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The channel in 2020:

A blueprint for growth in a fast-changing world

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Going globolocal

Over the past three years Agilitas has partnered with *CRN* to build a body of work on how the future of the channel will look by 2020 and beyond. The latest research delivered through *CRN* On explores the Global Channel in 2020 with findings from that research detailed in this report as well as shared at the associated conference back in early November.

The key theme this year was one that is currently top of mind for many of those operating in the channel: developing a blueprint for global growth in today's fast-changing world. Along with the theme of globalisation, the conference also saw channel businesses allude to other themes that Agilitas has discussed in depth throughout our campaign on the channel in 2020, including innovation, collaboration, disruption, technology, finance and people operating in the global IT channel.

With the business world shrinking, borders disappearing and constant changes within the IT channel, it is critical now, more than ever, for channel businesses to continue to collaborate and work alongside one another.

With the increasingly global nature of the channel, many firms are finding that the industry is becoming more and more competitive. As companies from other countries become direct competitors, some are also seeing peers being acquired and becoming part of a multinational player and therefore growing through an international acquisition strategy.

As the channel continues to prosper and grow internationally, channel businesses are beginning to implement new technologies such as cloud services and artificial intelligence. It is clear that there are many trends that allow companies to stay ahead in the competitive channel, and many differ their strategies when it comes to implementing globalisation.

Moreover, we are increasingly seeing the idea of 'globalocal' come up – that is, maintaining the same local, personal feel, and offering nuanced services, globally around the world.

Collaborating with other channel businesses is a quick and efficient way for businesses to enhance their services portfolio, and grow internationally, while also gaining loyalty from customers and enhancing margins. It seems clear that the majority of the channel's revenue is generated through utilising skills from other companies. Those businesses that have skills gaps and are not embracing collaboration are experiencing huge disruptions in their business.

A customer-centric view, with companies focusing on meeting the exact needs of the customer, should be taken into account when looking to transform and go globalocal. Offering out-of-the-box solutions is no longer sufficient for the customers of today. To remain relevant in the future, businesses need to add more value for customers and deliver outcome-based solutions rather than solutions irrelevant for business needs.

The majority of companies do recognise this, with 85 per cent realising the need to move towards a more customer-centric model, while providing relevant products and services to customers and looking from the 'outside in'. Clearly, channel businesses are increasingly investing in as-a-solution models, really delivering the extra value to customers that value-added resellers promise.

■ *Shaun Lynn is chief executive of Agilitas*

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Globalisation, transformation and collaboration

Where the channel is headed in 2020

We are currently experiencing a period of unprecedented opportunity, consolidation, collaboration and growth in the IT industry, driven by demand for new and more efficient technologies and a desire to boost skill sets; as companies embark on digital transformation plans to ensure they are able to service their own customers quickly and offer true value-add.

Now is as good a time as any for channel players to ensure they and their teams are prepared to seize the day and get in shape for the future.

This was the overwhelming message conveyed at a recent *CRN* On event held in central London in association with Agilitas, entitled The Channel in 2020: A blueprint for growth in a fast-changing world.

According to figures from market watcher Baker & McKenzie, global M&A values have risen to $468bn (£361.5bn) this year, compared with $296bn in 2017 – a whopping 60 per cent increase. Whether or not this rate is sustainable remains to be seen, but the past two years have seen a mix of organic cross-border expansion, and M&A activity as every level of the channel, be it vendor, reseller or distributor, prepares for the next phase of technology evolution.

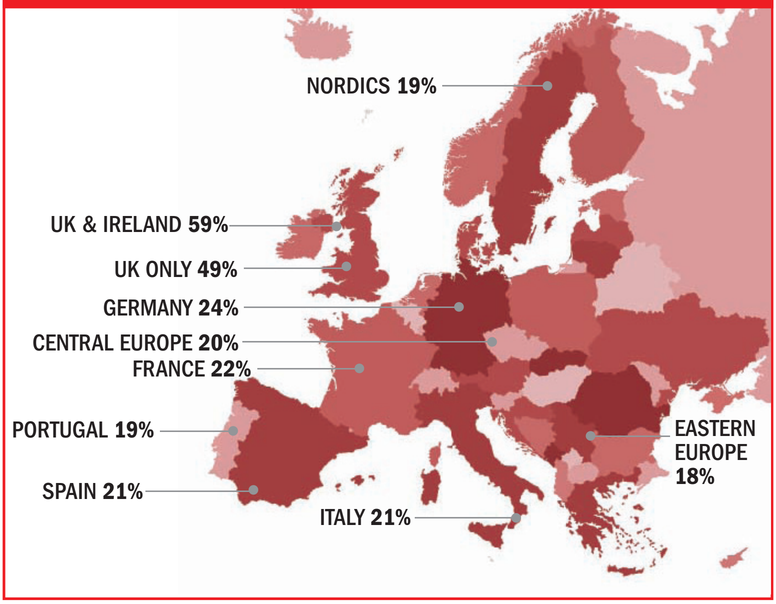
And the industry has certainly seen some significant M&A action this year. Just naming a handful of the recent deals, we have seen SoftwareONE swallow up COMPAREX to create a €10bn global giant; Computacenter snapping up FusionStorm to mark its first real foray into the US market; Autotask and Datto merging; IBM buying Red Hat for $34bn – marking the biggest deal of its kind in the industry; and Getronics snapping up Pomeroy in the US, creating a $1bn giant. As a distribution example, Exertis cemented its US presence this year through the acquisition of Stampede and Jam. The list really could go on.

The results of some exclusive *CRN* research unveiled at the event also revealed an ongoing appetite for growth among the 170 respondents, all of which will be revealed during this report.

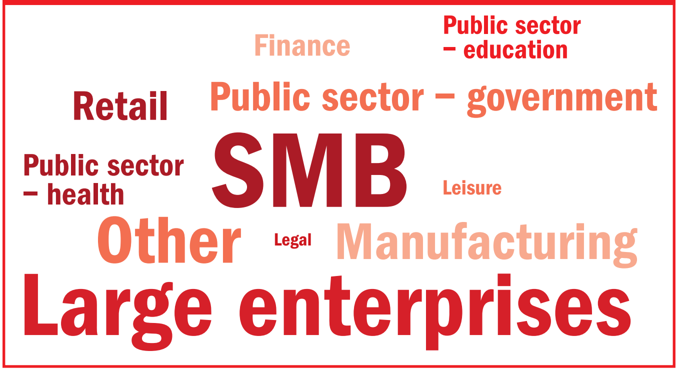
To set the scene, respondents were asked to describe their business type and also their value in terms of turnover. Solution provider/MSP came top with 31 per cent of votes, closely followed by VAR with 22 per cent. Reseller was next with 12 per cent, followed by integrator at seven per cent. Nine per cent said they fell into the distribution category. Businesses ranged from £2m to £500m-plus turnover.

Respondents were also asked which geographical area their business covered (*Fig 1*). The biggest

1. Which geographical region(s) do you cover?



2. What is your main customer type/vertical?



single response was the UK with 49 per cent, but topping the list was a combined UK and Ireland, which had 59 per cent of votes. Respondents could pick more than one option. Germany was third most popular with 24 per cent of votes, with France at 22 per cent, and Spain and Italy at 21 per cent. Portugal also featured, with 19 per cent. In more general terms, 20 per cent chose Central Europe as their stomping ground, with 19 per cent picking the Nordics, and 18 per cent opting for Eastern Europe. Some also went further afield with the US, Australia and APAC featuring in their answers, and some just said they were global.

When asked what their main customer type was (*Fig 2*), SMB came top with 27 per cent of votes, followed by large enterprise with 18 per cent. Manufacturing and public sector (government) completed the top three with nine per cent apiece, and retail rounded off the top five with eight per cent. Also featuring were public sector (health), education, leisure, legal and media.

CRN also asked respondents what the biggest changes had been to their business in the last year (*Fig 3*). Topping the list was transitioning to an 'as-a-solution' model and investing in innovation with 27 and 26 per cent of votes respectively, closely followed with taking on new and disruptive technologies with 23 per cent. Not far behind was transitioning to a service model with 21 per cent. A significant 19 per cent said they hadn't actually made any changes – an interesting choice – and 11 per cent said they had developed their own IP. A further nine per cent said they had changed their entire business model – no mean feat when taking into account the need to keep existing customers happy and serviced to a high level, as well as laying the groundwork for new ones.

Preparing a business for change was also one of the topics covered during a panel discussion at the end of the Agilitas event.

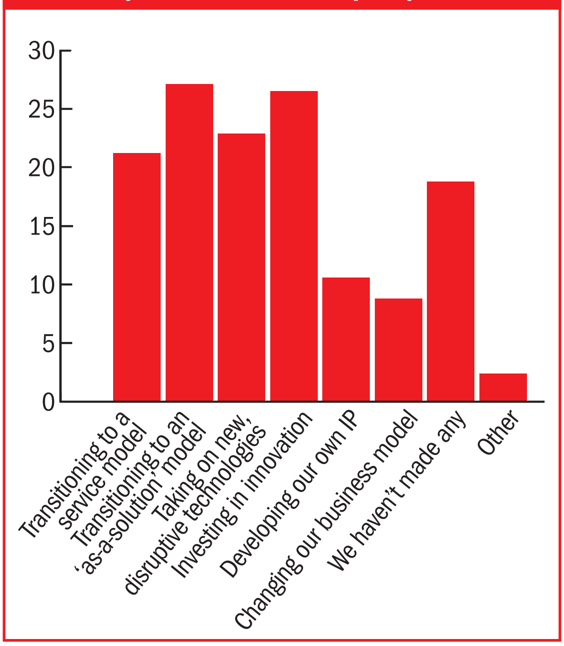
Shaun Lynn, CEO of Agilitas, said: "We are looking at transformation both on a foundation level and more of a holistic approach. We are looking at everything we do and seeing how it is optimised, because we are going through such growth. We are also looking at how it can make our business easier and how we are enabling our partners to be more efficient and digital savvy."

Zak Virdi, managing director, UK, Ireland and Africa at SoftwareONE, said the aim was to have as clear a message as possible for customers.

"We are looking at transformation as a business – at how we re-engineer and digitise processes that we operate in terms of speed and execution, and more importantly our customer proposition," he said.

"It is about being clear around the value we offer, what is unique and what differentiates us in the marketplace. That is leading to a range of new services that we are building and growing to help our customers with speed and execution around their own digital transformation story."

3. What are the biggest changes you have made to your business in the past year?



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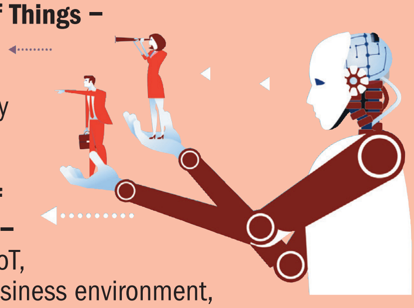
Paul Cosgrave, UK managing director of MSP New Signature, also agreed that it helps firms to look at the next steps.

"We are looking at ways to change our service offerings and create new ones for our customers," he said. "Many elements of managed services are being compromised by the advent of cloud technology and public datacentres, so we are constantly looking at ways we can bring our offerings to the next level and looking at new things that can help our customers be more innovative."

Some of the top technology trends highlighted by analysts

Internet of Things – devices becoming increasingly connected.



Internet of Machines – similar to IoT, but in a business environment, this could strip out layers of management, leaving machines to communicate with each other.

Security – all things security related will continue to trend as threats continue to evolve.

Blockchain – the way digital payments are handled will continue to evolve.

Artificial intelligence (AI) – will allow firms to streamline processes, free up skills and improve performance.

Automation – will help firms speed up basic processes and give a faster and better service to customers – and customers come first.

Nanotechnology – predicted to come to the fore in the next couple of years and beyond.

3D printing – limitless possibilities to what can be printed and allows for a personalised experience - some have said we will be printing our own skin by 2030.

One thing everyone agreed on throughout the day was that technology is changing rapidly, and there are many trends influencing business buyers. It is difficult to pick a frontrunner in terms of the technology, but looking at reports conducted by analyst powerhouses such as IDC, Gartner and Forrester, the same words popped up including IoT, blockchain and automation (*see box, below left*).

However, while technology is driving this change, one of the main messages that came out of the panel discussion on the day was that it always has to fit into the culture of a company, and this is a vital component of the sales process.

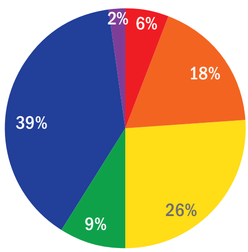
Also sitting on the Agilitas panel was Terry Willis, interim director of IT for the Church of England (CofE). While some might question the CofE's role in an IT discussion, Willis explained that with around 26,000 people on the payroll and an Oracle, SAP and Microsoft estate (to name a few), the organisation was just an "enterprise by another name".

"For me, transformation is about business process reorganisation," he said. "And the biggest thing is culture. I've seen digital transformation when engagement doesn't happen from the top, so no-one understands what the engagement will be. Vision is actually where you want to be. I never use the word strategy. Technology changes so rapidly you have to able to steer your vision. The vision is what you follow and that's where your organisation will go. You need a vision for technology and how you guide your vision on that path."

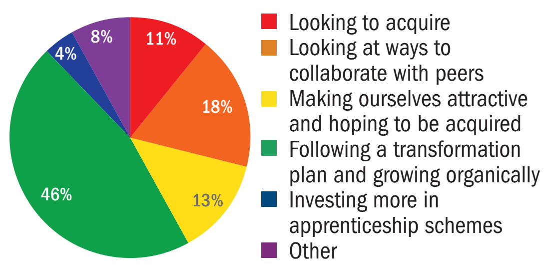
He also said technology, like all things sold as a solution, needs to be able to "wash its own face".

"AI is a good example. People go off to build AI platforms. We were once given a demo of an AI platform, completely off record from what we wanted. There was no commercial benefit to what

4. What do you think will be the biggest disruption to your business in the next two years?



5. How are you planning ahead for growth?



they showed us, in reality it was a nice shiny bolt-on to a product."

His next comment was a key message for the IT industry to bear in mind: "I think AI and machine learning and blockchain and all those other technologies will be fantastic if you have the right business case to start with. If not, they are just shiny new toys."

SoftwareONE's Virdi agreed that vision is key, but said dissatisfaction is important to highlight.

"A vision will give you the direction you want to go, but I think staff and clients need to understand what is wrong with the current way of working," he said. "If we create enough dissatisfaction with where we are today and people's roles and activity, we can give them the vision and process to go about and execute change – they will feel more comfortable to have a plan and drive change that is enabled through culture.

"Culture has many different components to it and is starting to be more measurable in terms of how we judge and perceive culture in an organisation. To me where this is successful is where people adapt to change," he said.

Virdi added that channel players need to remember that everyone is facing the same challenges.

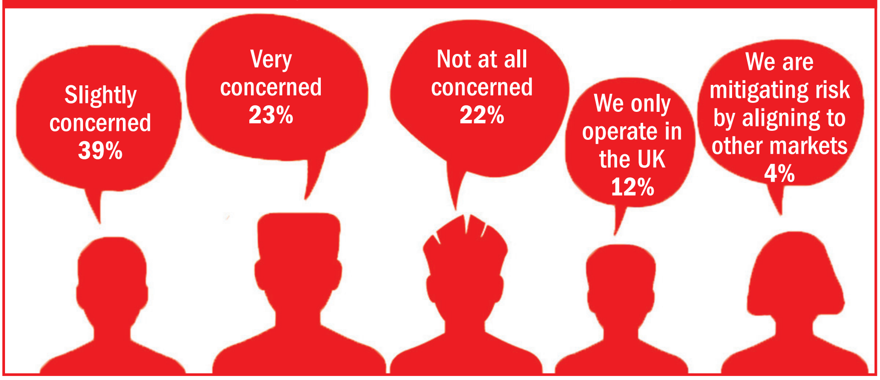
"Our clients are going through same challenges as we are," he said. "They are just as confused and bewildered about the rate of change and the opportunities in the market. They are trying to understand about what relevance they have in terms of the new world. The same applies to their staff – they need to understand that they have relevance and a secure future as well."

Sticking with the future, the next *CRN* survey question asked respondents what they felt would be the biggest disruption to their businesses over the coming two years (*Fig 4, p7*). Interestingly, 39 per cent felt Brexit would have the biggest impact. A further 26 per cent said rapidly changing technology trends would affect them the most, followed by 18 per cent saying vendors buying channel companies and competing directly would affect them. Nine per cent said collaboration would be a disrupter, followed by six per cent saying cross-border M&A activity creating hard-to-compete-with giants would disrupt their business. A further two per cent said other, with the majority of those picking the skills gap as a major issue.

Respondents were also asked how they were planning for growth (*Fig 5*). A whopping 46 per cent said they were following their own transformation plan and growing organically, while 18 per cent were looking at collaborating with their peers. A further 13 per cent said they hoped to be acquired, while 11 per cent were looking to make acquisitions. Four per cent said they were investing in apprenticeship schemes to close the skills gap.

Skills were highlighted twice in the last two questions, and were also discussed during the event itself.

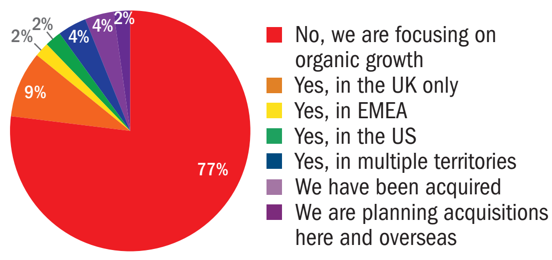
6. How concerned are you about the impact of Brexit on your business?



Keynote speaker John Pepper, founder of MSP Managed 24/7, said automation is one answer to the skills gap.

"We are going to be looking after more things, but we will have the same number of people looking after everything. How do we bridge that gap?" he said. "Automation is an answer, and we want

7. Have you made any acquisitions in the past two years?



one engineer to be able to do the job of 10 people; by 2025 we want them to be able to do the job of 20 people. We are all going through a change, and have to change quite rapidly to take advantage of the technology on our doorstep."

Returning to the survey questions, and in particular, the point about Brexit, *CRN* asked how concerned respondents were about Brexit (*Fig 6*).

Some 39 per cent said they were slightly concerned, while 23 per cent were very concerned, and 22 per cent were not at all concerned. A further 12 per cent said that because they operate only in the UK they would be unaffected, and four per cent said they were aligning their businesses to other markets to make up any shortfall.

Unfortunately, nobody possesses a crystal ball, so it is a case of wait and see what happens with Brexit, as the government and EU battle to come to an agreement.

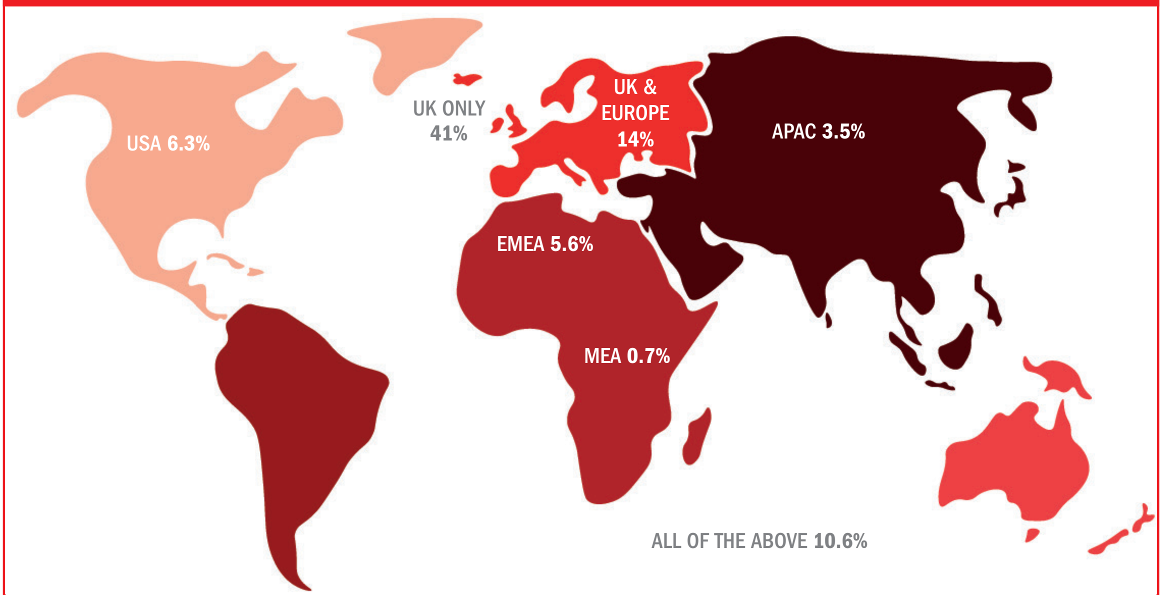
CRN also asked respondents if they had made any acquisitions in the past two years (*Fig 7*). A whopping 77 per cent said they had not, and were focusing on organic growth only. A further nine per cent had acquired in the UK only, and just four per cent had acquired in multiple territories. Two per cent had acquired in the US and EMEA respectively, and a further two per cent were planning to make acquisitions in the future. Four per cent of respondents had been acquired.

Those who had made acquisitions were asked how they financed them. The top answer, with 42 per cent of votes, said they had their own M&A war chest in place, while 21 per cent said they looked for private equity investment. A further 17 per cent said it was via venture capital partnerships, and eight per cent said via bank debt.

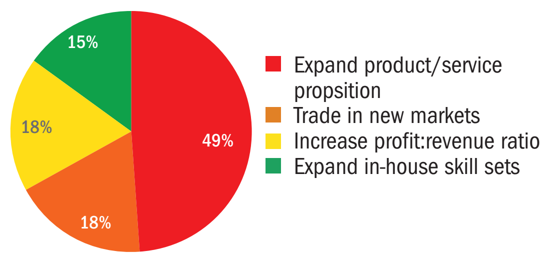
The same respondents were asked where they were looking at acquiring (*Fig 8*), and topping the list again was the UK, followed by UK and Europe combined, and then the US. Also mentioned was EMEA, APAC, MEA and all of the above.

When asked the main reasons for acquisitions (*Fig 9, p10*), 49 per cent said to expand product or service provision, 18 per cent said it was to trade in new markets, 18 per cent said to increase profit to

8. If you are looking to acquire, which territories are you looking at?



9. What are the main reasons for your acquisition targets?



revenue ratio, and 15 per cent said it was to expand their in-house skills.

Finally, respondents were asked to list the biggest barriers to entry (*Fig 10*). Twenty-three per cent said they were worried about it diluting their proposition, while 21 per cent were most concerned about the cost. A further 16 per cent said a lack of knowledge about each territory would stop them acquiring; and 15 per cent picked other, listing a range of concerns such as integration worries – in terms of staff, culture and technology – legal issues and staffing issues. Finally, 12 per cent said not having the right skills in place to make acquisitions would put them off.

Look to the future

So what is the best way to succeed in the future? According to the panel, the key points are to remain focused and put the customer first.

Agilitas' Lynn, said this can be hard for some firms because they are keen to share their thoughts and experiences with customers.

"It is about listening [to customers]. Asking them how it is going and what their challenges are. Also we are trying to understand how to move to something that becomes more efficient and repeatable, and not just a one-size-fits-all or computer-says-no scenario. You are making people buy into the journey. We are looking at things from the bottom up. It's a long march," he said.

However, Virdi said that focus was more important than ever.

"You need to be really good at a few things and try to excel at those, rather than try to expand exponentially in a range of opportunities," he warned. "Sometimes the hardest decisions are what to say no to. Yes, it could be a multibillion-dollar opportunity, but you need to stay focused, do it well and excel at what you are doing."

New Solutions' Cosgrove agreed. "Patience is really important in our industry," he said. "We are always in a hurry to get onto the next thing, but you have to understand what to say no to. We try to spend more time with clients understanding what the challenges are and teasing out the opportunities that these new technologies allow them to take advantage of. Also, make sure the teams you hire have the patience to understand what the customer vision is and line up offerings behind that vision. Always stay honest."

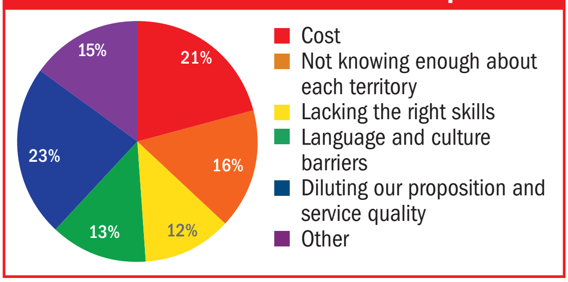
This point was backed up by end-user customer Willis. He said honesty was the best policy when it came to dealing with customers.

"I tend to be a broker of services and from a commercial point of view it is easier to outsource and have a proper contract," he said. "If something goes wrong and someone puts their hands up and lets me know in plenty of time that it has gone wrong, then I can feed back up the chain. It is not a problem for me. You can't always control everything. Honesty and integrity are so important and it all comes down to trust."

And what of the future shape of the market? The panel concluded that the industry is becoming more global, and this move towards globalisation is inevitable.

Virdi said: "The opportunity is around globalisation, leveraging skill sets and capabilities from global markets. The labels we attached to SIs, VARs, service providers, distributors or vendors are really becoming one – it is hard to know sometimes where an SI starts and a vendor ends. I think unification of the market is going to be the biggest change in the next five years."

10. What are the biggest barriers holding you back when it comes to international expansion?



But they also warned that it was key to keep that local element to their service.

Cosgrave said: "Yes, consolidation is inevitable and it will go on and on but we all know more failures than successes when you roll up loads of businesses. Those that keep the localised mentality and keep close to customers locally will do well. If you stay focused on the customer and understand their culture, there is no reason why you should not see success."

CofE's Willis backed this up from a customer viewpoint, saying he would always choose a niche partner over a global giant because they were less likely to be affected by geopolitical events and could offer a more focused and personal service every time.

To conclude, the future is looking bright for the channel, but success will not come easily to all. A lot of work needs still to be put in, and only those who have really futureproofed their business will be able to harness all the new technology and service opportunities coming down the pipeline.

It would appear also that while there is an undoubted increase in M&A activity across the board, the biggest appetite among channel firms is for organic growth, both on home turf and overseas, but many are not averse to collaborating with peers for mutual gain. The signs are very positive for the future.

However, the real key to surviving to 2020 and beyond is not just to concentrate on the latest technology trends, but to keep the basic rules of service provision at the forefront, and ensure that the customer always comes first and they are given a localised and personal experience from their IT provider.

Those who are willing to put their customers' needs and experiences ahead of their own goals are the ones who will truly reap the benefits of the new, exciting (and shrinking) world we are all entering.

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Incisive Media, New London House, 172 Drury Lane, London WC2B 5QR
Tel: (020) 7484 9000

Editor Doug Woodburn 9817 **Content editor** Tom Wright 9797 **Reporter** Marian McHugh 9883 **Content editor** Josh Budd 9854 **Multimedia editor** Nima Green 9781
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