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## The European channel in 2020

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# Preparation is key



If I could truly predict the future, I'd have selected the winning Lottery numbers and would be on a tropical island by now, sipping a cocktail or 10.

But when it comes to looking at the future of the channel, in some ways it is fairly obvious which direction it is heading, although the industry has the knack of throwing in curveballs along the way.

Customers are getting more demanding, channel models are evolving, and the market itself is changing at the most rapid pace in its history thanks to some mega-acquisition deals and vendor strategy rethinks. It is impossible to stand still and a challenge to stay ahead of the game. Especially when newer, more agile players are constantly emerging on the scene.

The European Channel in 2020 event that CRN

ran with the support of Agilitas brought some key thinkers together and was a chance to show the results of our survey to VARs, MSPs and integrators to see what their vision of the future was.

This report is the amalgamation of the event and the research, both of which kicked up some fascinating findings.

Another interesting point is that everyone at the event pretty much agreed with each other on the changes coming down the line, so now really is the time to evaluate your business model and ensure you are as future-proofed as possible to prepare for what is to come.

I hope you enjoy reading this report and find the results useful.

■ Sara Yirrell is editorial director of CRN

# A bright future ahead



When we embarked on our investigation into what the channel will look like in 2020 back in early 2016, we sat down with some of our customers and closest advisers to get their feelings. Together we learned that the continued market turbulence from disruptive technology and political events such as Brexit have produced an appetite to understand what the real challenges of the future will be. We've made some interesting discoveries in the last few months, and had even more interesting conversations. It is with this backdrop that I'm delighted to be writing the introduction to CRN's *European Channel in 2020* report.

Speaking to people in the industry, the top challenges seem to consistently be around skills, finance and technology. Will I be able to hire the right people? Will disruption in the market make budgeting contracts more of a challenge? What new technology is about to reduce the need for my operation?

Despite these negative questions, at Agilitas we are very positive about the outlook. For example, research suggests the channel is confident of being able to reduce the skills gap by 2020. The solution: more training and upskilling of existing staff. Of

course apprenticeships and new hires are important, but we need leaders for today, not just for the future.

At the same time, financing in the channel is changing, but we're not about to go bust. In fact, we've found many who are confident of emerging new revenue streams and approaches to services. The rise of 'as-a-service' solutions has prioritised opex over capex and flexibility over rigidity.

It was a similar story when we examined technology. Cloud has disrupted the market, but it has also meant we've seen a rise in the number of datacentres and, as a result, support and service contracts. The move has also meant vendor-specific services are on the way down. The channel is taking control and the majority believe bespoke multi-vendor solutions that focus on quality service are set to lead the end-user driven market of the future.

Ultimately the industry is going to change by 2020, but that is what makes the next three years so exciting. My recommendation? Expand your portfolio now, look to insource and outsource services to share skills, invest in 'as-as-service' approaches, and reduce the skills gap by training your existing teams.

■ Shaun Lynn is chief executive of Agilitas



# Looking to the future: The European channel in 2020

*Change is happening, and it is rapid, as a recent CRN On event and accompanying survey discovered. Is the channel really prepared for what is to come?*

In a world where technology is leading the way and evolving on an almost daily basis, it is little wonder that the industry behind that technology is also driven by change.

But what does the future hold for the IT channel — this vast machine that enables firms of all sizes to gain access to cutting-edge technology that will transform their business processes and simplify the lives of their employees? What should channel bosses be looking at to ensure that they are fully future-proofed?

A recent *CRN On* event, entitled The European Channel in 2020, in partnership with Agilitas and held in central London, touched on a number of issues that will affect the channel over the next four years, namely a shift in power to the customer, the demands of a younger workforce, the growing skills gap, and the need to partner for success.

Speaking at the event, Shaun Lynn, CEO of Agilitas, said: “Never has the pace of change been so great. It is now all about the connected world and we are moving to a consumption-driven everything.”

During his keynote, Carl West, supply chain director, consumer choices at analyst GfK, said the biggest shift will be from customers in the coming years.

“Unlike the past, where there has been a linear channel, in the future the broadcast is going to be coming from customer to vendor. The amount of data that customers create is growing,” he said.

“The customer is becoming more powerful, and as a channel you have to be more agile to service their needs. They are armed with information that they have gained through research, and while they may not understand what they are saying, they are prepared. The

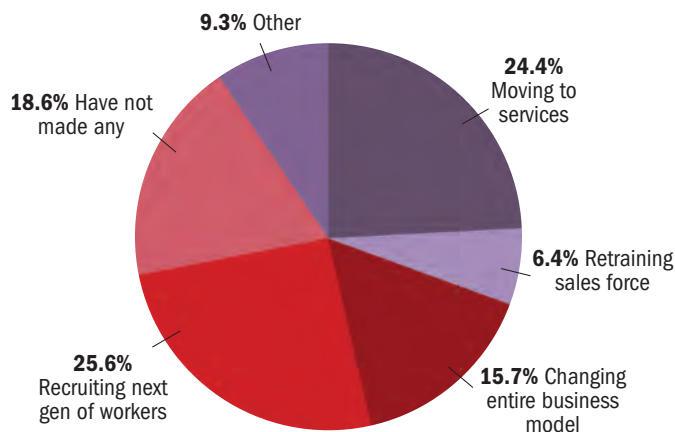
channel needs to understand its customers, how they buy and what they are thinking.”

CRN’s own research undertaken for the event asked respondents to get into the minds of their customers and look at what technology they think they will invest in over the coming four years. The results were fairly varied, and this report delves into those results, and intersperses them with conversations and comments that transpired during the Channel 2020 event itself.

We first asked respondents to describe how they view themselves. Unsurprisingly the term reseller was not top, scoring third place with eight per cent of votes, with the more American-sounding solution provider topping the list with 37 per cent of votes. VAR was second with 24 per cent, and born in the cloud received two per cent.

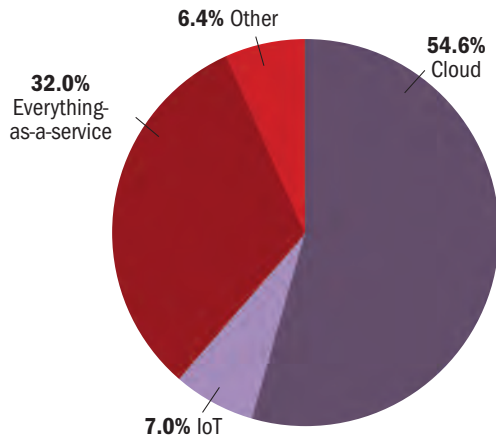
A further 23 per cent selected other, describing themselves as ISVs, consultancy firms and MSPs. Turnover for our demographic ranged from under £2m to £100m-plus and respondents came from the UK and across Europe.

## 1. What have been the biggest changes you have made to your business in the past two years?





## 2. What has been the most disruptive technology trend for your business in the past two years?



We also asked them to list their customer type, with top responses ranging from public sector – health, government and education; to finance; manufacturing; retail; legal and SMB.

Respondents were then asked to say what percentage of their business came from services. A total of 19 per cent said between zero and 10 per cent of revenues came from services, 22 per cent said between 11 and 25 per cent, 18 per cent said between 26 and 50 per cent, 19 per cent said 51 to 75 per cent of their business was service driven, and four per cent said between 76 and 90 per cent. A further 14 per cent said their business was 90-plus per cent service based. Yet conversely, four per cent said they made no money from services whatsoever.

Our next question asked what the biggest changes to their businesses had been over the past two years (Fig 1, p4).

Topping the list with 26 per cent of votes was recruiting the next generation of workers, closely followed by the move to services, with 24 per cent. A further 16 per cent said they had changed their entire business model, and six per cent said they had retrained their salesforce. Interestingly, 19 per cent said they had not made any changes, and nine per cent chose the 'other' option – with answers ranging from changing their route to market, preparing for cloud, geographical expansion and adapting to new owners/management.

Next, we asked them what had been the most disruptive technology trend for their business in the past two years (Fig 2, above). Cloud was

the winner with 55 per cent of the vote, followed by 'everything'-as-a-service with 32 per cent. IoT came third with 12 per cent of votes, despite being a relatively new concept. And other answers included security, with one respondent also mentioning Brexit as a disruptive technology!

This changed slightly when we asked what they thought the most disruptive technology would be by 2020 (Fig 3, below), with IoT scoring 35 per cent of votes, followed by artificial intelligence with 23 per cent. White-labelled IT came in third with 12 per cent, followed by wearable technology with nine per cent. DevOps scored six per cent, and 3D printing scoring the lowest with three per cent of votes despite its growing popularity in the medical sector.

Of the 'other' option selected by seven per cent, answers ranged from 'still cloud' to robotics and even 'don't know'.

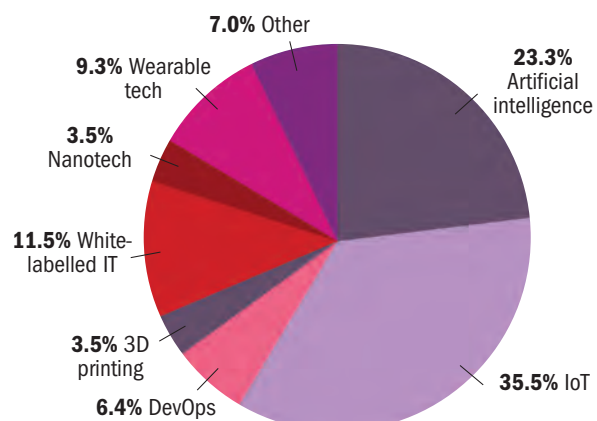
One major topic of discussion during the CRN On event, and also through the bespoke research, was the skills gap.

According to Agilitas' figures, 75 per cent of resellers it surveyed recently believed there was a skills gap, but budgets for training were actually reducing at the fastest rate.

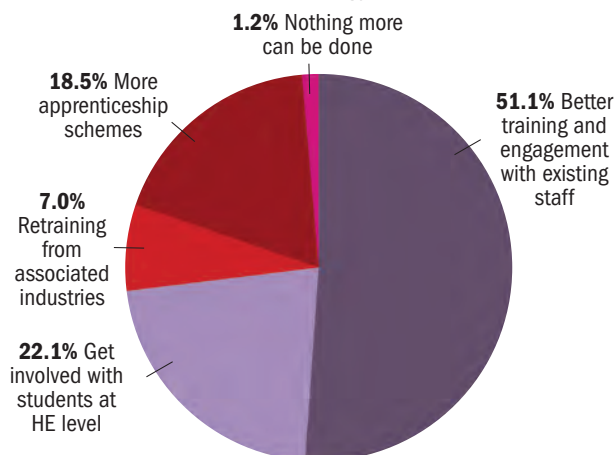
Our respondents were asked how the channel could help to shrink the skills gap. The majority – 51 per cent – said through better training and engagement with the existing workforce.

A further 22 per cent said by getting involved with students at a higher education level, and 19 per cent said more apprenticeship schemes were needed.

## 3. What will be the most disruptive technology by 2020?



#### 4. How can the channel help shrink the skills gap and support future technology advancements?



Seven per cent said the gap could be shrunk by retraining people from associated industries, and one per cent felt there was nothing that could be done to shrink the skills gap (Fig 4, above).

But it is there, and according to CompTIA, we are currently running a 15 per cent skills gap rate globally, which is set to worsen in the next 10 years if we do not take action. This is due to the older generation of workers being on the cusp of retirement, and also the future generation being lured away from tech careers in the pursuit of ‘glamorous’ and fame-filled jobs thanks to TV programmes such as *X-Factor* and *The Voice*, CompTIA said.

Many vendors are addressing the skills issue, with Microsoft as an example, investing \$75m in a global IT education programme for schools, to encourage more young people to take it up as a career. But the

issue still needs urgent attention, it emerged at the CRN On event.

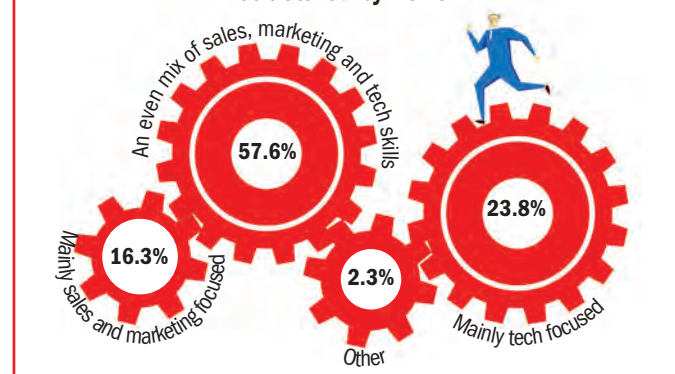
Our next set of questions looked at the changing face of the workforce, with respondents being asked how they thought the average channel workforce would be structured by 2020 (Fig 5, below). More than half of respondents – 58 per cent – felt it would be an even mix of sales, marketing and technical skills, while 24 per cent felt it would be predominantly technically focused, and 16 per cent felt it would be predominantly sales and marketing focused. Two per cent were unsure.

We then asked what age group or demographic would be the most dominant in the workforce by 2020 (Fig 6, p8). And this is where the change was most evident. By 2020, Generation Y (those born between 1980 and 2000) will make up 55 per cent of the workforce, with Millennials (those of the nimble thumbs) making up 20 per cent. Just eight per cent of our respondents felt that Generation Xers (Born between 1960 and 1980) will be dominant. However, 17 per cent felt it would be an even mix of all three.

When asked who the key decision makers would be by 2020 (Fig 7, p8), the gap narrowed slightly with Gen Y still on top with 47 per cent of the vote, followed by Gen X with 37 per cent. Eight per cent felt Millennials would be the key decision makers by 2020, and a further eight per cent thought it would be an even mix of all three.

However, Barrie Desmond, COO of Exclusive Networks, said the way the workforce of the future will operate is very different to the current set-up, and the channel needs to prepare for this if it hasn’t already.

#### 5. How will the average channel workforce be structured by 2020?



“There are two million jobs available in IT security alone at the moment,” he said. “And we are only at the start of the journey towards virtualisation. Whereas in the past, Generation X and the Boomers were looking for job stability and staying in the same job for 20-plus years, this is not the same for the next generation.

“Generation Y and the Millennials are looking for volatility. They are a generation of the ‘gig’ economy, where jobs are seen as a gig now, and it is not an issue to change jobs. By the time Generation Y are 35, they will have had an average of 13 jobs.”



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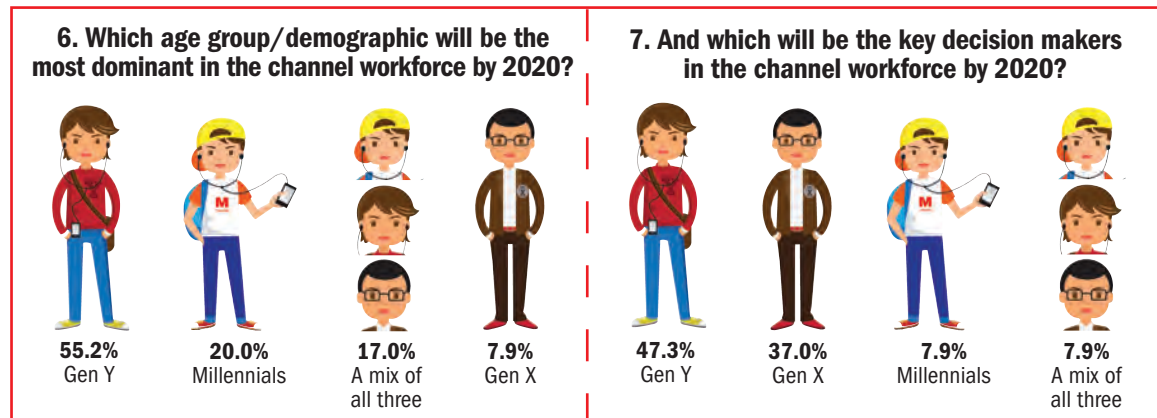


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So bearing in mind the — some would say — fickle nature of the future workforce, we asked our respondents how they would look to attract new talent in 2020 (Fig 8, below).

Interestingly, pay incentives were placed third, with 17 per cent of votes, with training and development top with 29 per cent, and graduate/apprenticeship development schemes with 22.4 per cent of the vote. A further 13 per cent said international opportunities would bring in the skills, and 12 per cent felt that offering career stability would be sufficient to attract new talent.

It seems the majority of the channel are already aware of how future employees' needs are changing, with many realising that while money is important, if employees feel bored or unchallenged, or that their role is not going anywhere, they will simply leave and find another role that fulfils their needs, as Barrie Desmond says above. A further six per cent of respondents said a work/life balance was key to attracting new staff.

Of course, with all the talk about managed services and the cloud, it is often easy to forget the fact that hardware still exists and that for many channel players it is their bread and butter. Indeed, GfK's Carl West, said the sales of hardware would continue to increase significantly over the next four years, which conflicted slightly with the results of CRN's own survey.

According to our respondents, just three per cent felt sales of hardware would increase by more than 50 per cent between now and 2020, while eight per cent said it would increase by 25 to 50 per cent. A further 21 per cent said it would increase by up to 25 per cent and 13 per cent felt sales would stay the same. In total, 45 per cent were positive or very positive about the future of hardware sales.

However, on the other side, the biggest number — 36 per cent — felt hardware sales would decrease by up to 25 per cent by 2020, a further 12 per cent said it would drop by between 25 and 50 per cent, and six per cent felt it would decrease by over 50 per cent.

Another thing that is constant in the IT channel is the ever-changing realm of vendor strategies and constantly expanding requirements needed to partner with specific vendors and make decent margin. We asked our respondents what they felt would be the most popular strategy within channel players by 2020.



Still holding the lead is the traditional channel mentality of 'stack 'em high', with 32 per cent saying they would be selling as many multi-vendor bespoke solutions as possible. However, the rest of the results were more evenly split, with 21 per cent believing the model of the future would involve working with between five and 10 vendors. Seventeen per cent went one step further and said they would be working closely with up to five vendors. A further 16 per cent said they would be working with no more than 10 vendors, and 11 per cent said working with no more than 15 vendors was the way forward.

In a panel debate at the end of the event, Tom Kelly, an industry veteran and chairman of Agilitas, said that as customers become more demanding, the channel needs to buckle up and stand up more to manufacturers to ensure the channel model of the future is mutually beneficial.

"As business leaders/owners you have to take back control, and you have to take it back because by default you are subservient to major vendors," he said. "The only people winning are the OEMs themselves. You have to become more customer-centric rather than supplier-focused. You have to look at and listen to what the customer wants, rather than what vendors say will be the next best thing."

He used the example of the newer, more agile players in the market to highlight how models have already changed.

"There are about 1,500 companies in the UK who over the past five years have been conceived in

cloud and born in the cloud," Kelly said. "They see no relevance in the major OEMs. What is relevant is that they are listening to what the customer wants. They have EBITDA of 20 to 21 points. The average of people here in this room today is less than half that."

On the same panel, Richard Lockey, UK managing director of SAM specialist Crayon, agreed and also said collaboration is the way forward.

"We realise we have to be client-centric and offer different services to clients," he said. "We can either build this ourselves, or put the client first and look at the co-operative marketplace. Too many people out there are precious about owning the client – the client would rather you brought in the experts rather than muddle through on your own and do the best of a bad job. Why can't we all be a collection of experts, sharing skills? That is where we are looking to go."

However, despite collaboration being a popular strategy, the panel was asked whether it felt there was enough trust in the channel to allow it to happen.

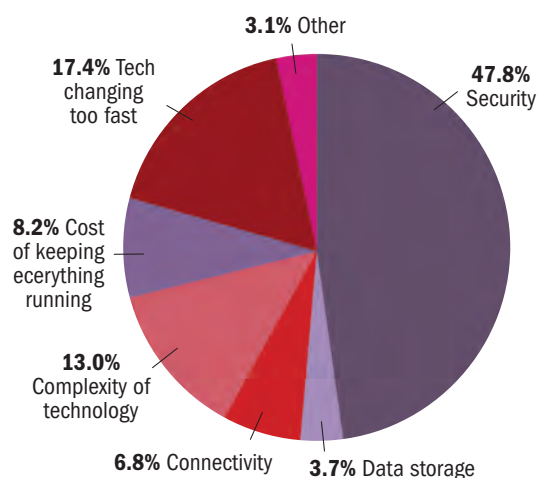
Lockey said: "I think for the more mature of us who have been in the marketplace for a while, it is changing. Enough of us have relationships out there to know if you burn someone you will only burn them once. Clients are getting smaller. I think there is a lot to be said for building trusting relationships and also pushing back on OEMs. The more relationships we build together, the more we can push back on the vendors and take the upper hand."

Exclusive Networks' Barrie Desmond, agreed. "We soon realised that if it felt wrong, it was right. We quickly got over that 'oooh' moment and reached out to our competitors," he said. "Everything is about learning; consumers are beginning to broadcast back to vendors. Listen to your customers because they will collaborate. And as the workforce changes, they won't be thinking like that – they are more concerned with relevance."

Tom Kelly added that the bigger players that are more attached to their vendors will struggle the most with collaboration.

"Those 1,500 companies born over the last five to six years don't have the fear. The majority of the bigger boys do have the fear," he said. "They don't want to upset the OEMs. For me, the whole area of working together is absolutely right. If you don't do it and don't listen to your customers, you won't be there in 2020."

### 9. What do you think will be the main IT concerns of your customers by 2020?



“OEMs are only in it for what they can get out of it. The reality is they don’t care about you. They care about the end users you have and that you are the route to market for them. This new era of consumption is to be able to widen the net and co-operate with other people who you normally wouldn’t see as being partners.”

Back to the CRN research, we asked our respondents what they thought would be the main IT concerns of their customers by 2020 (Fig 9, p9).

Unsurprisingly, the highest-scoring option, with 48 per cent of votes, was security. As the amount of breaches and threats continue, keeping customer data safe is going to be a priority for these firms. Trailing quite a way behind, with 17 per cent, was the fear of technology changing too fast. In third place with 13 per cent of votes was the complexity of technology, and eight per cent said their customers would be concerned with the cost of keeping everything running. Fifth was connectivity — as more and more devices become connected, bandwidth issues are going to increase, so this fear makes sense. A further four per cent thought data storage would be an issue in the future. Three per cent said it was a combination of all those issues.

One major influencer of the future and one that is specific to the UK is the issue of the EU referendum outcome and the uncertainty surrounding it when Article 50 is triggered. It was initially thought this would happen in two years, but as yet, no indication has come from the government as to when it will actually take place.

The general consensus during the panel debate was that Brexit was a ‘wait and see what happens’ issue.

Crayon’s Lockey said: “Generally speaking, it is too early to tell. Confidence seems to be creeping back up again, which is probably due to the silence from government. People do seem to be very nervous; the interest rate cut was a sign of that. But I get the feeling that we are in for a long and messy divorce. In the long run, I hope it was the right decision, but in the short term a few of us are going to suffer.”

Kelly said: “The lack of leadership coming from government has been unbelievable. Brexit and immigration are going to cause a problem with IT skills. [A lack of] free flow of individuals

from the UK out and vice versa will cause problems. Also, EU privacy law is the best in the world. Brexit has opened up a can of worms and we have no idea what will happen.”

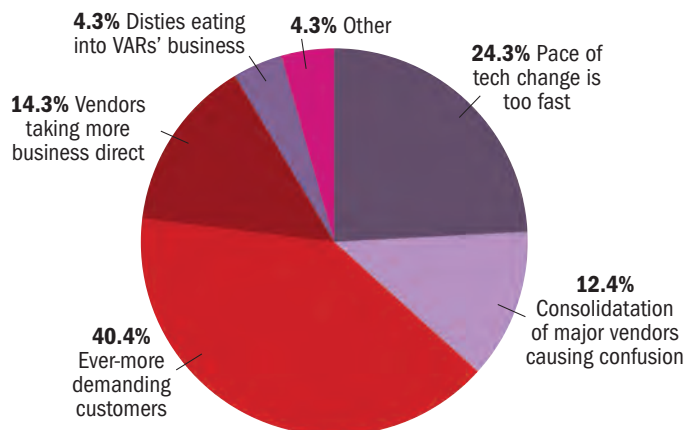
Agilitas’ Lynn agreed that freedom of movement could be affected.

“My concern is very much what regulation is going to come and how much more difficult it is going to be to do business when we get to the two-year mark and the clock starts ticking. Also the issue of access to skills because it really is all about people,” he said.

Keeping the future in mind, the penultimate CRN survey question asked our channel respondents what area would be their strongest revenue stream by 2020. Services topped the charts with 42 per cent of votes, with hardware sales coming in a strong second with 14 per cent. This shows that the channel still feels hardware is very much a part of the future, despite the earlier concerns about sales declining. Consultancy came third with 12 per cent of votes, closely followed by software sales with 11 per cent. Support, including break-fix, was fifth with nine per cent, and six per cent said collaboration with peers would bring in their strongest revenue streams by 2020.

Our final question asked what our respondents felt would be the main challenges for the IT channel over the next four years (Fig 10, below). A significant 40 per cent said that customers would become even more demanding on price and performance, backing up the earlier points made by other speakers at the event about customers being the driving force in the future channel relationship. A further 24 per cent

### 10. What will be the main challenges for the IT channel over the next four years?





felt the pace of technology change is too fast, and 14 per cent were concerned about vendors taking more business direct. A further 12 per cent were concerned with the speed of consolidation of the major vendors causing confusion – something many can identify with. Interestingly, four per cent were concerned with distributors eating into resellers' business in the future. Another four per cent picked the 'other' option, highlighting market stability, a lack of professional standards and too many price- rather than skills-driven players in the security space.

In summary, it appears that the pace of change will not slow down any time soon. If anything, it is just going to get faster. Don't aim for normal, as there is no normal where the channel is concerned.

The channel is faced with incessant change, as recent acquisitions across all factions of the industry show such as Dell/EMC, HP Inc and Samsung print division, and one of the most unexpected of all – Tech Data and Avnet Technology Solutions business – to name but a few.

As new generations who thrive on change and disruption come into the workforce, those staying at the forefront of new developments and most able to adapt to whatever the industry throws at them will attract the best individuals to their teams. It is not just about money to this next generation – they need challenging, stretching and a real progression path to keep them engaged. Plus there is the challenge

of actually getting the next generation to take IT seriously as a career and see the very real benefits that await them should they take the plunge.

Customers are going to be driving the industry in the future, so it is vital to stay engaged with them at all times and ensure you are their partner of choice when it comes to their IT needs. Trust and communication are essential.

However, from the research it appears that customer concerns are not actually changing that much, with security still a top priority, along with ensuring their budgets are spent wisely and for the maximum benefit to their businesses.

Because the channel route to market is going to change, it is time to start looking at your peers to see if you can work together. The days of mistrust where customers are concerned should be over. The future is all about sharing skills and ensuring the needs of the customer is always put first. That way they will keep coming back for more.

Now is the time to adapt, accept that change is going to happen, and concentrate on future-proofing your business as much as possible. Failure to do so will mean survival is impossible.

However, those who embrace change, listen to the next generation of workers, and think outside the box will have a very rosy future indeed.



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