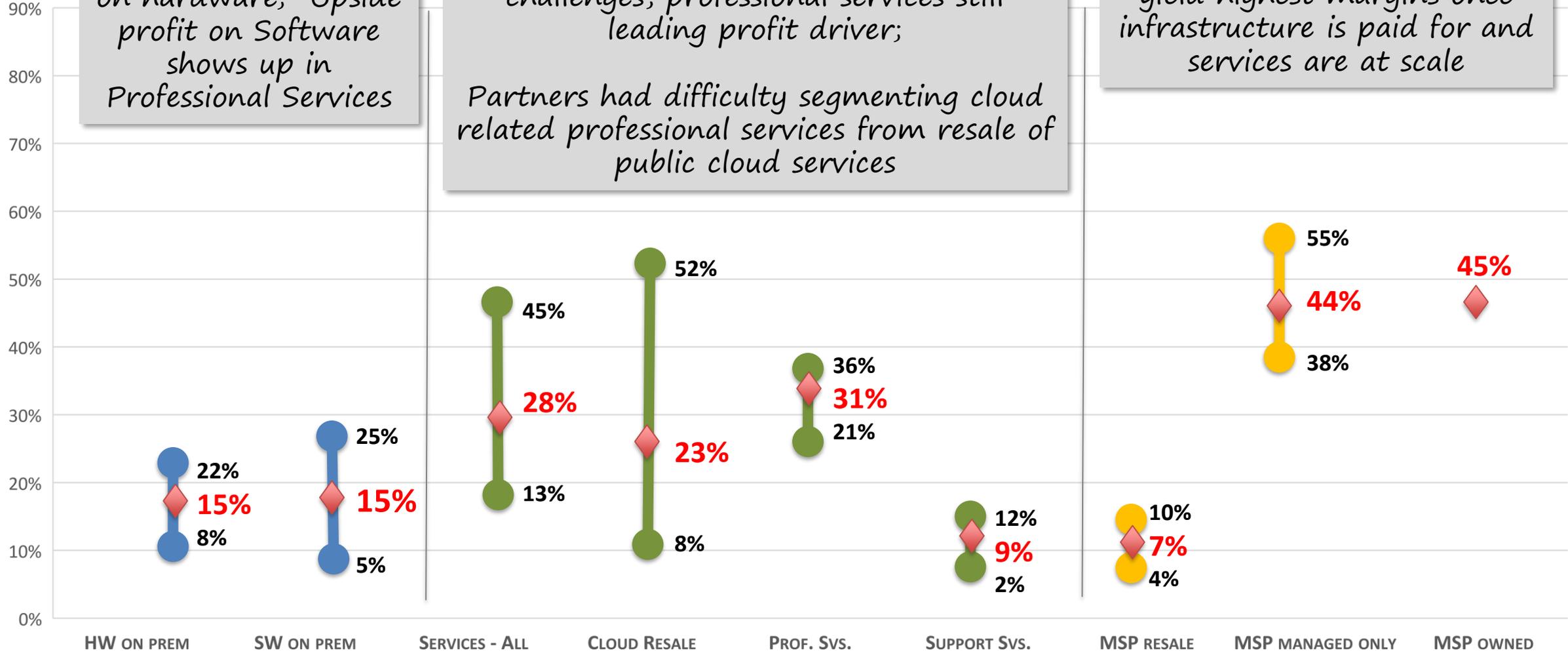
Gross Margin Ranges: VARs



Wide range of profits on hardware; Upside profit on Software shows up in Professional Services

Despite scalability and utilization challenges, professional services still leading profit driver; Partners had difficulty segmenting cloud related professional services from resale of public cloud services

MSP owned services only yield highest margins once infrastructure is paid for and services are at scale



MSP portion of VAR business is focused largely on Partner-Managed Services

MSP

“Our revenue mix used to be 25% recurring and 75% project services mix; but it’s got to be at least 30% plus recurring. This allows me to cover costs with recurring revenues.”

% of MRR revenues

21%

Resale

- Resold another supplier or service providers’ managed services

25% GM 

61%

Partner Managed-Only

- Partner manages customer’s asset (*on customer premise, at someone else’s datacenter or on a public cloud*)

50% GM 

18%

Partner Owned

- Offered your own hosting services on your own data center and managed for a customer

50-60% GM 

Q: Thinking specifically about your Managed Services business, what % of your total managed services revenue came from each of the following types of services? (n=207)

VAR: Top Revenue Producing Product Categories



Takeaways:

- Client security software overtakes client hardware devices - common segue to building out an MSP practice
- PCs and client devices still a staple of many solutions, but VARs continue to see margin pressure on volume hardware
- Flash technologies have bolstered sales momentum around NAS storage solutions
- Many VARs have refocused their efforts on server virtualization

Top 5

		<u>GM Trend</u>
1.	 Client security software (firewall, anti-SPAM, anti-virus)	
2.	 PC's/Notebooks/Mobile Computers	
3.	 Enterprise Networking Infrastructure	
4.	 Enterprise Network Storage	
5.	 Mid-Range Servers	

VAR: Top Gross Margin Producing Product Categories

Est. GM%

Top 5

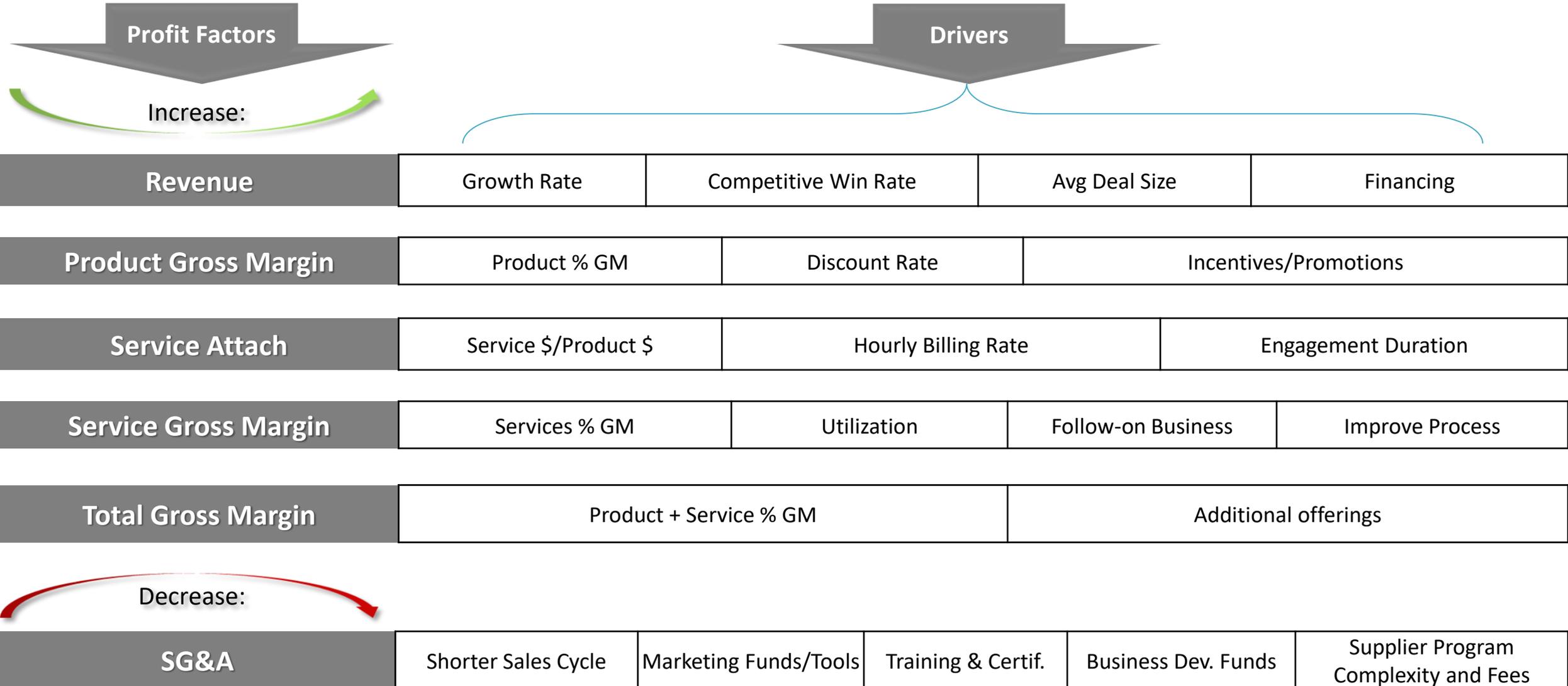
1.		Business Analytics	30%
2.		Client Security Software	22%
3.		Collaboration Software	22%
4.		Network Security Appliances	22%
5.		Converged Infrastructure Systems	21%



Takeaways:

- Business analytic solutions carry the highest gross margins; on par with professional services margins
- Highest margin product categories all in software group
- Volume compute devices carry the lowest gross margins

VAR Profitability Drivers



VAR Profitability Drivers: Key Trends

Increase:

Revenue

- **Revenue volume up, margins down, overall profitability healthy but not keeping up with financial growth**
- More qualified pre-sales staff and consultants result in better services scoping = higher profits

Product Gross Margin

- **Continued margin pressure on volume hardware**
- Highest gross margin product categories are analytics, security, collaboration SW and networking appliances
- Product with fastest declining gross margins are PCs/notebooks, volume servers and processors

Service Attach

- **Professional Services increasingly priced as stand-alone for pre-sales design/assessment; resale must be bundled with professional services to make meaningful profit**
- Despite staffing challenges, Residency Services is a common offering; trying to evolve to a managed service

Service Gross Margin

- **Cloud (public) resale margins alone insufficient to sustain practice; must broker, add professional services**
- With large professional services deals margins are down due to the number of people required to staff the deal

Decrease:

SG&A

- **Services bench utilization still plays large role in realizing services profitability; vendor IP sharing & mentoring can ease this cost burden**
- Cost of facilities remains significant factor, esp. as expanding sales staff and considering DC build-out
- Tighter MDF usage rules are increasing staffing expense; non-MDF opex investment remains low

Levers Of Partner Profitability – VARs: Vendor Support Requirements

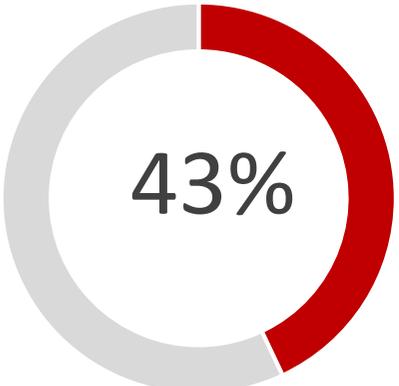
REVENUE

C.O.G.S.

SG&A

Partner P&L Levers	Type	Vendor Tools / Resources
Sales Velocity	Increase Revenue	Stronger sales tools 23%
	Increase Revenue	Ability to sell renewals of support contracts 22%
	Increase Revenue	Extended financing for our customers 18%
Buying Power	Decrease COGS	Ways to earn higher discounts on resale 34%
	Decrease COGS	More lucrative front-end incentives for deal registrations 75%
	Decrease COGS	More lucrative performance based back-end rebates 19%
Service Delivery Capabilities	Decrease SG&A	More IP to help us build next generation services 13%
	Decrease SG&A	Field based co-selling resources 7%
Vendor Enablement and Transaction Support (Program)	Decrease SG&A	Make training and certification more affordable 56%
	Decrease SG&A	Reduce/Eliminate Channel/Alliance Program Fees 45%
	Decrease SG&A	<ul style="list-style-type: none"> Automate more of the core channel processes 26% Make programs less complex & time-consuming to administer 23% Make quoting, pricing and transactional process less complex 23%
	Decrease SG&A	<ul style="list-style-type: none"> Make marketing funds easier to get access to 20%

All major SG&A expenses up



Say **longer selling cycles** have increased their selling costs most

- Different decision makers
- Unpredictable customer demand

All 11 Major SG&A Expense Lines INCREASED
(71 – 92% response)

**Top 4
Greatest
Changes**

- 1** Technical staff
- 2** Sales staffing

- 3** Business offices
- 4** Back-office staff



Solution providers feel only ½ of vendor CAMs understand their profitability



15% say

CAM's **fully understand** all the elements of profits and costs



29% say

CAM's **understand most of** the margin and cost factors



21% say

Say CAM's understanding is **limited to transactional gross margins**



19% say

Say CAM's 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)

VAR Profitability:



Key Vendor Takeaways

Know your “Traditional” VARs and understand the impact to regional coverage if they don’t evolve

Reselling *enables growth* in other core solution provider functions; growth of managed and professional services

VARs with local *vertical specialties* will continue to be more profitable and are first-movers for building cloud and MSP capabilities beyond resale

Software platform, analytics or app. dev. skills are critical for VARs to cultivate to differentiate and boost profits

Complexity = cost; VARs have the least buffer to net margins when programs impact SG&A expense (e.g., FE margin incentives)

To ease investment hurdle on building managed services and/or doing more marketing, vendor licensing and MDF process complexity must change

Refining the value proposition around profitability



1. Map your *target partner profile* to hybrid business model & profitability drivers
2. Understand the *complete channel economic picture* for your products
3. Tailor your *value proposition* to speak to profitability impact first
4. Continue to *evolve your partner managers* into business managers, with a keen sense of profit & cost drivers

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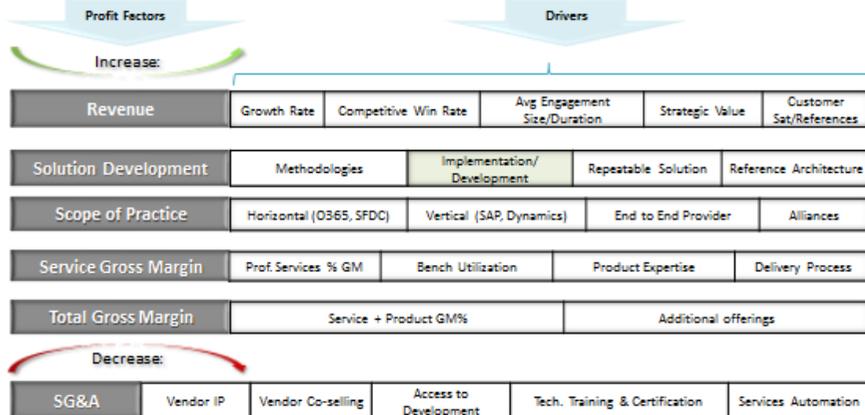
Up Next:
MSP Profitability Webinar
TUESDAY – JULY 16
2pm EST / 11am PST

Vendor Support Needs

VAR Profitability Drivers (with blended SI/Consultant functions)

MSP Profitability Drivers (with blended partner managed & partner owned model)

Consultant Profitability Drivers (Systems Integrator is apx. 70% Consultant & 30% VAR or MSP)



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Lever of Partner Profitability: VAR

Partner P&L Levers	Type	Vendor Tools / Resources
Increase Revenue		Streamline sales tools 22%

Lever of Partner Profitability: MSP

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Thank You



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