



THE CHANNEL IN™
2020



THE CHANNEL IN 2020 MARKET REPORT #3



FINANCE



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THE CHANNEL IN 2020

BY AGILITAS

Financial uncertainty has crept its way into multiple business sectors in recent times. As our government grapples with the challenges presented by Brexit and the changing international market, recent conditions have produced both opportunities and challenges for businesses. The critical role the UK IT channel plays in supporting technology across organisations leaves the market relatively unprotected from financial uncertainty and disruption.

Channel growth is reliant on wider business success; the greater growth businesses have, the more opportunities there are for the channel to innovate and provide relevant IT services. At Agilitas, we're continually looking at how we can innovate and develop our offering to meet these financial challenges. In the previous two Agilitas market reports we've looked at how this is being done with people and technology.

Arguably, with financial year-end approaching many businesses in April, now is the optimal time to think about financial modelling, and how we as an industry can continue to grow and service our clients through the good times and the bad.

With this backdrop, I'm delighted to introduce our third industry report, exploring what channel finance will look like in 2020. Despite warnings from government and industry leaders, we believe the outlook is positive, and our research supports this view.



The majority expect the channel to grow between now and 2020, with a very small number predicting it to contract, and the remainder expecting the sector's size to remain unchanged.

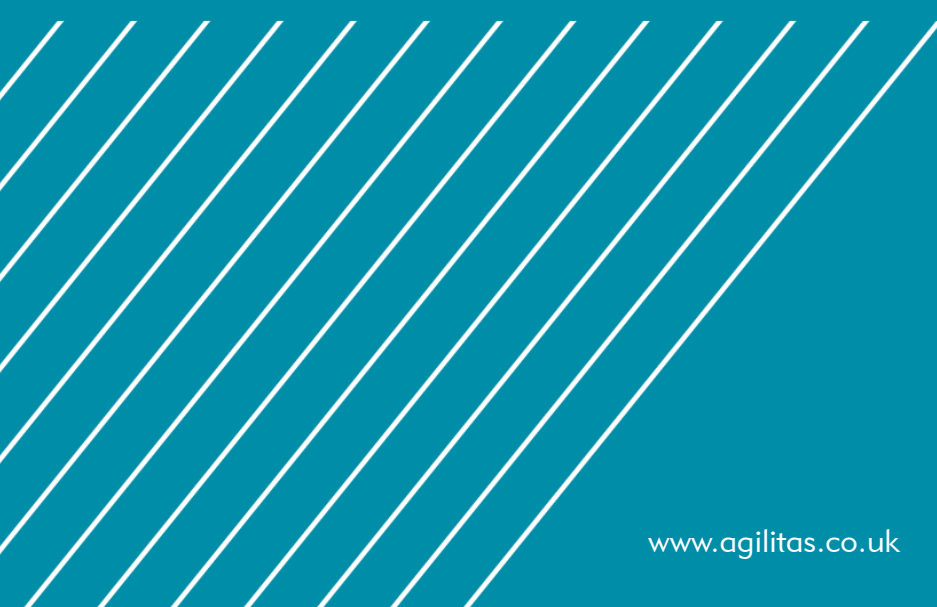
The research in my view sums up how we as an industry approach business. The channel has always been bold, innovative and dependable, and it is for these reasons why I am expecting to see the industry cope well with financial disruption. I sincerely hope you enjoy reading our third report, and it inspires you to be creative and innovative in servicing your customers of the future.

Shaun Lynn, CEO

“
47%

**EXPECT THE CHANNEL TO GROW
BETWEEN NOW AND 2020**

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FINANCIAL CHALLENGES FOR THE INDUSTRY

The channel has, in recent years, been faced with multiple challenges from the rise of technology such as cloud computing and artificial intelligence to challenging market and financial conditions. 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 on 24th June 2016.

For the market, the result is an end-user driven environment. With higher costs, maintaining performance becomes more of a challenge. The result will be reduced loyalty to current leading vendor brands as pricing becomes a key differentiator. This could increase commoditisation in the hardware market, producing lower margins for resellers. We've witnessed this trend in our research with nearly two thirds of contributors agreeing that contracts will be more performance driven by 2020.

Despite concerns over market disruption, channel leaders are positive about the future of the industry. A significant share expect the channel to grow between now and 2020:

47%

expect the channel to grow
between now and 2020

27%

expect the channel to be a
similar size in 2020

26%

are not confident in the channel
growing between now and 2020

The Agilitas view is that this growth is likely to be in channel support based services as companies look for alternative revenue streams less susceptible to margin pressure but in turn complement the existing supply and service model in these challenging environments.

Confidence in the channel is supported by Office of National Statistics research suggesting that the technology industry has helped to drive GDP growth post the vote to leave the European Union in 2016.



For more on this topic:

www.agilitas.co.uk/blog/2016/02/17/how-cios-are-looking-to-transact-in-todays-market/



30%

SHIFT FROM

CAPEX

TO OPEX

WHAT WILL CHANNEL CONTRACTS LOOK LIKE?

With the expectation that channel growth will be driven by an increase in channel support based services, we're expecting disruption and changes to support models to become the status quo for the next few years.

Challenges to businesses are already driving a focus on operational expenditure (OPEX) models over expensive one off capital expenditure (CAPEX) means of purchasing technology and services. A significant number of respondents agree that IT based revenue streams will be almost entirely OPEX by 2020. The core benefits of adopting such a model are as follows:

- Less upfront investment required
- More flexible contracts that can be effectively expanded, reduced and tailored
- Spending is determined before anything agreed and is guaranteed
- Maintenance and support is included as part of SLAs

Much of this change has been driven by a changing market in which we've seen the emergence of a pay-as-you-grow economy. Applications have emerged in the consumer space such as Netflix and Spotify, offering unlimited service levels for a monthly fee.

The trend is opening up more revenue opportunities in the channel, particularly in IT services, which is expected to see the biggest shift (30%) from CAPEX to OPEX by 2020, followed by hardware sales (19%).



For more on this topic:

<http://www.agilitas.co.uk/blog/2016/05/04/the-transformation-of-it-operations/>



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WHITE-LABELLING SERVICES PROVIDES
AN ALTERNATIVE MODEL FOR CHANNEL
PROVIDERS TO EXPAND THEIR SERVICE
WITHOUT THE NEED FOR HEAVY
INVESTMENT.

”

WHAT NEW REVENUE STREAMS CAN WE EXPECT TO SEE IN THE CHANNEL?

Our research identified two areas we expect to see significant growth in by 2020 as a result of changing market conditions and financial situations: support services and white-labelled IT.

SUPPORT SERVICES

When asked which areas they expected to see the strongest revenue streams in 2020, a majority of the channel leaders we surveyed answered software and hardware support services. Attributed to the rise in 'as-a-service' offerings, and customer focus on performance, it is clear that the industry recognises a need for evolution.

Service is an area ideal for outsource as it can be very costly to build a leading service proposition from scratch. Organising one's own puts high pressure on SLAs and a business' ability to maintain continuity. In the space Agilitas operates - inventory-as-a-service, organisations looking to manage their own inventory on behalf of customers have to invest heavily in order to build up their IT hardware stock to an adequate level able to service customers effectively whilst hitting contractual SLAs.

With this increase in support services, at Agilitas we're already starting to experience a significant rise in the uptake of white labelled IT services. As part of demand for greater performance driven contracts, channel partners have in recent years started to recognise that they can't all be a one-stop-shop. Therefore, we're also beginning to witness a more collaborative approach emerge. In some cases collaboration can be a preferred option to white labelling, as service providers can often onboard credibility that a reseller may want to utilise in order to secure a contract or customer.

By looking to collaborate with already established expert players, channel businesses can offer a broader range of services, with the guarantee that these will be delivered to the highest standard by experts in their respective fields. White-labelling services therefore provides an alternative model for channel providers to expand their service without the need for heavy investment.

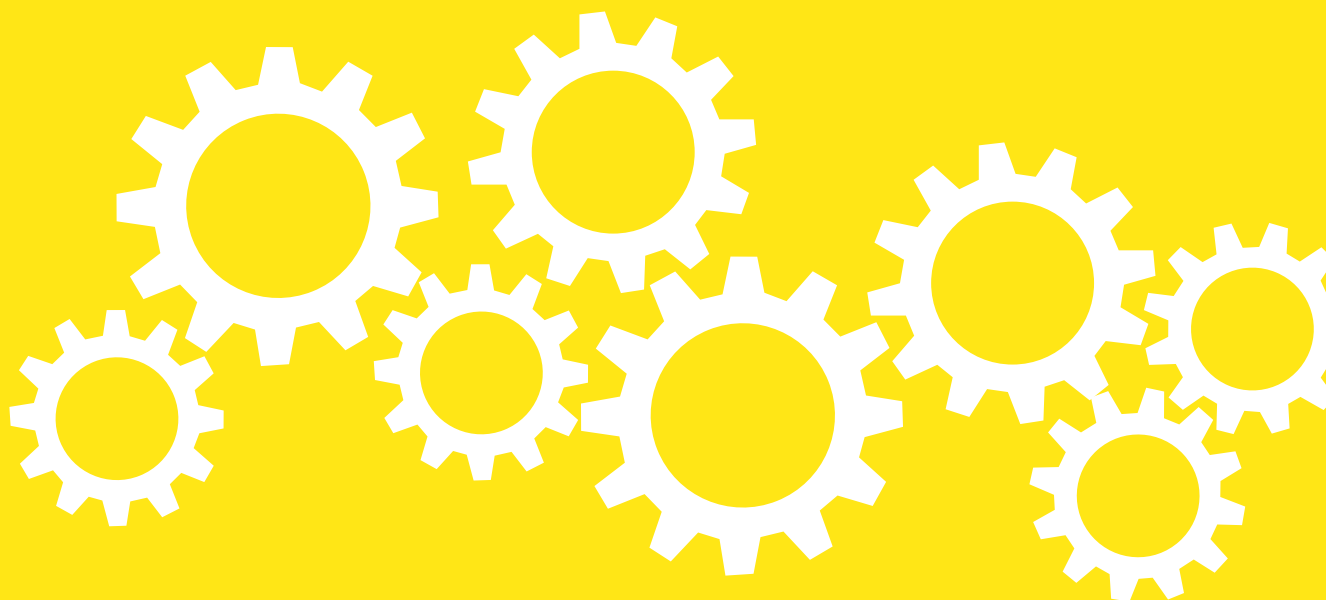




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THE COGS ARE ALREADY IN MOTION,
JUST MAKE SURE YOU'RE NOT LEFT BEHIND

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CONCLUSION

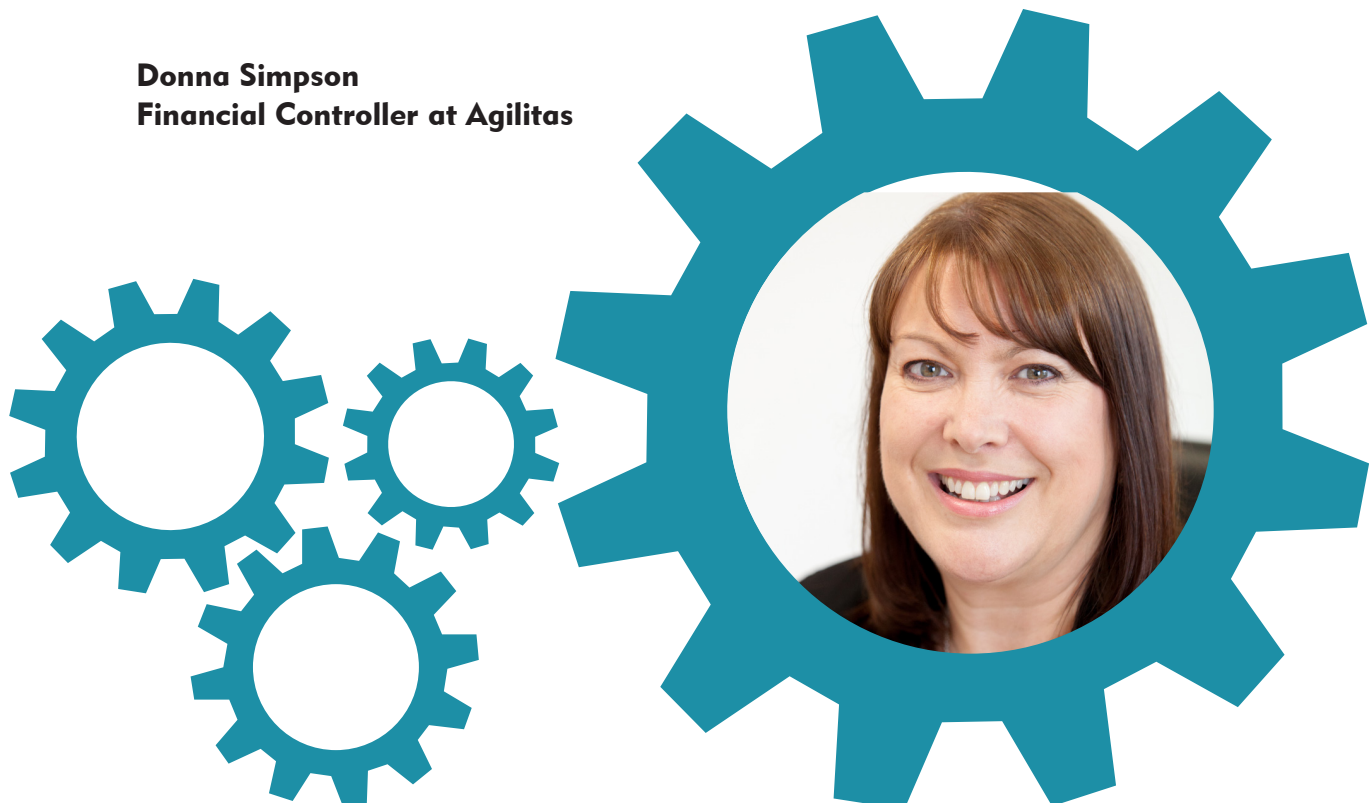
In my view, the financial outlook for 2020 is positive, despite continued disruption and market challenges. Three quarters of the individuals we surveyed (74%) expect the channel to see growth or stay the same size between now and 2020. Confidence continues to be high.

From an Agilitas perspective, it is positive to see that OPEX is set to dominate. The challenges that have emerged in the last year will be best faced by taking flexible approaches to contracts and doing business. OPEX contracts are scalable, and enable greater investment and growth in support services and white labelled IT services.

To take hold of the trends discussed in this report and truly drive growth for customers, channel leaders will need to fully embrace OPEX, collaboration and innovation. Our technology report has highlighted a changing technical environment, and in the same way that organisations are innovating with technology, they must do the same with their contracts and finance. Markets are changing, and to stay relevant, the channel needs to change as well.

The cogs are already in motion, just make sure you're not left behind.

Donna Simpson
Financial Controller at Agilitas



KEY TAKEAWAYS FOR THE CHANNEL

LOOK TO AS-A-SERVICE MODELS TO PUT THE CUSTOMER IN CONTROL OF THEIR SPEND AND RESULTS



"The future is in 'as-a-service' models" commented Shaun Lynn, CEO of Agilitas. Taking this modern approach to business will pay significant dividends in terms of customer success. It enables customers to focus on their business and trust all of their IT to a single reliable supplier.

OFFER YOUR SERVICE AS A WHITE-LABEL OR LOOK TO BRING IN WHITE-LABELED SERVICES TO MEET YOUR CLIENT NEEDS



"To put your clients first you need to look to a more cooperative marketplace" commented Richard Lockett, UK MD of Crayon. "If I don't have the expertise, I'll go and find someone with the relevant infrastructure to help."

LOOK AT HOW YOU EXPAND YOUR SERVICE THROUGH PARTNERSHIPS AND COLLABORATION



"We're at our best when we work together" commented Shaun Lynn, CEO of Agilitas. To effectively meet market challenges businesses need to appreciate when someone else can do something better. Ultimately focus on what you're good at, do it well, and partner with others when you feel at all out of depth.

LOOK TO OPEX OVER CAPEX



"OPEX offers a more cost effective, agile and scalable approach to doing business" explains Donna Simpson, Financial Controller at Agilitas, "In changing markets, business buyers do not want to be tied down to an expensive solution for five years." Flexibility is key to the future. Channel leaders want to be able to swap solutions and services in and out, and grow their IT footprint with business requirements.

BE FLUID AND READY TO ALTER SERVICES TO MEET CLIENT NEEDS AND FINANCIAL DEMANDS



For many years channel suppliers have operated in the same way. We now have an opportunity to truly focus on our customers and own them. Meeting their needs and demands should be your number one priority. Carl West, Supply Chain Director of Consumer Choices at GFK believes "change is good, but the difference now is that it is driven by the customer and end user consumer."



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