ChannelMasters®

Kickoff Workshop
Prerequisite Module 2 of 2

Channel Census and Trends

IPED® Consulting

THECHANNELCO.™

Mark Williams

Over 20 years of operational experience helping large and small companies generate greater revenue through direct and indirect channels.

Mark Williams has the 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.

- Before his involvement with IPED, Mark was Vice President of Americas Sales at BakBone Software responsible for all revenue from the Americas.
- Prior to BakBone, Mark was Vice President of Global Field Operations and Vice President of Marketing at Vignette responsible for developing direct and indirect channel sales strategies, programs and operational management across all major geographies plus management of corporate, field and partner marketing.
- Mark also spent 11 years at IBM where he was the Director of Partner Marketing responsible for managing the global go- to-market strategies for all software brands which included developing channel readiness, partner recruitment, partner enablement, and channel marketing programs.
- 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.

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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

- **435** completed responses
- Data represents full-year 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%

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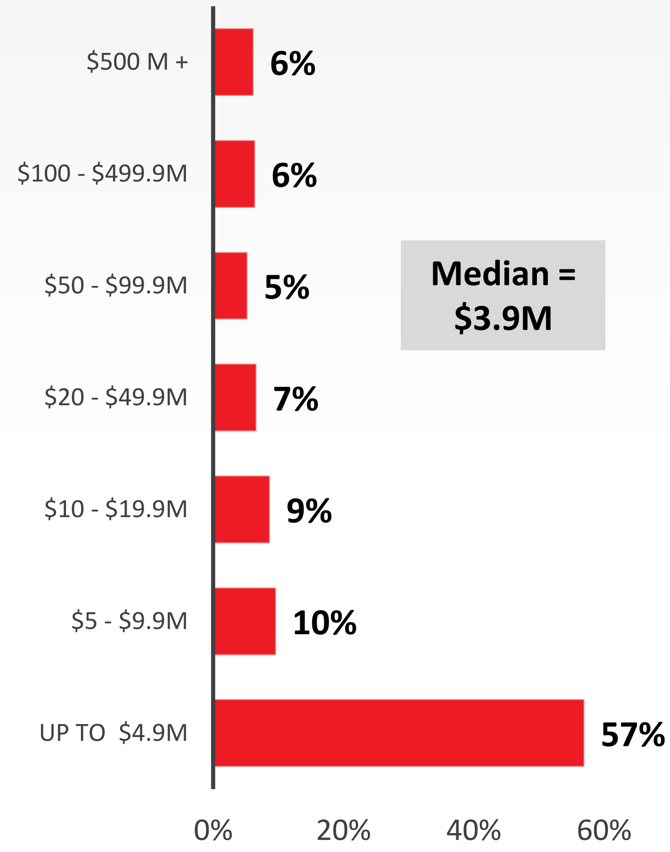
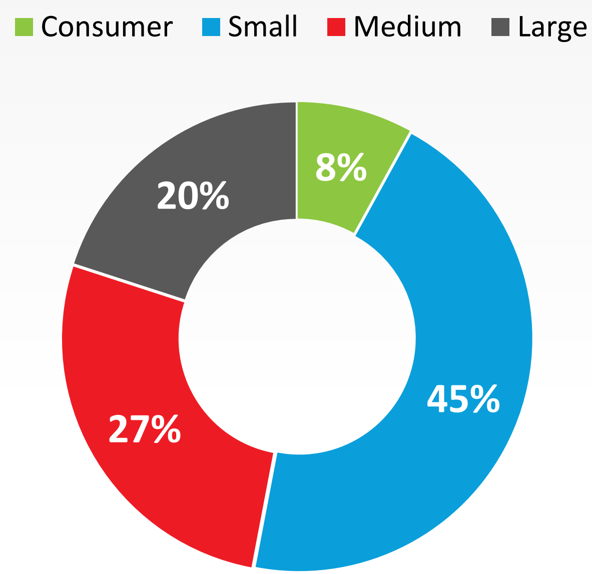
The Average Respondent is a $4m MSP/VAR/Consultant Who Addresses SMB Customers

2018 Annual Revenues



Median = $3.9M

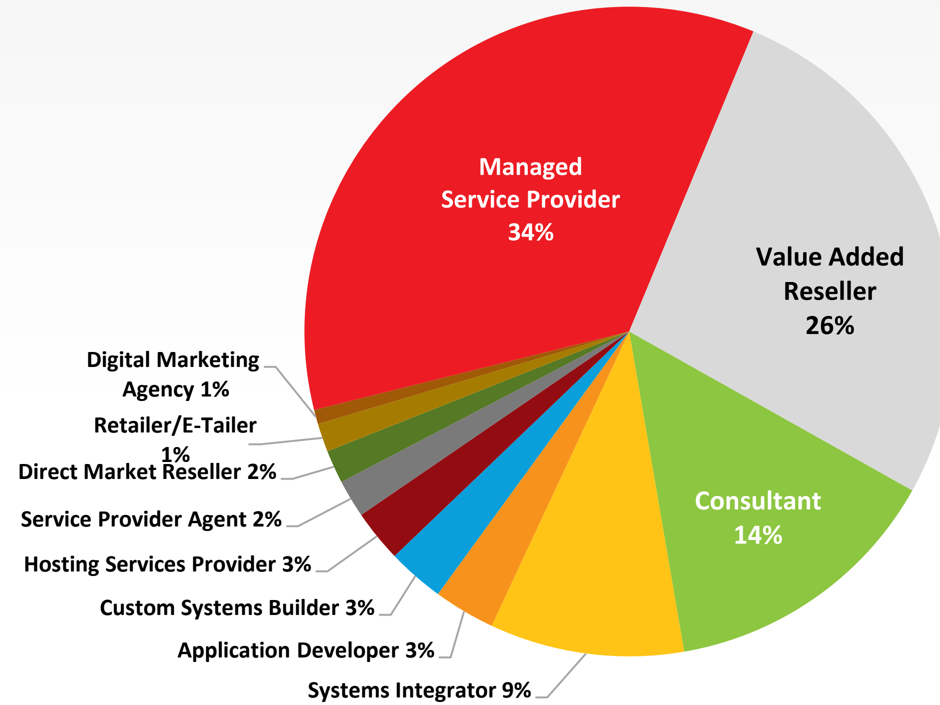
Sales by Customer Type - All



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)

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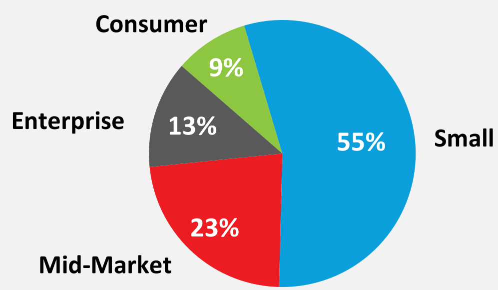
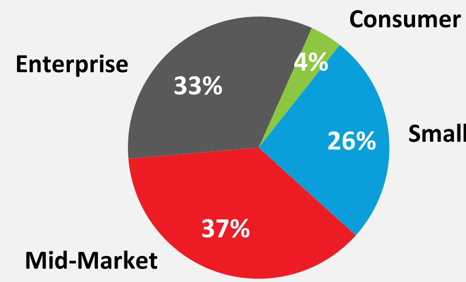
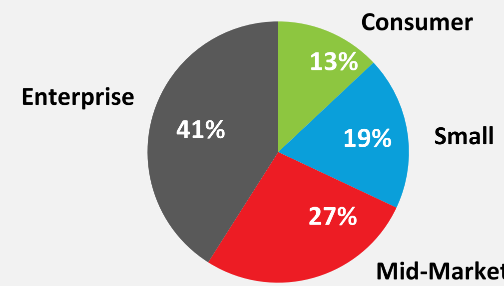
Overall Solution Provider Segmentation: Size is not a proxy for value in a services-led ecosystem

	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 Total N. American Solution Providers	**67%**	**27%**	**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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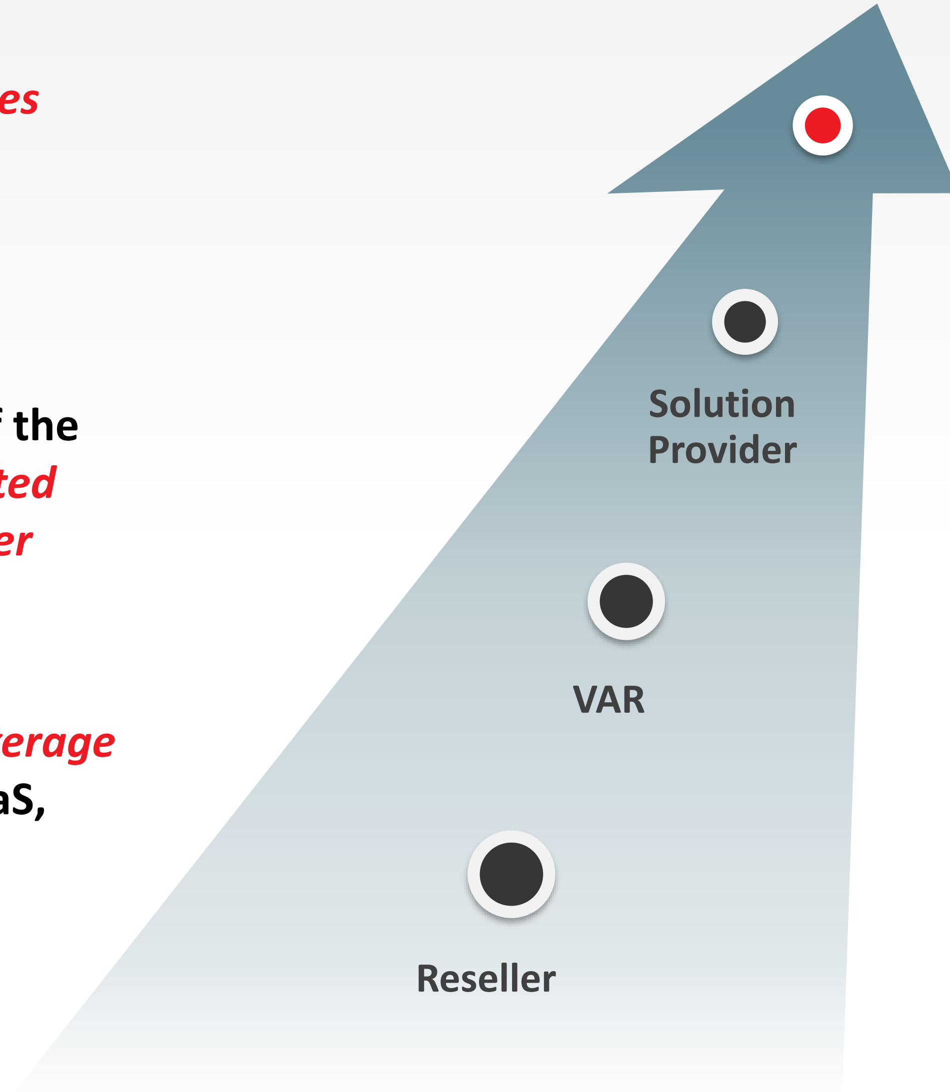
The "Solution Provider" Evolves: "Strategic Service Provider"

#1 Represents the ***aspirational capabilities*** **of partners 3 - 5 years into the future**

#2 **Captures the ability of the partner to be the *trusted advisor to the customer***

#3 **Represents *cloud brokerage* capabilities around IaaS, PaaS, SaaS, and other managed services**



Strategic Service Provider

The term does not replace ISV, DMR, Consultant, SI or other business models. It is targeted at the ***VAR heritage solution provider.***

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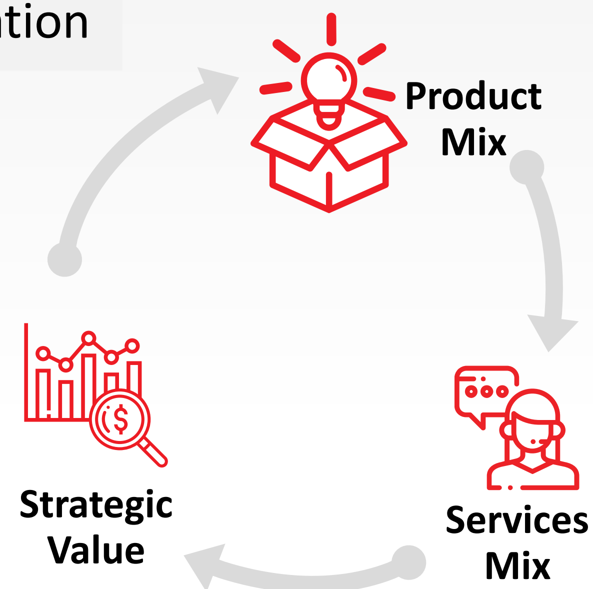
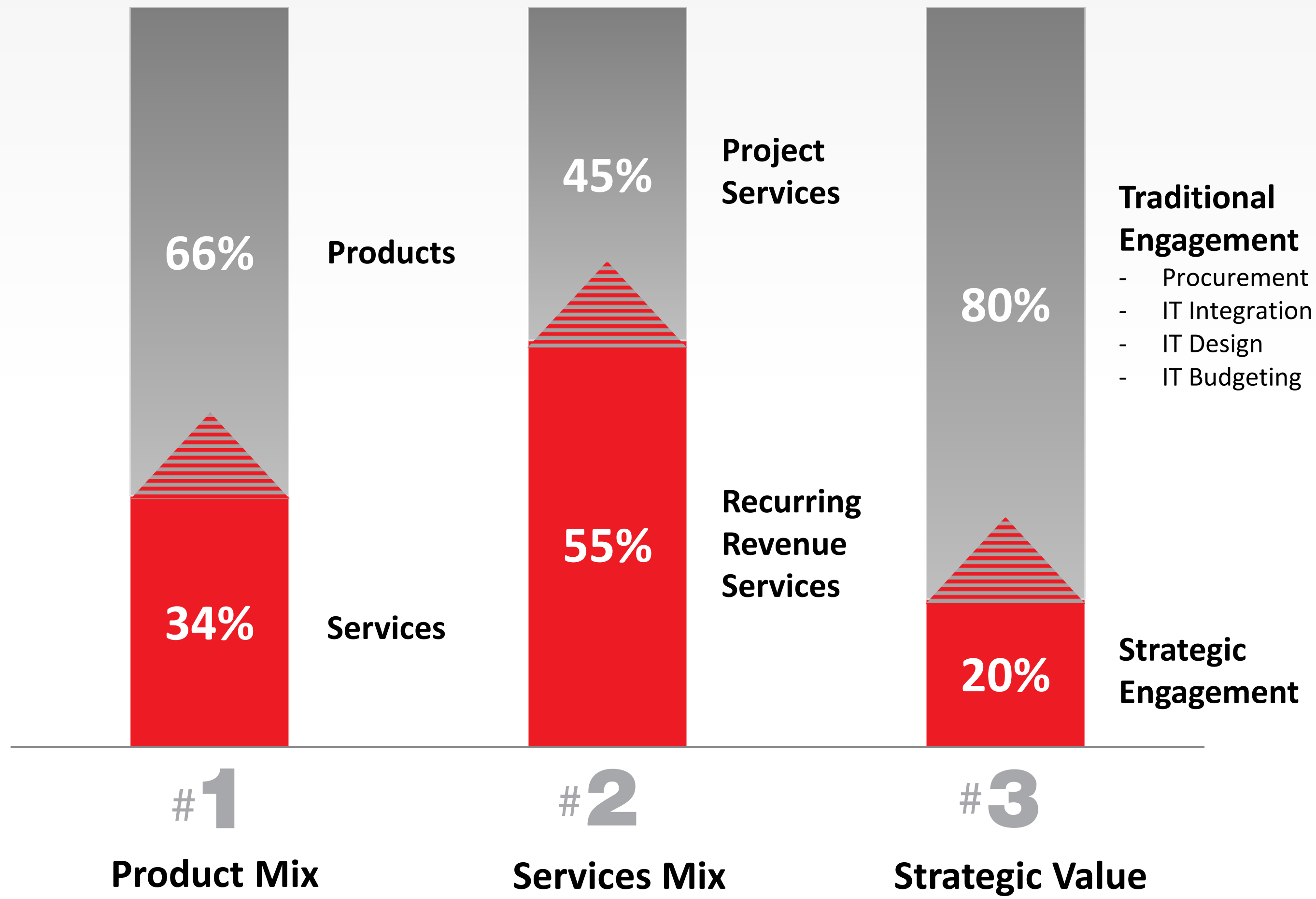
The “Solution Provider” Evolves: “Strategic Service Provider”

~20%
of total
population



Strategic Service Provider Profile



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Four Biggest Research 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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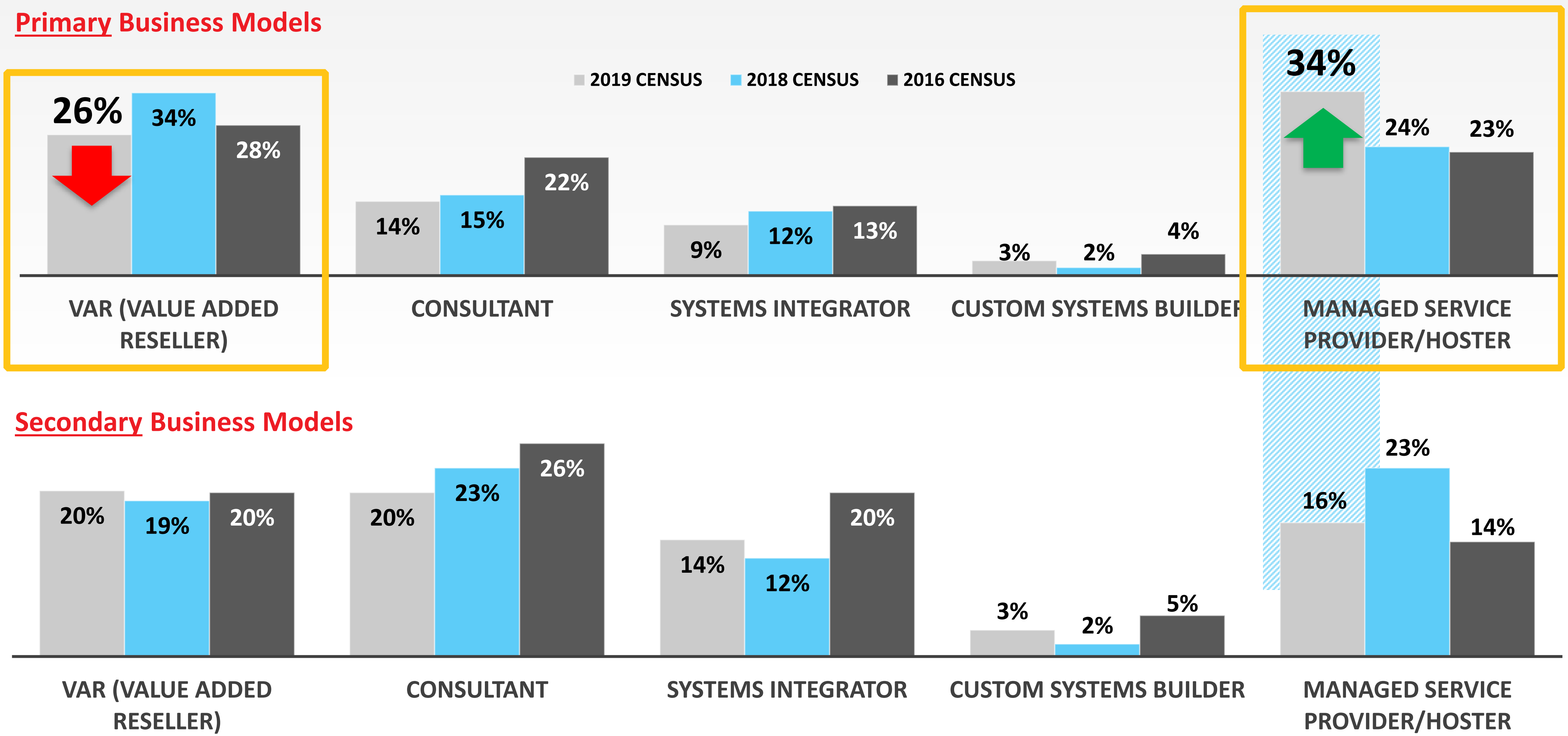
MSP Business Model Continues to Climb; Eclipses VAR Role for the First Time



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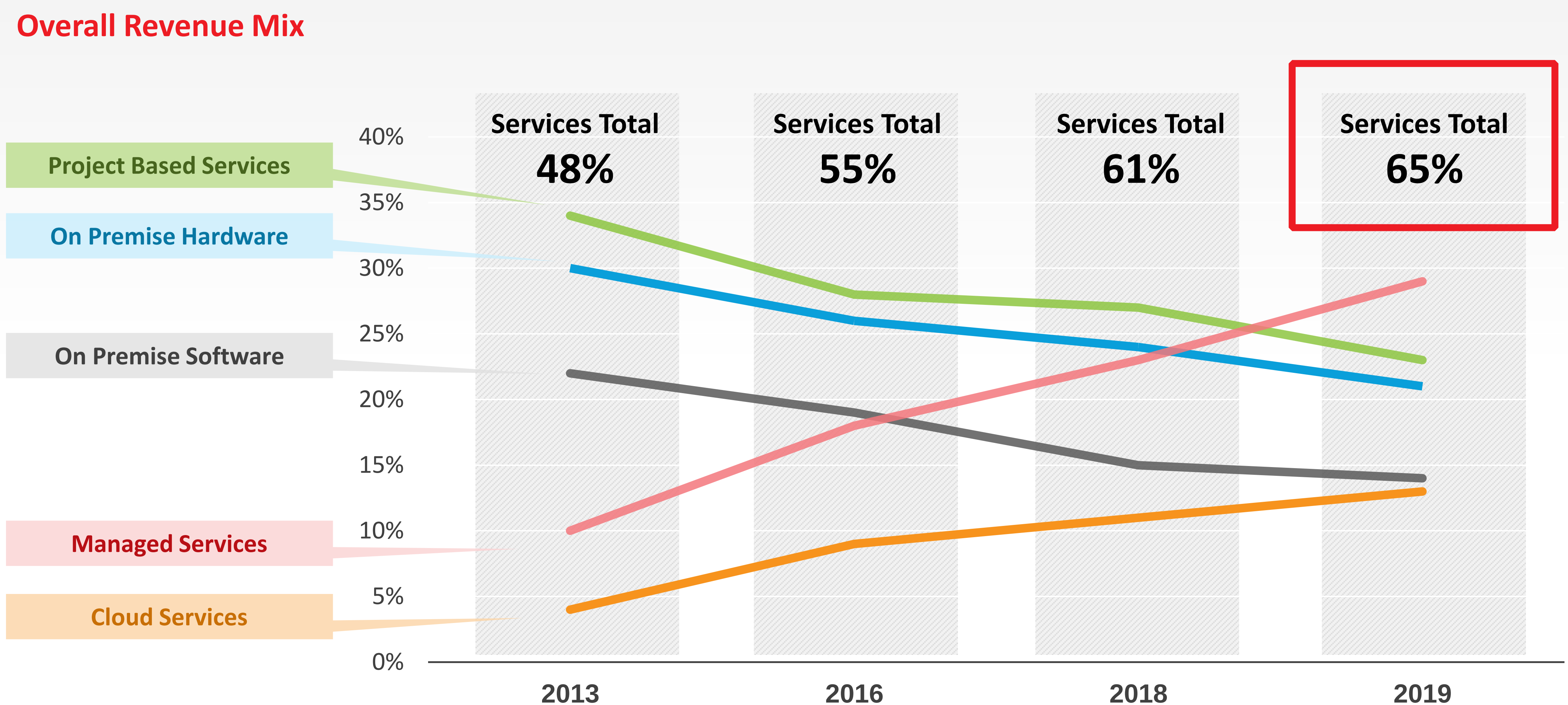
Services is Now Nearly 2/3 of Overall Revenues



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

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BUT…we must be clear when we talk about MSPs

IPED Perspective: We think about MSP as a business model vs. a partner type.
Most solution providers are actively investing in managed services capability…

Low — *Investment, complexity, skills, risk* — *High*

RESALE

Resold another supplier or service providers' managed services

PARTNER MANAGED ONLY — ***Highest***

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

PARTNER OWNED & MANAGED

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

Lowest — *Potential profitability* — *Highest*

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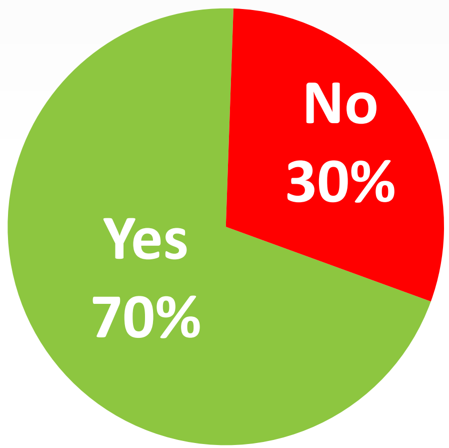
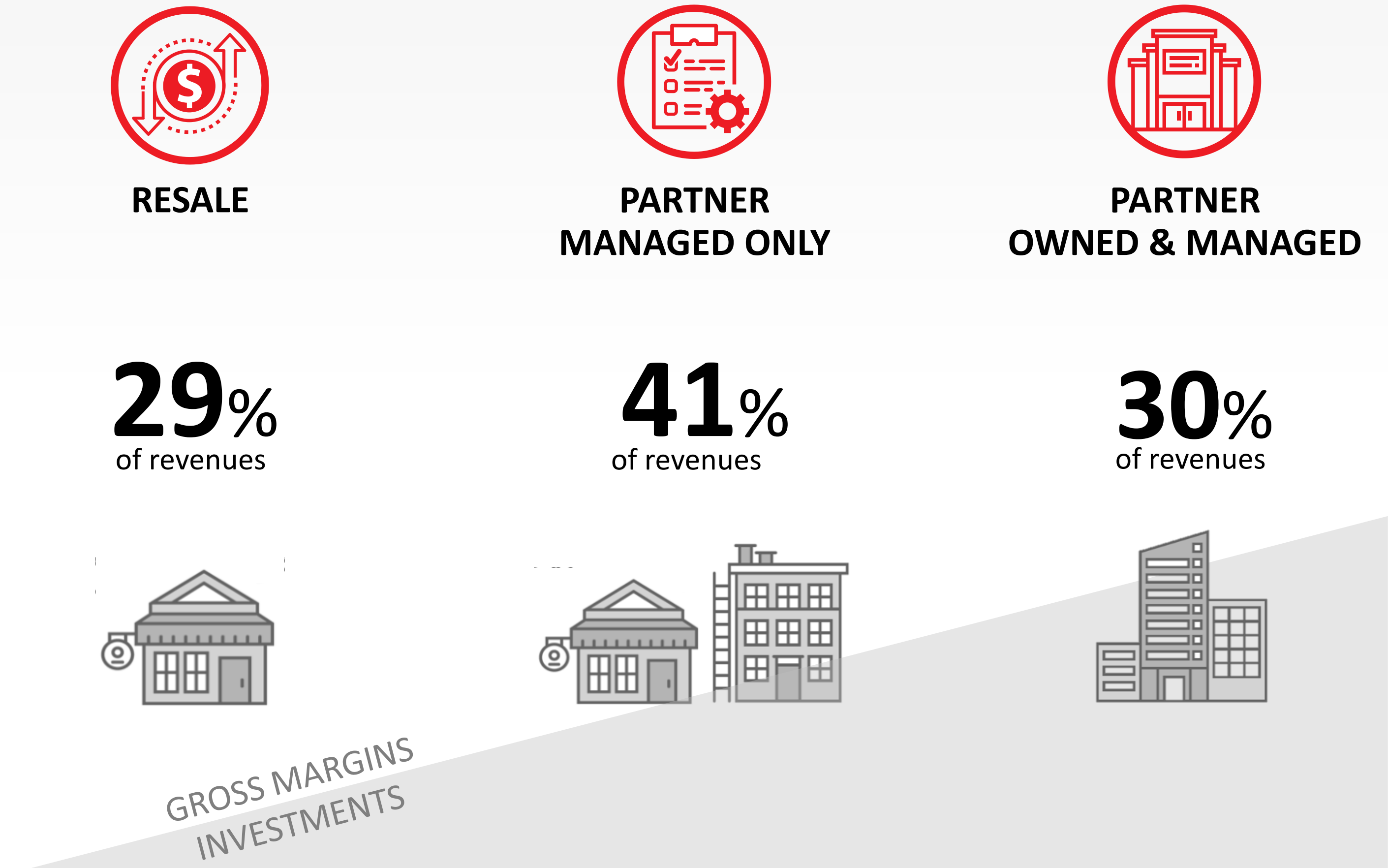
MSP Models Vary Widely

Primary revenue coming from partners managing customers assets (only)

Plans to grow managed or recurring revenues services



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*

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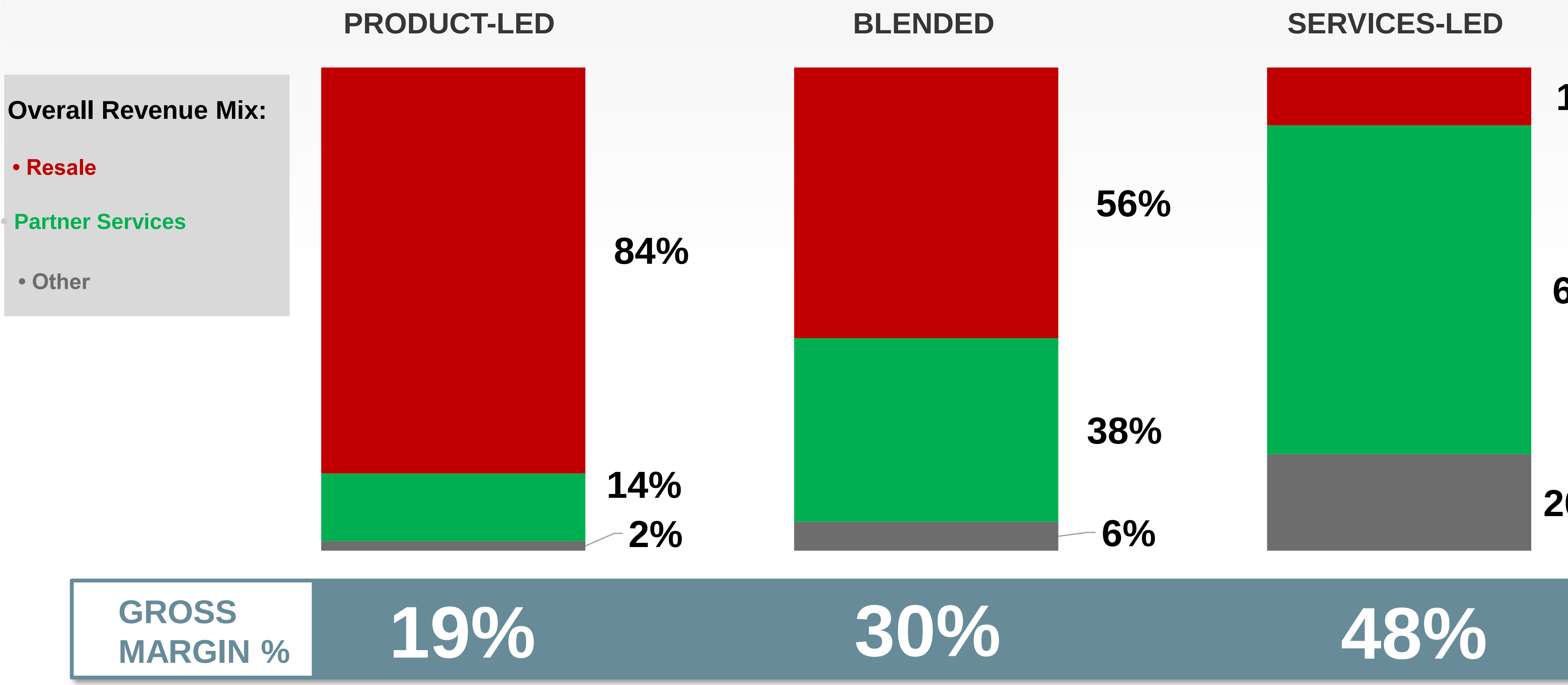
Revenue Mix Impacts Profitability



Source: IPED 2019 State of Partner Profitability Study

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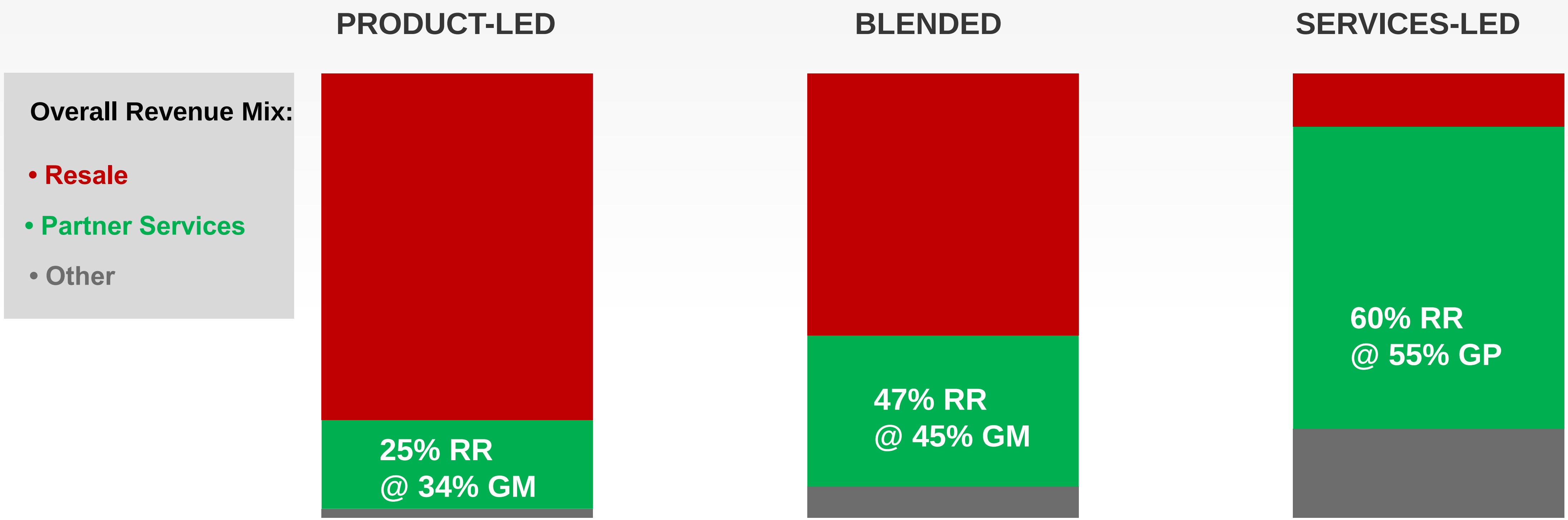
Recurring Revenues Drive Tangible Profit Differences



GROSS MARGIN	19%	30%	48%

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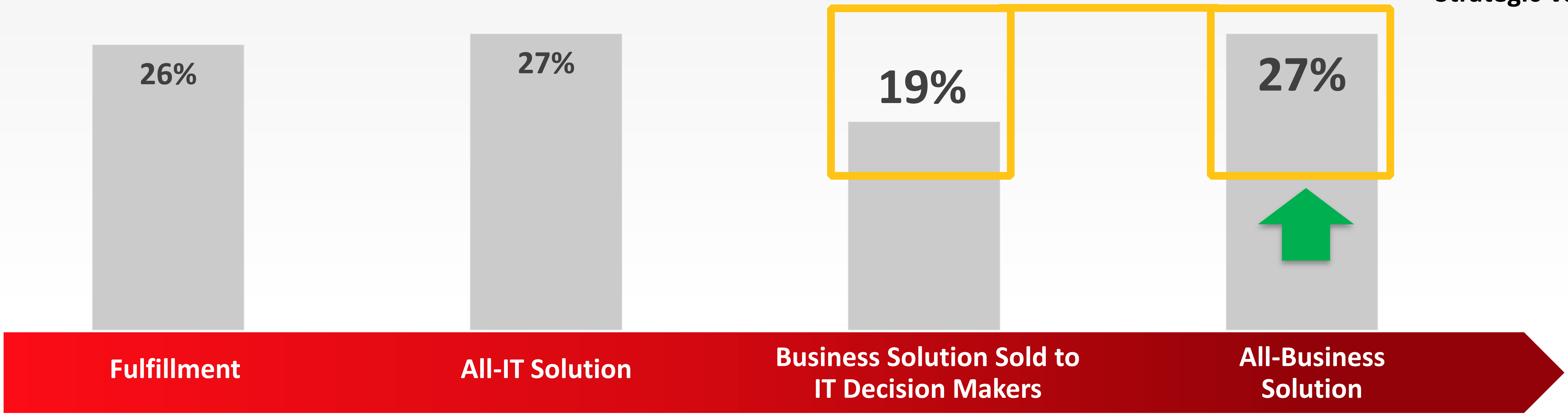
Selling Business-Designed Solutions Aligned to Customer Shift in IT Expectations

Customer Engagements by Type of Strategic Guidance

#3 Strategic Value



Fulfillment

Focus:
- Fulfilling pre-existing customer demand for IT products and services, either with established or new customers
- **Example:** procuring additional laptops for a DaaS solution

All-IT Solution

Focus:
- Solving an IT problem, designed for and sold to IT decision makers
- **Example:** integrating additional server, storage, networking capacity

Business Solution Sold to IT Decision Makers

Focus:
- Products and services designed to solve a specific business problem; primary decision maker is an IT executive.
- **Example:** design of a UC system for enhanced sales/mktg. collaboration

All-Business Solution

Focus:
- Solutions designed to solve a specific existing problem or automate a new business process; designed for and primary decision maker is LOB
- **Example:** implementing a marketing automation system

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

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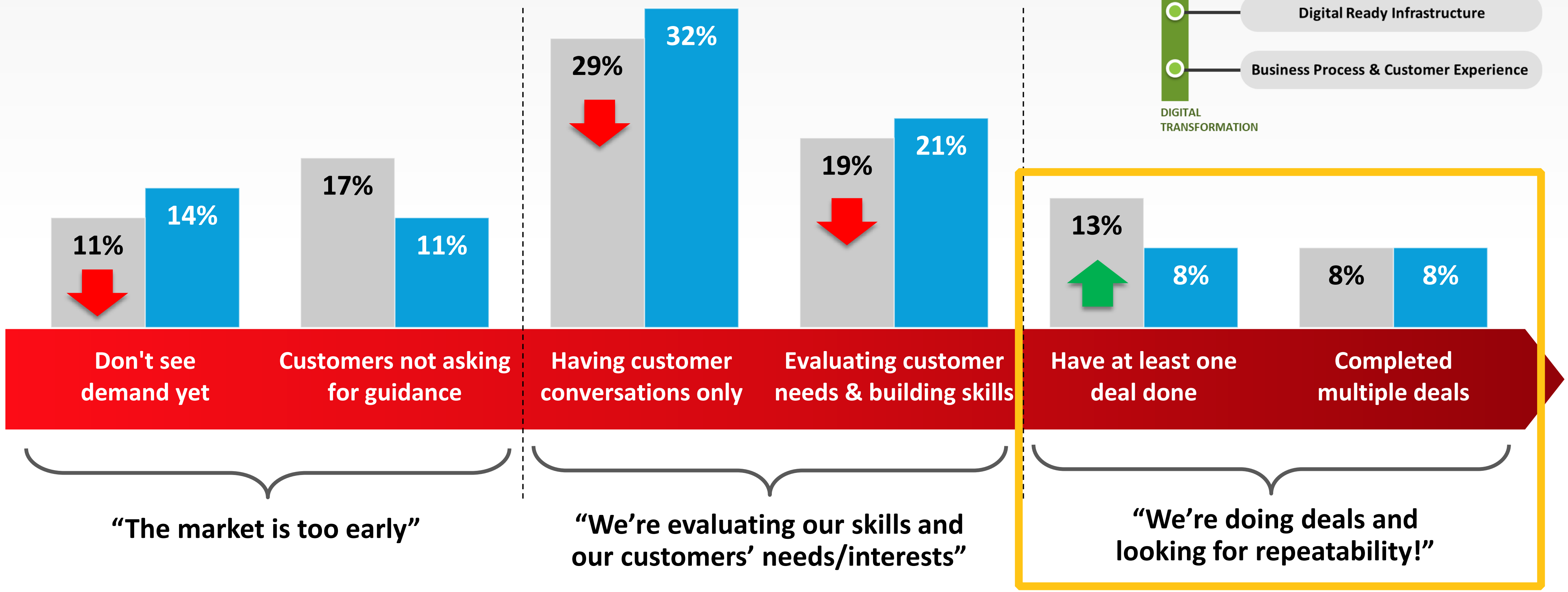
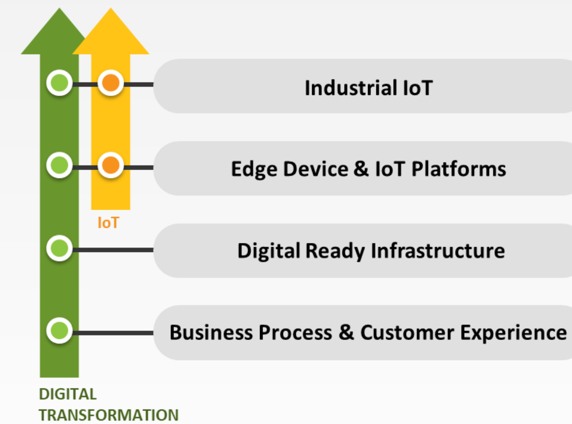
Digital Transformation is Not Just a Buzz-Word; Partners are Engaging in Deals

Degree of Digital Transformation Implementation





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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 those who'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."

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

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

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

"Onboard metropolitan commuter rail and subway systems."

"Automated education records collection at state-level."

"Fleet management mobile application."

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

"Video management solution to be used for process improvement."

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

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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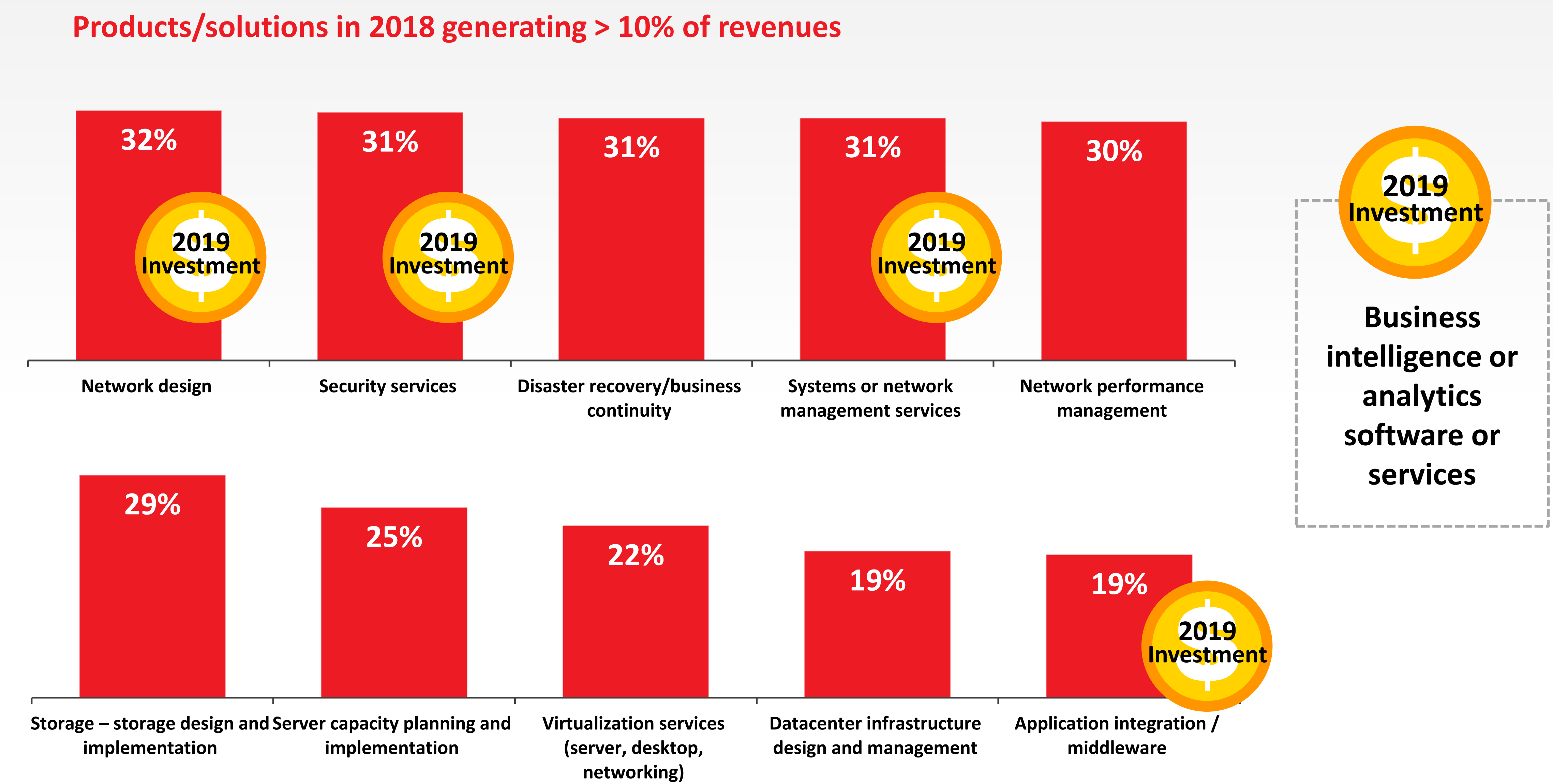
Network Design, Security and Business Intelligence Are Key 2019 Investments



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

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Solution Providers Continued to Make Strategic Investments in Staffing and Certifications to Support Hybrid IT and Managed Services Capabilities

Top Strategic Investments for 2018

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

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Technical Staffing & Training Considerations Span Both Customer-Facing & Back-office Roles

More Difficult for Smaller MSPs to Balance Resources Across the Two

	Small Regional	Medium Regional/National	Large National/Global
Sales Staff	**2**	**20**	**500**
Technical Staff (Customer Facing)	**4**	**20**	**250**
Technical Staff (NOC/SOC Mgmt.)	**5**	**11**	**150**
Marketing Staff	**1**	**4**	**50**

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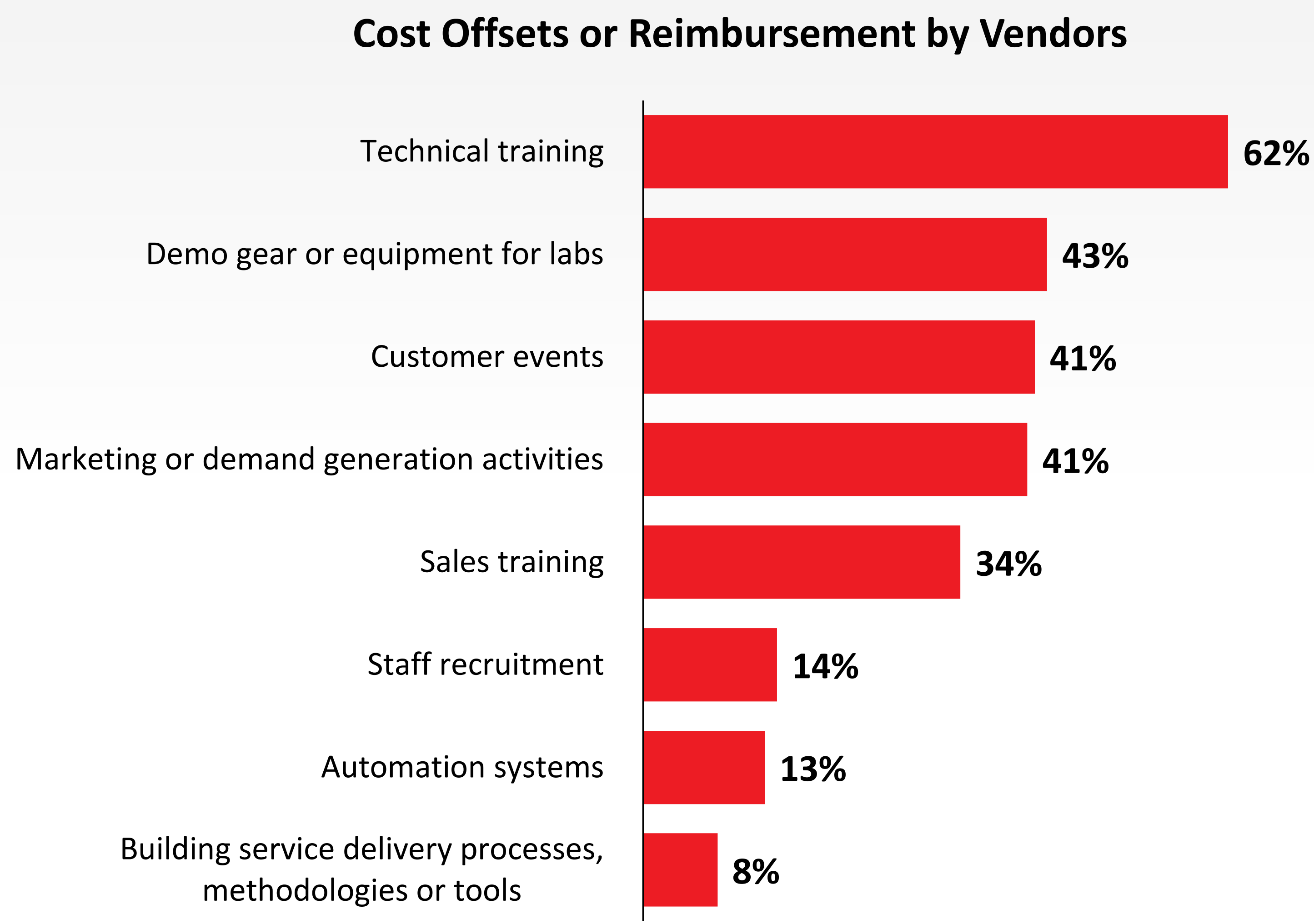
Vendors Helping Offset Partner SG&A Expenses in Training, Demo Gear and Marketing Most Frequently



Q: What operating or capital expense did you incur in 2018 where your IT vendors provided the greatest cost-offset or reimbursement? (rank)

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Solution Providers Growth Plans Continue to Focus on Growth in Recurring Revenue Model and Building Their Own Services

Topline Revenue Growth

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

Profitability Growth

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

Recurring Revenue Growth

1. Expand our <u>own</u> managed services portfolio
2. Focus on attracting new customers

Technical Skill Growth

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

Q: What are your top plans for 2018 as it relates to the growth of your company's profitability? (n=532)
*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)

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You Must Understand How Important You Are to THEIR Business!

	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)

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Biggest Strategic Vendor Obstacles All 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)

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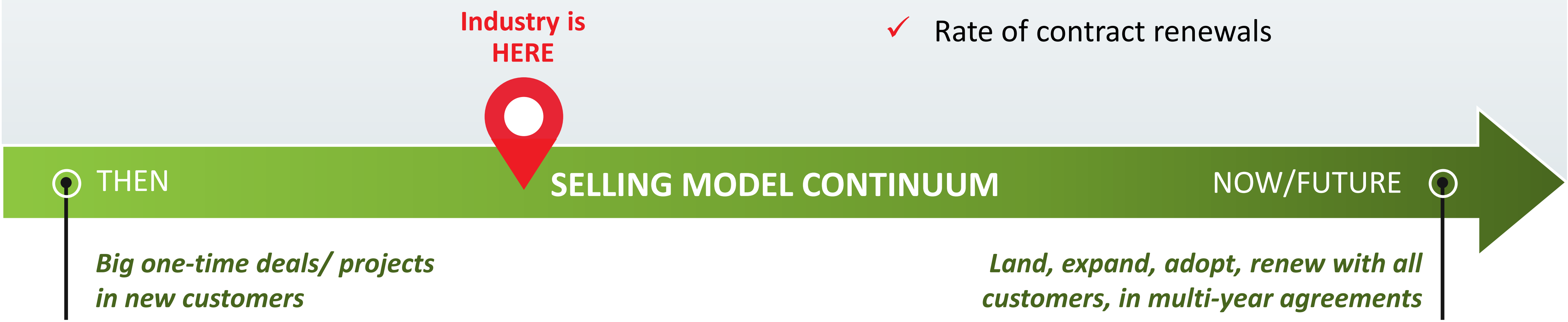
Partner Performance Metrics and Rewards Are Evolving Toward a Customer Success Model Focused on Maximizing Recurring Revenues

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



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But…Wait.. Some Interesting Channel Trends to be Aware of…

Application development skills are becoming increasingly more important

Public Cloud Platform Providers are impacting the channel

Public Cloud Platform Providers Represent a Significant Partner Opportunity…

Microsoft Azure

$38 Billion
(Commercial Cloud Business)
64%
Growth (Azure)

amazon web services

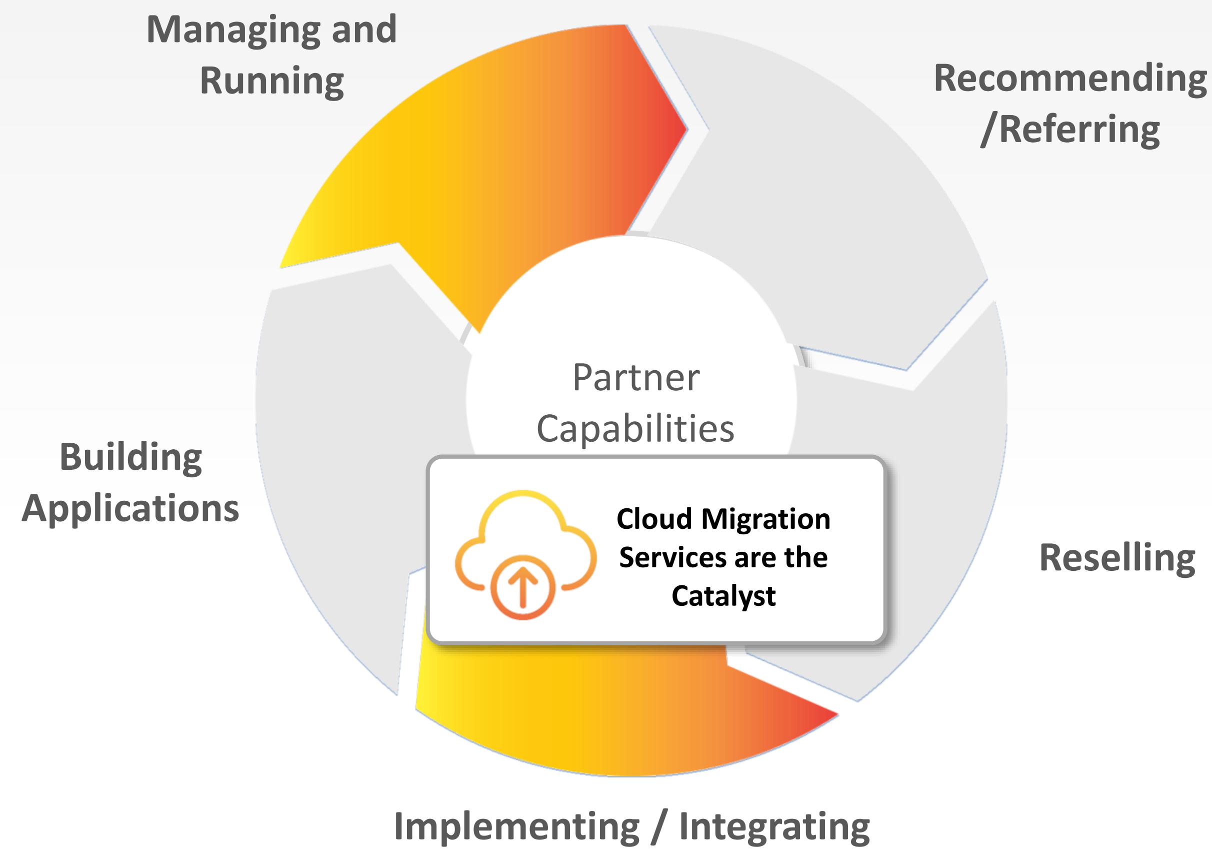
$30 Billion

37%
Growth

Google Cloud

$8 Billion
(including G Suite)

Double-Digit
Growth



1) Amazon Q219 results June 30, 2019
2) Microsoft Q418 results June 30, 2019
3) Alphabet Q219 earnings call , July 25, 2019

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

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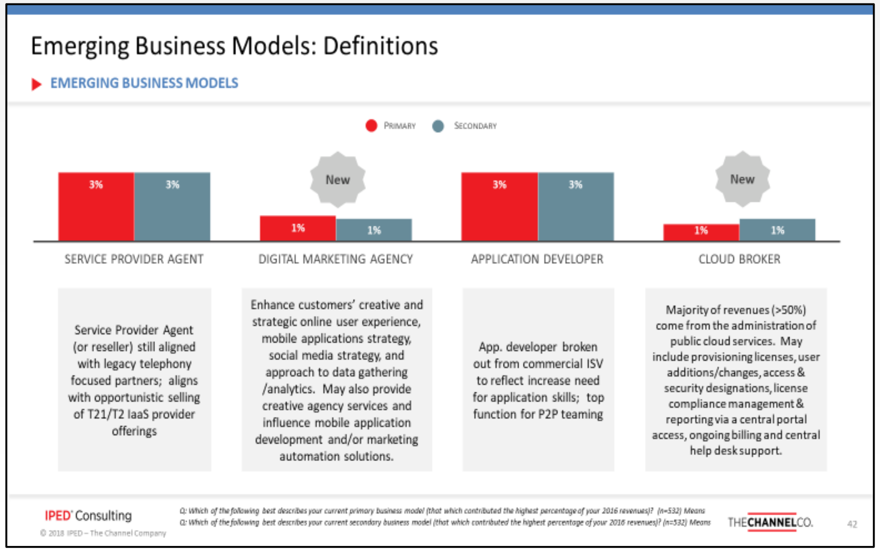
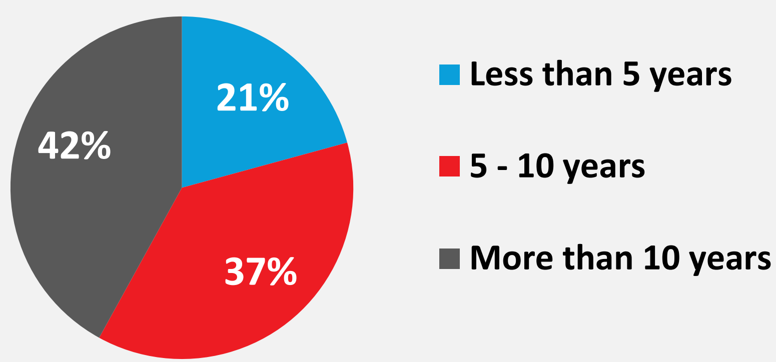
How Many Solution Providers Have an Application Development Practice? Our Data Says….



LENGTH OF TIME WITH APPLICATION DEVELOPMENT PRACTICE



Still a small part of the community have an application development practice

- **~28%** claim to have an application development practice of some kind
- **~6%** stated as their primary or secondary business model

Most have had an application development practice for over 5 years (79%)

New market entrants (< 5 years) are not necessarily new companies

- Average company age = **16 years**

Application Development practices within the CRN Solution Provider 500

- 2014 – **32%**
- 2017 – **43%**

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Vendors - Key Considerations

New Engagement Models

Subscription and/or consumption based pricing is now considered program table stakes; vendors must have flexible service-delivery models (resale, influence and sell-to)

New Skills

Acknowledge partners' existing public cloud management skills; focus enablement efforts on building cloud migration services & skills and accelerating digital transformation successes through industry specialization

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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Your Next Action Item

Your next action item to do before we meet at the kickoff workshop

Join us Wednesday, Oct. 16th
LIVE Debrief Session
Prerequisite Material Modules 1 & 2

11am PST/2pmEST

- ✓ Bring your questions
- ✓ Meet your fellow program attendees

Zoom Meeting Invite
Sent from Lisa Sabourin

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We look forward to seeing you at the kickoff workshop!

Questions? Please contact:

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