Surviving & Managing The Shift To The

STRATEGIC SERVICE PROVIDER MODEL

Contents

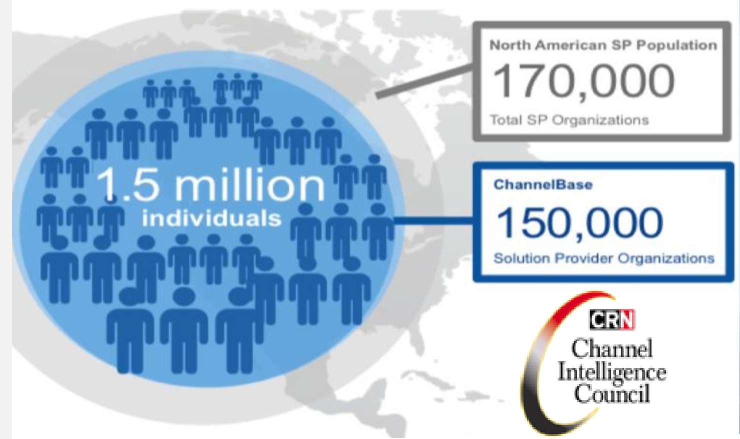
IPED 2016 Channel Census Overview

METHODOLOGY

- Leverage ***The Channel Company*** solution provider database and the ***CRN Channel Intelligence Council***
- On-line survey fielded in ***January 2016***
- Approximately ***600*** completed responses
- Data cleansed and normalized for outliers; data represents means unless otherwise noted
- Selected ***partner interviews*** to clarify responses

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



The "Solution Provider" Evolves: "Strategic Service Provider"

Reseller → VAR → Solution Provider → **Strategic Service Provider**

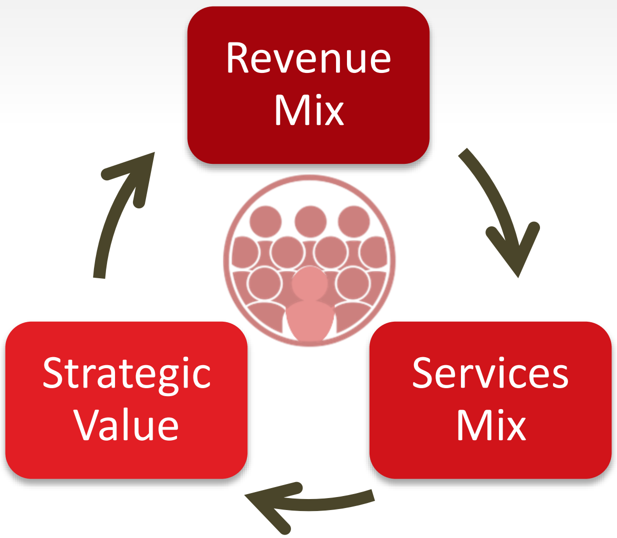
1 Represents the ***aspirational capabilities*** of partners 3-5 years into the future

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

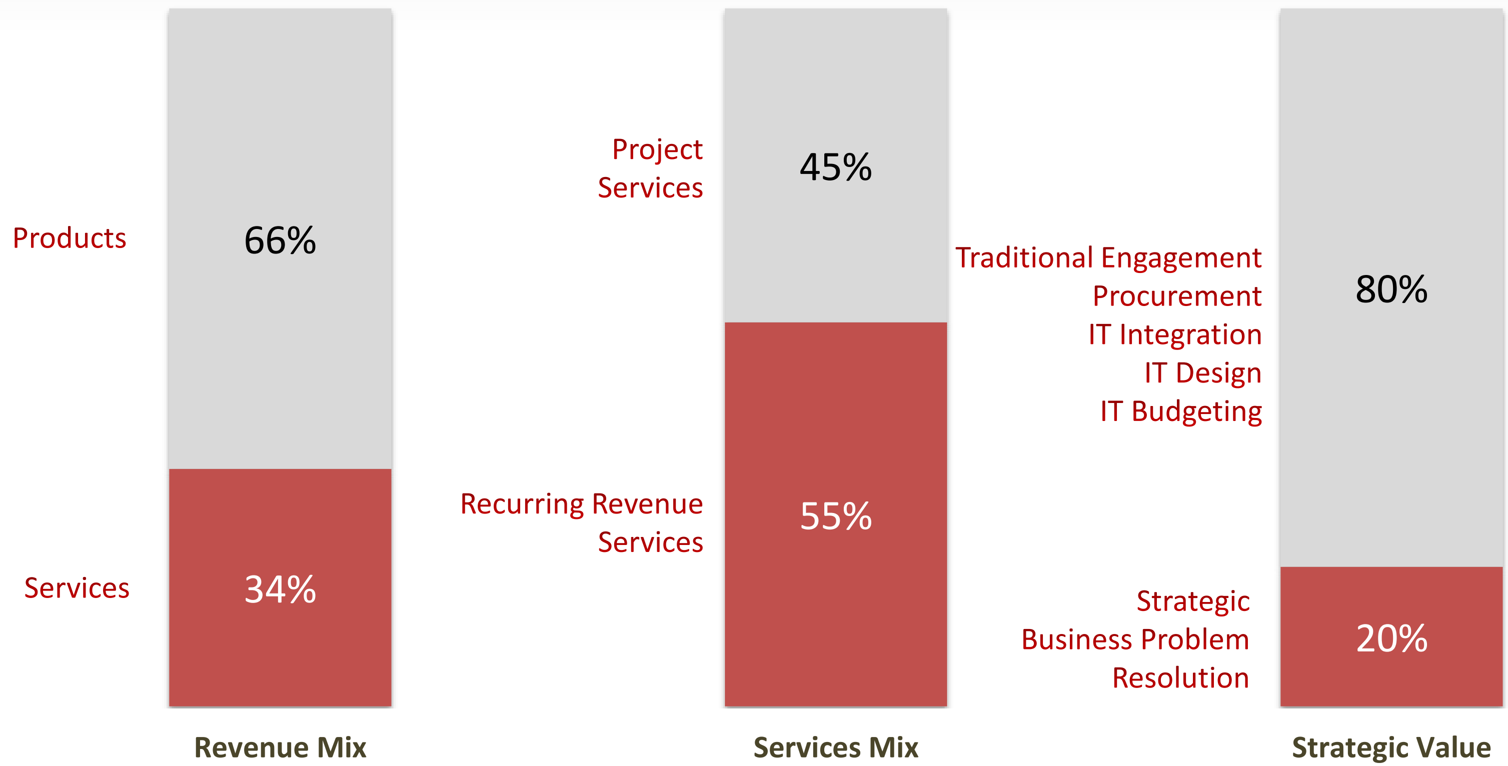
3 Represents ***cloud brokerage*** capabilities around IaaS, PaaS, SaaS, and other managed services

The term does <u>not</u> replace ISV, DMR, Consultant, SI or other business models; it represents Best in Class of these business models as well as the continued transformation of the ***VAR heritage solution provider.***

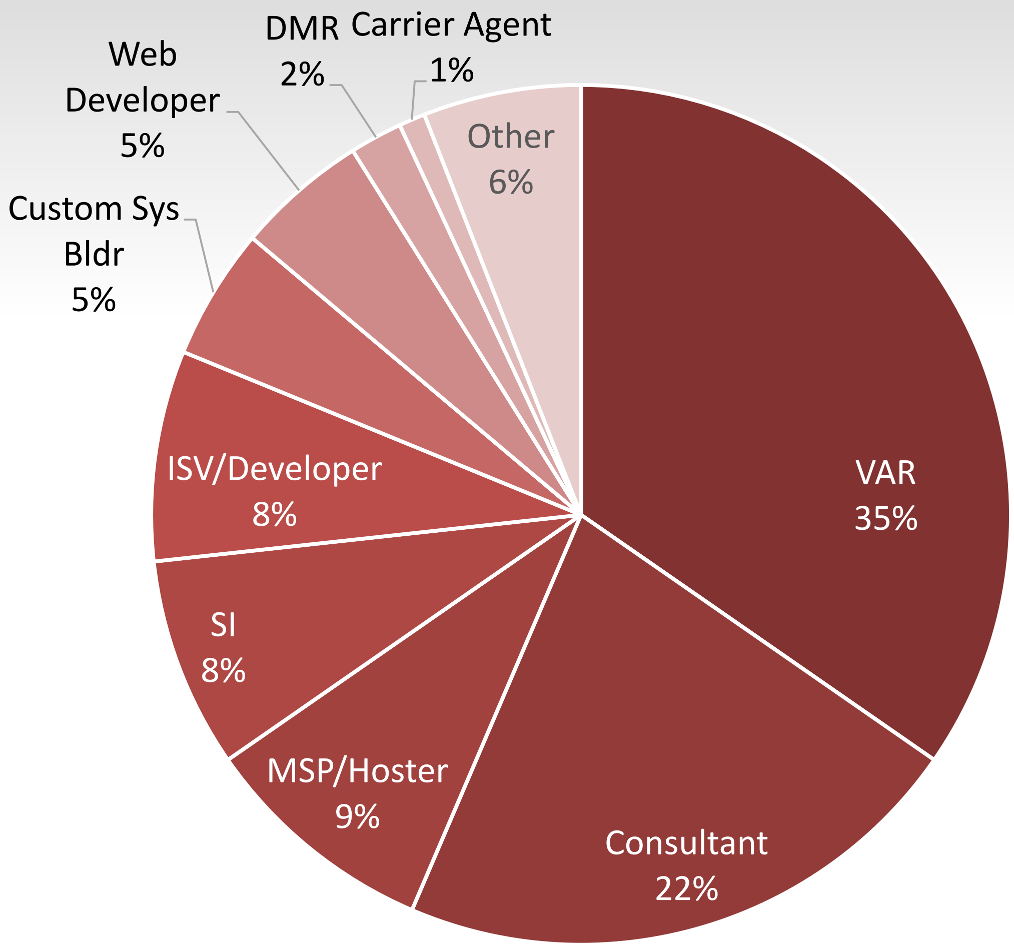
The “Solution Provider” Evolves: “Strategic Service Provider”

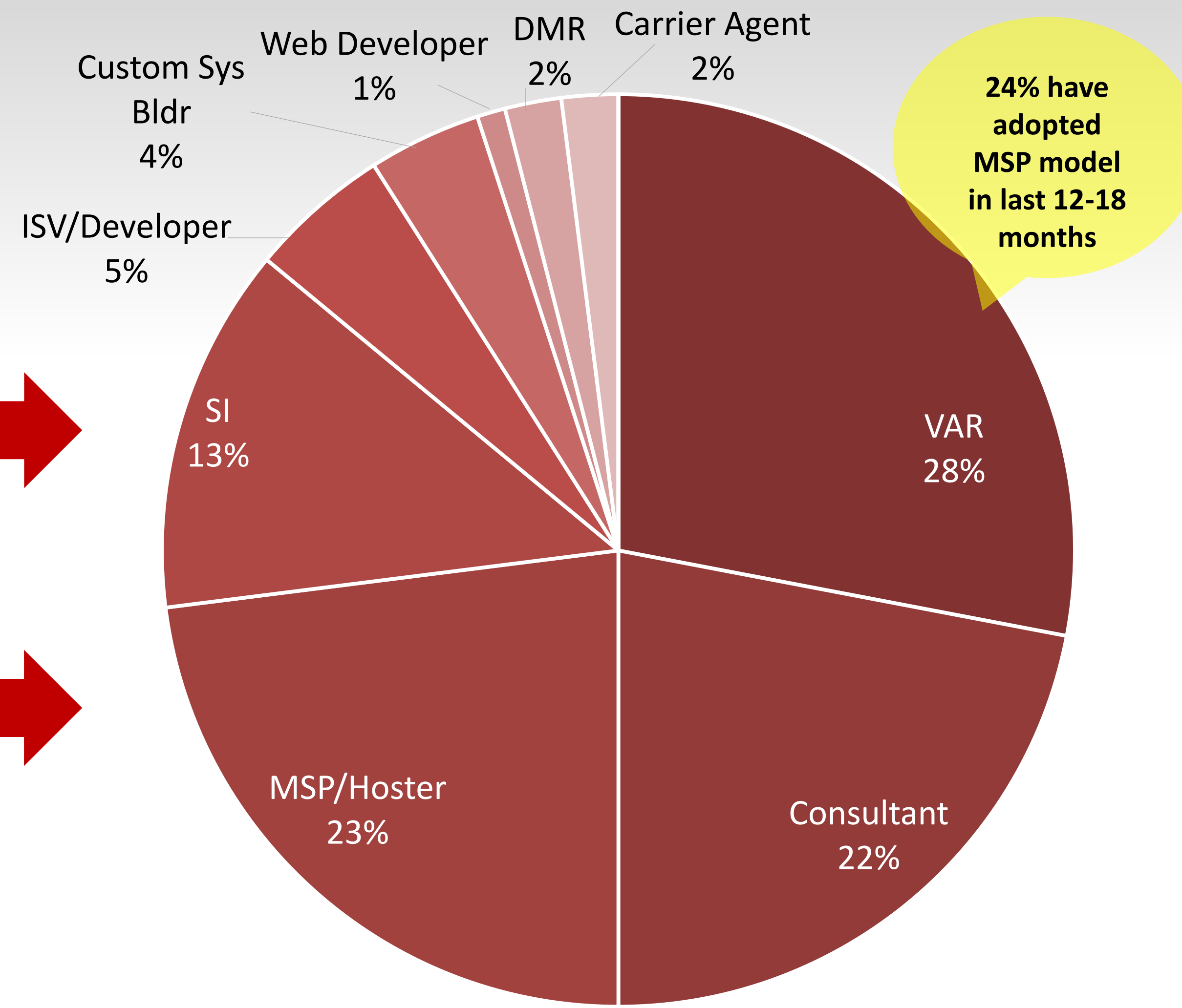


“Strategic Service Provider”
Profile



The N. American Solution Provider Universe





Based on selection of primary business model

2013 Data Used in 2014

Typical Annual Revenues: $3.4M

2016 Census

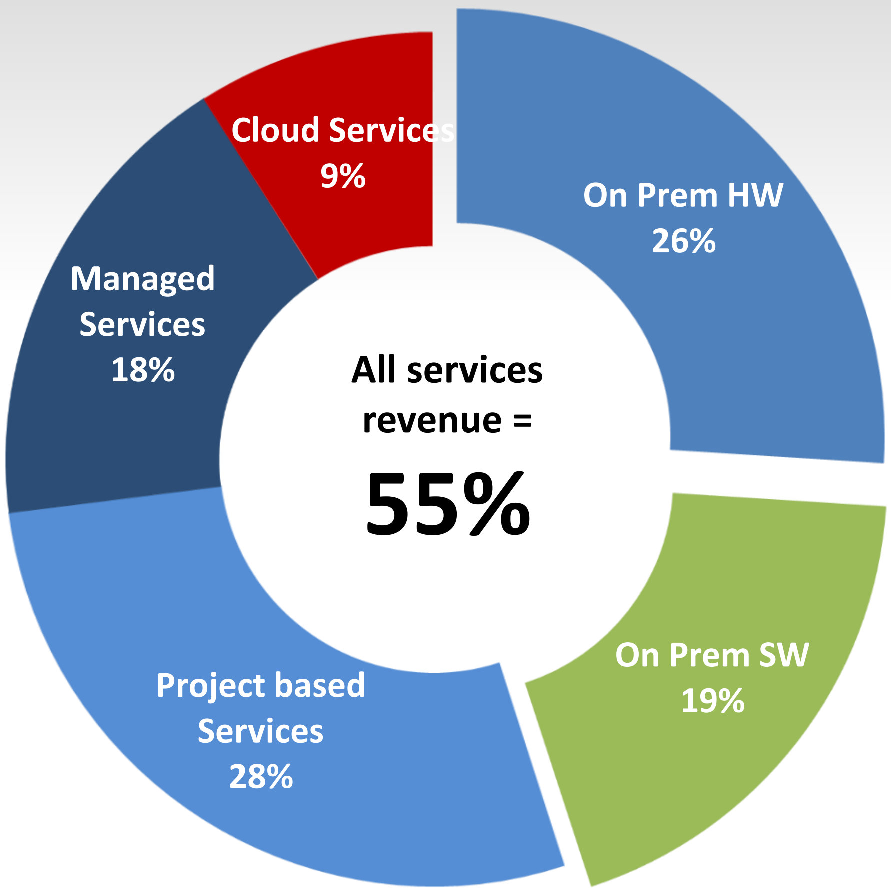
IPED® Consulting

ChannelMasters®

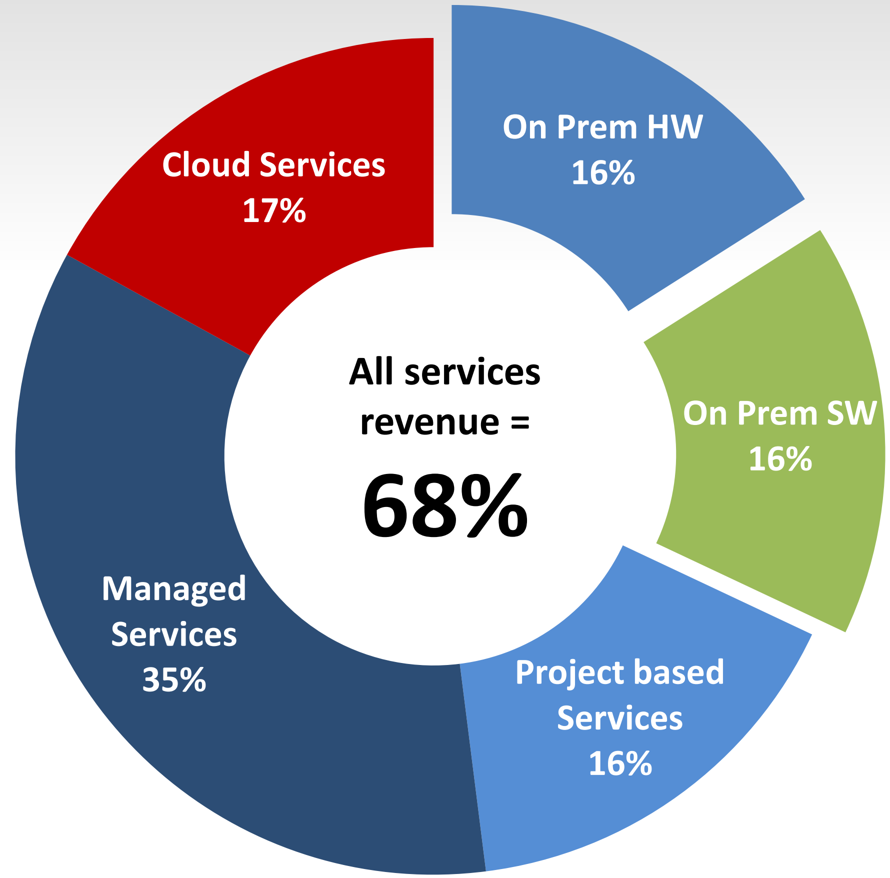
Q: Which of the following best describes your current primary business model? (that which contributed the highest % of your revenues?)

Contents

On Premise HW And SW Revenues Represent Less Than 50% Of Overall Revenues; Recurring Revenue Services Are Still Less Than 30%



2016 REVENUE MIX – ALL

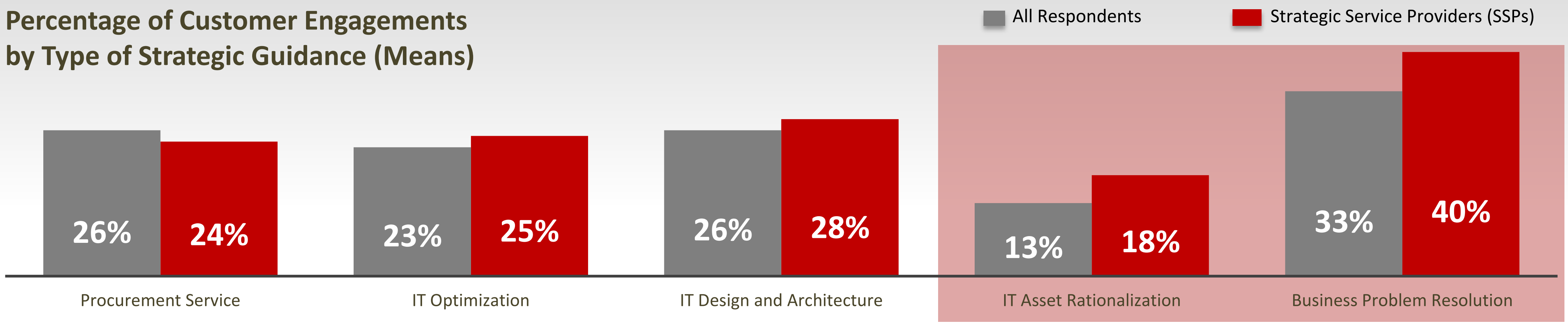


2016 REVENUE MIX - STRATEGIC SERVICE PROVIDERS

Q: What was your estimated mix of revenue in 2015, among the following major product/service categories? (n=411)

Strategic Service Providers Have A Much Higher Percentage Of Customer Engagements Coming From Business Problem Resolution

Percentage of Customer Engagements by Type of Strategic Guidance (Means)



Sell Technology	*Integrate Technology*	*Optimize Technology*	*Create Strategy for Tech Investment*	*Solve Business Problems with Technology*
FOCUS: • Configuration • Licensing models • Pricing and special promos • Procurement	**FOCUS:** • Speed and/or price performance • Short-term capacity planning • Integration services	**FOCUS:** • Long-term capacity planning • Application/ infrastructure modernization • Transition from on-premise to managed or cloud services	**FOCUS:** • Overall IT spend • ROI metrics on IT investment • Business & financial planning around outsourcing or cloud mgmt.	**FOCUS:** • Explore & address business problems with technology • Position IT as a competitive asset • Redesign business process

Q: As you think about the strategic guidance your company offered to customers in 2015, to what percentage of your customer engagements did you offer each of the following types of strategic guidance? (n=597)

Contents

Managed Services Segmentation: From 2016 Channel Census

Nearly 2/3 of respondents' MSP revenue comes from pure management services of the customers' own physical gear.

21%	33%	28%	18%
Resale	**Customer Owned**	**Partner Managed**	**Partner Owned & Managed**
• Resold another supplier or service providers' managed services	• Offered managed services for a customer's physical equipment on their premise	• Offered your own managed services across a variety of operating environments *(on customer premise, at someone else's datacenter or on a public cloud)*	• Offered your own hosting services on your own data center <u>and</u> managed for a customer

"We will NEVER have our own datacenters. We don't want to compete with Microsoft and Amazon. Having your own datacenter was a great model about 10 years ago."
- $15m MSP

Q: Thinking specifically about your Managed Services business in 2015, what % of your total managed services revenue came from each of the following types of services? (n=207)

Managed Services Segmentation: From 2016 Channel Census

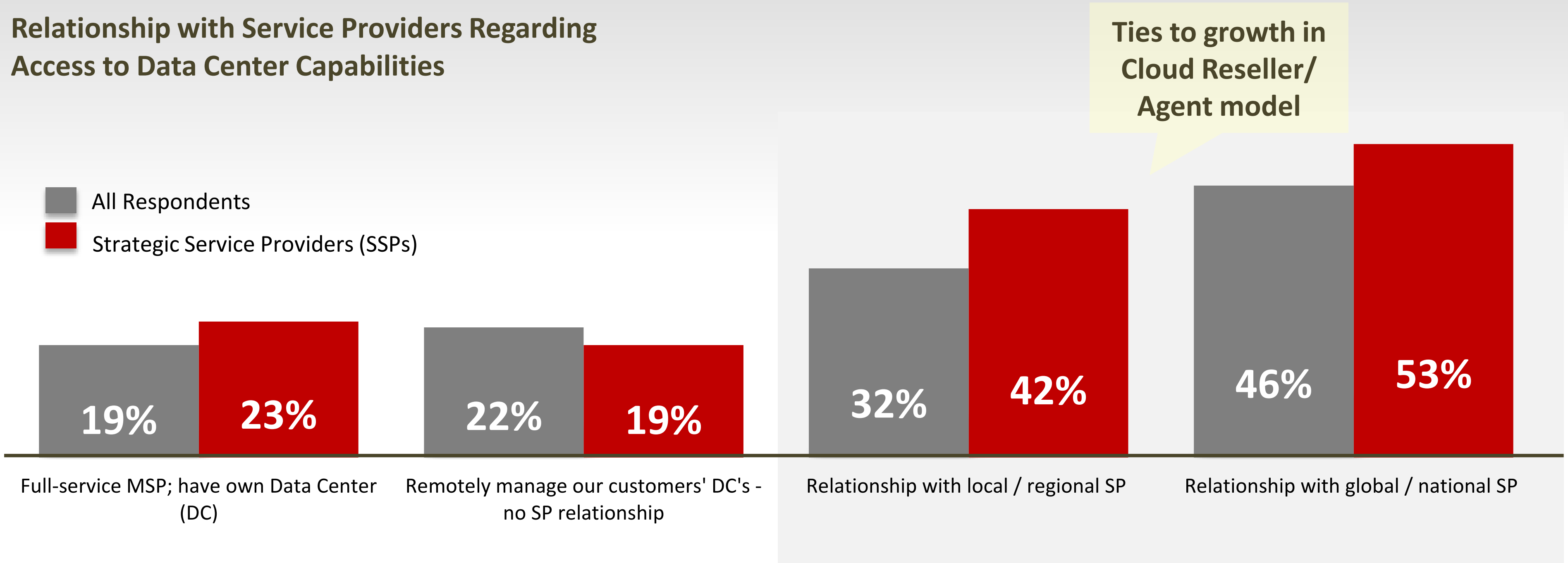
Nearly 2/3 of respondents' MSP revenue comes from pure management services of the customers' own physical gear.

21%	61%	18%
Resale	**Partner Managed Only**	**Partner Owned & Managed**
• Resold another supplier or service providers' managed services	• When you see the Profitability Research Webinar series, we combined these two into one category of assets that are managed by the partner BUT NOT owned by the partner	• Offered your own hosting services on your own data center and managed for a customer

Q: Thinking specifically about your Managed Services business in 2015, what % of your total managed services revenue came from each of the following types of services? (n=207)

Build versus Buy Service Provider Capabilities

- Increasingly, recurring revenue services-focused partners are not building their own datacenters
- Fewest are doing remote monitoring of their customers' DC's with no SP relationship
- Teaming with SPs size/scale varies; some want scale and price, others regional high-touch or vertical expertise



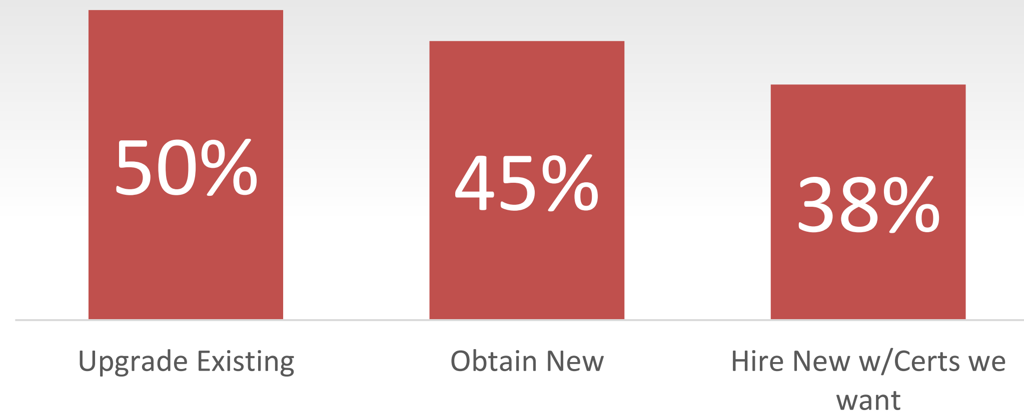
Q: What is your company's relationship with the major regional, national or global service providers regarding having access to data center capabilities? (n=597)

Contents

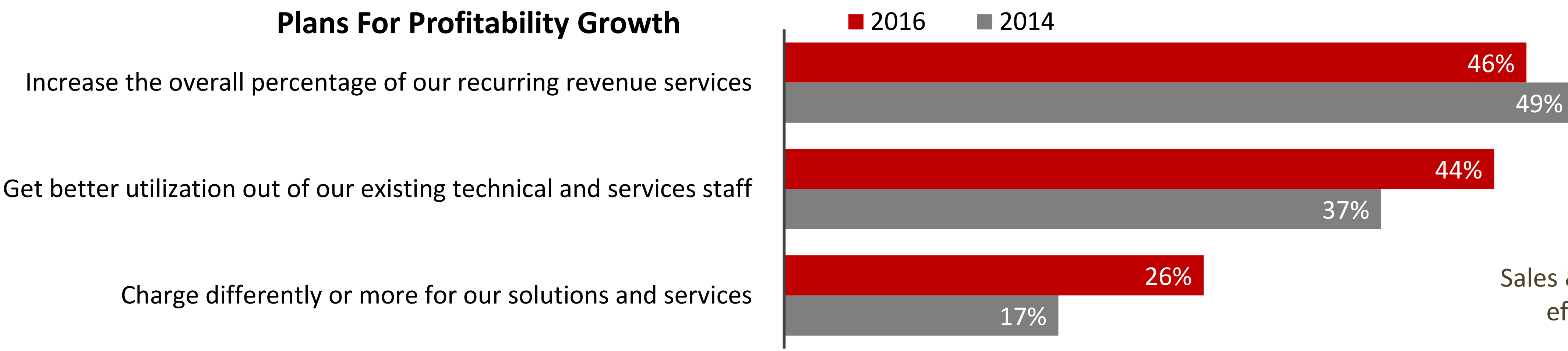
2016 Plans

36% **Need to enhance sales methodology or approach to drive top line sales growth.**

Grow Tech Expertise Regarding Certifications



Plans For Profitability Growth



Sales & operating efficiency top priority

Selling Services Forces Technical Roles To Diversify, Making Demands On Vendor Training and Certification Curriculum

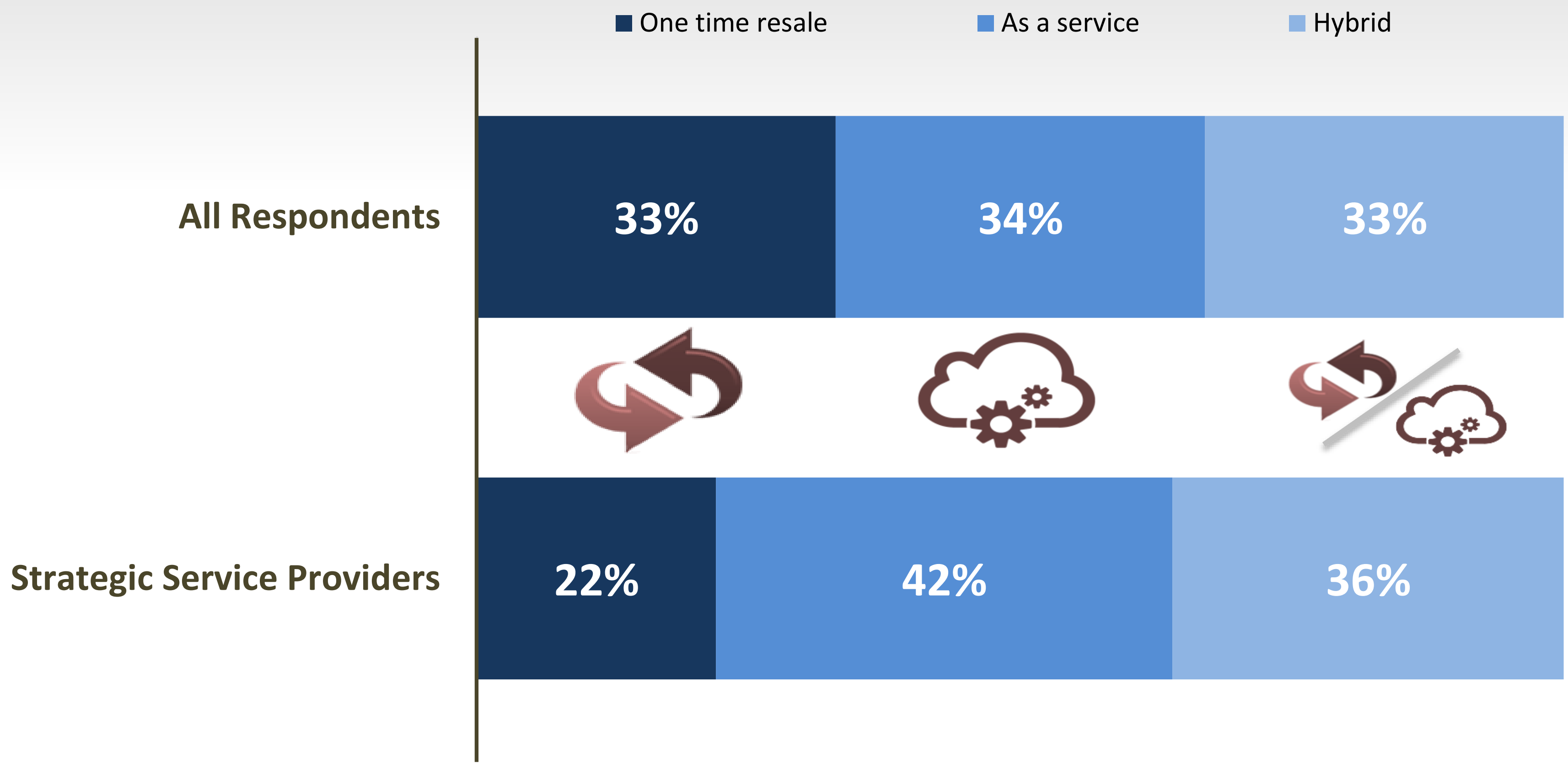
Pre-sales Discovery & Architecture	Implementation & Integration	Data & Analytics Engineering	Systems Operations
✓ Matching business strategies to IT needs ✓ Re-design of traditional architectures, where appropriate ✓ Introduce cloud or MSP outsourcing service concepts ✓ Understand complex & diverse environments	✓ Installation skills ✓ Integration of hardware and software into existing environment ✓ Upgrades and data migration ✓ Capacity and throughput testing	✓ Understand use-cases and cross functional needs for the data ✓ Deep analysis skills ✓ Modeling expertise ✓ Ability to manage & analyze unstructured data	✓ Systems management expertise ✓ Load balancing and performance testing ✓ Trouble-shooting and Help Desk diagnostic skills ✓ Predict and analyze application load, capacity and security issues

Data Scientists

Contents

Utility Based (As-a-service) Consumption Models Now Used By 34% Of Solution Providers With Leading IT Suppliers; As-a-service Model Nearly Double Resale For SSPs

- Traditional resale pricing from vendor to solution provider still dominates
- Emerging utility-based pricing models used by leading vendors; more commonly adopted by Strategic Service Providers
- In the absence of vendor utility pricing, partners forced to absorb the capital expense of licenses and gear up front



Q: What was the primary consumption model from your IT technology suppliers for each category you chose?

**Note: Low Base Size. Please use data with caution.*

A Look Back to the IPED 2014 Study Shows Critical Vendors

Critical Vendor Relationships (2014)

Rank	VAR	Consultant	SI	MSP / Hoster
1	vmware	Microsoft	EMC²	Microsoft
2	Microsoft	IBM	Microsoft	vmware
3	hp	vmware	vmware	cisco
4	IBM	intel	intel	DELL
5	ORACLE	cisco	NetApp	IBM

Based on top 10 mentions in general, then ratings of "critical"

The 2016 View Shows Public Service Providers Captured Minds

Help Provide Customers Strategic Guidance

Based on most rankings as #1

Rank	All	Strategic Service Provider
1	Microsoft	Microsoft
2	Hewlett Packard Enterprise	Cisco
3	Cisco	Hewlett Packard Enterprise
4	Dell	VMware
5	VMware	Amazon Web Services

*Q: Please identify the **top five (5)** IT Technology Suppliers that will be most important to your company's ability to provide strategic guidance to your customers' business challenges in 2016? (min. 1, max 5)*

Help Grow Recurring Revenue Services

Based on most rankings as #1

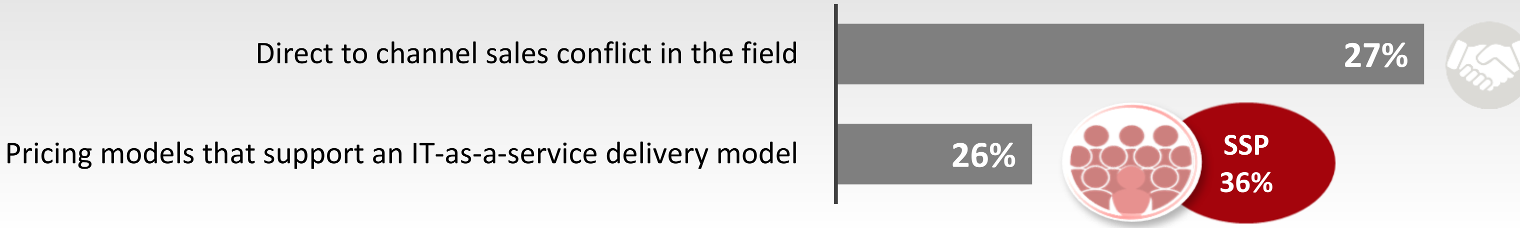
Rank	All	Strategic Service Provider
1	Microsoft	Microsoft
2	Cisco	VMware
3	Hewlett Packard Enterprise VMware	Cisco
4	Dell	Hewlett Packard Enterprise
5	Amazon Web Services	Amazon Web Services

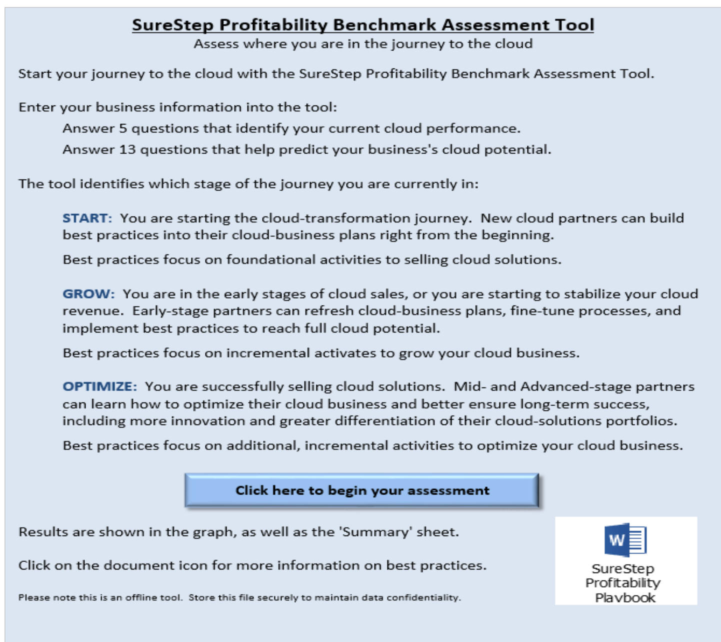
*Q: Please select the **top five (5)** IT Technology Suppliers that you expect to have the largest impact on the growth of your company's managed or recurring revenue services during 2016? (choose top 5)*

Your Transformations are as Important as Your Partners’

Biggest Obstacles In Working with Strategic Suppliers

Microsoft





SureStep Profitability Benchmark Assessment Tool

Assess where you are in the journey to the cloud

Start your journey to the cloud with the SureStep Profitability Benchmark Assessment Tool.

Enter your business information into the tool:

Answer 5 questions that identify your current cloud performance.

Answer 13 questions that help predict your business's cloud potential.

The tool identifies which stage of the journey you are currently in:

START: You are starting the cloud-transformation journey. New cloud partners can build best practices into their cloud-business plans right from the beginning.

Best practices focus on foundational activities to selling cloud solutions.

GROW: You are in the early stages of cloud sales, or you are starting to stabilize your cloud revenue. Early-stage partners can refresh cloud-business plans, fine-tune processes, and implement best practices to reach full cloud potential.

Best practices focus on incremental activates to grow your cloud business.

OPTIMIZE: You are successfully selling cloud solutions. Mid- and Advanced-stage partners can learn how to optimize their cloud business and better ensure long-term success, including more innovation and greater differentiation of their cloud-solutions portfolios.

Best practices focus on additional, incremental activities to optimize your cloud business.

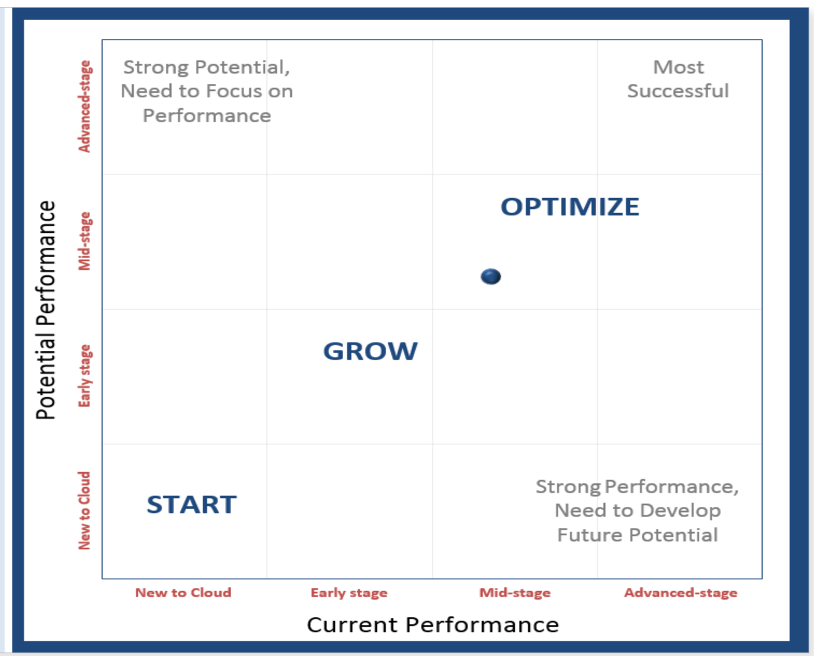
Click here to begin your assessment

Results are shown in the graph, as well as the 'Summary' sheet.

Click on the document icon for more information on best practices.

Please note this is an offline tool. Store this file securely to maintain data confidentiality.

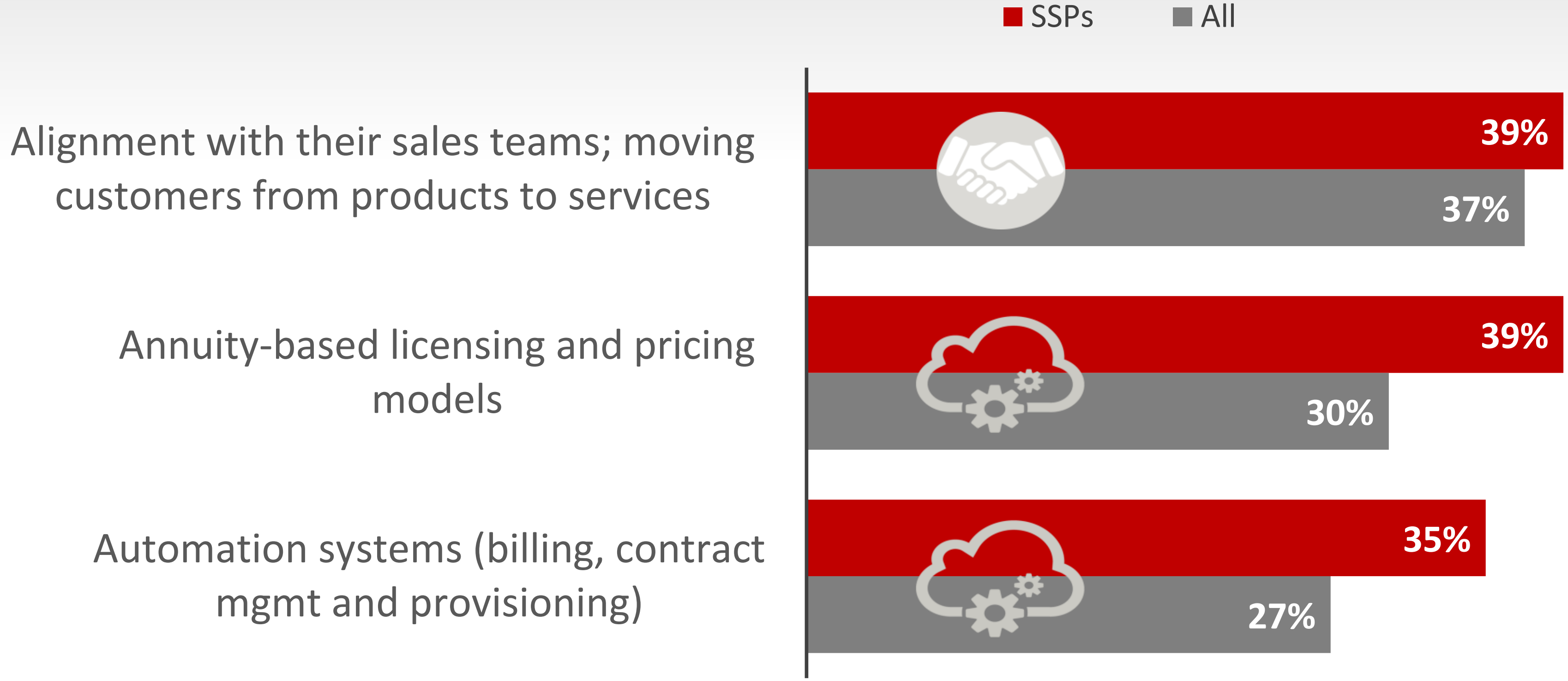
SureStep Profitability Playbook



Partners Want Alignment With Key Vendors On Process/Urgency For Moving Customers From Products to Services; Annuity-based Licensing Models High On The List Of Most Desired RRS Support

- Partners want to go through IT as a service transformation *with* their leading suppliers; focus on field synergy & teaming
- Strategic Service Providers have a greater need for annuity-based pricing models and automation
- Appetite for business model transformation help waning

Most Important Support from Strategic Suppliers For Grow of Recurring Revenue Services



IPED Consulting

ChannelMasters

Vendor Key Imperatives

Identify

Strategic Service Provider Model — Evangelize and profile for the 3 dimensions

Enable

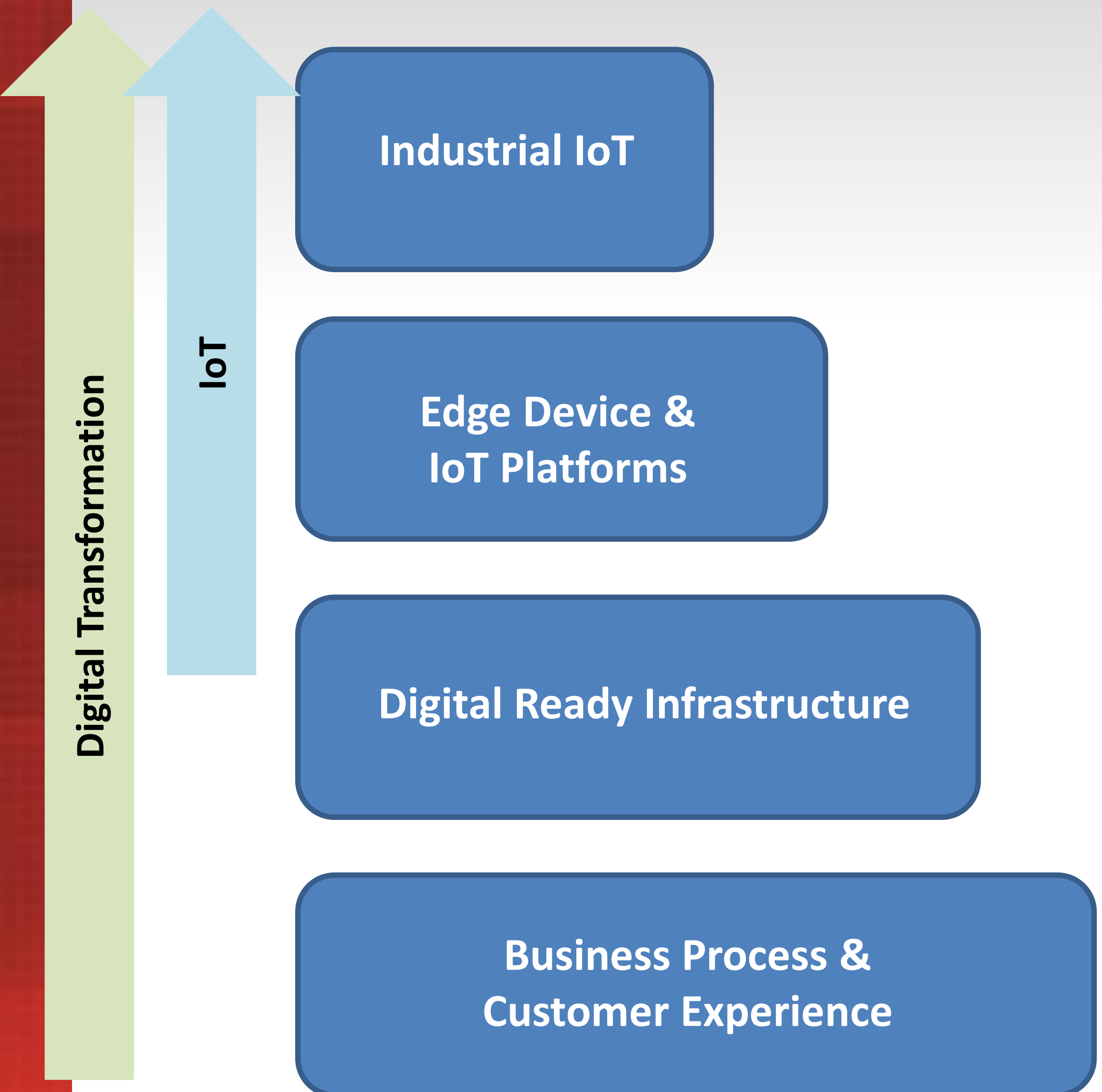
Provide Strategic Consulting Guidance — Actively package and share business-outcome based consulting methodologies unique to your solutions

Engage

Ensure training supports new service and operational roles and services-led sales pursuits

Align program and rules of engagement to longer/more complex sales cycles while steering clear of new channel conflict

Digital Transformation Framework



Use Cases: data science provides business insight or foresight

- GPS or sensor enabled machine, vehicle, process or operation
- Remotely managed, local or abroad, SCADA or other industrial point product systems (e.g. Bosch, Siemens, etc.)

- Asset management, loss prevention
- Last mile package delivery via drone or robot
- 24 x 7 medical vitals monitoring
- Agricultural irrigation via drones

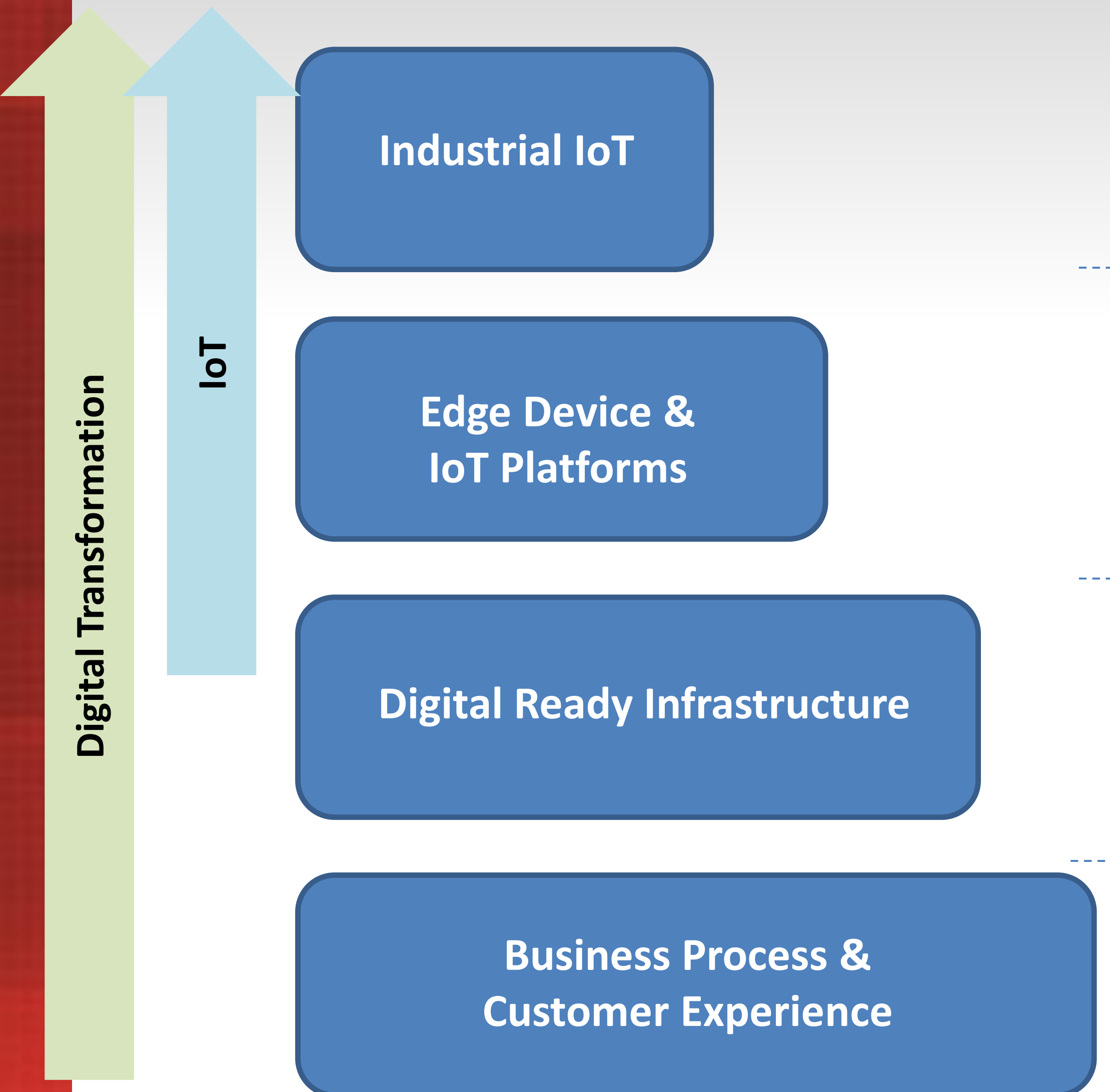
- Retail clothing selection
- Sports venue navigation and food service

- Electronic medical records
- Social media, video laced marketing content

Security required within each Digital Transformation category

Digital Transformation Framework

Technology Examples



- Focus: decrease human costs, accuracy, new abilities, new data
- Leverage: ability to monitor or sense temperature, pressure, direction, speed, etc.
- Industrial control systems integration to cloud or with edge devices, e.g. Siemens, GE Digital, Bosch, etc.

- Focus: new approaches to business problems
- Leverage: Edge sensors & metering devices with an
- IoT Platform both IT centric (e.g. Azure, AWS, PTC) and OT centric (e.g. GE Predix, Siemens MindSphere, etc.)
- Application Development or a Market Ready IoT Solutions

- Focus: technology driven differentiation
- Leverage: retail Zebra RFID clothing tags or Aruba wireless location based services to navigate a venue on mobile device

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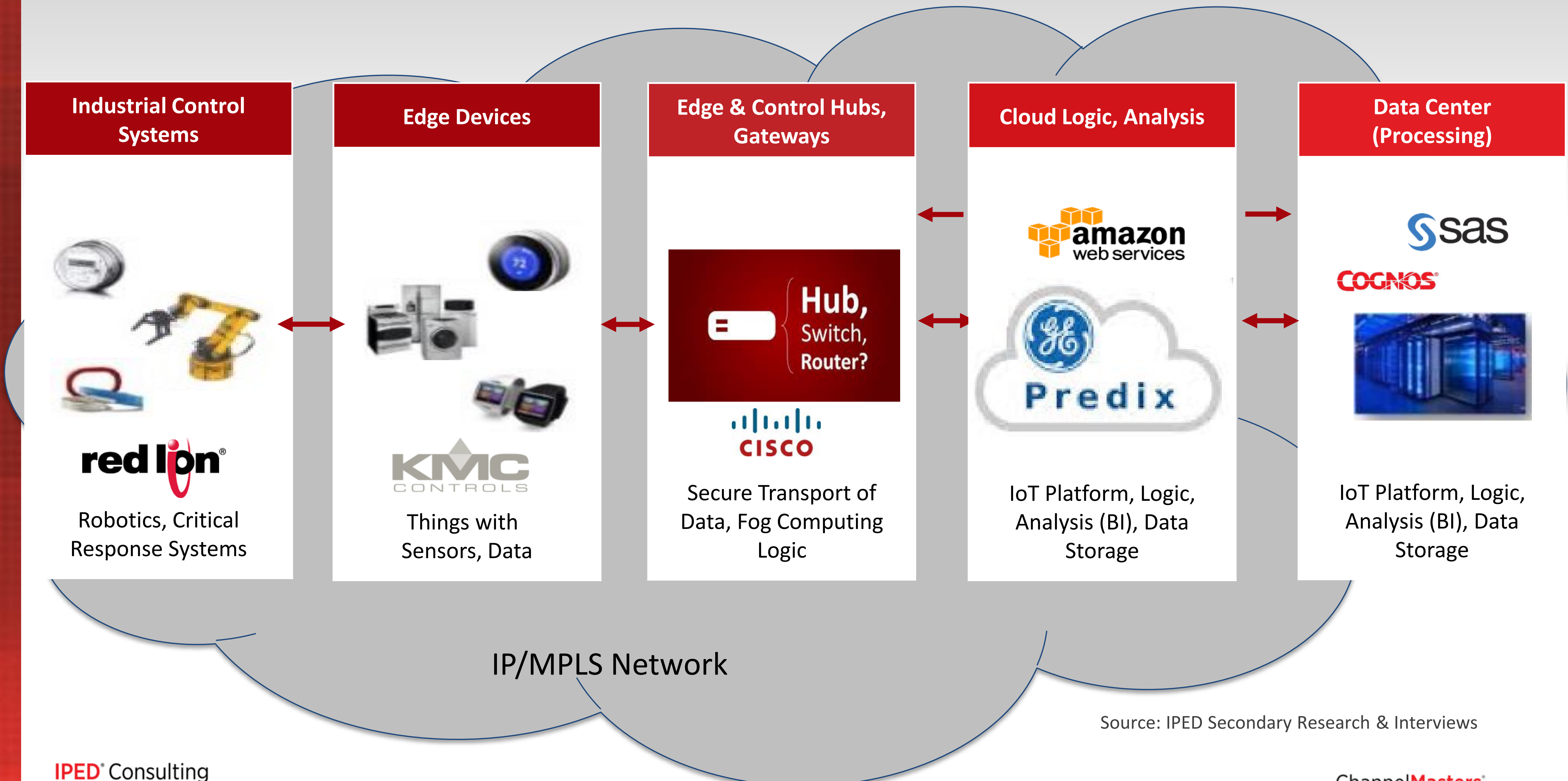
- Focus: business process & customer experience
- Leverage: digitally enhanced or cloud enabled commerce, marketing, data, applications, e.g. EMR: Allscripts or Marketing Agency: SapientRazorfish

Security required within each Digital Transformation category

Example IoT Solution Components… Your Telephony, IT or OT Legacy Biases Each View



Source: IPED Secondary Research & Interviews

Critical Capabilities to Capture End Customer Mindshare and Budget Start with a Solution Vision & Proof of Concept (POC)

Skills critical to the sale of IoT:

- ✓ Vertical Expertise
- ✓ Solution Design Capability
- ✓ Development Capability

These may be standard with Global Systems Integrators (GSIs), but are not as common in partners with $2M to $5M in annual revenues.

Why do Containers matter in IoT? … virtual machines (VMs) are too slow and too for use in IoT endpoints. Most endpoints require a light OS that uses few resources and can work quickly to automate various processes… these requirements are largely responsible for the increasing use of containers in IoT.

Peter Dykes March 24, 2017 IoTNow

What is Docker?

DevOps is the combination of cultural philosophies, practices, and tools that increases an organization's ability to deliver applications and services at high velocity: evolving and improving products at a faster pace than organizations using traditional software development and infrastructure management processes.

Source: AWS

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"There are too many IoT platforms. Consider EdgeX Foundry."
Dell

IoT Platforms

"IBM Watson IoT platform…you need one platform to integrate the other platforms." IBM

AWS IoT

SIEMENS MindSphere

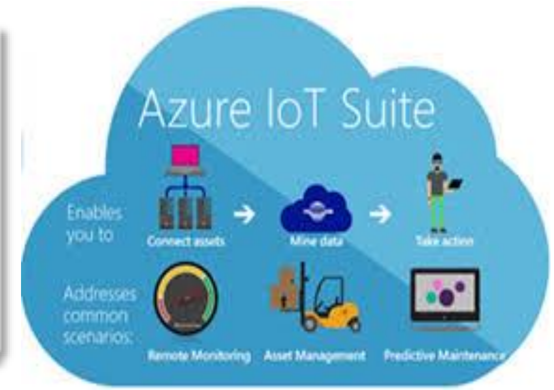
VS

Internet of Things Platform

GE Predix

Schneider Electric EcoStruxure

The mission of the EdgeX Foundry is to develop a full edge software platform designed to facilitate hardware interoperability in the IoT ecosystem. *EdgeX Foundry Project*



thingworx

Successful IoT Partners are Teaming to Ensure a Total Solution

"GE is a vendor, a partner, a client."

IT partner, Dimension Data

"We have partnered with Dell on "brownfield buildings" smaller than class A buildings that have little to no automation."

Operational Technology partner, Encon Mechanical

54%

The percentage of partners indicating a desire to team for:

Edge security skills: OT partners

Access to vertical LOB decision makers: IT partners

2017 IPED Intel IoT Study

52%

The percentage of partners who look to IT vendors to foster collaboration between OT and IT partners within the community.

2017 IPED Intel IoT Study