RESEARCH PAPER
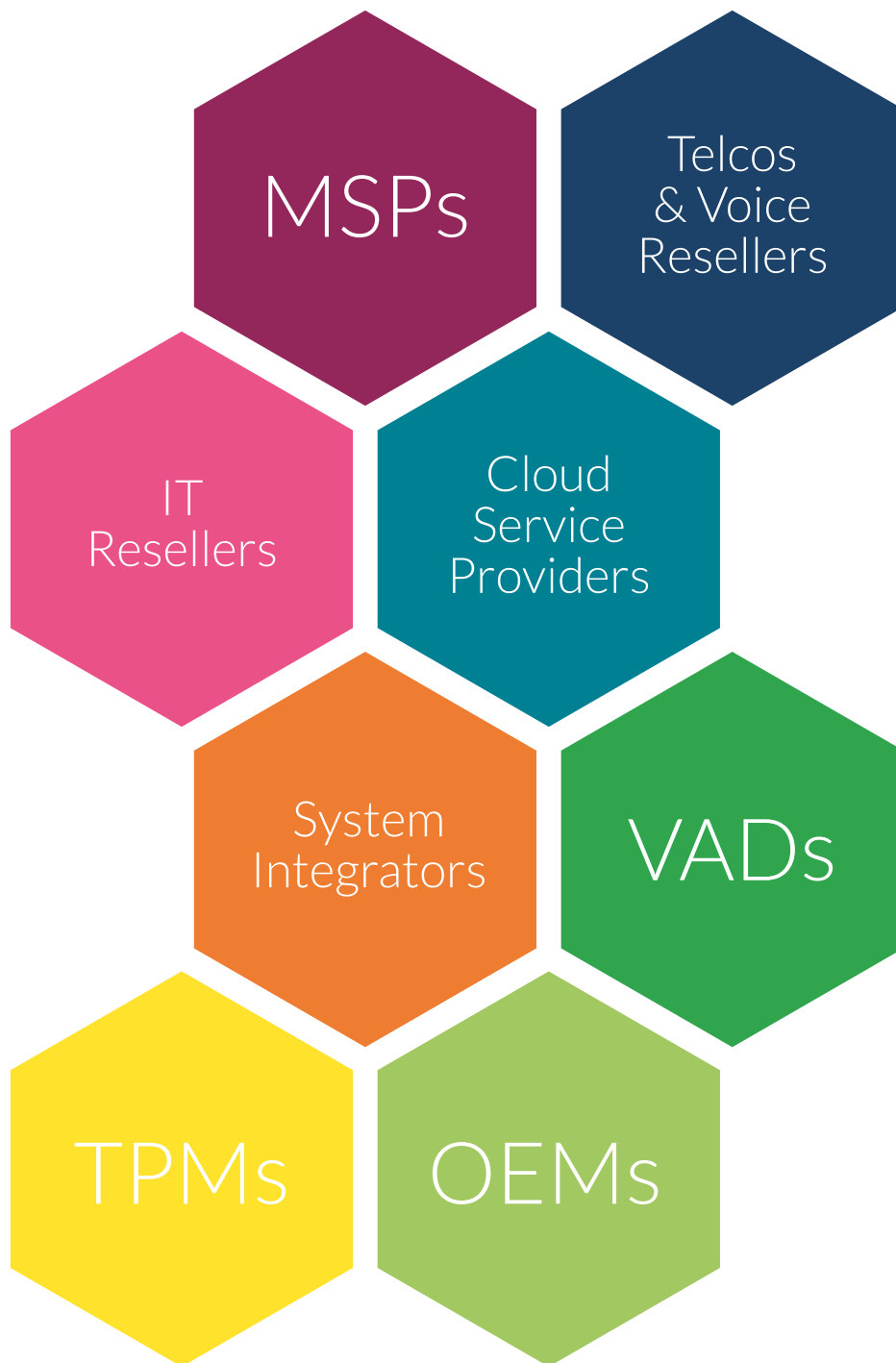
Changing channel: What today's organisations want from their partners

July 2022

Supporting the IT Channel through award-winning server, storage and networking solutions

MSPs

Telcos & Voice Resellers

IT Resellers

Cloud Service Providers

System Integrators

VADs

TPMs

OEMs

Up to 2hrs delivery

2000+ stocking locations

Increased performance

Global reach

Award winning

Inventory management

Access to service experts

CONTENTS

From the sponsor

Now is the time to prioritise our planet, people and partners

Welcome to this special report, which has been produced alongside the inaugural **CRN** *VAR 500* report that Agilitas is proud to be an associate sponsor. Firstly, I would like to acknowledge all those companies who feature in the **CRN** *VAR 500*, as it's these businesses that make our industry the success it is today. This report looks to investigate how channel firms are evolving in order to deliver relevant technology solutions to their end-user clients. The report also uncovers how these needs have changed over time, in line with new consumption models, hybrid working, and the growing prioritisation of sustainability.

It is clear that the Technology Channel is still reeling from the pandemic, as customer caution and economic uncertainty remain a concern for many businesses in the sector. We have also seen sellers diversify their offerings to support hybrid workforces and bolster recurring revenue streams - something that is highlighted in this report, as the volume of IT sales has been concentrated into the hands of fewer large players, with smaller organisations focusing on more niche areas.

ESG credentials also remain a critical factor for end-users and the channel businesses that support them, meaning the entire supply chain for the provision of technology must be committed to acting with impact and putting sustainability at the heart of everything they do.

At Agilitas, we are committed to leading the change through our own sustainability pledge to achieve a climate-positive workforce by 2030. In our recent 'Technology Channel Confidence Index', we provide unique insight into the current state of play for ESG across the Technology Channel. With this, we aim to share knowledge and ideas that will enable leaders to balance ESG responsibilities and help to shape the blueprint for greater accountability and impact across all areas of sustainability.

Our research revealed that confidence in the Technology Channel's ability to form collaborative partnerships that balance profit with purpose was high amongst channel leaders, scoring 7.9 out of 10. As well as almost half (47%) of decision-makers stated that their organisation measures sustainability targets quarterly.

It is now time for channel partners to stand up and begin acting with impact to build an environmentally, socially and economically sustainable future. Some industry heavyweights are already being recognised for their innovative sustainability initiatives with Computacenter announcing its mission to be carbon net-zero by 2040. The Hatfield-based firm aims to be carbon neutral for Scope 1 and 2 emissions this year, which is five years ahead of its previous targets. Computacenter is proactively investing in its new and existing facilities to reduce energy

consumption, as well as installing solar panels in its buildings and moving its electricity contacts to green energy suppliers.

Stone Computers has also made strides in aligning its operations with four of the United Nations' 17 Sustainable Development Goals. Based in Staffordshire, the reseller has introduced a mobile shredding service to increase vehicle load capacity as well as installing a solar power generation and storage capability at its HQ. In addition, Stone Computers has enlisted a carbon reduction consultancy firm intending to measure and reduce its carbon footprint in the future.

Bytes Technology Group is following suit, as it announced last year that the company was in the process of developing its first carbon dioxide reduction policy. The software licensing organisation has also made the move to renewable energy suppliers for its entire electricity needs and has significantly increased the number of electric and hybrid car charging points at its main sites.

There is something to be said for the determination of the Technology Channel in its efforts to improve green and sustainable policies and adopt eco-friendly processes throughout the supply chain. However, the questions still remain regarding how market divergence is affecting larger and smaller industry organisations. How do channel sellers best serve customers in line with their changing demands? And, how do they drive growth and apply the learnings from the past few years to ensure they remain resilient in our sustainable future?

By conducting dedicated end-user IT decision-maker research, this **CRN** special report will uncover the answer to these questions and help define what the channel partner of the future needs to look like for end-users. There is no denying that external factors have had a huge impact on the success, evolution and direction of the Technology Channel, in line with striving for sustainability, customer experience and collaboration. Today, these credentials are increasingly at the heart of partnerships, and this year's **CRN** *VAR 500* has recognised the value-added resellers that have addressed this critical need, and in doing so I'm sure these companies will continue to experience great success as we look to evolve how our planet, people and partners can work together.

Shaun Lynn, CEO at Agilitas

Introduction

While organisations' dependence on technology has meant the technology sector has fared better than most during the upheaval of the past two years, the UK channel has still felt the effects.

Customer caution and economic uncertainty has impacted the growth of many channel companies, with some industry players impacted more than others. According to research by **CRN**, while the top 100 channel firms grew by 6.3 per cent to £17.9bn, many smaller organisations saw sales shrink. In other words, the volume technology sales have been concentrated into the hands of fewer large players. However, focusing on their niche 'value' propositions means smaller firms are returning greater profit margins than their bigger cousins.

As well as impacting revenue, the past two years have reshaped the channel in other ways. It has seen some companies focus on recurring revenue, with others benefitting from on-off hardware and product sales due to the sudden demand for devices to facilitate remote working. Many firms have been prompted to diversify their offerings, adding new strings to their bows such as unified comms, IT services and end user compute services – much of which is geared towards supporting hybrid workforces.

End users are now faced with a choice between partnering with a large, diverse big name; or smaller, more niche players for their channel strategy. They are also prioritising the environmental, social and corporate governance (ESG) credentials of those in their supply chain more than ever. Channel firms must respond to this in order to compete.

The UK channel seems to be rebounding with companies reporting that some semblance of normality has resumed – but much is set to change. In this context, how is the bifurcation of the market affecting larger and smaller industry players? How do channel firms best serve customers? And how do they drive growth and apply the learnings from the past two years to ensure they remain resilient?
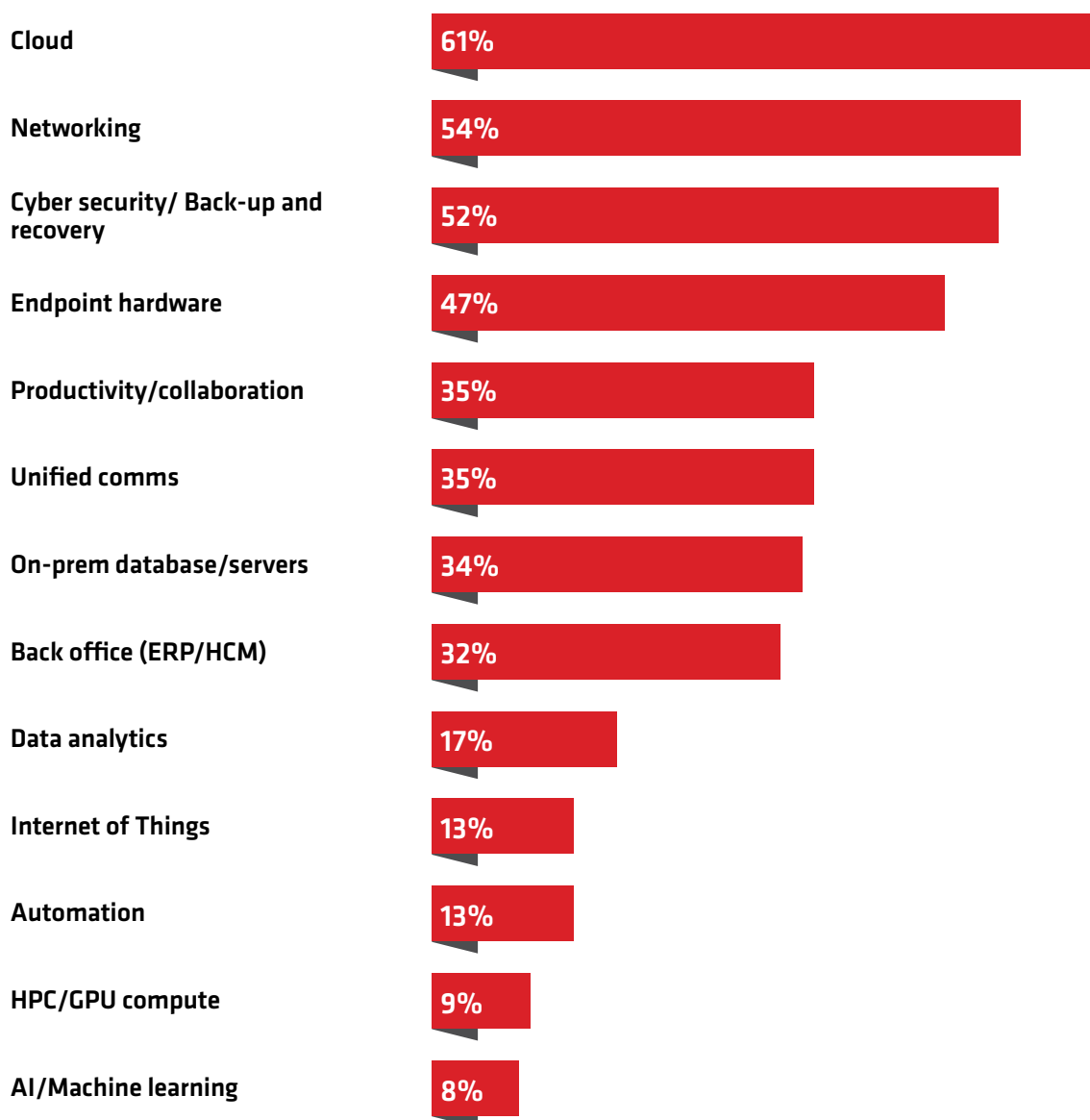
Josh Budd, CRN editor

Key findings

- Skills shortages and supply chain issues were identified as the main challenges organisations have faced in their technology strategy.

- When choosing a channel partner, 53 per cent of respondents said that overall cost was the most important factor.

- 47 per cent agreed that ESG credentials are an important factor when choosing a channel partner.

- However, just 15 per cent of respondents said their organisation regularly audits its supply chain for ESG.

- The most common types of product organisations are purchasing through channel partners are cloud services, followed by networking and cyber security products.

Channel priorities

CRN surveyed 145 end-user IT decision-makers from a range of industries including education, the public sector, finance and technology, to understand what they want from their channel partners.

While cloud transformation is nothing new, plans have taken on a new urgency in the past couple of years, and this has impacted what IT leaders are looking for from their resellers, managed service providers, system integrators and other channel partners. As organisations transition to more service-based consumption models, resellers can no longer rely on selling technology alone. Instead, they must be attuned to organisation and end user needs beyond the point of sale.

Fig. 1 : Which of the following technology products/services does your organisation purchase through channel partners

Category	%
Cloud	61%
Networking	54%
Cyber security/ Back-up and recovery	52%
Endpoint hardware	47%
Productivity/collaboration	35%
Unified comms	35%
On-prem database/servers	34%
Back office (ERP/HCM)	32%
Data analytics	17%
Internet of Things	13%
Automation	13%
HPC/GPU compute	9%
AI/Machine learning	8%

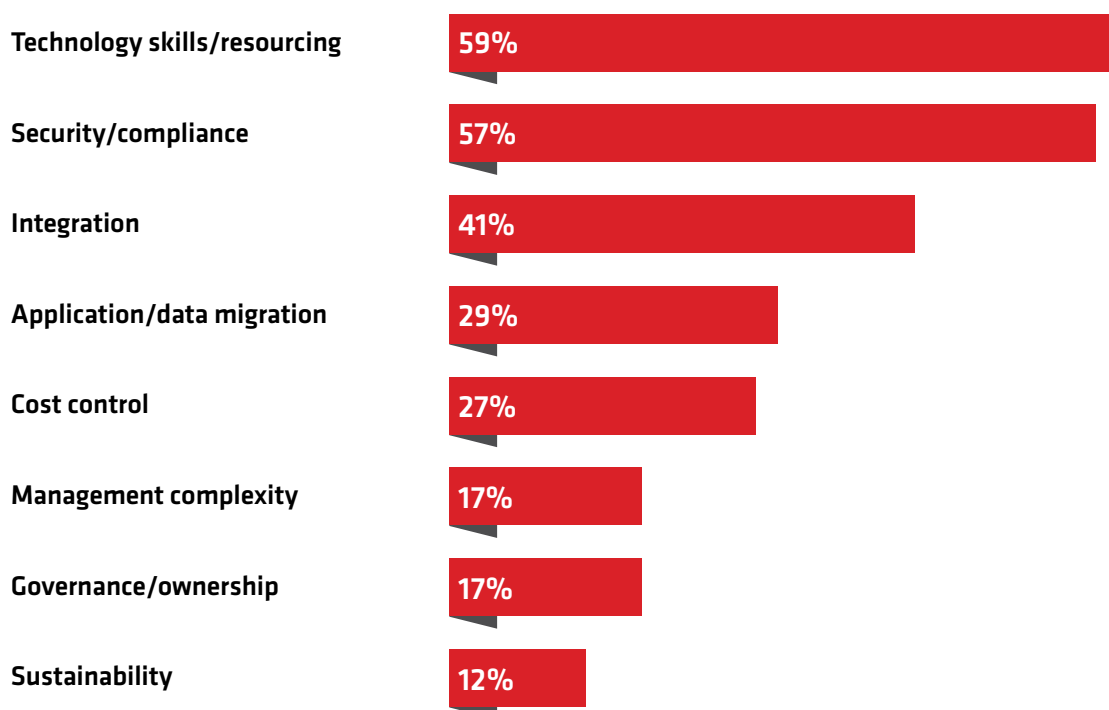# Changing channel: What today's organisations want from their partners

According to **CRN**'s own research, the most common product or service IT leaders are purchasing through their channel partners is cloud services, followed by networking and cyber security related products. This comes as no surprise as organisations have experienced a rapid technology shift due to the rise in remote working, the need to digitally transform at speed to compete in their respective markets, and ever-increasing cyber security threats.

Investment in technologies such as the cloud is a must, but organisations need to ensure their investments are well-placed. This is where the expertise of a trusted channel partner can help them increase revenue and grow market share.

Channel partners are predominantly providing assistance in the areas including technology skills and resourcing, security and compliance, and integration. At the other end of the scale were more top-level considerations such as management complexity, governance and ownership, and sustainability.

The technology skills shortage is now a well-known obstacle for organisations, with recruiting and retaining the best talent an ongoing struggle. Organisations may be struggling to keep up with demand, especially if they are scaling rapidly, and channel partners can help ease the burden through sharing resources and expertise, and offering managed services.

Fig. 2 : In which of the following areas do channel partners currently provide assistance to your organisation?

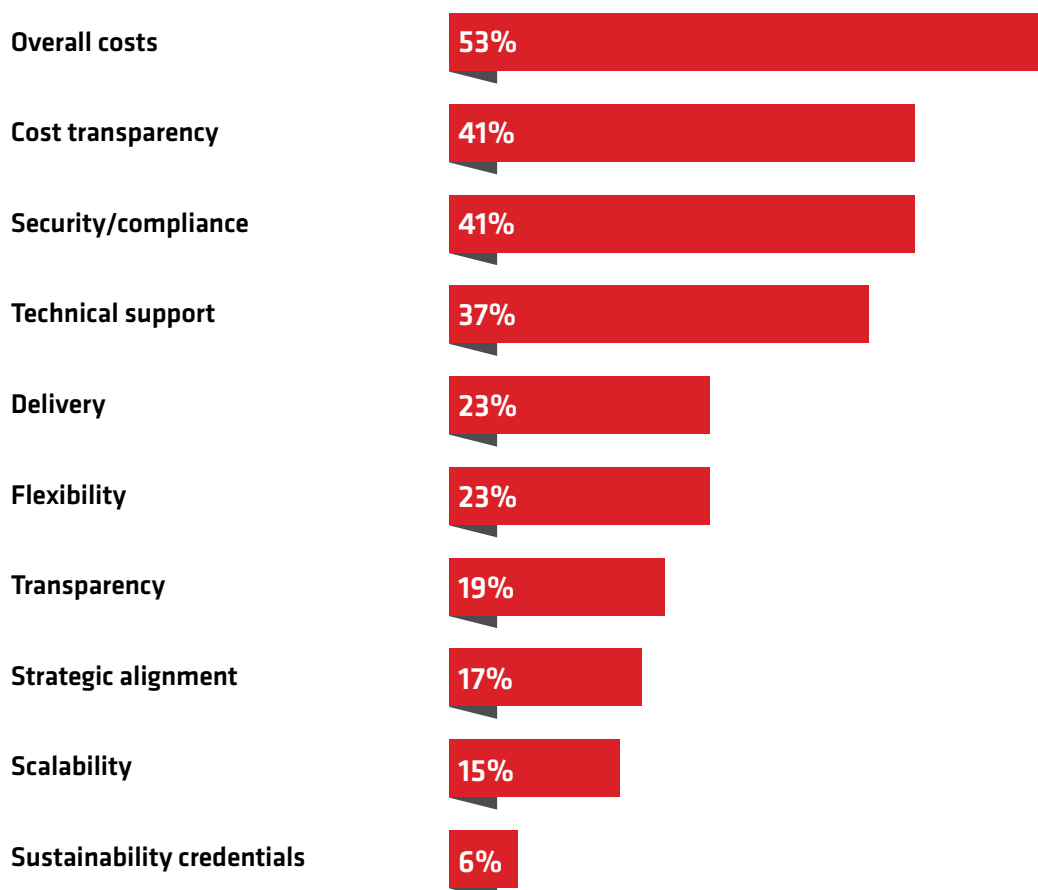| Area	Percentage
Technology skills/resourcing	59%
Security/compliance	57%
Integration	41%
Application/data migration	29%
Cost control	27%
Management complexity	17%
Governance/ownership	17%
Sustainability	12%

Changing channel: What today's organisations want from their partners

Despite the bifurcation of the technology channel over the past two years introducing more nuance to picking your partners, overall cost was the most important factor when choosing an IT reseller, followed by cost transparency. While channel partners can help bring in new sources of revenue, they can also affect bottom line and margins, so it is understandable that costs are top of mind. The business case must always be there. Sustainably was only ranked in the top three by 6 per cent of respondents, indicating that it is being prioritised by a select few.

When IT leaders were asked how well their channel partners are delivering in the areas outlined above, security and compliance was ranked highest and sustainability credentials was the area respondents felt their channel partners are performing the worst in.

It is important for channel partners to tap into organisations' needs in order to support their objectives and gauge how these needs are changing over time. Effective communication and recognising that each customer's needs are unique are essential to achieving this.

Fig. 3 : Most important areas when selecting an IT reseller (3 maximum)

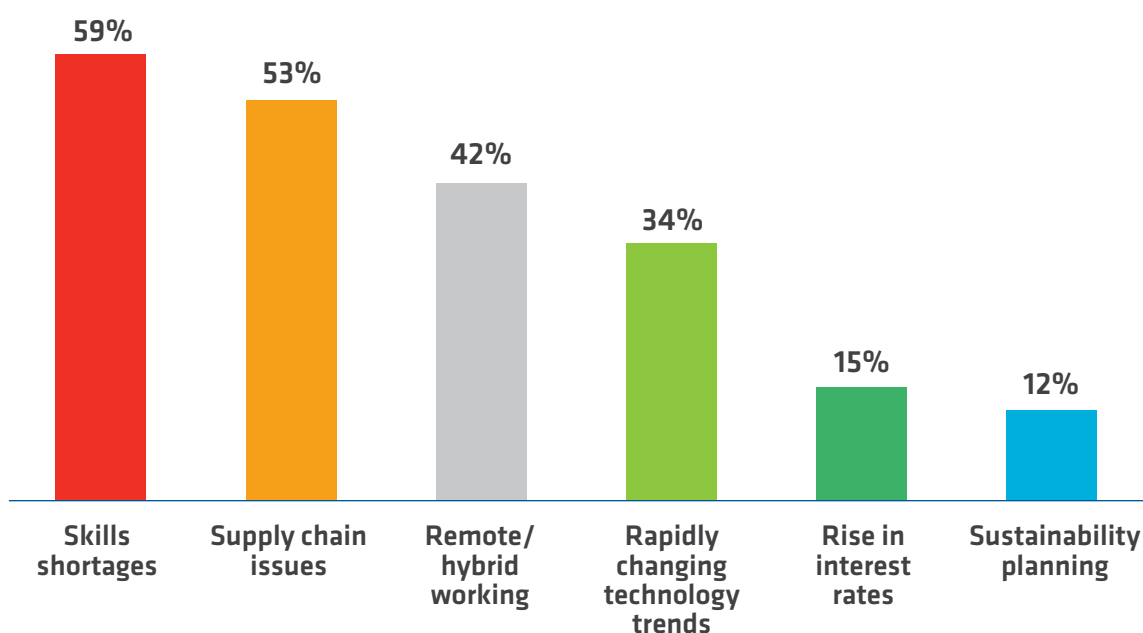| Area	%
Overall costs	53%
Cost transparency	41%
Security/compliance	41%
Technical support	37%
Delivery	23%
Flexibility	23%
Transparency	19%
Strategic alignment	17%
Scalability	15%
Sustainability credentials	6%

Changing channel: What today's organisations want from their partners

As has been highlighted in a previous finding, skills shortages have presented the biggest hurdle for IT leaders. With technology job vacancies up 191 per cent year-on-year according to the British Computer Society, the digital skills shortage isn't going to be resolved any time soon. In the context of chip shortages and the ongoing impact of Brexit, supply chain issues are also to be expected. The rise in remote and hybrid working has also changed how organisations view productivity and has created a demand for remote working technologies.

Again, sustainably planning is posing less of a challenge than other issues, with only 12 per cent choosing this option.

It is important for sellers to either diversify their offerings or become leaders within their niche to help remedy the technology challenges that today's organisations are facing and distinguish themselves within the technology channel. And, regardless of whether they are a larger incumbent or niche player, they must also take the time to understand the individual needs, challenges and opportunities of the organisations they partner with or risk losing out to competitors.

Fig. 4 : Which of the following have posed a challenge to your organisation's technology strategy?

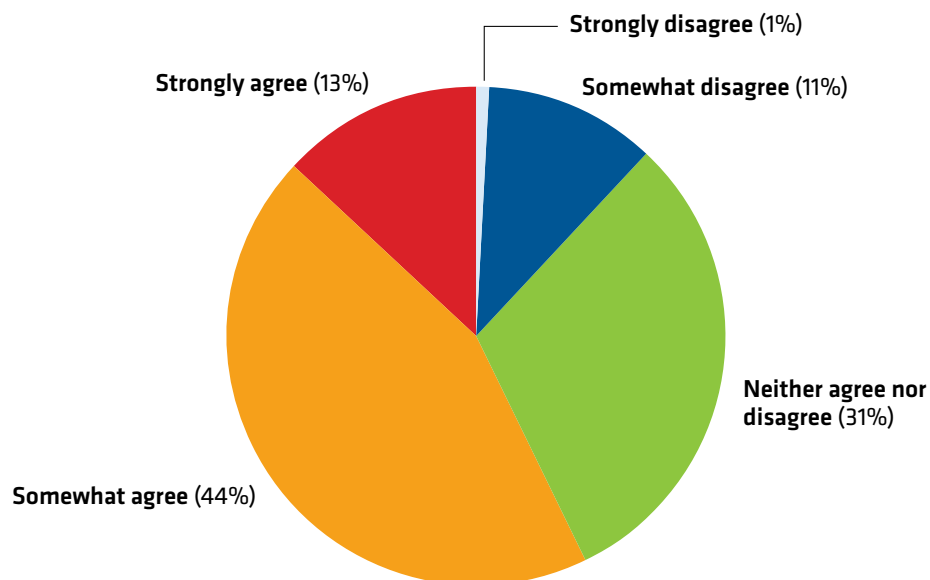| Skills shortages	Supply chain issues	Remote/hybrid working	Rapidly changing technology trends	Rise in interest rates	Sustainability planning
59%	53%	42%	34%	15%	12%

Generalists vs specialists

When it comes to choosing a channel partner, 57 per cent of respondents at least somewhat agreed they typically opt for bigger more well-known organisations when choosing a channel partner. The channel has experienced a bifurcation of the market between large, volume resellers and niche players, with the gap between larger and smaller providers widening. Larger players are typically growing at a faster rate and, in the midst of economic uncertainty, organisations are often opting for more dominant providers to limit business risk.
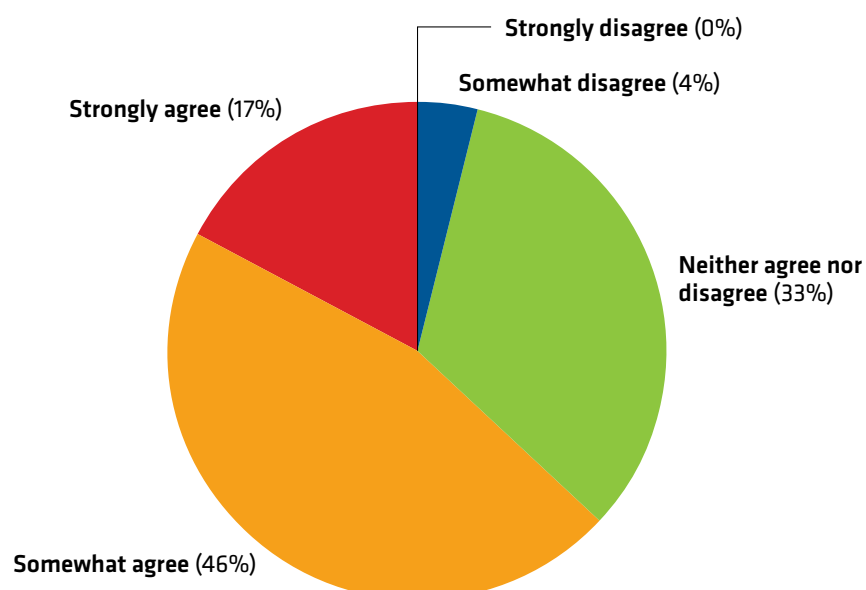
Fig. 5 : "My organisation typically opts for bigger, well-known providers when choosing a channel partner"

Strongly disagree (1%)

Strongly agree (13%)

Somewhat disagree (11%)

Somewhat agree (44%)

Neither agree nor disagree (31%)

Sixty-three per cent of those surveyed at least somewhat agree that smaller channel partners must have a niche to distinguish themselves from others. Rather than trying to compete with market giants such as Softcat or Bytes, IT leaders recognise the value of smaller players focussing on what sets them apart from the crowd. If they haven't already, now may be the time for smaller organisations to adapt to new consumption and commercial models.

Fig. 6 : "It is important for smaller channel partners to have an IP/niche to distinguish themselves"

Strongly disagree (0%)

Somewhat disagree (4%)

Strongly agree (17%)

Neither agree nor disagree (33%)

Somewhat agree (46%)

While smaller channel partners may lack scale, focusing on their unique selling points, service-based business or niche markets can help their bottom line, as the upheaval caused by the last two years has made growth difficult to achieve. With survey respondents identifying skills shortages as the biggest technology challenge they currently face, it is important for smaller sellers to use their size to their advantage, offering more personalised support and services to their partners, sharing niche expertise, and moving rapidly in response to shifting market appetites.

For the industry giants, it is important to focus on deepening relationships with existing clients, utilising their scale to help partners utilise their diverse portfolio of offerings and deep expertise. What sets successful channel companies apart is their ability to adapt to a rapidly changing market, so it is important for larger players to tune into the individual needs of the organisations they work with, despite their size and scale, and ensure they remain agile enough to innovate.

ESG essentials

ESG should be a top priority for organisations of all sizes within the channel, to future-proof themselves at a time when the environmental impact of tech purchasing decisions is increasingly under scrutiny.

Pressure from investors, shareholders, and customers to extend sustainability strategies into the supply chain has increased in recent years. When asked to rate how difficult it is to audit sustainability within their supply chain, the average rating was a 6.5 out of 10, indicating that respondents find this moderately difficult.

Supply chain emissions are on average 11.4 times greater than companies' own operating emissions, with this number increasing for the tech sector. For an organisation to truly make strides in improving their sustainability, they must examine every organisation in their ecosystem.

Fig. 7 : On scale of 1 (not at all difficult) to 10 (extremely difficult) How difficult is it for you organisation to accurately audit its sustainability?

1	2	3	4	5	6	7	8	9	10
1%	2%	8%	6%	11%	17%	24%	17%	8%	6%

Not at all difficult ← → Extremely difficult
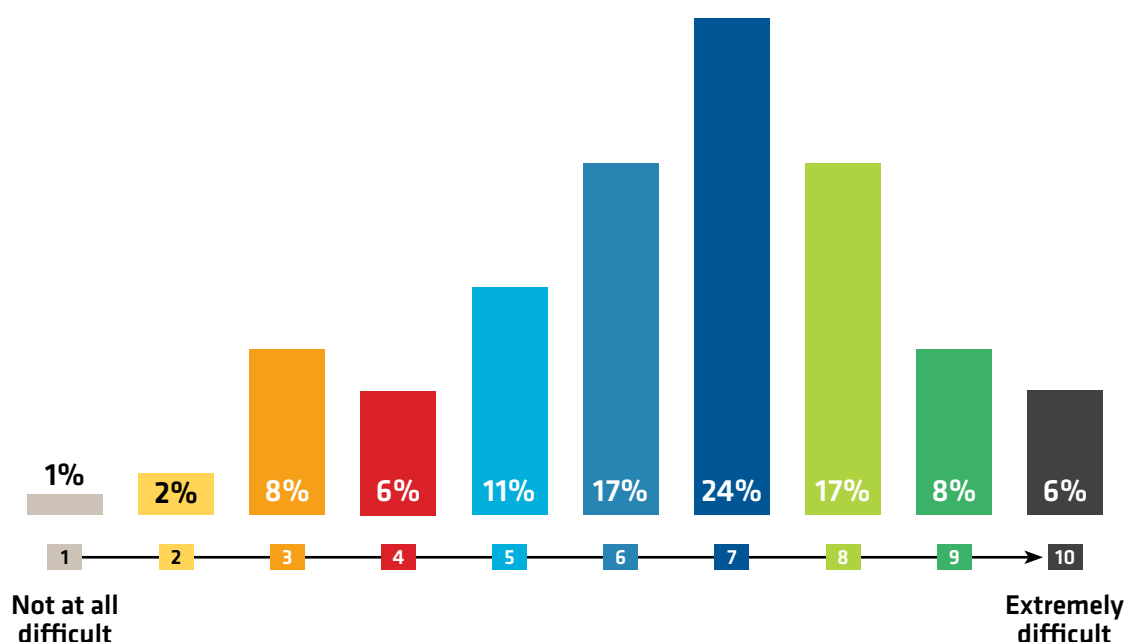
Changing channel: What today's organisations want from their partners

When asked how often they audit their supply chain's Environmental Social and Corporate Governance (ESG) credentials, just 15 per cent of respondents said they regularly carry out an audit, with 44 per cent answering "somewhat". With 24 per cent not currently auditing but with plans to start, and 18 per cent having no plans to do so, it is clear there is room for improvement.

By managing and improving ESG throughout supply chains, companies can save resources, optimise processes, save costs and improve their reputation. Having a comprehensive understanding of the sustainability impacts of their supply chain, communicating expectations and deploying tools to monitor performance are just some of the ways organisations can drive behavioural changes and improve efficiency within their ecosystem.

Among survey respondents that chose sustainability credentials as the most important factor when selecting a channel partner, 50 per cent said they audit their supply chain, indicating that they are practicing what they preach.

Assistance in auditing supply chains and transparency around their own sustainability credentials can help channel partners support organisations' ESG strategy. This represents an opportunity for niche players, in particular, to distinguish themselves.

Fig. 8 : Does your organisation regularly audit its supply chain partners' environmental, social and corporate governance (ESG) credentials?

No, no plans to do so (18%)
Yes, regularly (15%)
No, but plan to start (24%)
Yes, somewhat (44%)
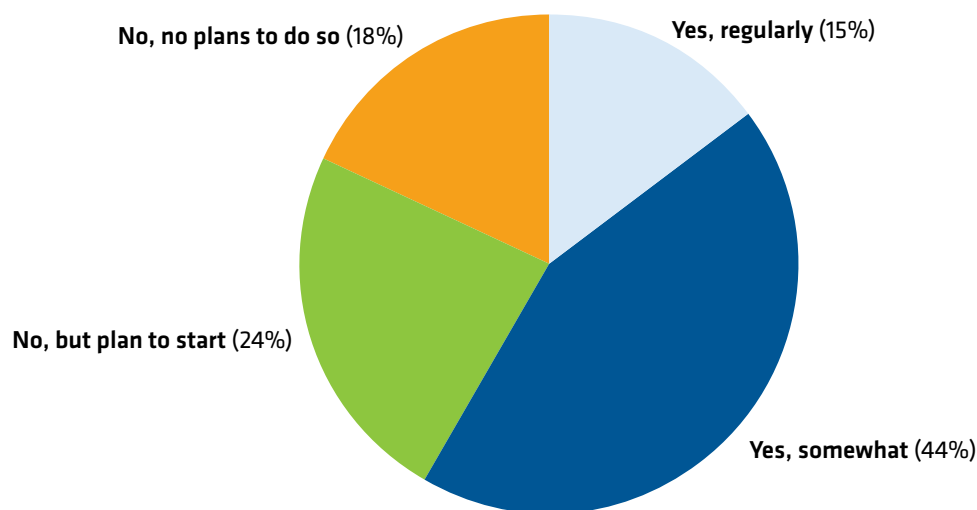
Investors are increasingly favouring organisations with good ESG credentials as they are viewed as less risky, better positioned for the long term and prepared for future uncertainty. 34 per cent of IT leaders agree that their organisation is under increasing pressure from investors in this area, with 26 per cent disagreeing, and 38 per cent neither agreeing nor disagreeing. This suggests pressure from investors in this area may be growing, but is not universal.
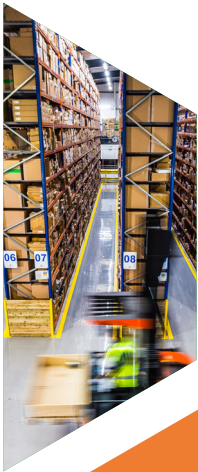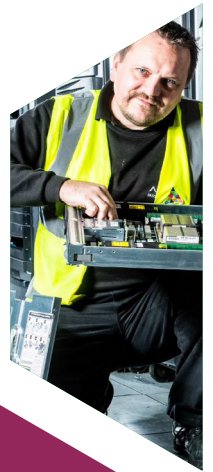
Fig. 9 : "My organisation is under increasing pressure from investors when it comes to ESG"

KEY ■ Strongly disagree ■ Somewhat disagree ■ Neither agree nor disagree ■ Somewhat agree ■ Strongly agree

| 8% | 19% | 38% | 24% | 10% |

0%   20%   40%   60%   80%   100%
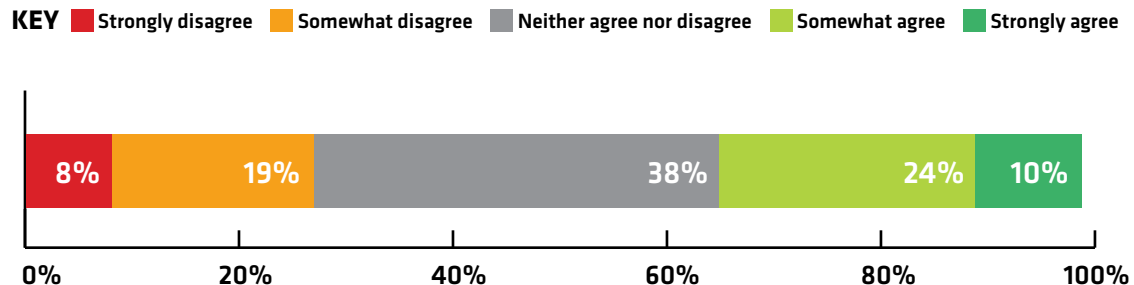
When asked whether ESG credentials are an important factor when choosing a channel partner, 47 per cent agreed with the statement, with 41 per cent neither agreeing nor disagreeing and the rest disagreeing. This suggests that while ESG is a priority for a large number of organisation, and may be a deciding factor in choosing a channel partner, many are on the fence, indicating that other factors have a bigger impact on choosing a channel partner. This could perhaps be a reaction to the upheaval of the past two years which may have forced organisations to focus on other issues, at least temporarily.

Fig. 10 : "ESG credentials are an important factor when choosing a channel partner"

KEY ■ Strongly disagree ■ Somewhat disagree ■ Neither agree nor disagree ■ Somewhat agree ■ Strongly agree

3%

| | 9% | 41% | 41% | 6% |

0%   20%   40%   60%   80%   100%
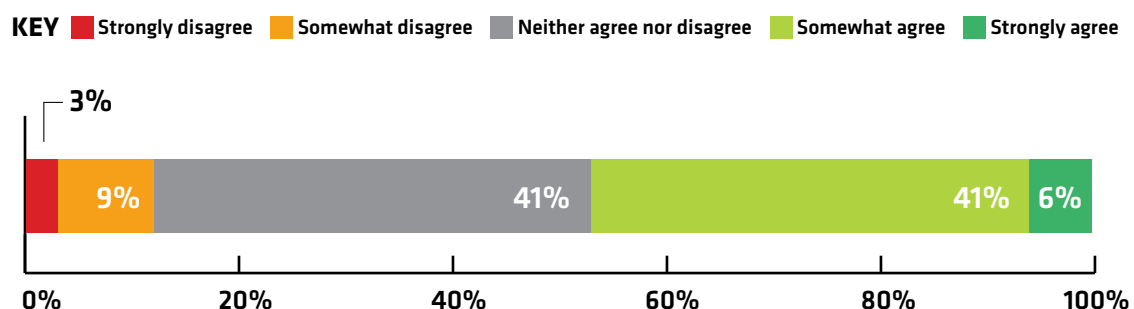
Survey respondents that chose sustainability credentials as a top-three factor when selecting a channel partner, largely agreed it is important for smaller channel partners to have a niche, and largely disagreed that their organisation typically opts for bigger, well-known channel partners. This could indicate that those that have sustainability as a core focus are choosing smaller channel partners.

For larger players, it is important they lead by example through initiatives such as disclosing emissions, setting sustainability targets, and support their partners in doing the same.

Future channel strategies

WHAT HAS BEEN THE GREATEST TECHNOLOGY CHALLENGE FOR YOUR ORGANISATION OVER THE PAST TWO YEARS?

"Security when remote working"

"Getting equipment in time due to supply chain issues"

"Cloud integration"

"Legacy applications and modernisation"

The greatest technology challenges IT leaders have faced over the past two years have been an increase in remote and hybrid working, which emerged as the most common challenge. Cloud migration, supply chain issues and security challenges, particularly around end user cyber skills, were also identified as common challenges.

HOW HAS THIS TECHNOLOGY CHALLENGE IMPACTED YOUR ORGANISATION'S CHANNEL STRATEGY?

"It's made us back away from larger scale partners to more SME ones, who can meet the challenges we face"

"Concentrated on fewer [channel partners]"

"Looking for a different type of channel partner as our business has evolved"

"Increased reliance on channel partners for supply of hardware"

Technology challenges have impacted organisations' channel strategy by prompting an increased focus on cloud services, consolidating to a fewer suppliers for some, but for others has meant bringing new suppliers on board.

This indicates that a change could be on the horizon for channel strategies, as organisations look to new partners to meet their needs.

HOW DO YOU PREDICT YOUR ORGANISATION'S CHANNEL STRATEGY WILL CHANGE OVER THE NEXT TWO YEARS?

"More focus on sustainability and cyber security credentials than the traditional measures"

"Focus on cloud-based suppliers"

"Move to more niche players from larger partners"

"No major changes required. All running smoothly"

However, when asked how their channel strategy could change over the next two years, a high proportion of organisations predict it will remain largely the same, indicating they are happy with their current strategy.

Other themes that emerged were: a focus on cloud technologies, adapting to hybrid working, and a greater focus on sustainability credentials.

Consolidation also surfaced as a common trend, with organisations looking to reduce the number of suppliers in their supply chain.

Conclusion

The upheaval of the past two years has had a significant impact on the channel and its customers. As the gap between the top 100 resellers and the rest of the channel widens, as revealed in **CRN**'s *VAR 500* report, businesses must reassess their position within the market. They have important decisions to make when it comes to developing their own niche or rounding out their offerings, adapting to new ways of working, and generating repeat revenue.

Central to this is listening and responding to the IT industry as a whole. IT leaders featured in this research cited skills shortages, supply chain issues and the transition to hybrid working as the key challenges they are currently facing, and these are impacting their channel strategies. The research also revealed IT leaders are typically hedging their bets on larger, well-known channel partners, but recognise the value of smaller sellers that have developed their own niche.

If resellers are serious about retaining customers and attracting new ones, it is important they pay close attention to these challenges and adapt accordingly, so they can future-proof their business model. It is no longer enough for channel partners to just provide technology. Standing out from the crowd means transparent communication, resource sharing, and aligning behind common goals.

Finally, IT leaders recognise the importance of ESG, not just within their own organisation but within their supply chain as a whole. While organisations may not be prioritising ESG over other factors such as cost and security when choosing a channel partner, ESG will only become more important over time, so it is important for the channel to respond now to ensure they align with an increased focus on sustainable services and are on hand to offer resources and assistance to those seeking to incorporate sustainability into their products and services. The prioritisation of ESG amongst some investors also means pressure on the channel to facilitate sustainability will come from above, as well as below.

About the sponsor, Agilitas

As the leading provider of customer-driven IT channel services, Agilitas is passionate and committed to demystifying technology for its channel partners, making sure that every digital problem is solved with a business solution. Partners include value-added resellers, managed service providers, and system integrators, born in the cloud firms, vendors and distributors.

With a channel-only approach, Agilitas is the perfect complement to any services portfolio. Its vendor agnostic expertise enables the company to deliver 'as-a-solution' service wraps that are focused purely on a business outcome. Whether that is expanding geographic reach, enhancing service performance, reducing operational overhead, or improving a service proposition.

Agilitas' passionate team of experts, also known as its innovators, pride itself on exceeding expectations and supporting in a way that empowers its channel partners in this digital age.

The Agilitas Sustainability Pledge means the company commits to 'Act with Impact', to create a circular economy that supports a more sustainable and healthy future. This pledge is built around three core pillars – Planet, People and Partners – that drive the company to place the planet at its heart, build a sustainable culture and support partners with solutions and services that reduce environmental impact.

Agilitas IT Solutions Limited is based in Nottingham, UK.

For more information:

Visit: www.agilitas.co.uk

Follow: Twitter at @AgilitasIT

CRN
CHANNELWEB.CO.UK