



THE CHANNEL IN™
2020



THE CHANNEL IN 2020 MARKET REPORT #5



DISRUPTION



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THE CHANNEL IN 2020

BY AGILITAS

Disruption is probably the broadest, yet starkest term used to describe the changing landscape of the channel in the run up to 2020. With the stress of an ever-tumultuous UK political environment not relenting anytime soon, the financial implications that this could have and the looming enforcement of the General Data Protection Regulation (GDPR) in 2018, there are many disruptive forces on the horizon.

Despite this, these challenges represent the ideal opportunity to look at how channel businesses can achieve sustained growth by assessing how they deliver services for their end user customers. Those customers require support in order to deliver their own growth aspirations, so the need for channel firms to provide an increasingly on-demand environment has never been so important.

Channel growth is reliant on wider business success; the greater growth businesses have, the more opportunities there are for the channel to innovate. At Agilitas we're continually looking at how we can embrace 'disruptive' change to develop our offering, which has been covered in our previous reports on innovation, people, technology and finance.

Our research makes for interesting and surprising reading, with less than a fifth of all businesses surveyed believing that Brexit will have an impact on the channel, although many see financial changes as having the biggest impact. The innovative culture of millennials within the channel will be fully felt in the coming years, with a high proportion believing that businesses can save money when they move into senior management positions.

With this backdrop, I'm delighted to introduce our fifth market report in the series, exploring what will be the main disruptive factors in the channel by 2020. With all of these factors being introduced in the next two years, the channel is already



identifying the ways in which it can respond by sustaining and growing its core services and deliverables.

As a result, we believe the outlook is positive, with our research supporting this view. The majority expect the channel to grow between now and 2020, with a very small number predicting it to shrink, and the remainder expecting the sector's size to remain the same.

I believe the research summarises the channel's glass-half-full approach; always and looking for new opportunities that can foster growth. The channel has always been courageous, innovative and dependable, and it is for these reasons why I'm expecting to see the industry cope well with disruption as a whole.

I sincerely hope you enjoy reading our fifth report, and it inspires you to be creative and innovative in servicing your customers of today and the future.

Shaun Lynn, CEO, Agilitas

WHERE IS DISRUPTION COMING FROM?

The provisions under which all personal data on all EU citizens is used and stored, regardless of where they are in the European Union, has now been published by the UK Government, in the Data Protection Bill. The introduction of General Data Protection Regulation (GDPR) on May 25th 2018 has impacted businesses since it was announced in April 2016, just over two years before its implementation.

It is not unreasonable to suggest that some businesses may not have given GDPR enough attention until they absolutely had to. After all, a week is a long time in the channel, let alone two years. Those who have put the directive on the backburner are now realising the impact it could have on their businesses and how they communicate with their core revenue stream - their customers.

As a result, 37% of the channel believe that GDPR and other security changes will have the biggest impact on disruption between now and 2020. Despite this, Elizabeth Denham, UK Information Commissioner at the Information Commissioner's

Office, has revealed her frustration at the "scaremongering" on the potential impact for businesses. "The GDPR is a step change for data protection It's still an evolution, not a revolution," she adds.

Those businesses that feel unprepared for the introduction of GDPR may have dedicated an internal part of the business towards overseeing data security, or appointed an external GDPR expert that will come with an additional cost to ensure compliance. This is in addition to the increasing general focus on cyber security, thanks to new and innovative ways in which to infiltrate a company's systems.

Perhaps surprisingly, a relatively low 16% of channel leaders think that ongoing political events such as Brexit and the potential for further, unexpected political shockwaves will prove the main disruptive factor for businesses, which once again highlights the channel's resilience to changing landscapes.

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37%

OF THE CHANNEL
BELIEVE THAT GDPR AND
OTHER SECURITY
CHANGES WILL HAVE THE
BIGGEST IMPACT ON
DISRUPTION

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The irreversible nature of the referendum's outcome led industry leaders and decision-makers to start preparing for the UK to leave the European Union soon after the result was announced. For many businesses that are headquartered in the UK and which undertake the majority of their work in the country, this will not have a detrimental effect on their customers.

Alongside these considerations, the channel is having to adapt to the way in which customers want to consume their services. This is expected to focus on the requirement for on-demand delivery and an increase in collaborative channel support based services.

Businesses no longer want to be tied into long-term, fixed contracts with little options for scaling up and down, dependent on their requirements, with a 'pay-for-what-you-use' model preferred. Nearly a third (30%) expect the need for on-demand models between now and 2020 to have a major impact on disruption.

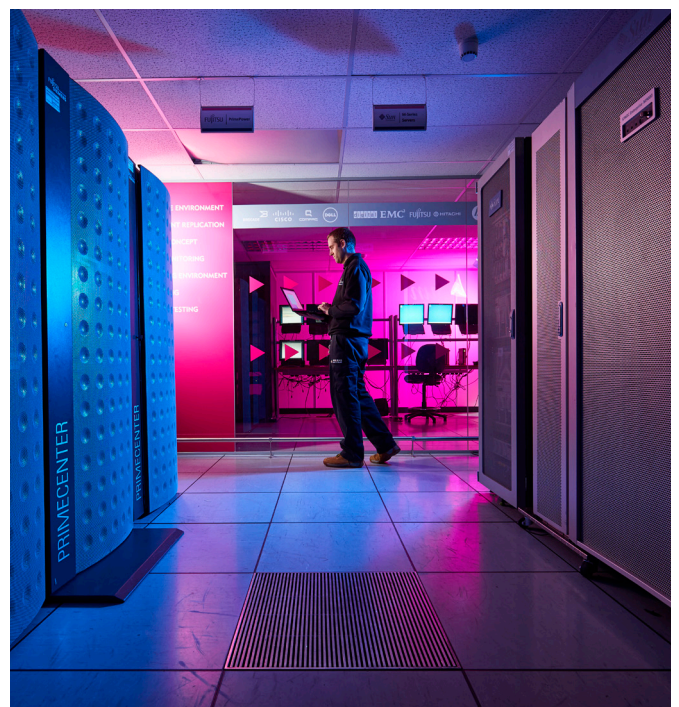
With existing providers needing to assess how they adapt and operate, nearly a fifth of those surveyed (20%) believe that 'traditional' vendors will develop into main disruptors. Continuing migration to the cloud has led 24% of the channel to believe that cloud providers will lead disruption.

The advantage of new-to-market vendors in having a fresh perspective of the changing channel landscape and the ability to tailor their proposition more quickly, has seen over a third (36%) believe that these will lead channel disruption by the end of the decade.

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30%

EXPECT THE NEED FOR
ON-DEMAND MODELS WILL
HAVE A MAJOR IMPACT ON
DISRUPTION

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35%

**BELIEVE THERE WILL BE AN INCREASE IN
THE COST OF MAINTAINING BOTH
PHYSICAL AND CLOUD BASED
INFRASTRUCTURE**

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HOW PREPARED IS THE CHANNEL?

Despite embracing a period of change as the perfect opportunity to target growth, the majority of the channel feel underprepared and negative towards the opportunities that it will bring.

This is mainly focused around the existing capital expenditure (CAPEX) model of purchasing technology and services, even though the majority of the channel is increasingly driving towards an operational expenditure model (OPEX), as outlined in our report on finance in the channel.

As a result, over a third of channel leaders (35%) believe there will be an increase in the cost of maintaining both physical and cloud-based infrastructure, as the cost of outsourced services and the price of bespoke hardware continues to rise in line with inflation.

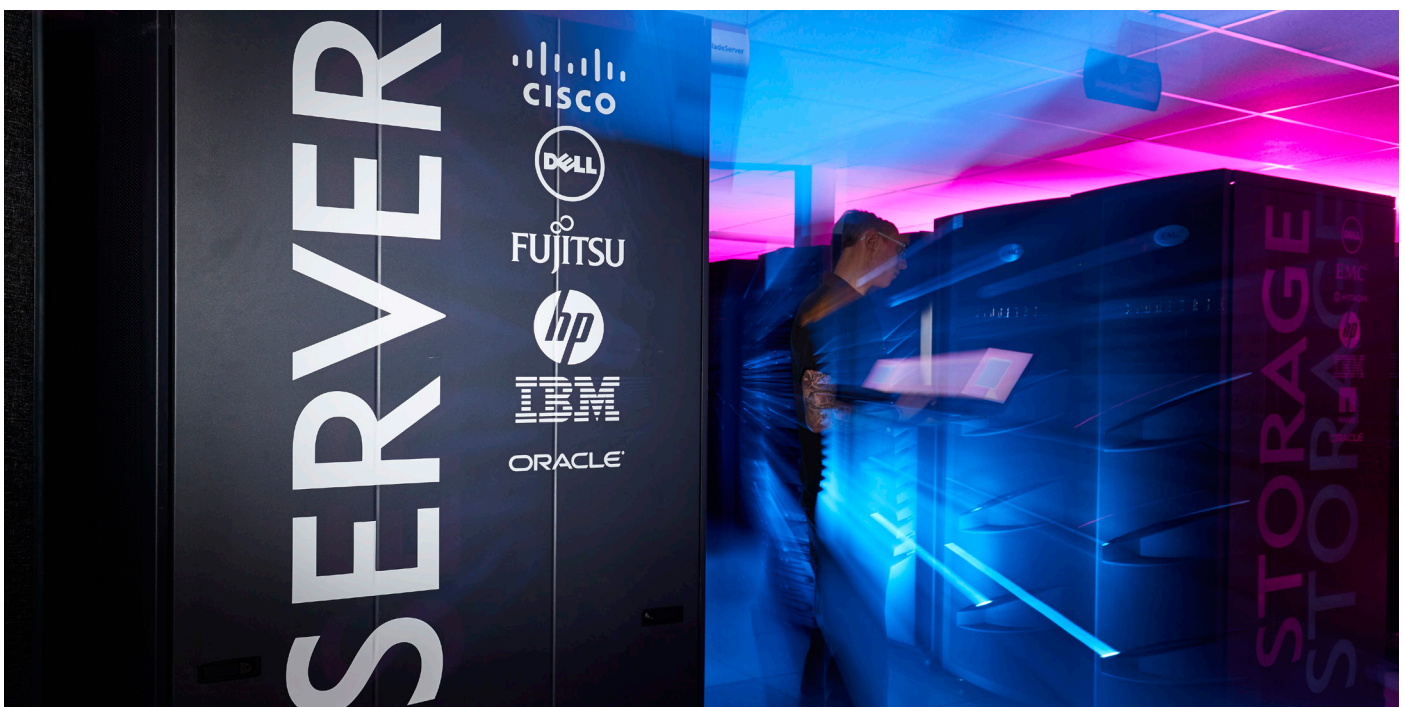
The onset of Brexit and the significant drop in the value of the pound has meant most major OEMs are either considering, or have already, introduced significant price hikes. Microsoft is a primary example after they announced in October 2016 that cloud prices will rise by 22% and on-premise by 13%. They are far from the only ones; Jabra, ASUS, and Lenovo (to name a few), have all announced price rises since the vote to leave the European Union in 2016.

Should customer requirements increase, so could the resellers' need to purchase more hardware, relocate data centres and migrate from physical servers to cloud-based platforms, all of which could prove expensive in the coming years, as these are not overnight solutions.

This has been reflected in the majority of the channel believing that current market disruption has already decreased business revenue by an average of 24% during this period of transition.

Moving to the cloud has long been on the lips of many in the channel, now that concerns over data and mobile access to that information, are gradually being addressed. Reliance on the cloud will only increase as the cost of maintaining data in this way, versus physically storing it, begins to look more attractive.

If businesses are ahead of the curve, in terms of having already migrated, this should streamline their revenue in the coming years. This has been reflected in 28% of those surveyed believing that there will be a reduction in the cost of maintaining infrastructure.



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36%

**BELIEVE NEW-TO-MARKET VENDORS WILL
LEAD CHANNEL DISRUPTION BY THE END
OF THE DECADE**

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DISRUPTIVE WORKERS: THE RISE OF THE MILLENNIAL

Despite a somewhat muted response to the opportunities afforded from the various disruptive forces, the growing presence of millennials - frequently defined as 'Generation Y' or those born between 1980 and 2001 - can ultimately lead to increased revenue between now and 2020.

This is significantly boosted by the majority of the channel believing that over a quarter of senior leadership positions within channel organisations will be held by millennials by 2020. That's not to say that millennials don't already hold a number of leadership positions, however.

Generationally-speaking, this may have always been on the cards, with the technological consumer revolution throughout the 1990s and 2000s having a big impact on future career choices.

The support for a fresh breed of those calling the shots has been favourably received by the channel, who believe overall efficiency will prosper. Over half (56%) of businesses in the channel expect younger leaders to save money on overheads and increase revenue, when in senior management positions.

Nearly 60% believe Generation Y will save money through new, collaborative ways of working, while generating new revenue streams. And with so much investment placed on innovation as detailed in our previous report, 68% believe that this will be achieved through the fostering of new ideas and innovation.





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60%

**BELIEVE GENERATION Y WILL SAVE
MONEY THROUGH NEW, COLLABORATIVE
WAYS OF WORKING**

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CONCLUSION

Flexibility and the ability to adapt to upcoming challenges is a must for existing and new-to-market providers. They must be ready for the factors that will lead to disruption by preparing as early as they can. A degree of this is outside of their hands, with the relatively low-risk approach towards Brexit reflecting the current uncertainty of what will happen in March 2019.

Nearly a third (30%) think that meeting evolving customer requirements, including the increasing need for on-demand services that will force some providers to change their entire business model, is the biggest challenge facing the channel.

This is despite 37% predicting that the looming introduction of GDPR and its overall impact will be the dominant factor. Furthermore, the need to keep up with what new providers will have to offer is also seen as a leader in channel disruption (36%).

However, this is countered by an overall positive outlook on how the channel could look by 2020. The introduction of more millennials into senior management positions, who will lead the charge in how to embrace disruption and adapt, ultimately leading towards current revenue being increased and new streams introduced. The changing faces of CEOs, CIOs and MDs in the channel will serve to meet these requirements.

Similar to the mobile phone and telecommunications world, where the focus has shifted to data over typical voice-based and SMS propositions, the channel will need to adapt just as quickly to the consumer's requirements.

This will also include the continuing transfer on the balance sheet from CAPEX to OPEX models, as businesses look to free-up and reduce the expensive one-off costs that go against the overall flexibility that must be fully embraced.

KEY TAKEAWAYS

HOW THE MANAGEMENT OF GDPR WILL HAVE AN IMPACT ON RESELLERS

The most significant change in how data is stored, regulated and acted upon in the last 20 years is already having an effect on resellers. Both the preparation for the enforcement of this change in May 2018 and the subsequent handling of data will be heavily scrutinised to ensure absolute compliance. The increased resources required to process customer data could be significant, yet the opportunities to add another dimension to a reseller's package could outweigh the headaches.

CHANNEL FIRMS WILL NEED TO RE-ALIGN COMMERCIAL MODELS TO SERVE 'ON-DEMAND' SERVICES

The increasing flexibility in the channel and the move towards the cloud and away from traditional legacy systems reflects a similar attitude towards how we consume both software and hardware. Businesses who do not want to be tied into fixed contracts with fixed products for 12 months or more require the option to scale up or down, so developing a 'pay for what you use' model is crucial to remaining commercially viable.

MILLENNIALS IN MANAGEMENT ON THE RISE

The increasing number of millennials in management positions within the channel and the influence they will hold by 2020 will be simply more than a transition from one age bracket to another. With a fresh perspective on management and innovation, many businesses are expecting millennials to streamline and increase revenue streams and decrease overheads.

LOOK FOR NEW AND COLLABORATIVE WAYS OF WORKING THROUGH NEW PARTNERSHIPS

Outsourcing shouldn't be seemed as a weakness. It should be perceived as an opportunity to form new partnerships and working relationships, ultimately creating a larger entity that can offer businesses everything they need in an all-in-one package, but not necessarily under one roof. The challenges that the channel is facing is the perfect excuse for changing the way in which providers operate.

DEVELOP BUSINESS OUTCOME SOLUTIONS FOR CUSTOMERS

The one-size-fits-all approach is no longer a viable option for businesses. Channel providers must assess what their customers would like to achieve, both immediately and in the long-term. Only by doing this can they create bespoke solutions for their customers that looks at all objectives.

PREPARE AND THINK OF NEW WAYS TO MAINTAIN PHYSICAL AND CLOUD-BASED INFRASTRUCTURE

Although many in the industry are being offered the choice to migrate to the cloud from legacy systems, this doesn't mean that physical infrastructure is dead and buried. If you think smart about how to properly maintain all hardware, overall efficiency can be improved. Exactly what is stored in the cloud and why it is stored in such a way must also be considered, including whether increased support is needed to ensure the consistency of managing all sensitive data across physical and cloud-based platforms.

TAKING ADVANTAGE OF DISRUPTION AND IDENTIFYING IT AS AN OPPORTUNITY FOR GROWTH

The rise of the millennial, GDPR and the change in how providers deliver their services can serve to reset procedures and processes. This will in turn provide an opportunity for assessing partnerships and reviewing best practice that can ultimately lead to sustained growth.



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