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Rising Stars

Highlighting the most disruptive, most profitable and fastest-growing firms in the UK channel

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PASSION TO INNOVATE

Disruption is here to stay, so embrace it and reap the rewards

"The companies listed in this report are tackling the changes in the channel head on, in order to add value, remain relevant for their customers and ultimately lead the way in their respective fields"

Now in its second year, Agilitas is once again proud to be associated with the 2019 *CRN Rising Stars* report. When originally coming up with the concept of the Rising Stars programme, in partnership with *CRN*, our aim was highlighting the next 100 resellers, MSPs and solution providers who were leading the charge into the Top 100 VARs. Two years on from its inauguration and the *CRN* Rising Stars programme has grown into a unique, comprehensive and insightful body of work that really captures the essence of those channel businesses who continue to shine. As a result, this report will focus on the most disruptive, most profitable and fastest-growing firms in the UK channel as we look to understand their DNA by identifying the ingredients of their secret sauce.

It is clear that IT channel businesses are now under more pressure than ever before to reinvent themselves to stay ahead of the competition. Here at Agilitas, due to implementing a refined channel and customer-centric strategy, we have experienced turnover growth of 23 per cent year on year and 53 per cent profit growth, returning over 20 per cent EBITDA. Like many of the companies profiled in this report Agilitas has had to disrupt traditional models, embrace innovation and drive transformation in order to remain relevant to our channel partners. Evidently, the companies listed in this report are tackling the changes in the channel head on, in order to add value, remain relevant for their customers and ultimately lead the way in their respective fields.

From previous Agilitas research through our Channel in 2020 campaign, it is clear that disruption within the IT channel is nothing new. The industry is continuously changing and there are increasing numbers of new innovations. The main difference in recent times is that the speed at which this change is happening has accelerated exponentially.

Those that are embracing these disruptive forces are clearly pushing the boundaries by moving to recurring revenue models or reinventing themselves as cloud migration specialists – as discussed in more detail in this report. Many businesses are now beginning to recognise that they can't afford to stand still; similar to other sectors, the only constant within the IT channel is change.

Customers' exact needs and desires must now be the primary focus of any channel firm, as out-of-the-box solutions no longer suffice. Remaining relevant for customers is clearly a top priority for channel businesses now, and going forward, especially in today's changing digital landscape. Our recent research has shown that 85 per cent of companies have recognised the need to move towards 'as-a-solution', customer-centric models and provide products and services in line with customer requirements.

Alongside remaining relevant for customers, many of the channel businesses listed in this year's *Rising Stars* report are transforming or looking to transform with a cultural shift to ensure they have everyone in the business aligned to the same vision. When it comes to delivering successful transformation projects, your business needs to focus on business outcomes both externally and internally. The channel has also been experiencing a strong increase in mergers and acquisitions, largely due to channel companies expanding on their services and embracing digital transformation through acquiring subject matter experts.

Collaboration with other channel businesses gives companies an efficient and quick way to enhance their services portfolios and grow on an international basis. This is highlighted in the report, with some companies outlining their growth outside the UK and Europe and the many benefits this has brought. Our recent research into globalisation in the channel revealed that a large proportion of decision makers have already expanded their channel business outside the UK. This demonstrates a healthy appetite to explore new markets, adopting innovative and up-and-coming technologies.

Overall, it will be no surprise to channel leaders that the topics discussed in this report are at the forefront of most channel firms' minds. What separates the successful businesses is how they have embraced market changes and reinvented themselves to create new opportunities. At Agilitas we believe that there has never been such an exciting time in our industry to work closely with our channel partners to analyse how we can further foster innovation and collaboration in order to remain relevant and continue adding value to our growing customer base of rising stars.

■ *Shaun Lynn is CEO of Agilitas*

The power of reinvention

The channel has a knack for reinvention that would put David Bowie to shame, but it is arguably just about to face its sternest test of its identity yet.

The technology world is in the midst of radical upheaval, and any IT solution provider not able to upgrade what technology it provides, and how it provides it, accordingly risks being side-lined.

A new generation of Uber and Netflix users entering the workforce are demanding to consume everything as a service, while every company is now said to be a technology firm at its heart, as digital transformation takes centre stage.

The imminent rollout of 5G – 1,000 times faster than its predecessor – promises to turn the volume of data that enterprises currently handle into a rounding error.

Firms on the frontline of technology provision will rightly greet these changes, which speak to the heart of what they do, with an equal measure of excitement and trepidation.

CRN's *Rising Stars* report is designed to highlight some of the most profitable, ambitious, and innovative firms in the UK channel at this critical juncture for the industry.

While *CRN Top VARs* charts the fortunes of the UK's top 100 firms in our sector, *Rising Stars* aims to highlight success stories within the wider community of UK resellers, MSPs and solution providers that make up *CRN*'s wider *VAR 300*, which tracks the 300 largest UK resellers, MSPs and consultancies on our radar, from £1.5bn-revenue giant Computacenter to firms in the sub-£10m revenue bracket.

In this report, we will meet resellers that are pushing the boundaries in various ways, from companies reinventing themselves as managed or cloud service providers, to those developing their own intellectual property or expanding internationally.

At a time when margins in the traditional hardware and software resale space are being squeezed, *Rising Stars* also features a Profit Track that highlights the firms that are bringing in the most money at the bottom line.

The final Ones to Watch section, meanwhile, profiles seven tech providers that are setting the industry alight with their growth, from a £4m-revenue Cisco partner gearing up to list on AIM, to a Northern Irish MSP that has just taken on 150 staff and a buy-and-build firm targeting £100m revenues.

The technology industry is moving at lightning speed, so it's perhaps no surprise that the UK IT channel plays host to some of the country's most vibrant and exciting firms, as this report aims to showcase.

■ *Doug Woodburn is editor of CRN*

Inside Rising Stars

Adapting to the market

It was an eventful year for firms in *CRN*'s *Top VARs* and wider *VAR 300*, who logged revenues of £15.7bn and £19.4bn in their most recent financial years on record, up 13 and 12 per cent respectively.

Average profit margins among the top 100 firms fell for a second successive year, with firms variously blaming intensified competition, the rise of cloud, and Brexit (*see Rising Stars Profit Track on p15 for more*).

The IT channel may be known for its chameleon-like tendencies, but the truth is that resellers are under greater strain than ever to reinvent themselves as their traditional stomping ground of reselling and servicing on-premise hardware and software continues to contract.

Some are doing this by aggressively pursuing cloud services and recurring revenue streams, others are developing their own intellectual property, while still others are embracing new consumption models, hunting international growth opportunities, or striving to cover more ground by adopting a peer-to-peer partner model.

The first section of this report examines the forces of change reshaping what resellers do, along the way highlighting case studies from seven firms featured in *CRN*'s *VAR 300* that are pushing the boundaries in some way in response to these forces of change.

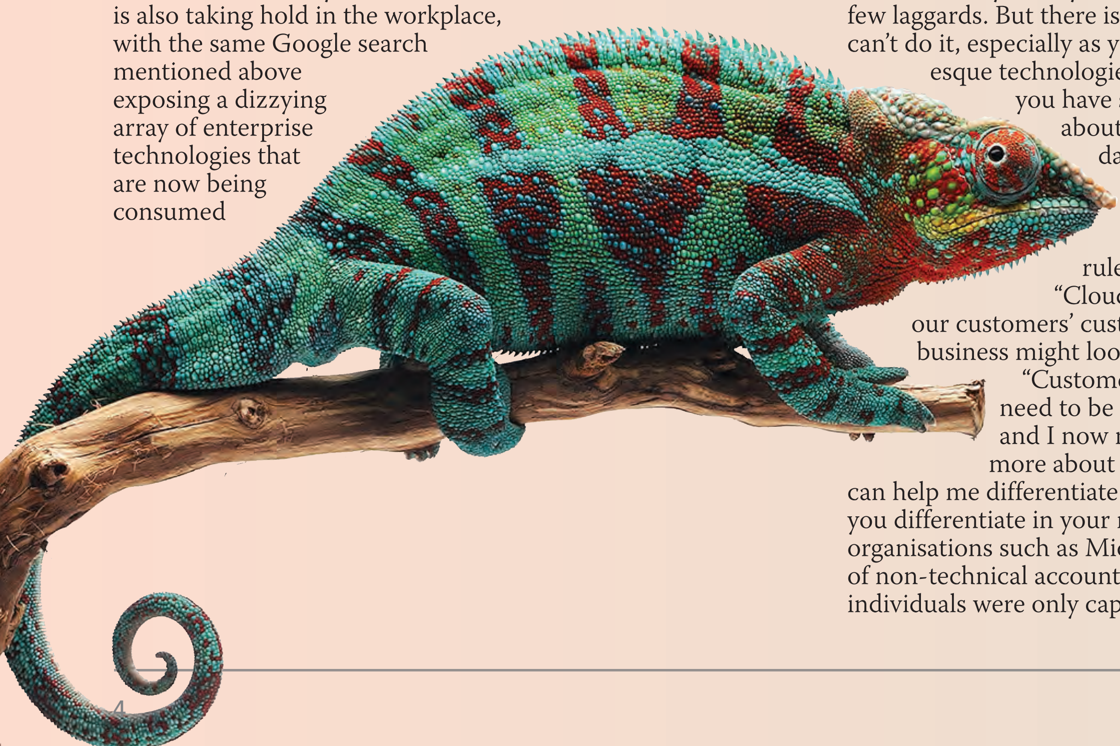
Anything as a service

A quick Google search reveals that you can now purchase razor blades from $1 month under a 'shaving-as-a-service' model, analyse human expressions using an 'emotion-as-a-service' tool, and crowdsource employees through a 'humans-as-a-service' model (an expression coined by Amazon CEO Jeff Bezos).

This is all evidence of our unstoppable desire to consume almost everything on a per-month, or on-demand basis.

A new generation of Netflix and Uber users that have never bought a CD or DVD are entering the workforce. Millennials will make up 50 per cent of the UK workforce by next year, according to the Institute of Leadership and Management.

It is therefore only natural that an as-a-service revolution is also taking hold in the workplace, with the same Google search mentioned above exposing a dizzying array of enterprise technologies that are now being consumed as a service, from 'visibility-as-a-service' and 'data-as-a-service', to the intriguingly entitled 'results-as-a-service'.



Resellers and MSPs are scrambling to keep pace with this trend, as we explore in our case study of Xeretec on p11, a Xerox and HP partner that is leaping headfirst into the fast-growing device-as-a-service (DaaS) space.

DaaS may still be on the fringes, with IDC pegging adoption at being in the low single digits, but other flavours of technology as a service are already establishing themselves as the dominant consumption model in their respective fields.

Take infrastructure-as-a-service (IaaS), which according to IDC surpassed revenue generated from traditional on-premise infrastructure for the first time in Q3 of 2018. Revenue generated from sales of servers, storage, switches and other IT infrastructure for cloud environments, rose 47 per cent to $16.8bn (£12.9bn) during the quarter, equating to 50.9 per cent of the overall pie.

Cloud reinvention

This shift from on-premise to cloud is reshaping what channel partners do.

As more end users port workloads to the public cloud, some channel providers are "burning the boats" of their hardware business and reinventing themselves as AWS and Microsoft Azure migration specialists, as we explore in our case study of Manchester-based ANS on p6.

It has also spawned a new generation of born-in-the-cloud providers whose sole mission is to help customers migrate away from legacy, on-premise equipment.

This includes Microsoft partner New Signature, whose UK founder Dan Scarfe predicted that the vast majority of the market will soon be operating on public cloud technology.

"If you say that cloud includes proper private cloud – as in public cloud deployed into on-premise environments (for example things like Azure Stack) – I think you could get 85 to 90 per cent of the world operating on public cloud technologies," he said.

"This is maybe 10 years out, and there will always be a few laggards. But there is very little reason now why you can't do it, especially as you can now run public cloud-esque technologies inside your own datacentres if you have security and performance worries about moving into somebody else's datacentre. There are really no limits to it."

Scarfe claimed that cloud technology has "rewritten every rule out there".

"Cloud has enabled our customers and our customers' customers to reimagine what their business might look like," he said.

"Customers are waking up and saying 'I need to be a digital, cloud-native business', and I now need my supplier to understand more about my business and how technology can help me differentiate in my market – never mind how you differentiate in your market'. You're seeing it with organisations such as Microsoft, which pruned the number of non-technical account management roles it has. Those individuals were only capable of understanding what it was Microsoft did and they couldn't understand how Microsoft's tools and products could help the customer's digital transformation. You've now got all these cloud solutions architects, whose job in life is to understand the customer's business and how technology can help them.

"Even with us, our business model is changing rapidly, because again customers aren't interested necessarily in server management any more, and even IaaS is becoming old hat. It's now all about platform services and applications development, so we are creating a new range of services that's about how we can be a delivery model for the intellectual property an end user is creating, be that a portal or an order management system or a bit of software they deploy to their customers. How can we help them to become a software company? That's what we're having to do to transform because the IaaS space is so competitive now."

Despite seeing its annual revenue run rate boom from $0 to $26bn inside 12 years, AWS is now viewed as a frenemy by many VARs and MSPs, whose role has evolved to become hybrid cloud consultancies who counsel customers on which workloads to move to the cloud, and when.

"You've just got to acknowledge that public cloud exists," said Howard Hall, managing director of HP and HPE partner DTP.

"The HPE focus is to acknowledge the three areas of technology [public cloud, private cloud and on-premise] and bring them together into a single management layer. There are workloads that sit naturally in the public cloud and it's the cheapest way to do it, but there are also workloads that need to sit in private cloud or on-premise. Netflix was born in the cloud and has come back on-premise, because the economics have driven it."

Graeme Watt, CEO of Softcat, concurred.

"I still don't see cloud as a threat to us," he said.

"No matter what's happening in cloud, our customers want to be able to go to a trusted adviser and get help with modernising and updating their IT landscape. They don't want to go to multiple partners."

The pervasiveness of cloud means that many end users are now working with more than one major cloud provider, spawning the birth of the 'multi-cloud' model. Analysts disagree on adoption, with Gartner predicting multi-cloud will be the common strategy for 70 per cent of enterprises by the end of this year, but IDC claiming only nine per cent of firms are multi-cloud ready.

But not everyone is convinced this new buzzphrase will deliver on the hype in 2019.

"I think this is the year that multi-cloud will either make it, or be consigned to history as a marketing buzzword," said New Signature's Scarfe.

"It's interesting because it depends on where customers are as to whether vendors are pushing multi-cloud or not. If you're Microsoft, and Amazon's in there, of course you're going to say multi-cloud [is the right option] as it's your only way in. But if you're Microsoft and Amazon's not in there, then you'll give the correct answer, which is that a single cloud today is the most cost-effective way of building and operating clouds.

"Although [the different cloud platforms] share a lot of similar characteristics, they are radically different. The Pentagon is doing the largest cloud services procurement in history – a $10bn cloud services procurement. And they have expressly ruled out multi-cloud, because it's too hard and it's too complicated."

Marketplace menace

If the channel has co-opted the threat of AWS, the same may not be true for Amazon Business, a marketplace for B2B products Amazon launched into the UK in 2017.

Amazon Business caters for businesses of all sizes, as well as public sector organisations, and last year bagged a five-year, £600m public sector contract to become a one-stop shop for Yorkshire's schools, social services and emergency services.

In his predictions for the channel in 2019, Forrester analyst Jay McBain warned that the emergence of B2B marketplaces will accelerate the decline of resell.

In fact, Forrester is forecasting that 17 per cent of all B2B transactions will occur through e-commerce by 2023, spurred by the rise of a new gig economy for tech services among the new line-of-business tech buyers.

New Signature's Scarfe said he would be "quaking in my boots right now if I were a reseller".

"Amazon is brilliant. I use Amazon every other day as a consumer. It's such a great buying experience; why would businesses not want the same experience consumers have?"

Marketplaces will be tucking into someone's lunch, but it won't be that of mid-market MSPs such as Xeretec, according to the HP and Xerox partner's customer solutions director David Smith.

"You would be foolish not to look at the impact of marketplaces and what they've done elsewhere – you only have to look at the high street or at the book industry, where there has been a disaggregation of the supply chain," he said.

"I think it will have an impact at two ends of the market. One is the off-the-peg, more transactional stuff where you've got the simplicity and anonymity of being able to do something on a platform like that. But I think where you've got those in-house skills right at the top end – where you've got a team of IT pros that know exactly what they want done and are testing a limited set of services they would normally outsource elsewhere – I can definitely see

it playing in that space. But where we play, we definitely see a trend of overstretched IT teams and I think that we have many years yet left in terms of satisfying that demand."

The commoditisation of hardware and emergence of B2B marketplaces only underlines the need for traditional resellers to move up the value stack.

Many are doing this by building more profitable managed services revenue streams, as we explore in our case study of Computerworld, a Bristol-based Dell partner that is in the midst of its transition from VAR to MSP (*see p12*).

Others have taken even more radical steps in their efforts to sell to the C-suite by reinventing themselves as software developers. This includes DTP, which has over the last several years built a range of its own intellectual property spanning predictive analytics, smart buildings and app development on MFDs (*see case study, p10*).

"[Marketplaces] may impact the broadline resellers, but it's a transactional sell, and when you're only selling on price, there's only one trajectory and unfortunately that's downwards," said DTP's Hall.

"For us it's about focusing on a value sale and delivering those business outcomes."

In his blog, Forrester's McBain billed "partnering with partners" as a new paradigm for the channel. The new tech services gig economy will see partners with various skills having to pair up, he asserted, giving the example of a CMO that works with five different companies installing, implementing, integrating, securing, ensuring compliance, and providing business continuity in a single solution stack.

"This could include a SaaS partner, a digital agency, a systems integrator, multiple ISVs, a start-up, a 'born-in-the-cloud' provider, and a traditional solution provider," he said.

The partner-to-partner model is also being actively pushed by vendors including Microsoft, as we explore in our case study of New Signature, which is linking arms with several peers – including SAP specialist Edenhouse – in its efforts to broaden its footprint (*see p8*).

Turbulent times

With Donald Trump continuing to face off against China, Intel warning that chip shortages will endure for several months, and the UK in Brexit limbo, tech suppliers face an uncertain 2019.

Watt at Softcat revealed that the UK's second-largest VAR has formed a Brexit team to ensure it is on top of developments.

"We just have to look at the likely outcomes. If there are price implications through the pound weakening or through tariffs being applied on products, we would just pass that on," Watt said.

"There's little we can do directly about [potential challenges at the border], but we are in conversations with our distributors and vendors that supply hardware to us. They're not committed to doing it as it will depend on the outcome of the negotiations, but they are making plans to buffer, I would estimate, between four and six weeks of stock, particularly on the high runners to ensure any interruption, if it does come, is minimised.

"The other concern might be the demand environment, if people start to lock down investment."

Tony Snaith, CEO of Communicate (*see One to Watch Q&A, p23*), said the threat of Brexit has already caused a slowdown in its core vertical of business parks.

"We are led by office lettings, so if space isn't taken in a building, that's dead space," he said.

"We've got buildings that are historically running at 90 per cent occupancy but are now down to 60 per cent. It's taking longer to get people in."

Despite such macroeconomic factors, Gartner still expects global IT spending to grow to the tune of 3.2 per cent this year to hit $3.8tn.

Matt Franklin, CEO of Roc Technologies (*'Ones to Watch – see p21*), positioned Brexit as a potential opportunity for firms in the channel to push emerging technologies, such as robotic process automation.

"Brexit will potentially create challenges for organisations. They will need to do things differently and there will be all sorts of regulatory considerations. Our big mantra around that is you really need to understand and optimise your processes to prevail and be able to weather the storm of any market dynamic, so we feel any change is an opportunity," he said.

Roc is preparing to help its clients work smarter around potential tariffs and price rises, as well as stock supply constraints, Franklin added.

"The projects we work on have critical milestones, so it's just about mitigating those risks," he said.

"The other thing is, we don't have a lot of foreign workers, so it's not necessarily such a concern, but depending on how things pan out I imagine that would be an issue for more internationally oriented organisations."

Given the market uncertainty, it is only natural that a number of ambitious channel players are looking beyond UK shores to bolster growth, led by the UK channel's largest player, Computacenter, which last year acquired US reseller FusionStorm. Reading-based SAP partner Invenio also harbours plans to acquire in the US, as we discover in our interview with CEO Arun Bala on p13.

According to Bala, Brexit has rendered the UK more "insular", strengthening the need for the firm to continue with its international expansion drive.

Others are looking not abroad, but to adjacent markets for growth. This includes Arrow Business Communications, a comms reseller that has recently expanded into the energy sector, and now sells more energy than it does IT and telecoms combined (*see case study p14*).

The UK IT channel has never been as turbulent, but – as this section has demonstrated – leading players are disrupting and innovating to ensure they stay relevant for years to come.

CASE STUDY: PUBLIC CLOUD

‘When we do something, we go all in’

Partner: ANS
VAR 300 ranking: 60th
Pushing the boundary in: Public cloud reinvention

Cisco and NetApp partner ANS has spent the last 18 months reinventing itself as a public cloud migration specialist, working with AWS and Azure. Talking to CRN, ANS CEO Paul Shannon admitted it had been a painful transition but claimed that ANS’ gross margins have ultimately been boosted by the move

Most people will know you as a Cisco Gold partner, but you’re now doing a lot of work with AWS and Azure. What prompted the change?
We first started looking in a fairly serious way at public cloud about five years ago. We’re a mid-market MSP, so we’re working with companies with 500 to 10,000 staff. We don’t work with the huge blue chips that were going public cloud four years ago, and we don’t work with small SMEs, some of which were also doing that. It was too early four years ago for the mid-market, but two years ago we could see Microsoft building some presence in the mid-market, and so was AWS, so we thought that this was what we wanted to do and what we want to be known for.

We go all in. We don’t just say we’re going to be a cloud company and then see what happens. When we said we’re going to focus on cloud for X number of years, we went all in. So we spent a lot of money on training our existing staff to make sure they’re cloud capable, and a lot of the staff wanted to go with us. They understood that having a hardware-only business wasn’t going to be sustainable going forward, so we managed to take them on that journey.

How much retraining have you had to undergo?
We’ve got about 150 technical staff. Of those I would guess 100 of them have either done, have started or have a personal development plan related to public cloud. It’s a huge portion. We have 275 staff and 100 of them have started retraining, and that doesn’t include sales guys or our marketing team who’ve had to retrain in a completely new area of the market. If you add it all up, almost half of our business has had to be retrained in one way or another.

How much pain has that transition inflicted on ANS?
It’s been really, really tough. When people ask me how it’s been, I’ve been really candid with them. It’s really tough to see something you’ve been making money out of – and you’ve been doing really well from for a long, long time – have its margins diminish because the market is changing. Then realising you’ve got to go all in on something completely new, not just for AWS, it’s not like we’ve picked up on unified comms that people have been doing for years; public cloud is new for everyone.

Apart from people, the main challenge has been that, in the past when we sold what we’ve always sold, we’ve always been able to rely on anywhere between 60 and 70 per cent of our profitability in any particular financial year from existing customers. But this year and last year, a lot of that has come from new customer wins. Winning new customers is a lot harder than working with existing customers.

We’ve also had to retrain our contracts team, our finance team, and interact with our suppliers in a different way. We’ve had to change what we do on a day-to-day basis.

How does AWS measure up as a vendor partner?
They’re easy to do business with. They’re nowhere near as mature in the channel as some vendors, but that’s understandable given that the channel model is essentially a company that has come from a direct-to-consumer retailer. They’re recruiting people who have been working in the channel at established vendors for decades, so it won’t take them very long to get that level of maturity.

Any of the most advanced programmes, or highest levels of accreditation with those partners, we’ll be seeking to achieve them this coming financial year, if not earlier. So we definitely want to get on the Expert MSP for Azure programme, and we’re in the midst of prepping for that.

How do you expect your public cloud assault to affect your financials?
Last financial year’s focus was on winning new customers in public cloud and training our staff and get everyone to become a public cloud expert in their field. This year it’s to push our relationship with those key partners further.

We’re not announcing our numbers, but anecdotally we expect FY19 revenue to be broadly flat. We’ve seen the bottom of the revenue drop. Give or take a couple of million, I wouldn’t expect it to be a significant drop in this coming financial year.

“It’s been really, really tough. When people ask me how it’s been, I’ve been really candid with them”
Paul Shannon, ANS

CASE STUDY: PARTNER TO PARTNER

‘Microsoft played matchmaker on this’

Partner: New Signature UK
VAR 300 ranking: 280th
Pushing the boundary in: Peer-to-peer partnerships

Last October, Microsoft Azure specialist New Signature forged an alliance with SAP partner Edenhouse Solutions to help move SAP clients into the cloud. UK founder Dan Scarfe says the alliance has already yielded results, but warns that the peer-to-peer model doesn’t come without its pitfalls

You recently forged an alliance with SAP counterpart Edenhouse. What’s the rationale for adopting a partner-to-partner approach?
There are definite merits in it because it’s very difficult for one organisation to do lots and lots of different things. We can do all of the Microsoft cloud bit, and can now [with Edenhouse] onboard SAP, which is one of the most complex applications in the world. Microsoft played matchmaker on this: ‘You guys are the best at Azure, and you guys at SAP – maybe you should talk’.

In other areas, partner to partner is more challenging. It depends on how close the skill sets are. There are other, well-known examples of organisations that have come together to do technology which is much closer, for instance one partner doing Azure and the other doing Office365. Those partnerships are much more difficult because there is a lot of overlap between the two technologies and they are such natural bedfellows that it makes sense for one organisation to skill up in both sets.

What tangible benefits has the Edenhouse partnership yielded so far?
It has meant that we can have conversations with customers we wouldn’t have been able to have before, as SAP are one of the primary workflows that organisations want to move to the cloud. We have at least a dozen projects in flight and proposals we are working on at the moment, and we wouldn’t have previously been able to bid on any of them. They are starting to trickle through to real professional and managed services work.

Some onlookers have credited a rise in the partner-to-partner model to the increasing complexity of the technology landscape. Do you go along with that point of view?
Yes, absolutely. Again it comes down to how different the platforms are. We cover all of the Microsoft cloud bar Dynamics, which is a phenomenally big and complex platform in its own right, so we partner with another firm in Dynamics, but the rest of it – Azure, Office365 and enterprise mobility and security – we see those as indivisible for most enterprise customers so those ones we believe are best delivered by organisation.

What lessons have you learned from your peer-to-peer engagements?
There are a number of challenges, the biggest one of which is probably culture. Do the organisations stand for the same things? Do both organisations believe in delivering value to the customer, or does one of them believe in making as much as they can for themselves? That is something we see very often, where companies are just wired differently, so you have to jump over that hurdle first.

Some of the other big challenges we’ve seen are who leads a particular engagement. These will be joint engagements, but we might be introducing Edenhouse to a customer, or Edenhouse might be introducing one to us. In one you’re the prime contractor and in the other you’re the sub-contractor, and how do you deal with that? When one of the pair is taking first-line support calls from the customer, how do they escalate that to the other partner if there’s a problem, and vice versa? So we’ve had to do a huge amount of work with them to design that model, and you have to do that before you even start selling anything as you have to have your answers right before you pitch to the customer.

Which leads to one of the other problems: how do you go to market together? One organisation’s sales motion might be very different from another partner’s sales motion. We’ve done a lot of work, at least for a smaller engagement, to package up what we do and they’ve packaged up what they do, so we don’t necessarily have to have a pre-sales person from each partner at every meeting.

“We have at least a dozen projects and proposals we are working on that we would not have been able to bid for before”
Dan Scarfe, New Signature

CASE STUDY: INTELLECTUAL PROPERTY DEVELOPMENT

‘It was a bit of a fluke, to be honest’

Partner: DTP
VAR 300 ranking: 113th
Pushing the boundary in: Developing own predictive analytics software

After entering the world of software development in 2012 via a “fluke”, HP and HPE partner DTP has since built out a range of its own intellectual property. This includes its Solutionpath student analytics software, a spin-off that it is building for a sale. MD Howard Hall tells CRN that the move has helped DTP sell on business outcomes rather than price

How did you first get into the world of software development?
It was a bit of a fluke, to be honest. HP acquired Autonomy for $11bn in 2012, which subsequently turned out to be £8bn too much, but what it did buy was some great technology. It was just the time when university course fees were changing from £3,000 a year to £9,000, so the student literally overnight went from being a student to being a valuable consumer that the university needed to retain.

That was purely it. We had a coming together of those two things. The Autonomy piece was down to us owning higher education for HP, and there were some guys at Manchester University who were working with Autonomy and were looking for a commercial arm.

The software they developed was around research data management, to which at that time there wasn’t much commercial upside. We ended up taking them on, but realised we needed to find something for them to develop, and corresponded that idea around student retention. So we got into it that way.

How did that evolve into DTP Solutionpath?
We built a predictive analytics tool that can accurately predict which students are going to leave in 12 to 20 weeks’ time, so an intervention can be made prior to that student moving.

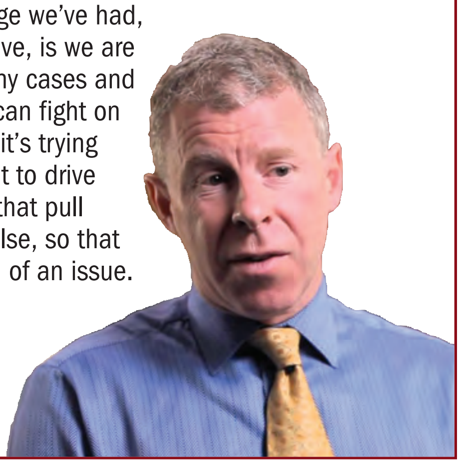
Then it morphed from there. We can project what grade a student is going to leave with at the end of their degree course, and that means universities can tier their resources onto working with the students on the fail and low-grade trajectories, and leave the ones who are on the first-class honours degree trajectory. We’re pattern matchers who look at engagement and more importantly disengagement, based on the real-time data the students are generating on campus from lots of different technologies.

We’ve developed some really unique IP. We’ve got quite a lot of universities in the UK working with us. We’ve launched in Australia and are just about to launch in the USA. And it’s interesting for a tin and managed services business to get into software development. I wouldn’t say it’s been an easy journey; it’s been an interesting journey because software isn’t like hardware where the SKU comes out and you’ve got three or four years of selling before the next replacement comes. Software is changing on a daily basis. It’s like driving down a motorway: you stop at a service station and everyone you’ve overtaken is overtaking you again.

That’s where we started and we have since spun that out into a separate business – DTP Solutionpath. It stands alone with its own management and P&L, and since then we’ve been scaling into other areas of software as well. We’re doing some quite nice work around retail, where we’ve been doing some pilots around virtual loyalty apps with an online bookies.

We’re also doing some work on the IoT side of things in the manufacturing plant of the future. We’re getting away from product selling and into business outcome selling, and that’s what excites me most about the software piece: being able to take problems, maybe even problems people don’t know they have, and change them.

Software development can be expensive and time consuming. Is it worth the investment?
If you think of our student analytics business, we are building that to sell, hence why we spun it out, and it might be four or five years before we sell it, so we’re building not only IP but also value. The other side of things is it’s a point of the spear solution. Take the high street bookies. That particular client is a Cisco house. We don’t do Cisco. And they don’t do [Aruba] Beacons. It’s an opportunity of pull through across 200 branches across the UK to equip them with Aruba APs and Aruba Beacons and then get into them for more things. It’s a way of differentiating and getting higher up into a client. The challenge we’ve had, and probably still have, is we are supermarkets in many cases and the only metric you can fight on then is price. For us it’s trying to get away from that to drive business outcomes that pull through everything else, so that price isn’t that much of an issue.



“We’re getting away from product selling and into business outcome selling, and that’s what excites me most”
Howard Hall, DTP

CASE STUDY: DAAS

‘You have to jump into DaaS with both feet’

Partner: Xeretec
VAR 300 ranking: 70th
Pushing the boundary in: Device-as-a-service

Amid predictions that up to one in every six PCs will be purchased under a DaaS contract by 2020, managed print specialist Xeretec is among a handful of MSPs pioneering the model among its customers. We quiz customer solutions director David Smith on whether it really is the future of the PC market

According to IDC, the percentage of PCs shipped under a DaaS contract will rise from one in every 100 to one in every six or seven PCs between 2016 and 2020. Do you go along with this prediction?
Yes. People have been surprised by what’s gone down the as-a-service route – everything from shaving products to the explosion around Netflix and consumption of media by the next generation of millennials and generation Zs. All the indicators are there to suggest that DaaS will grow in this way, and I think the customer demand is there. The challenge will be whether the supply chain can push that model as well as it being pulled by the customers. It’s a big opportunity for us, that’s for sure.

What kind of uptake are you seeing for DaaS?
We have secured some really nice contracts and have had some lighthouse wins in some really big accounts, one of which is a 15,000-unit deployment which is the first wholescale rollout in the NHS in the UK. Our unit placement figure is forecast within a 12-month period to be in excess of 20,000 units.

The dialogue with customers has been very positive so far. Not only are they seeing the value of migrating to a per-month model (which actually works out more economically attractive in total cost of ownership) they also see the services they are doing today that are distracting them – like building a PC, rolling it out, having to manage break-fix and liaise with the manufacturer – can be wrapped into what we offer. It alleviates them to focus on more important things.

Are clients moving one device at a time, or doing it in one go?
We’ve identified three models. There are those that are brave. They are doing a Windows 10 rollout in one big project. They tend to be quite large.

Probably the bulk of them tend to be the ones that refresh devices as they age. Let’s say they have an estate of 1,000 PCs and every year they’re going to replace 200 – ‘we’ll do 200 through a DaaS model’. Oddly enough, if, say, it’s the NHS, they’ll say they’ve only budgeted to do 200 units this year, but when they look at the economics of DaaS they see they could afford to replace 1,000 units in year one because their payments are being stretched over a three to five-year period. So in many cases it accelerates the adoption.

And there are those that do spot purchases. It’s pretty much 33 per cent in each sector.

To what extent is Windows 10 a driver?
There’s a mandate [in the public sector] to move to Windows 10, therefore they look at a way of economically deploying this in the timescale they’ve been given without burning all their capital budget. And that’s one of the attractions of the DaaS model.

We’ve seen that the Microsoft move in terms of operating system has always been the stimulus to move the client PC forward to the next platform.

You say you think DaaS is more economical for your customers from a TCO viewpoint. But what does it mean for you as an MSP? Is it all upside?
I’d issue a word of caution for anyone considering DaaS. You have to jump in with both feet because when you’re looking at the whole supply chain metrics – the life cycle management, the proactive intelligent management of devices in situ; that whole ecosystem – it’s not a simple thing to do. Because of our DNA [as a managed print specialist] we’ve done most of these things. We have the billing platforms and we have salespeople who are skilled in being able to articulate a consultative contract discussion with the customer.

It gives us greater buying power, so when we talk to a manufacturer like HP, the dialogue is not just about print deployment but also PC deployment. It also gives us the ability to have another conversation with a customer. If we have a happy managed print customer on a five-year agreement, the refresh cycle is planned in whereas with this the PC refresh cycles are pretty much happening all the time.

“The challenge will be whether the supply chain can push this model as well as it being pulled by the customer”
David Smith, Xeretec

CASE STUDY: VAR TO MSP

‘Margins were slowly declining in what we did’

Partner: Computerworld
VAR 300 ranking: 214th
Pushing the boundary in: Transitioning from VAR to MSP

Bristolian VAR Computerworld is aiming to generate 50 per cent of its revenues from services by 2021 as it reinvents itself as a managed services provider. MD John Armstrong, who led an MBO of the firm in May 2018, opens up on the challenges his firm is encountering on its MSP journey

Can you give us a flavour of how your revenue mix is changing?
Historically, we’re very much a capital-based reseller. Pretty much 80 to 85 per cent of our revenue is based on starting the month and selling solutions into our customer base, which is typically 150 to 3,000 users. That led to some interesting peaks and troughs, as I’m sure many of the other VARs will know about. We started to build out a number of enterprise-focused, as-a-service products in 2017-18, and our growth plan for financial year 2021 is that 50 per cent of our overhead will be covered on the first of each month by recurring monthly margins.

What was the rationale for the change?
We were seeing margins slowly declining in what we do in capital. We were really only focused on providing support services – the third and fourth line of vendor escalation – but we started to look at how we could expand to put some compelling services in front of customers that would allow them to tackle something like lack of resource. They are demanding more from less resource in their IT team.

How tough has it been to get your staff to follow you on that journey?
That remains the major challenge. Is it just a question of making some products available and then the rest will just happen? No! Some of the team embraced it and could see ‘I’m on a capital-based number so if I can start the month with X amount in the pot in recurring revenue, that’s got to be good for me’. But it didn’t really put the control in the hands of the business, as we were still targeting them on a capital-based number of which recurring margin was a component. So we’ve now changed the commission scheme and also created a strategic sales team layer in the organisation, which is an overlay. We are starting to see some success, but it’s a bit early to conclude that’s all we’ll need to do.

It is enriching the quality of your business, in terms of profits?
We’re not seeing it manifest itself to quite the level we’d like, but are making the right movement in that direction and are seeing the margins starting to grow. Our primary alliance is with Dell, and profitability and predictability are two of the points in their strapline, which has definitely helped to stabilise our capital margins – and we are actually on track for a record year in terms of growth of turnover, but also underlying profitability. But we won’t quite hit our target this year for recurring margin.

What tips would you have for resellers starting out on this journey?
It’s a culture change. *CRN* ran an article that talked about how the capital sale is like crack cocaine for sales guys. How do you get them to embrace a model that is better for the stability of the business? Regarding the commission plan, we rolled up our recurring margins into a pot and paid a commission on that total amount, so they could still enjoy the feeling of doing a capital sale. And it’s also about getting training and education behind the team so they can tell the story of the customer.

You spearheaded an MBO of Computerworld last year. What are your ambitions for the firm?
From a commercial objective, we’re looking to completely transition from a VAR to an MSP. The market we represent will still very much be the mid-size to enterprise space. We are looking at what Computerworld. next looks like at the moment – is it an Azure play; is it a specialism in IoT? The commercial goal is looking at 15 per cent growth and stability in the P&L that will come from a stronger play in our recurring margins.

“We were really only focused on providing support services – the third and fourth line of vendor escalation – but we started to look at how we could expand”
John Armstrong, Computerworld

CASE STUDY: INTERNATIONAL EXPANSION

'Our ambition is to scale up in the US'

Partner: Invenio
VAR 300 ranking: 144th
Pushing the boundary in: International expansion

You grew at over 50 per cent in 2017. What are you looking to scale the company to?
We expect to deliver revenue of £55m for the year to March 2021, with a stretch target of £60m. As far as profitability is concerned we are scaling that up as well. We consciously reinvest all our profitability back into the business – and that has been a great way for us to grow the business as well. There is a lot invested into R&D and new product development and also to support our international expansion.

What first triggered your decision to target projects outside the UK?
The company was founded in 2006 and in the first few years we engaged primarily in the UK. There were two opportunities that helped us look beyond the UK. The first was from Universal Music, which continues to be a very large customer of ours. The French-speaking part of Universal Music wanted an SAP support partner to support their SAP applications and we had just engaged a team from Mauritius, where French is the second language for most people. At the time we started that relationship we were one of 14 suppliers into Universal Music for its SAP estate. Now we are the sole supplier in that area.

At that time we also had an opportunity from the Mauritian Revenue Authority for implementation of an SAP tax and revenue management (TRM) system. That was in 2008. They'd tried implementing the system with two other SAP partners – one from Africa and one from Asia – but the implementations were failures. We went in and the delivery took six months. SAP took note of Invenio, and ever since they have engaged us on TRM opportunities.

Following that was an implementation in the Maldives. We developed a close relationship with the SAP public sector business unit and at that point Martin Sobotka, who was a very senior person in SAP in the public sector, joined us, and we've been pretty successful ever since in the TRM space. We won a TRM project in Saudi Arabia, which was our first implementation for a G20 country in the public sector. On the back of which the Saudi authorities engaged us for implementation of VAT as well. Following this was an implementation opportunity for TRM for 25 tax types with the Fiji revenue authority.

Our philosophy has been to focus on just a few verticals but be global in these verticals. It would not have been possible for Invenio, or any company, to win an opportunity in a remote corner of the world such as Fiji without having that expertise. It is because of that expertise, and the focus in select areas, that we have such strong traction with SAP and with tax authorities.

What percentage of your sales are now from overseas?
At least 70 per cent of our revenues are overseas. Fifty per cent of revenue comes from our public sector practice, which is all overseas, and a good percentage of our revenue also comes from Universal Music and the other accounts that are in the US.

You've won projects in the UK, Middle East, Mauritius, the Maldives and Fiji, among other countries. What lessons have you learned along the way?
What we have done successfully is always engaged with local people and companies. With Fiji, Mauritius and Maldives, the culture is a mix of aspects of the UK and India, so we have been able to engage very easily, quickly and effectively in these three countries. The Middle East has definitely been a challenge, which is why we have engaged with some local partners who have helped us, for instance, in dealing with Arabic language and local culture. The USA and Canada also require a certain local presence and what we haven't been able to do in the US is scale up. Our ambition is to achieve that, and we hope to do it through some partnerships and acquisitions.

"Our philosophy has been to focus on just a few verticals but be global in these verticals"
Arun Bala, Invenio

CASE STUDY: DIVERSIFICATION

'We're now selling more energy than IT and telecoms combined'

Partner: Arrow Business Communications
VAR 300 ranking: 134th
Pushing the boundary in: Diversifying into adjacent markets

Surrey-based comms VAR Arrow Business Communications has acquired seven companies since current private equity backer Growth Capital Partners invested in 2016. Two of its purchases have come not in ICT but in the arena of energy provision. We quiz CEO Chris Russell to find out whether selling electricity has super-charged Arrow's sales

What made you want to start offering energy alongside comms?
It's a market I've wanted to get into for five or 10 years, because I think the market mechanics work very similarly to telephony. You've got a number of incumbents that are slow moving and don't serve their customers particularly well, and you've got customers whose needs are not being met. We can sit in the middle and meet the customer's needs, add a margin and add a cross-sell product to what we already do. If you look at the mobile market, you've got three or four big providers who are not renowned for service but who are large, so people always include them. It's the same in energy: you've got the big six, but customer satisfaction is really low, and that's a breeding ground for VARs like us.

Are there other firms that sell both energy and ICT?
There are a couple of others [that are doing it]. Focus, based in Sussex, has an energy business as well as XLM and a few of the guys focused on SOHO and SME. And there's also Telecoms Plus, which has a huge energy business. So I don't want to sit here as some kind of visionary. But it's new for us. The acquisition [of Pulse] was in March 2017 and we did another top-up acquisition in December.

What's your business model in the energy market?
We had choices. We could have got a full licence and taken the hedging risk. But if you look in the press now, there are a lot of new entrants – admittedly in the consumer market – that are merrily going bust because oil prices changed and all the contracts they wrote are now not profitable.

So we broker the deals and stand between the customer and all the suppliers – we have relationships with 18 different companies. So the first part of the relationship is commercial – the billing and contractual relationship is between the end customer and the end supplier – and we are a commission-based business. Our turnover [for 2018] is going to be about £38m, and the next year it will be about £47m, £48m. If we billed those revenues our turnover would be £107m [for 2018], so we are selling more of this stuff than telecoms and IT together.

The second part of the relationship is where we've created a bespoke software portal called POD, which enables people with multiple sites and meters to manage all those relationships from one source. Then the third angle is there's a chance to buy in slightly different ways, so you can agree to buy so much energy business and we'll advise you when to place those contracts. It means higher energy users can take a more sophisticated approach to how they purchase energy.

What's the benefit of providing ICT services and energy under one roof, and how much overlap is there between the two customer bases?
Initially it was small. With the energy business, we had 200 quite large customers, whereas we sell to mid-market – 50 to 500 employees.

What's the big force of change that will reshape your business this year?
With stuff like cloud telephony, I do think we're reaching a bit of tipping point. You've got the shutdown of the traditional PSTN network in four and six years' time, so that is seeing a rise in customers who weren't the early adopters of SIP making those changes. Everyone is talking about connectivity, and there are many alternative networks now, trying to set up and invest in rolling out fibre across the UK to bring high-speed internet access to everyone.

Do you have any concerns over stock post-Brexit?
Not really, because we've changed our business so much over last five years that we don't really sell anything tangible. If you're selling hosted telephony, you don't need a telephone system. Our business changed so much to be an in-the-cloud business that our stock levels are at historic lows and the amount of tin that goes out the door these days is very light.

"We are a reseller of business services to UK mid-market customers and this is a business service just like ICT"
Chris Russell, Arrow

Profit track

They say that sales are vanity and profits are sanity, and the 30 firms in our Profit Track have all demonstrated they are doing more than bringing in empty revenues at a time when margins are being severely squeezed.

The top 100 resellers, MSPs and consultancies that *CRN* tracks saw average net profit margins drop steeply from 3.1 to 1.8 per cent in their most recent financial years on record (*see graph, p16*).

Outside the top 100, margins held up, with average profit margins among the wider VAR 300 actually rising fractionally, from 2.8 to 3.0 per cent.

In contrast, the 30 firms in our inaugural Profit Track boast average net profit margins of a blistering 14.2 per cent and raked in total net profits of £300m.

This Profit Track is based on a combination of net profits and net profit margins (with the ranking based on multiplying the first figure by the second), meaning that the likes of Softcat, Computacenter and CDW are joined by some lesser-known names with which not everyone will be familiar.

The data in this Profit Track is based on our *VAR 300* report, which was researched between October and December 2018. Some 11 of the 300 firms were excluded from the analysis on the basis that they did not disclose a net profit figure or due to the way they are financed. We chose to standardise on net profit because – unlike EBITDA – it is a profit measure the vast majority of firms we track disclose.

1 Pinewood

Net profit: £14.6m (6th)
Margin: 53.9% (1st)

This Birmingham-based ISV makes software for car dealerships, but also holds six Gold competencies with Microsoft. It banked a hulking £14.6m net profit on revenues of £27.1m in its year to 31 December 2017, making it the most profitable firm in *CRN*'s *VAR 300* from a margin perspective and sixth most profitable in absolute terms. This figure was, however, flattered by a £4.5m dividend from one of its subsidiary undertakings.

Q&A: GRAEME WATT, SOFTCAT

Purrfect profits

Softcat's profitability is often held up as a benchmark among your competitors. What's your secret?

We have these discussions quite a lot with our own investors because they're asking similar questions. They want to know why we are continuing to outperform the market from both a sales and profitability perspective.

Our biggest positive differentiator is our culture. But our breadth of customer is a huge strength for our company. And the breadth and depth of our technology and services portfolio is another key advantage.

I think ultimately we are a sales and services company and the energy we channel into the selling of that technology and services portfolio is massive. We are a massively sales-led company but we are also customer led, so we give the customers what they want and expect, the way want and expect it, and that's a huge part of what we do in the business.

I think we are slightly cautious in the way we evolve the business. We do it in incremental steps, rather than making big bets. And I think that speaks to our focus on organic growth not M&A, and again that's very customer led. And we have a very flat structure and keep a very tight control on cost. We are an organisation with a very low cost ethic and have a business model that scales.

You issued a positive trading update in January, saying you expect your H1 results to be "materially ahead" of expectations. Does this mean some of the potential market inhibitors you previously highlighted, such as Brexit and the China-US trade war, have yet to hit your sales?

If you look at *CRN Top VARs*, you divide it down into the top 10, 10 to 50, and 50 to 100 and I think they're all growing about 13 per cent year on year. In our last reported results we were growing at close to 30 per cent. What that tells us is that 17 of that 30 per cent is coming from premium performance and we are taking share.

Obviously we are very pleased with the [first half 2019] performance and as a publicly listed company we had to tell the market we are materially ahead of where we expected to be at this stage of the year, which is a great credit to the team. Those cautionary words we used in September were down to limited visibility of future sales, which is just inherent in our model. The amount of already backlogged business we take into each quarter is fairly minimal. We quoted tough compares after our strong performance last year and also talked about economic uncertainty, both from a global perspective with trade wars and closer to home with Brexit. While all those conditions still exist, we haven't seen them bite to date and that's why we've continued to perform in a positive way. I think the market remains robust in the UK and our performance is robust in that robust market.

2 BJSS
Net profit: £22.6m (4th)
Margin: 19.5% (5th)

This AWS and Azure partner is a money-making machine, banking £22.6m in net profits on revenues of £116m in its year to 30 April 2018, making it the fourth-most profitable firm in the Top 300 in absolute terms, and the fifth-most profitable by margin.

Founded in Leeds in 1996, BJSS' clients include Waitrose, and it is one of the largest suppliers on G-Cloud. Its core 'propositions' include AI, digital transformation, modern managed service and journey to cloud.

3 Softcat
Net profit: £55m (1st)
Margin: 5.1% (79th)

Tech sales juggernaut Softcat has long since been held up by peers as the gold standard for profitability, so it's no surprise that the Marlow-based giant is the highest-ranked traditional reseller in these rankings.

The London-listed juggernaut achieved the highest absolute bottom line of the entire Top 300, banking £55m net profits on revenues of £1.08bn in its year to 31 July 2018. Its margins also top the five per cent mark (*see interview with CEO Graeme Watt, p14, for more*).

4 Bistech
Net profit: £6.1m (16th)
Margin: 39.6% (2nd)

With just 72 staff and revenues of £15.4m, this Dorset-based comms specialist is ranked a lowly 204th in *CRN*'s *VAR 300*, but makes more money than many peers 10 times its size.

Founded in 1988, the Mitel, Vidyo and VMware partner posted net profits of £6.1m in its year to 31 July 2017, up from £4m a year earlier. It boasts a slick website featuring video case studies and interviews with staff.

5 Avanade
Net profit: £14.8m (5th)
Margin: 10.2% (32nd)

Mirroring the fortunes of its sole vendor partner Microsoft, Avanade's UK arm is enjoying a growth spurt – with revenues for its year to 31 August 2017 powering up 22 per cent – and it is also making money hand over fist.

Globally, Avanade – which is a 50-50 joint venture between Microsoft and Accenture – has 30,000 staff and 24,000 certifications in Microsoft technology.

6 ANS
Net profit: £8.9m (16th)
Margin: 14.2% (10th)

Manchester-based ANS has spent recent times morphing from a Cisco and NetApp reseller into a public cloud migration specialist, and now claims to have over 300 Microsoft and AWS certifications.

Accounts for its year to 31 March 2017 showed net profit of £8.9m on revenues of £62.9m, ranking it among the most profitable VARs. Margins were more or less maintained in its fiscal 2018 numbers, which were released after the cut-off date for this research (*see p17 for our interview with chief executive Paul Shannon*).

7 Invenio Business Solutions
Net profit: £5.5m (19th)
Margin: 21.7% (3rd)

This SAP Gold partner is one of only three firms in the Top 300 to boast a net profit margin topping 20 per cent after its bottom line in its year to 31 March 2018 more than doubled to £5.5m on revenues of £25.5m.

Based in Reading, Invenio set up a fully owned subsidiary in Fiji during the year. It plans to expand into Canada and Qatar, and more than half of its sales now come from overseas (*see interview with CEO Arun Bala on p12*).

8 Computacenter
Net profit: £41.2m (2nd)
Margin: 3.3% (128th)

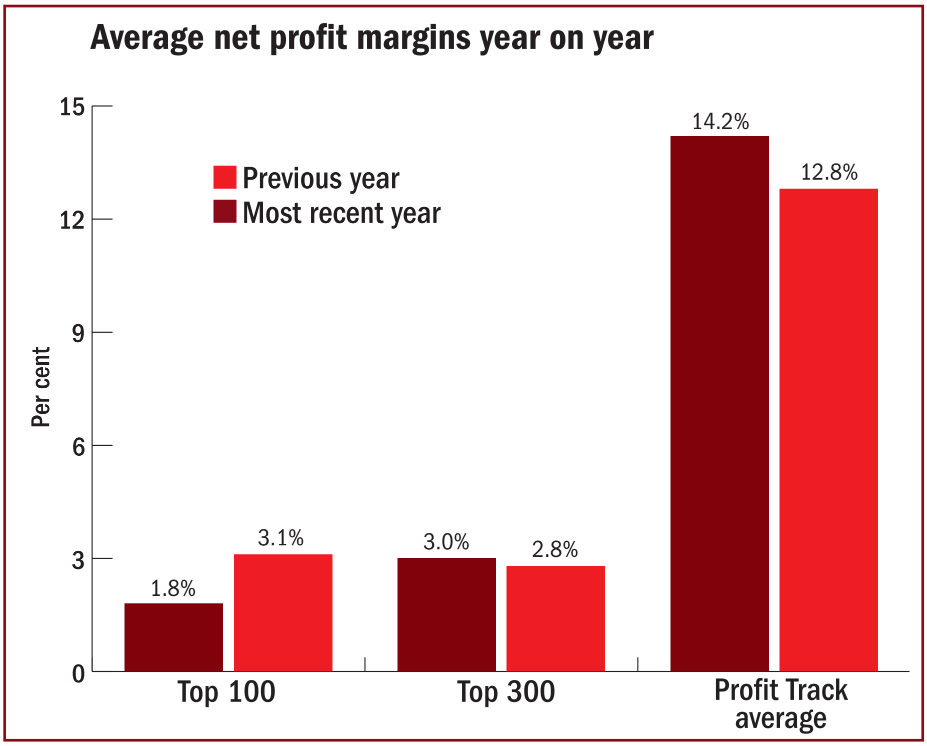
As the recent recipient of a 'Boring Award' for its monotonous profit growth, it's no surprise that the UK's top reseller by revenues makes an appearance in our Profit Track.

Net profits at its UK arm hit £41.2m on revenues of £1.5bn in its year to 31 December 2017, making it the second-most profitable firm in our Top 300 in terms of absolute profits behind only Softcat, while margins of 3.3 per cent top the industry average.

9 CDW
Net profit: £28.7m (3rd)
Margin: 4% (99th)

CDW is the world's largest reseller, with a $15bn turnover, but its £650m-revenue UK arm more than holds its own when it comes to profits.

Although CDW UK's net profits rolled back from £34.8m to £28.7m in its year to 31 December 2018, only Softcat and Computacenter banked more. During the year it bagged the



largest ever G-Cloud deal in the form of a £25.7m contract with the Department for Education.

10 Edenhouse Solutions
Net profit: £6.1m (15th)
Margin: 16% (9th)

Although this SAP partner's net profits fell from £9.4m to £6.1m during its year to 31 March 2018, it still ranked among the top 10 VARs by profit margin and is the 15th-most profitable in absolute terms.

The Warwickshire-based firm reorganised its business during the year to focus more on cloud, and claims SAP recognises it as the first of its UK mid-market partners to make such a transition.

11 CACI
Net profit: £9.6m (9th)
Margin: 9.7% (34th)

Headquartered in Delaware in the US, CACI is a $4.4bn, Fortune 1000 technology services giant with vendor partnerships with the likes of Cisco and Check Point.

Its UK arm, which is knocking on the door of £100m revenue, boasts an enviable bottom line, generating net profits of £9.6m in its year to 30 June 2017.

12 RM
Net profit: £12.9m (7th)
Margin: 6.9% (58th)

RM's heritage may be in building PCs for schools, but it now draws more revenues from its curriculum resources arm, RM Resources, than it does from ICT.

For its year to 30 November 2017, RM posted a net profit of £12.9m on revenues of £185.9m, £70.6m of which was generated by ICT arm RM Education, which supplies ICT software and services to 7,000 schools and colleges. RM Education's adjusted EBIT stood at £6.6m.

13 Node4
Net profit: £5.7m (18th)
Margin: 14.5% (14th)

This Derby-based cloud and managed service provider posted flat net profits of £5.7m on revenues of £39.1m in its year to 31 March 2018, putting it in the top 20 VARs for both absolute and relative profits.

The Cisco, NetApp and VMware partner claims it has a total colocation and cloud capacity of 1,500 racks following an expansion of two of its three datacentres in Derby, Leeds and Northampton.

14 Castleton Technology
Net profit: £4.1m (29th)
Margin: 17.7% (8th)

Formed in 2013 as a buy-and-build venture, this AIM-listed MSP and software provider has a laser focus on the social housing sector.

In its year to 31 March 2018, Castleton's net profits surged from £463,000 to £4.1m, putting it in the top 10 most profitable VARs when it comes to margins. Castleton ploughed on with its focused M&A spree in January 2019, shelling out £1.8m for Deeplake Digital, which provides digital technology for landlord and tenant communications.

15 D4t4 Solutions
Net profit: £3.8m (33rd)
Margin: 18.8% (6th)

This highly profitable data analytics specialist is a Dell EMC and SAS partner, but generated 22 per cent of its £20.1m revenues in its year to 31 March 2018 from its own software – a customer data platform named Celebrus.

Net profits slipped from £3.9m to £3.8m, but the AIM-listed firm is still the sixth-most profitable Top 300 VAR in relative terms, with a margin of 18.8 per cent. It now draws 89 per cent of its sales from outside the UK.

16 EOS IT Solutions
Net profit: £5.7m (17th)
Margin: 11.7% (26th)

Specialising in video collaboration, this Cisco Gold partner is a money-making machine, banking net profits of £5.7m on revenues that rose 84 per cent to £49.3m in its year to 30 June 2017.

Headquartered in Banbridge, EOS is one of only two Northern Irish firms in the Top 300 and also boasts offices in California, Ireland, Singapore, Australia, Brazil, Hamburg, India and Japan.

17 Zensar Technologies
Net profit: £4.6m (23rd)
Margin: 12.5% (23rd)

The UK arm of this Oracle, SAP and Salesforce partner, which is headquartered in Pune, India, is a profit powerhouse, generating £4.6m in net profit on revenues of £36.6m in its year ended 31 March 2017.

Zensar UK bagged eight new orders in its last fiscal year, including a seven-year deal with an unnamed bank. During the year it acquired London-based experience design company Foolproof.

18 Claranet
Net profit: £7.4m (12th)
Margin: 7.3% (56th)

This acquisitive, London-based MSP registered the 12th-largest net profit out of the Top 300, despite being only the 38th largest in revenue terms. In its year to 30 June 2017, Claranet UK saw net profits shrink by £1.3m to £7.4m on revenues of £101.2m. Globally, the AWS, Google, Microsoft and VMware partner boasts 43 datacentres and 1,800 staff.

19 Ampito Group
Net profit: £4.6m (24th)
Margin: 11.2% (30th)

This £25m-revenue, Gatwick-based IT and comms provider punches well above its weight at the bottom line, with net profits for its year to 30 September 2017 nearly doubling to £4.6m. Founded in 2006, Ampito trades through a number of subsidiaries, including Vanix, Object Source and Appcelerate, and boasts offices in locations as far flung as New York, Hong Kong and Kenya.

20 ECS Security
Net profit: £3.6m (34th)
Margin: 13.6% (19th)

Part of Glasgow-based IT services firm ECS, this cybersecurity specialist had a blowout year to 31 December 2017, with revenues booming 72 per cent. This was not at the expense of net profits, which swelled from £2.2m to £3.6m.

It highlighted the expansion of its Edinburgh-based secure operations centre, as well as its success in recruiting skilled staff via its links to educational institutions, among its annual highlights.

21 TESM
Net profit: £3.2m (40th)
Margin: 14% (17th)

With cloud-based IT service management vendor ServiceNow lighting up the market with its growth, it's no shock that this ServiceNow consultancy saw revenues power up a huge 48 per cent to £22.6m in its year to 31 March 2018.

The London-based outfit, which was acquired by DXC Technology in November 2018, is also among the most profitable Top 300 VARs. Recently opening offices in New York and Sydney, London-based TESM has more than 90 projects under its belt.

22 Columbus
Net profit: £2.8m (44th)
Margin: 14.9% (13th)

This Denmark-based Microsoft Dynamics partner boasts 2,000 staff globally, with 8,600 ERP implementations under its belt. Its UK arm – whose managing director, Mary Hunter, won a Women in Technology Leadership award at Microsoft Inspire 2018 – posted a slight dip in revenues and profits in its year to 31 December 2017, although it is the 13th most profitable firm in the top 300 from a margin perspective.

23 Solid Solutions Management
Net profit: £4.1m (28th)
Margin: 10% (33rd)

Billing itself as the largest UK partner of CAD vendor Solidworks, this highly profitable outfit saw adjusted revenues soar by over a third in its most recent accounts, which covered a nine-month period ending 31 December 2017. Its numbers were bolstered by its acquisition of fellow Solidworks reseller NT Cadcam for £5.5m in August 2017. Solid Solutions has 18 UK and Irish regional offices.

24 Aspire Technology
Net profit: £2.5m (49th)
Margin: 15.4% (11th)

Based in Gateshead, Aspire is one of the most profitable firms in the top 300 on a relative baiss, banking a net profit of £2.5m in its year to 28 February 2018 on revenues that rose by nearly a third to £16.1m. It specialises in managed services, including hosted services, datacentre solutions, comms and IT support, with customers spanning public sector, transportation, retail and professional services.

25 Blue Chip Customer Engineering
Net profit: £4m (30th)
Margin: 8.6% (40th)

Q&A: PHIL RACE, ADEPT TECHNOLOGY

System addict

Why is Adept more profitable than most of its peers?
There are probably two threads. One is attention to detail and the other is systems. We run a vigorous and very diligent operation. We are constantly looking at where we are spending our money and where we're focusing our attention. And secondly we're keen to apply systems to ensure we give a consistent service and provide the right tools to our teams. As a result of those two very sensible themes, we're driving pretty decent margins in the business, and will continue to do that.

Like many comms suppliers, you've pushed into IT and managed services, as reflected by your recent name change from Adept Telecom. What's the current revenue mix?

If you look at the recent acquisitions, they've been in the managed services space. Shift F7 and Atomwide are two great examples. The split is now 75-25, where 25 per cent of our business is from historic calls and lines and 75 per cent is attached to managed service. That evolution has been happening over the last five years or so, and the name change represents that transition.

You're one of only a handful of companies in our Top 300 that is publicly listed. Would you recommend it?
My recent history has been in private equity-backed companies. I've also worked in Xchanging which is listed and also now here at an AIM-listed business, so I've seen both sides.

With private equity you can probably be a bit more disruptive as you're not so visible. And can probably run a little bit faster as decisions can be made behind closed doors. However, you don't have the access to capital that you have as a listed business.

There is a degree of trust around public entities because a lot of the information is transparent and audited and diligently presented. Because we're very well run, operationally disciplined, and have a very strong foundation in terms of recurring revenue, being a listed business is good for us. But if it's a business with volatile finances and an inconsistent strategy, I'd caution anyone against going into that public world as you have to show consistency, thoroughness, discipline and stability.

You only joined Adept three months ago. What are your priorities?
I am keen to integrate the organisation in a more thorough way. We have multiple brands out there and over time I want to rationalise that so the story to clients is more neatly explained and we present ourselves as a unified group.

This IBM maintenance specialist makes an appearance in these rankings despite admitting a change in its revenue mix in favour of managed services stunted its margins, causing net profits in its year to 30 September 2017 to fall sharply to £4m.

Founded in 1987, Blue Chip claims it manages 10 per cent of the UK's banking traffic from its tier-four datacentre.

26 Adept Technology Group

Net profit: £3.9m (31st)
Margin: 8.5% (42nd)

This acquisitive, AIM-listed VAR attributes its healthy profit margins to a tight focus on cost control and systems (*see interview with CEO Phil Race, p17*).

A 35 per cent revenue leap at the comms specialist in its year to 31 March 2018 was more than matched at the bottom line, as net profit hiked from £2.7m to £3.9m.

27 Systems Technology

Net profit: £1.7m (68th)
Margin: 19.5% (4th)

Net profit margins of close to 20 per cent ensure this £8.6m-revenue managed print specialist punches well above its weight at the bottom line.

Systems Technology was awarded Platinum status in Canon's new partner programme in July 2018, and in November announced its acquisition of FileHound, a browser-based electronic document management solution.

28 Focus Group

Net profit: £4.1m (27th)
Margin: 7.7% (52nd)

This highly profitable comms outfit banked £4.1m in net profits in its most recently reported year, a 23 per cent rise that outstripped the 19 per cent hike in its top line to £54.2m.

Selling direct and through a reseller channel, Focus works across the voice, mobile, IT and data arenas, and recently started work on building a new 30,000 sq ft head office.

29 DMC Canotec

Net profit: £3.5m (37th)
Margin: 9% (39th)

This managed print specialist is gunning for growth under new private equity backer Horizon Capital, which nabbed a "significant stake" in the Croydon-based firm in July 2018. The Canon partner claims it enjoyed an "exceptional" year to 31 March 2018, as net profits more than doubled to £3.5m on flat revenues of £38.7m.

30 OneCom

Net profit: £4.6m (22nd)
Margin: 6.5% (64th)

This comms reseller sneaks into the top 30 despite admitting that the EU's abolition of roaming charges hit its bottom line in its year to 31 December 2017, as net profits shrank from £7.5m to £4.6m. Hampshire-based OneCom claims it is Vodafone's largest enterprise partner, managing 325,000 mobile connections.

Profit track in numbers

14.2%
Average net profit margin of 30 firms in *Rising Stars* Profit Track

21%
Percentage of *CRN VAR 300*'s combined net profits generated by Computacenter and Softcat

32
The number of firms in the *CRN*'s *VAR 300* that achieved a double-digit net profit margin

3.0%
Average net profit margin of firms in VAR 300

£300m
Combined net profits the 30 Profit Track firms banked, equivalent to the amount for which Mike Ashley is reportedly looking to sell Newcastle United

Ones to watch

The previous two sections highlighted some of the industry's most disruptive and profitable firms, respectively. In this final section, we turn our attention to the highly ambitious outfits that are lighting up the market with their growth.

The UK's top 100 resellers may have generated 81 per cent of the wider top 300's £19.4bn revenues, but that shouldn't mask the ambition of some of the channel's smaller but emerging players.

We have highlighted seven firms from the Top 300 that are on a growth push, including one MSP that is in the process of recruiting 150 staff, a buy-and-build outfit targeting £100m revenues, and a niche business parks supplier gearing up to list on AIM.

We can only speculate that among these seven firms lies the industry's next Computacenter, Softcat or Capita.

■ Roc Technologies

Founded by a gaggle of former 2e2 executives as recently as 2011, and after a £10m investment from BGF in 2018, this Newbury-based outfit recently acquired Citrix and Oracle partner Esteem Systems, propelling revenue run rate to the £80m mark. It claims to represent a new breed of channel player, dubbing itself a "transformation service provider" (*see interview with CEO Matt Frankin, p21*).

■ Aspire Technology Solutions

Founded in 2006, Aspire is one of the youngest, fastest-growing, and most profitable firms in the industry, making it into our profit track (*see p14*) following a surge in both its bottom and top line in its latest year. In 2017, the IT managed services specialist invested £1m in extending its Grade II 18th-century headquarters in Gateshead, and average staff numbers rose from 95 to 125 annually. Vendor partners include Veeam and Virgin Media Business.

■ IT Lab

This London-based managed IT provider is looking to scale its revenues beyond £100m under private equity backer ECI Partners. IT Lab turned over £40.2m in its fiscal 2018, but its recent acquisition of Microsoft Sharepoint partner Content and Code in October boosted its run rate to £60m, and it now has its sights set on further deals (*see interview with CEO Peter Sweetbaum, p21*).

■ Connect Managed Services

Revenue growth of 57 per cent in its year to 31 December 2017 – 16 per cent of which was organic – make this LDC-backed contact centre provider one of the Top 300's fastest-growing firms.

The £21m-revenue Avaya partner claimed it transformed itself into a "truly vendor-agnostic" provider during the year thanks to its purchase of Cisco and Genesys reseller PC-1. It backed this up in January 2018 by acquiring CoolHarbour, a "pioneer" of Amazon's cloud contact centre offering, Connect.

■ ExcelRedstone

Formerly known as Excel IT, this London-based IT infrastructure provider is on an M&A mission, acquiring most of RedstoneConnect last year before buying Kedington which it billed as "Ireland's largest IT network infrastructure solutions company", in January 2019. Its most recent accounts to 31 March 2017 showed net profits doubling to £1.9m on revenues of £22.9m, but the addition of RedstoneConnect – whose MSP and SI arms it bought for £21.6m in May 2018 – alone propels its turnover well beyond £50m.

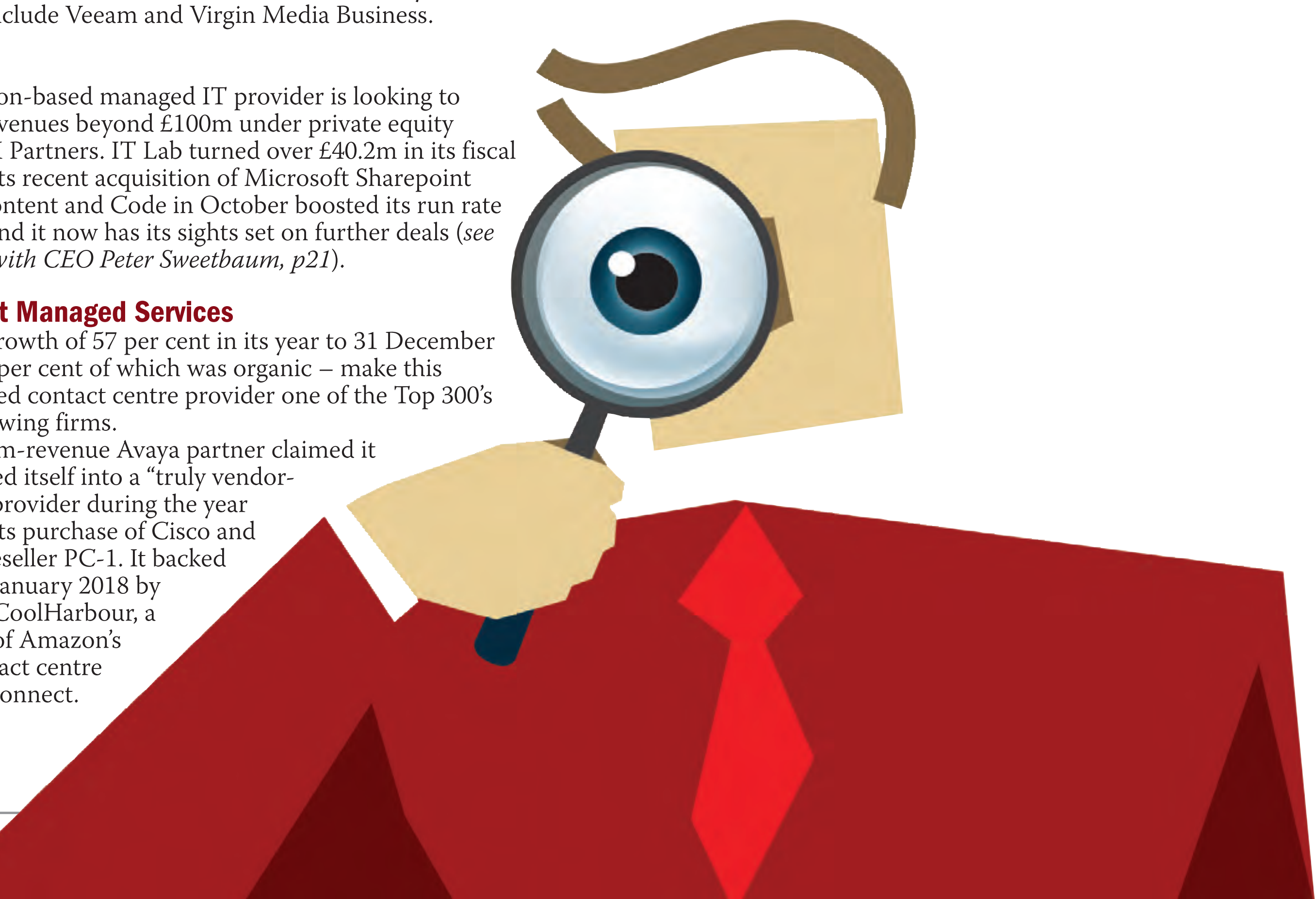
■ Novosco

This MSP announced last June that it is recruiting an additional 150 staff, including 112 at its Belfast HQ, after winning a monster £107m, seven-year deal with Cambridge University Hospital Trust. In its year to 31 December 2017, revenues swelled by a tenth, but net profits dropped from £1.9m to £1.4m as a "significant investment" in its salesforce affected its bottom line. Novosco also has offices in Dublin, Cork and Daresbury, near Manchester.

■ Communicate Technology

Founded in 2012, this ambitious VAR has plans to float on AIM within 18 months as it seeks to fulfil its aim of becoming the largest MSP for UK business parks (*see interview with CEO Tony Snaith, p22*).

Recent acquisitions Touchdown Offices and Landscape Networks helped Communicate double revenues in its year to 31 December 2017, although costs associated with the deals dragged it to a £794,000 loss for the year. In July 2018, it received a £500,000 investment from the Northern Powerhouse Investment Fund.



Q&A: MATT FRANKLIN, ROC TECHNOLOGIES

‘We’re a new breed of SI’

Despite only being founded in 2011, Roc is already a sizeable player. Just how ambitious are you for the firm in the long term?
Our vision is to transform the world one organisation at a time. That’s a pretty big vision, and we want to do that by applying our unique transformation programme and change methodology. We are looking to use our platform as a cornerstone for an expansion plan that will include global expansion of what we call a leading ‘transformation service provider’, so it’s a new breed of SI in our mind.

What is the role of a transformation service provider?
We want to work with the largest enterprise organisations to transform the way they operate, and that’s across different sectors from higher education, health, nuclear, defence – we do a lot in the secure and sensitive industries where there’s lots of bureaucracy because of the compliance required. And we help optimise those operating models and then provide services more efficiently by optimising the services MSPs would traditionally perform.

Name a deal Roc has won that symbolises what you do?
We enabled a secure customer to use WiFi, which was previously not accredited. We used a combination of geospatial, GPS and mobile device management to dynamically sense their location and turn off microphones and cameras so they could use mobile devices in top-secret areas.

Which of your competitors could you learn from?
From a specialist perspective, Thoughtonomy, who provide robotic process automation. In terms of deeper sector intimacy, one of the big SIs like an Accenture.

What percentage of your business is reselling and what services?
About 25 per cent is product [from a revenue perspective].

Will you make further acquisitions?
We are always reviewing potential opportunities. Esteem was really for scale and now we are looking for specific capabilities, so that might be in the process space or in the cyber space, or potentially in managed services. Our other consideration is access to other market sectors, so giving us access to certain market accreditations, such as NHS market N3.

Q&A: PETER SWEETBAUM, IT LAB

‘We think we can do better than £100m’

How ambitious are you in your plans to scale IT Lab?
To achieve the levels of growth set out in the original investment case when we first sat down with ECI in June 2016, certainly over £100m in revenues. We think we can do better than that at our current trajectory and we’re in a good place in terms of organic growth and M&A.

When do you expect to acquire again, and which fields are you eyeing?
We’d hope to do one to two deals this year. Our strategy is to be predominant within the three Microsoft clouds – Office365, Azure and Dynamics – we’ve got excellent capability in SharePoint through Content and Code and I think we’d be interested in building the portfolio with incremental CRM capability and continuing to build scale. There are also some organisations that are relatively early on in the process of shifting to managed services, and there are opportunities to help them progress more quickly.

There have been some high-profile buy-and-build failures. What’s the recipe for getting it right?
Buying at rapid rates without the fundamentals of a strong, coherent strategy make it extremely difficult to make those acquisitions work. We’ve done two acquisitions since ECI invested. Both were highly strategic. There has to be a strategic rationale, not just buying rampantly without the ability to coherently integrate.

What emerging technologies might take hold in 2019?
Microsoft managed desktop is one. If you’re in the IT services space you’ll either see this as a threat or an opportunity, depending on your mindset and progressiveness.

Do you have a concrete Brexit plan?
There are one or two situations where clients are advancing their decisions because they need to get specific kit and are worried about it, but these are few and far between as it’s not the fundamental thrust of our business. We are a virtual technology services firm.

Q&A: TONY SNAITH, COMMUNICATE

‘We set up to be completely different from traditional resellers’

You bill yourself as a leading provider of network infrastructure and technology to business parks. Can you expand on that?
We set up to be completely different from traditional resellers in that we are the owner of all the assets and equipment. Cisco, Avaya and Lifesize are our main products but we buy them in ourselves and we install them on the business parks and within buildings, and they become our assets. We then resell the services back as a managed service to the building owners and park owners. We only work with the property industry, so we treat the buildings and the business parks as customers and then tenants have a range of flexible services they can take from us as they move in.

Last year, you said your plan is to float on AIM within 18 months. How are those plans progressing and what factors will influence the timing of when you go public?
We appointed a broker about a year ago and were looking to float about now. We had a major acquisition planned, which is slightly on hold at the moment. The flotation was delayed because of that, but also because there have been no technology flotations in the past 12 months. We are holding back until the right time, and it will still be in next 12 to 18 months.

What’s the rationale for going public?
We’re quite a cash-hungry business. It’s our infrastructure, so it’s a very, very long-term business plan and the assets take a long time to realise. We’ve got probably £2m or £3m worth of assets out there now, so they’re sitting there and last for 10 to 15 years on site.

What are your long-term ambitions?
We want to be the largest provider of managed services on business parks. About 1,000 firms now use us across the country and that’s growing and growing. It’s a sustainable business model. We’ve lost about five customers in eight years, and they’ve either gone bust or moved off the park.

You made two acquisitions in the cybersecurity and networking space in 2017. Are further deals likely?
There are more planned and we’ll generally look at acquisitions that are on business parks. It might be a local business that services that park and rather than us trying to oust that business, it makes sense for us to acquire a one-man band and pick up those contracts.

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

Editor Doug Woodburn 9817 **Managing editor** Tom Wright 9797 **Reporter** Marian McHugh 9883
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