Channel Predictions for 2017

2112 looks into its crystal ball of trends to divine what's in store for vendors, distributors and partners operating in the channel over the next 12 months.

By Larry Walsh | December 2017

It's that time of the year again when we take account of all the things that happened in the past 12 months and look ahead to what could happen in the coming year. By all accounts, 2016 will go into the record books not just as a reasonably good year for the tech industry and channel, but as a strong transition year to the next age of technology delivery and consumption.

Most people will admit 2016 was a transition year. The technology industry continues to evolve from its legacy products to a cloud- and services-based industry. Subsequently, the channel is evolving to adopt new technologies and business models.

The good news: These changes are challenging the industry, but not entirely disrupting it. Vendors and their partners continue to thrive in this environment, at the same time preparing for the era of services and outcome-based systems.

Looking Forward.

The 2112 Group sees more change coming in 2017. The technology industry will continue to embrace new models, services, and products. Technology vendors will continue to modify their go-to-market strategies and sales models to meet and exceed the economic conditions. And, consequently, vendors will press new channel models and partner expectations into the field.

We here at 2112 remain committed to tracking and analyzing the trends that will affect – positively and negatively – vendors, distributors, and partners. We see a number of trends unfolding in 2017. Some are continuations of what's transpired over the past few years. Others are new trends that are equally exciting and disruptive. Whether positive, negative, or neutral, all of these trends will have an impact on the channel.

CHANNEL PREDICTIONS FOR 2017

The following are 2112's official 17 predictions for the channel in 2017.

1 EVOLUTION FROM PARTNER-LED SALES to PARTNER-DRIVEN EXPERIENCE

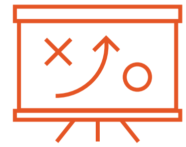
The channel is traditionally known as a means for extending sales capacity and coverage without incurring the costs of developing and maintaining fixed-cost direct-sales organizations. Partners, however, aren't great sales organizations, as 2112's research has consistently shown. As vendors shift their revenue to services models, they need greater customer retention. In 2017, they'll shift partners' focus from making sales to providing a superior customer experience. Partners will be able to do that by applying their technical skills to ensure greater outcomes that result in higher levels of user satisfaction and expanded technology utilization.

2 RISE OF THE NON-TECH SPECIALISTS

In November 2016, 2112 released the results of its Specialized Channel study. The report details how non-technology companies will play greater roles in technology vendors' go-to-market strategies. Since then, vendors have been asking 2112 for guidance on how to identify and engage with non-traditional partners. In 2017, vendors will look to expand their channel worldview as a means of expanding their total addressable markets and augmenting their sales with incremental sources.

3 SHIFT TO SERVICES MODEL; RETENTION IMPERATIVE

The tech industry is rapidly transitioning to recurring revenue models, even for non-cloud products. Why not? Recurring revenue is predictable, and Wall Street and equity investors love predictability. While the recurring revenue model is well-established in managed and cloud services, it's permeating to include software licenses and hardware. Within the next few years, tech vendors will sell little technology on a perpetual license. As a result, vendors will place as much emphasis on customer retention as acquisition. The only way the recurring revenue model works is if the customer attrition is low to nil.



4 REPLACEMENT OF CHANNEL COMP MODELS WITH ECONOMIC IMPACT MODELS

Recurring-revenue models have less margin room for sharing with partners, so vendors will start moving away from offering direct discounts and incentives to the channel. Instead, vendors will identify the economic benefits partners can reap from selling and supporting their products. Vendors have always couched their partner compensation in "the value add" quotient, defining margins as the foundations for partner profitability. Going forward, vendors will provide partners with better road maps and support for, and delineation of, value-add opportunities that come with their products. The idea is to decrease partner reliance on product margins as a means for making money.

5 CONTINUED VENDOR CONSOLIDATION AND CHANNEL DISRUPTION

While the Federal Reserve raised interest rates, borrowing money remains relatively cheap. What isn't happening is broad hypergrowth. Free money and large amounts of cash on hand drove the buying spree seen among vendors in 2016. Consolidation is likely to continue through 2017 as vendors look to grow by acquisition rather than organically. While M&As will bolster vendors' books, they'll also disrupt channel programs and partner performance. Consolidation is making partners anxious about the security of their legacy investments and the costliness of adjusting to new regimes. In the wake of vendor consolidation, partners will develop alternate supplier relationships to insulate against operational and revenue disruptions.

6 PRESSURE ON DISTRIBUTORS TO DELIVER MORE FOR LESS

A recurring vendor question in 2016 was this: "Why do we need distribution?" In 2017, that question will amplify from a murmur to an audible din. Distribution is under pressure to evolve as customers increasingly source technology directly through suppliers. Distributors have long provided value-add services to vendors, but those services will start evolving from logistics and technical enablement of partners to the delivery of systems that enable workloads. Vendors will start asking more of distributors beyond their marketing and help-desk support resources. And partners, unable to recruit and field talent, will turn to distributors for their aggregated, human-based professional services.

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SOCIAL MEDIA
TAKES GREATER ROLE IN MARCOM

One of the great lessons taken away from the 2016 presidential elections is the power of social media. While the political world watched the traditional indicators, the real movement that determined the election outcome was happening in the social world. And the predominant influence of social communications goes beyond politics. Social media is responsible for the decline in NFL and Olympics ratings, as well as the shift in popularity of major brands. Social media is already a widely used, yet poorly measured, mechanism of channel engagement. In 2017, vendors will start to monitor channel social media as a means of understanding partner sentiment and market impact.

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MSPs
GIVING WAY TO BUSINESS SERVICES

To many, the managed services segment of the channel is on fire. MSPs are growing, and successful MSPs are consolidating. Truth be told, the MSP segment is stuck in the role of supporting legacy technologies and rudimentary maintenance services. Vendors are seeking MSPs that can help customers manage cloud services, resources, and workloads. With vendor guidance and demand, smart MSPs will evolve to take on roles more akin to business process outsourcing.

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THE INFLUENCING AND REWARDING
OF PARTNER MICRO-BEHAVIOR

How vendors define the attributes of a good partner continues to evolve. Sales and revenue performance aren't the only criteria. Vendors want engaged partners, companies that invest in marketing, business development, sales maturation, and customer experience. Vendors want to see persistent and systematic activity along those lines, not just point-in-time efforts. As a result, vendors will start reshaping their channel programs and reward systems to influence and reward micro-activities and behavior, shaping the composition and operations of their partners.

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TRAINING RELEVANCY SHIFTS
TO VENDORS, NOT CUSTOMERS

Customers want results, not certifications. The multitude of technical certifications offered by vendors and third-party providers already have little meaning to the end customer (as reported to 2112 by partners). Certifications are more about demonstrating competency and commitment of partners to vendors. Vendors will increasingly lean on certifications as a means for differentiating partners when selecting companies for customer engagements, particularly when it comes to complex cloud implementations and workload systems development.

DOUBLING-DOWN ON DATA, NEW KPIs

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All vendors measure channel performance based on data. Vendors collect copious volumes of point-of-sale, deal registration, discounting, and unit sales data. Some vendors measure training taken and certifications attained by partners. And many vendors measure partner recruitment, retention, and customer engagement data. While the channel is awash in data, determining which of that data to analyze is tricky. Vendors will start standardizing channel KPIs for better comparative measures of performance and assigning value to partners.

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CHANNEL AS A PROFIT DRIVER, GOAL CONTRIBUTOR

The channel is under pressure from an old foe: the CFO. Financial overseers are demanding greater justification for investing in, supporting, and compensating partners – particularly when channel performance is flat or partners require a lot of hand-holding to get sales closed. With average sale prices declining and margins compressing, CFOs are pressuring channel executives to become net contributors to their company's profitability. Channel managers will start embracing this mantra and focus on showing how their channel partners are feeding profitability rather than just buttressing direct sales.

FEWER PARTNERS, BETTER RESULTS

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The enemy of any for-profit organization is cost. A chief reason for any company having a channel is to expand revenue sources at a lower cost. Channel partners, in theory, get paid only when they conduct a transaction. This precept makes the channel, in theory again, more advantageous than large direct-sales organizations that come with high fixed costs regardless of performance. Vendors will increasingly adopt the strategic position of "fewest partners, highest returns," and focus their channel attention on those few partners that deliver results.

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REKINDLING OF CHANNEL NOMENCLATURE DEBATE

Shifts in technology consumption and customer needs will rekindle talk of redefining partner types. Today, we have numerous partner categories: VARs, MSPs, cloud service providers, direct market resellers, systems integrators, alliance partners, etc. The default moniker for a partner is "solution provider," even though nearly all companies in the channel are hybrids of the above types. Some vendors already boil down their partners to two types: partners (strategic) and resellers (opportunistic). In 2017, vendors and the channel intelligentsia will look for new monikers to assign partners that better reflect their hybrid composition and value-add roles in their go-to-market strategies and customer relationships.

SUCCESSFUL CHANNEL VENDORS WILL MITIGATE PARTNER RISK

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One of the biggest obstacles to partner engagement and growth is risk aversion. The vast majority of partners are small businesses; some 98 percent of the channel generates less than $2 million in revenue annually. Those companies have neither the resources nor the insurance to walk out on a limb without a safety net. It's not up to vendors to provide a safety net, but it is incumbent on them to do a better cost-benefit analysis of partnerships, investments, and growth. Vendors will start defining the economics of channel engagements better to help partners understand and mitigate risks, which will lead to more investments that result in growth.

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AMAZON EFFECT FROM RIPPLE TO RIPTIDE

Let's face reality: Amazon is the leader of the new economy. It continues to defy gravity, spreading into and disrupting new markets as it leverages technology in ways unimagined by rivals. Amazon will continue to spread disruption in the technology sector. It's already dominating the cloud infrastructure segment, and soon it will radically push into technology distribution, challenging the conventional logistics and support of distributors such as Ingram Micro, Tech Data, and a multitude of others. Soon, Amazon will compete directly with national and direct market resellers such as CDW. As some observers note, Amazon does a tremendous job of providing customers – be they end users or partners – a place to buy something; Amazon doesn't actively sell much. Amazon's continued expansion will ripple through the legacy technology market and channel sales models, but it will also open new opportunities in service and value-add customer engagements.

CONFIDENCE UNSHAKEN AND STRENGTHENING

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Despite the obvious and emerging challenges to vendor go-to-market strategies, confidence among partners is and will remain strong through 2017. Over the past two years, 2112 tracked increasing confidence of partners in their ability to grow their business and improve their profitability. While much of the channel remains focused on conventional and commoditized products and services, the rank-and-file partner remains confident in its ability to turn lead into gold. 2112 believes channel confidence will increase in 2017. While actual channel performance is never as high as confidence would suggest, it is a good indicator of the potential for positive returns on channel investment.

What are your predictions for the coming year? Send your thoughts on what's going to happen in the channel to lmwalsh@the2112group.com.

Translating Intelligence Into Action To Improve Performance.

2112…Building Better Channels.

The 2112 Group is a business strategy firm focused on improving the performance of technology companies' direct and indirect channels through our portfolio of market-leading products and services.

Through research and market analysis, we gather the intelligence necessary to develop tools and enablement programs that drive business outcomes.

By looking at the market from the viewpoint of vendors, partners, and end users, 2112 is uniquely positioned to develop go-to-market strategies that are beneficial to all parties from both a channel and enterprise perspective. With partners and affiliates around the world, 2112 is uniquely positioned to serve as your global channel enablement partner.

Products

A Portfolio of Products that Drive Actionable Results

2112's products and services are designed to drive actionable results. Each is a tool through which our clients can initiate a strategic plan and engage in a repeatable process to achieve goals and accelerate short- and long-term value.

The collective output of these products is then incorporated into the development of a road map – or an operational plan – for a client to execute against to achieve desired goals and performance improvements.

2112 takes a holistic approach to strategic planning, so the risk of failure is substantially mitigated because clear objectives are defined early in the process.

Success becomes repeatable.

Services

Strategic Business Plans That Create Sustainable Growth

2112's portfolio of channel programs meets the specific strategic needs of technology companies, regardless of size, geographic location, and industry vertical. We uncover solutions that enable us to collaborate with our clients to deliver impactful results.

For effective channel development and optimization, 2112 leverages its 3C's Methodology to drive improved partner performance.

2112 can build a sustainable, profitable channel program that opens the door to a new customer base, expands sales and services capacities, shortens sales cycles, and leads to a healthier bottom line.

Enablement equals execution.

Research & Strategic Content

Fact-based Decision Making is a Powerful Tool in Business

2112 is the expert in the development and execution of focused, applied objective and subjective research. Our goal is to provide our clients with data on market trends and dynamics — and extract intelligence that can be converted into practice.

Many of our clients require custom content to address an area of particular significance for their market, product, or customer base.

2112 conducts research and/or strategic content programs on behalf of its clients or branded as 2112 analyses to offer further value from the findings through third-party validation.

Prescriptive guidance supported by facts.

Interested in Learning More?

Deciding to engage with a strategy firm to develop or optimize a channel program is never as simple as turning on a switch. Building channels takes planning, time, and investment. With over 100 years of collective experience, we've seen a lot, and we bring the lessons we've learned to the field every day so our clients can benefit from our knowledge and understanding of the industry.

We've worked with a variety of clients, from Fortune 100 vendors to innovative start-ups, leveraging many of our customized offerings. 2112 uncovers solutions that enable us to drive meaningful results through improved performance. How can we help you?

Contact 2112 to get started… +1 347.770.2112 info@the2112group.com