CHANNELNOMICS QUARTERLY

SUMMER 2022 ISSUE #02

Recession Rx:

HOW TO USE DATA TO PROTECT YOURSELF AGAINST ILL-ADVISED BUDGET CUTS AND REDIRECTS

Channel Conundrum:

A SWOT Analysis of MSPs

GITLAB'S MICHELLE HODGES:

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In This Issue...

Editor's Letter

Bad Ideas in Business That Are Doomed to Fail

>> BY **T.C. DOYLE**

FOR ALL HIS SUCCESS, APPLE CO-founder Steve Jobs was known to make a bone-headed blunder or two. During his time away from Apple, Jobs launched the NeXT computer for educators. To ensure its success, he turned to one of the most successful technology resellers of the day, Businessland.

NeXT was convinced that Businessland could provide the sales muscle it needed to make its revolutionary device a success. Bad idea. Businessland had neither the customers (students and academics) nor the business model (high-touch, high-margin sales) that NeXT required.

The takeaway? Never enter a market with a half-baked channel sales plan. It wasn't the first mistake in technology channels; nor will it be the last. When it comes to go-to-market strategies, there are plenty of bad ideas that vendors foist upon channel partners. Here are several to avoid.

Moving the goalposts without proper notice

When a vendor is young, it recruits a lot of partners and offers generous terms and conditions. Over time, vendors tend to amend those terms. Sometimes, they impose more stringent certification requirements and reduced margins. Partners understand the need for change. What they detest is unexpected or overly ambitious change. Microsoft partners, for example, are up in arms over Microsoft's plans to force cloud solution providers (CSPs) to switch from selling perpetual licenses to selling fixed-term contracts, a transition that requires partners to accept significantly more risk than before.

Fortunately for them, Microsoft has decided to delay the implementation of its plans pending further review.

Willfully tolerating channel conflict

Dell built its business on direct sales, so it should come as no surprise that it has returned to its roots in recent years. But this is after building successful partnerships with thousands of channel partners, which generate almost half of the company's sales. Channel conflict isn't sitting well with many, especially those who've cultivated close ties with customers on behalf of Dell. Once inside an account, however, Dell sales reps consider a customer to be their account, not some partner's. Dell's channel leaders are doing good things to create opportunities for partners, but their work isn't being made easy by some colleagues.

Pretending that something self-serving is actually in partners' best interests

Some asks of partners are head-scratching. Take Kaseya, which competes in the highly competitive world of remote monitoring and management (RMM) software platforms. Kaseya wanted its partners-cum-customers to sign three-year contracts that bound them to its technology. Kaseya did so to give partners better pricing, but also to provide itself with a more predictable revenue stream. What irked partners were the terms of Kaseya's auto-renewal process, which could impose new conditions that partners had no choice but to accept. After an outcry, Kaseya wisely changed its plans in August 2022.

Stealing partner renewals

There's a raft of vendors that have moved the goalposts on partners when it comes to renewals. Land a new logo and get 10% of the value of that contract annually, some vendors have said. But over time, that 10% is reduced to 5%, while that "forever" promise is reduced to five years or less. These types of changes are irksome enough to partners, but what really alienates them is when vendors try to assume responsibility for renewals, effectively shutting partners out of accounts they sold in the first place. Bad idea. CA Software was accused of doing this, and partners responded by moving their customers to other vendor platforms.

There's no shortage of bad ideas when it comes to managing partner sales. Some may seem tempting at first, but what's bad for someone else is likely to be no good for you either. ●

T.C. DOYLE is the vice president of strategic content at Channelnomics. Connect with him on LinkedIn at **linkedin.com/in/tcdoyle**.

New in Brainstorm

Insights to Fuel Your Business

THE CHANNELNOMICS BRAINSTORM PROGRAM provides channel pros with ongoing access to the people and insights they need to continually evolve their business and program strategies.

On our monthly Brainstorm Community Calls, we remind participants that their questions, concerns, and insights inform our research and content. Here's a glimpse into some of the latest offerings for Brainstorm subscribers.

ANALYST NOTE

The Unappreciated Value of Channels: Our research reveals telltale signs of the "Rodney Dangerfield syndrome" that plagues the channel. Feeding this syndrome is a misalignment of perceptions and expectations. Too many non-channel people see partners as a means to generating revenue — first and always. At Channelnomics, we talk about the channel imperative — the reasons vendors need channel partners. It comes down to two simple things: what partners can do that you can't and what partners can do that you don't want to. More channel chiefs and their stakeholders need to look at channel partners through the lens of missions, not necessarily contributions.

ANALYST NOTE

Technology Aggregation Can Be a Bitter Pill to Swallow: Nearly every vendor that Channelnomics talks with today has its heart set on developing a platform for the delivery of XaaS. Platforms are easy to use, lucrative to own, and hardy enough to weather bad times. That's why most everyone loves a good platform. Channel partners, though, charge customers hefty fees for integrating and administering various digital services, so they don't view technology aggregation into platforms with the same zeal that vendors do. ●

Don't miss a single Brainstorm Community Call.

Join us on the third Tuesday of every month for insightful discussions on all the issues that affect your channel business.

And don't forget to subscribe to Brainstorm at **www.channelnomics.com/brainstorm**.

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Tip of the Quarter: Phase 2 Is for Planning

IF THE KEYWORD FOR YOUR FIRST 60 DAYS AS CHANNEL chief is “observe,” it should be “plan” for the two months after. Knowledge and information form the basis of sound decision-making, so it follows logically that you can’t start to strategize until you’ve collected some solid data from your observations.

By the time you’ve arrived at day 61 of your new gig, you should have a balanced understanding of the company that employs you — its products, channel programs, partner profiles, and value proposition. You should also be able to think along the lines of a SWOT analysis, considering the company’s strengths and weaknesses, gauging its opportunities, and identifying the threats it faces, be they in the form of competitors, gaps in market coverage, lack of market demand, or something else.

Now it’s time to take some action. But before unveiling an 18-month plan and the strategies that underpin it, be sure to establish an up-to-date vision and mission to guide your organization forward.

What’s the desired future state of your company? What objectives must you and your team set to reach said state? Once those questions have been answered, you can go about the business of laying out a concrete plan of action, complete with execution steps and activities that are specific, measurable, attainable, relevant, and time-bound.

For the long-term plan to be successful, try adding these steps to your agenda:

Review partner management, utilization, and enablement
You should investigate the effectiveness of your company’s partner portal, PRM system, lead management systems, and mechanisms for partner communication. Improving those will enhance the partner experience. Also, understanding the revenue contributions of each partner route to market, as well as the effectiveness of your partner marketing and enablement programs, can go a long way toward helping you optimize your overall channel strategy.

Socialize and build alliances
As you carry out your plans, it’s important to share information and keep in contact with key stakeholders both inside and outside the channel.

Establish a PMO
Setting up a project management office — even if it’s just a small team — is essential to a channel update or makeover. Appoint leaders to steer and track activities, and to be accountable throughout the change process. If you opt to be the project lead, you should share responsibility with an operations rep. ●

▶ Read about days 121 through 180 in the fall issue of CQ. Subscribe to the magazine at **www.channelnomics.com/cq.**

Channel Leaders' Top-of-Mind: Insights From Global Leaders

Every month, Channelnomics CEO Larry Walsh talks to the industry's highest-profile, most respected thought leaders for the Changing Channels Podcast on YouTube. Here are some highlights from recent episodes.

Deploying Modern Managed Service Operations by Leveraging Data

What we're noting is a gulf between those baseline service providers that are turning over the same old RMM and this level of sophistication you're talking about [providers that collect, prioritize, and act on telemetry data to securely manage the client environment]. Does this portend a consolidation of managed service providers that's going to clean up the market?

"Well, we've heard this 'evolve or die' theory before, but these things happen over time. The channel is resilient. But what I do believe is that there's a rapidly evolving demand around this idea of risk operations, around this idea that operations must have a security-first view. That means the identification and resolution of problems — and speed to resolution — will be of paramount importance. The providers that can pull all that together in a well-oiled value prop to clients, with the ability to provide analytics, insights, and speed to resolution, will be [in a really strong position]."

– JUSTIN CROTTY, Senior Vice President of Channels, Netenrich

Relying on Partners as Agnostic Advocates of the Cloud

What do you make of our research showing that 47% of end users plan to purchase more cloud products in the next 12 to 18 months, while one-third say they'll turn to solution providers to make those purchases and get guidance on cloud solutions?

"It's fair to say that it's on every CIO's road map — how to leverage the cloud. And who do they go to? I think this is a body of research that will continue to evolve, and it points to the importance of the solution provider. CIOs inside the end customers — they certainly do turn to some of the big technology vendors for advice and counsel — but most of them know that they're going to be getting a point of view that's specific to those vendors and their technologies. The solution providers are the agnostic business advocates on behalf of the end customer that are bringing together the right solutions."

– JOHN DUSETT, Executive Director of U.S. Cloud Services, Ingram Micro Cloud

Be sure to subscribe to the **Channelnomics Changing Channels** podcast on YouTube.

Practical Advice for a Troubled Economy

To help guide industry professionals through these immensely challenging and rapidly changing times, Channelnomics has published the Channel Recession Survival Guide. **Here's an excerpt.**

Channel Recession Checklist

Recessions are inevitable periods in normal economic cycles. History shows that a bust — to greater and lesser degrees of severity — follows every boom. The worth of a management team isn't in how much success it generates but in how well it manages the ascent and descent of its economic fortunes.

The current economic climate indicates that recessionary conditions will persist into the foreseeable future. Now is the time to leverage the channel to counteract downward financial pressure and lift vendor fortunes through partners.

Channelnomics recommends the following action items to effectively leverage and manage channels through economic downturns.

- Gather data on channel performance and revenue contributions.
- Identify and define tasks that you can assign to the channel.
- Create a channel P&L to demonstrate the total cost of operations and return on channel investment.
- Examine partner compensation and incentives to rebalance go-to-market priorities.
- Establish overall channel and individual joint business plans with partners to dictate activities.
- Collect performance data, measure results, and adjust accordingly.

Recessions and down economic times lead to widespread tumult. It takes nothing less than a combination of knowledge, discipline, and the leveraging of available resources to navigate these difficult times successfully. The channel is the most effective production and cost-containment resource available to vendors — in good times and bad. Thriving in a recession is a matter of effectively managing this powerful go-to-market tool. ●

Download the guide at the Resources section of **www.channelnomics.com**. And don't let a recession catch you off guard. Schedule a free consultation to discuss our Channelnomics Fiscal Optimizer (CFO) at **www.channelnomics.com/cfo**.

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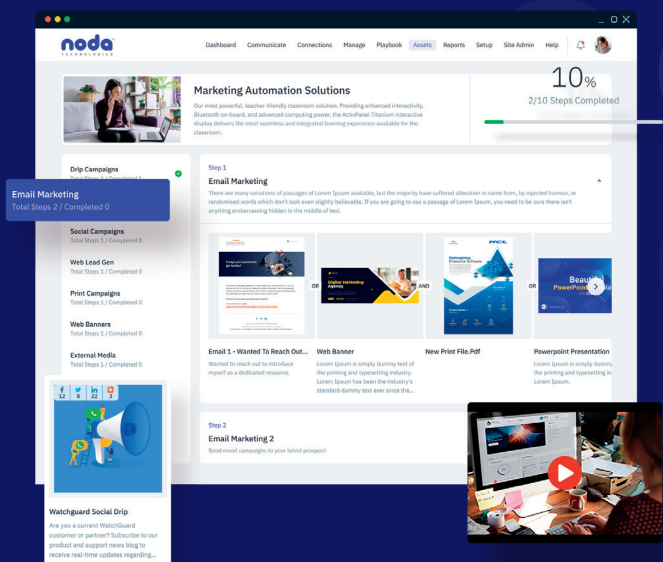

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Perfect Timing: Why a Business Sideshow Now Finds Itself in the Channel Spotlight

>> BY **LARRY WALSH**

THE ONCE-STAID MASTER AGENT SEGMENT OF THE channel is buzzing with activity and evolution.

Primed with private equity funding, new capabilities, new vendor partners, and more, master agents now find themselves in an enviable position. This is, quite simply, to redirect a significant share of traditional technology sales *and* claim a sizable chunk of new ones.

With a spotlight shining directly on them, master agents (or, as some prefer, technology solutions brokerages) have the potential to shake up tech sales and service delivery in a profound way. Many vendors recognize that master agents, with their impressive market coverage and sales capacity, pose a potentially productive and lucrative route to market that can augment — or even replace — their traditional channels.

Once viewed as a sideshow curiosity to the mainstream technology channel, these purveyors of telecom circuits and data services handled the tedious work of holding carrier contracts and facilitating paperwork between carriers and agency resellers. Few offered mainstream IT services; at best, they would bridge the IT-telecom divide, connecting MSPs with agents to co-fulfill customer needs.

With the advent of UCaaS and software-defined networking (SDN), master agents saw the potential of selling services adjacent to their core telecom offerings. They began forming relationships with technology vendors offering easily portable services and MSPs that had established recurring-revenue models.

With their focus on digital services, master agents — and their downstream agents, by way of extension — stand out in the channel because of their proven sales prowess. While MSPs boast superior technology integration and customer service capabilities, master agents distinguish themselves with superior sales models and cultures.

This makes them attractive to vendors that have grown frustrated with the mainstream channel's focus on a sell-to model that sees MSPs take ownership of tech innovations, incorporate those innovations into a tech service stack of their own, and sell that service stack to end customers independently.

By contrast, master agents are perfectly aligned with vendors' thinking today. A growing number of vendors want to take their products to market through the channel via a sell-thru model, with master agents simply selling contracts and passing fulfillment responsibility to a vendor or a managed service provider.

"With their focus on digital services, master agents — and their downstream agents, by extension — stand out in the channel because of their proven sales prowess.

Again, the rise of master agents has the potential to augment or replace traditional reseller and managed service channels.

Channelnomics expects accelerated interest in master agents from vendors as the service-based model for delivering technology goods prevails.

Already, key master agents are vying for a bigger role in the spotlight. In recent months, Utah-based Telarus, backed by Columbia Capital, bought Florida-based Telecom Consulting Group (TCG) for an undisclosed amount. Previously, Avant Communications, backed by $4 billion in private equity from Pamlico Capital, acquired Zero Financial to expand into commercial lending and PlanetOne to expand market coverage to the Southwest United States.

This is only the beginning of what's expected to be a frenetic time for master agents, whose growth is likely to come at the expense of traditional distributors and resellers that rely on conventional sales and delivery models.

Master agents, it seems, have become the newest stars of the show. ●

> *“Take all scores with a pinch of salt.”*
>
> **—EXPERIENCE BENCHMARKS**

Does NPS Still Matter?

WHAT’S A “GOOD” NET PROMOTER SCORE (NPS)? IT’S A LEGITIMATE question, but there’s no one answer. Consider, for example, the scores earned by technology companies. Depending on whom you ask, the industry average is 35 (Survey Monkey) or 60 (Experience Benchmarks).

If these numbers seem high to you (they do to us), consider what the Qualtrics XM Institute reports. Its studies reveal that software companies have an average NPS of 19.5, while computer and tablet makers have an average of 17.8. If we take a look at other industries, for comparison’s sake, we find that grocery stores have an average NPS of 33.3 and investment companies have an average of 27.9. As you might expect, airlines score lower — around 11 — while car-rental companies (notorious underperformers) have an average score of 4.8.

Here’s a sampling of scores for well-known tech companies (at right). Keep in mind that there’s no single source of truth when it comes to NPSes. As Experience Benchmarks notes, “take all scores with a pinch of salt (they’re all self-reported after all).” ●

19.5

Average NPS for software companies

4.8

Average NPS for car-rental companies

While popular, the NPS can be problematic, and it tends to come up short for measuring the channel partner experience. There *is* a better way. **The Channelnomics Partner Experience Index** (PEXi) takes a modular approach to measuring channel partner satisfaction.

Scan the QR code to read our primer on the NPS and PEXi. Contact sales for more information at **sales@channelnomics.com**.

Company	NPS
Veeam	62
Zoom	62
SAS Institute	57
Google	50
Splunk	50
AppDynamics	47
Microsoft	45
VMware	45
Bulletproof	39
Check Point	33
Dropbox	32
Adobe	25
Oracle	25

Source: Customer Guru

Cover Story

Recession

How to arm yourself with data to push back against ill-advised budget changes

>> BY CINDY HERNDON

ANY MOMENT NOW, YOU MAY GET AN E-MAIL, A CALL, OR A TAP ON YOUR office door from a colleague from finance who asks, "Hey, got a minute?"

Because you read the financial news and monitor your sales activity, you can anticipate what's coming. Within minutes of beginning a dialogue, you know you're going to be asked — if not told —to make cuts or reallocations in your channel budget and annual operating plan (AOP).

Maybe you've sensed this moment coming. For weeks, you've noticed that when you log in to Zoom calls, colleagues aren't talking about summer vacations; they're discussing the economy. The reason is obvious: Technology channel professionals are fretting over weekly sales forecasts and worrying that their sales pipelines could soon run as dry as the rivers on Mars.

But what if the concessions that you expect to be asked for could be mitigated if not avoided altogether? What if you had insights and data that you could use to better inform those who blindly ask for compliance? Nonsense, right?

Actually, it's not.

Today, there are strategies and services that you can use to work cooperatively with the finance leaders in your organization to take control of your destiny in uncertain economic times. What's more, you can leverage these assets to create a deeper appreciation of channels within your organization that will serve your needs long after any recession ends.

RX:

In many tech companies — even established vendors with sizable indirect-sales businesses — the channel organization is often treated as a cost center. This dilutes the channel's contribution to a go-to-market strategy and obscures the basic fundamentals of channel economics. Channelnomics has made it a mission to eliminate this problem.

> *"What holds back many organizations is a lack of consolidated data that can be routinely collected, analyzed, and trusted by company leaders.*

> *What if the concessions that you expect to be asked for could be mitigated if not avoided altogether?*

Before diving in, it helps to understand the unique challenges that indirect-sales investments and performance data create within many vendor companies.

The Root of the Problem

Even in the best of times, managing a channel business is difficult because of the dearth of people in business who truly understand the economics of indirect sales. Within most companies — even established vendors with sizable indirect-sales businesses — the channel organization is treated as a cost center.

There are several reasons why:

- Channel management is generally decentralized, with little accountability at a global level to control costs.
- Budgets and spending are often spread across corporate divisions and sales geographies.
- Traditional accounting practices often bury channel-related investments into "sales" or "corporate marketing," which makes it difficult to measure total investments and ROI.

What holds back many organizations is a lack of consolidated data that can be routinely collected, analyzed, and, most important, trusted by company leaders. Without a single source of truth, or an understanding of how everyday practices can affect financial results, far too many technology companies operate their channels in the dark.

Consider how discounts are applied to deals across vendor organizations. In many settings, individual sales professionals have significant autonomy to manipulate discounts and even contra spending with little to no oversight or understanding of the financial impact their actions have on a company's profitability.

If it's not individual autonomy that prevents vendor companies from understanding their channel economics, it's their strategy or organizational structure. Many multinational organizations, for example, run with separate budgets for different countries or regions. At many of these companies, it's difficult for global channel leaders and sales executives to tally their complete spending on head count, programs, or incentives to win business.

Add it all up and it's easy to see why so many organizations are vulnerable when economic challenges call for a rebalancing of channel funding priorities — or outright cutbacks. Without data and accurate financial models, channel professionals can't make sound financial decisions or even push back against directives that may ultimately diminish results.

Sometimes, channel leaders receive requests to redirect spending to support a new product launch or price promotion from sales leaders who fail to consider the consequences of their demands. If you're asked to reduce head count, you may reflexively respond by eliminating employees by a target percentage. But that might leave you with gaps in geographic coverage or lacking partner skills in markets with the greatest opportunity for growth. It could also create critical workload shortages across your channel. Neither outcome is good for your business.

A better way? Arm yourself with key data and information that will prepare you to help your executive management team better understand the full breadth of options you have at your disposal and the economic ramifications of any hasty move you may be asked to make. (See "Not in My House" sidebar.)

How to Avoid Debilitating Cuts

As mentioned, data is your wedge against injudicious cuts and budget redirects. But what data? And from where? Based on our experience at Channelnomics, we recommend that you gather the following from your company:

- An accounting of all channel expenses and bookings regardless of what cost center controls them
- OpEx, contra budgets, and actual spending
- Head count costs, including total number of full-time employees (FTEs) allocated to the channel and the percentage of their time dedicated to indirect sales
- Margins on bookings from partners based on route-to-market distinctions and attributed net company margin
- Discounts, including program discounts vs. actual discounts, excluding any direct-to-customer bookings

To amass this information, we recommend that you work with the person responsible for sales and sales operations — your CFO or finance officer. We also recommend that the finance organization, not channel management or sales, take responsibility for the collection and control of this data.

Once you've collected the information, you'll need to develop the methodologies, processes, and analyses to leverage it so that you can make data-based recom-

How do you determine the performance of partner ecosystem investments?

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- ☑ Make quick, informed decisions
- ☑ Justify funding
- ☑ Target your investments

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Not in My House:

How one Silicon Valley channel leader used data and insight to prevent a channel sales implosion

California-based Bridget Bisnette has served in sales, marketing, and channel leadership roles at some of the largest and most successful tech companies in Silicon Valley for the better part of three decades.

During the course of her career, she's been asked to implement a number of plans and strategies that she believed would be detrimental to nurturing strong partner relationships and growing channel sales.

Still, she was surprised one day when a global head of sales asked her to redirect all of the organization's channel incentives to a new technology that contributed to just 3% of the company's top-line revenue. Knowing that no one in the channel had been trained to sell the new innovation, Bisnette recognized a disaster in the making.

Though surprised by the imprudent request, she was nonetheless prepared. Her team had previously developed data and methodologies that gave it a complete view of channel spending, earnings-to-bookings ratios, and employee productivity across the company.

Thanks to her collaboration with the company's finance leaders to develop channel financial optimization, "the company had metrics and the ability to view investments centrally across all key areas of spend," said Bisnette. "This gave us what we needed to make the structural and programmatic recommendations that optimized the investment the company was already making and [allowed us to] launch innovative programs in support of growing business with partners — without additional budget."

In the first 6 months after her team implemented its tool, it was able to redirect one-third of its spending to new incentives and fund the launch of a new partner portal that contributed to a 12% increase in partner satisfaction. Next, the company moved 2% of its spending with distributors to partners that had direct influence with new customers the company wanted. The partners were given new business development funds and incentives, which they immediately put to use.

Thanks to the data-backed changes that Bisnette made, partner-initiated sales grew to 22% from 9% in just two quarters. Afterward, the company sustained six-month growth in both total bookings and partner-initiated bookings.

All this thanks to some channel financial optimization. ●

mendations and decisions. Here are five specific steps you'll need to take:

1. Establish one source of truth for data that's approved and controlled by corporate finance.
2. Work with the finance and sales teams to define the metrics and measurements that will document your success; you can have your own metrics as well, but the core that's reported to the C-suite must match with the expectations of sales and finance.
3. Collaborate with sales leadership and other stakeholders to define your measurement and reporting methodology.
4. Design reports and models that will provide C-suite leaders with dashboards that show a consistent and concise view of channel investment.
5. Develop internal discipline so that you can report your results with a predictable cadence and in a repeatable deliverable.

Brace yourself for some legwork and diplomacy. When you define your metrics and measurements, for example, stakeholders must agree on how to measure and report data. If you set out to measure partner-initiated business, you must work with both your indirect- *and* direct-sales leaders to develop a written definition of partner-initiated business and related measurements. This may require some deft negotiation.

The goal with all five steps, of course, is to be able to paint a more accurate picture of channel investment relative to your company's financials. With better data and methodologies, you can demonstrate the financial contribution of the channel. You can also provide proof that channel performance is aligned with sales priorities and identify the impact of existing governance and discipline on your company's bottom line.

Acting now will prepare you to make the most informed decisions possible the next time someone from finance asks, "Hey, got a minute?" ●

CINDY HERNDON is the COO of Channelnomics. She oversees the development of new professional services focusing on partner ecosystem financials and is an active advocate of the channel.

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- **ROD BAPTIE**, CEO, BAPTIE & COMPANY

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The MSP Conundrum:

The Partner Type That Every Vendor Loves May **not Be a Match for You**

>> BY **T.C. DOYLE**

SOMETHING TROUBLING IS HAPPENING IN TECH THAT should concern those responsible for helping to deliver digital innovations to end customers. The business partners that many tech vendors covet have widely embraced a business model that increasingly looks to be problematic. The model — managed services — isn't serving vendors' need for sales partners. As it turns out, it's also not serving the complete needs of the more than 200,000 MSPs that have embraced it.

While the broad implications of this phenomenon, dubbed by Channelnomics as the MSP Conundrum, have not fully emerged, it's abundantly clear that the collaboration between vendors, business partners, and customers that has existed in the tech channel for several decades is under strain. Without change, the go-to-market strategies of many tech vendors could unravel. So will the plans of thousands upon thousands of MSPs, which oversee the day-to-day management of networks, endpoint devices, and front- and back-office productivity applications for customers of every size and industry.

MSP Market Size

2021 ➡ **$231B**

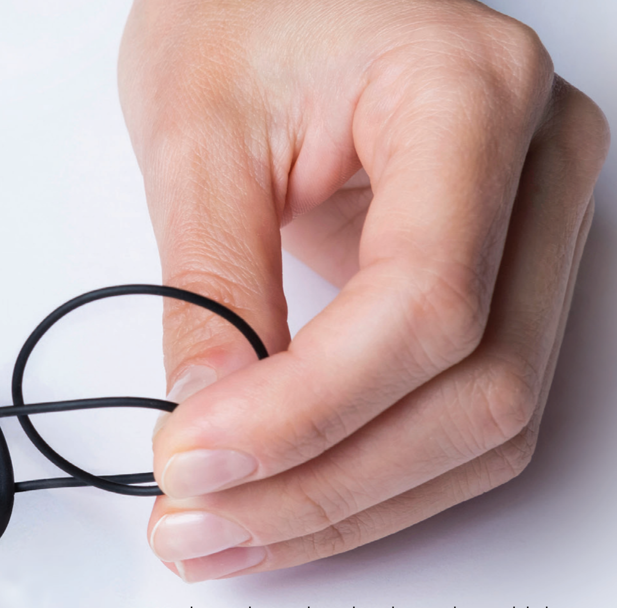
2025 ➡ **$356B** (projected)

SOURCE: CHANNELNOMICS

Over the past two decades, the MSP model has emerged as one of the most popular and fastest-growing business models in tech channels. It's so popular, in fact, that many technology innovators, including hardware vendors, software developers, and/or telecom service companies, have crafted their partner programs and latest go-to-market strategies around it. But there are growing signs that the managed service business model is running out of runway.

In a 2022 report, Channelnomics revealed that partners plan to reinvest less revenue in their businesses this year than in years prior. But that wasn't the only troubling finding. Also, their current level of reinvestment is below the threshold that's considered to be healthy. What's more, much of what business owners do plan to invest in their businesses is earmarked for short-term sales and marketing activities, not long-term value creation or business reinvention.

Why the reluctance to reinvest? There are several reasons, including price commoditization, increased technological complexity, and changing customer buying habits. Within the MSP community, for example, there's significant consolidation, which has produced a number of MSPs that can operate at



scale and conduct business in multiple geographic territories. Their aggressive sales practices are driving down prices and forcing smaller MSPs to the sidelines — and to websites such as SellMyMSP and CloudBrix, where they can sell their businesses and leave the industry altogether.

Not surprisingly, there's growing disappointment and discontent within the MSP community. In 2022, for example, industry research from CompTIA revealed that more than one-quarter of MSPs are pessimistic or very pessimistic about the long-term viability and competitiveness of their business model. This explains why so many MSPs lament their fate on forum message boards where they trade advice and share insights. In February 2022, one tech veteran summed it up best in a Reddit post: "The MSP space is doomed; it's only a matter of time."

Implications for Vendors

This may come as a shock to many tech vendors, but MSPs may not actually be their best route to market. For one thing, MSPs prefer stable, mature technologies that they can combine into commodity offerings and then offer to customers for a price based on the number of users, devices, or seats. So, MSPs don't get behind vendors with status quo-altering innovations. For another, MSPs haven't expressed a great interest in moving up the technology stack to business applications, such as marketing automation platforms, accounting software, and CRM software.

Another problem for tech vendors: MSPs prefer systems administration and troubleshooting to customer prospecting and deal closing. Furthermore, MSPs prefer sell-to over sell-thru when it comes to business models. Under a sell-to model, MSPs are responsible for the payment of goods and services that are ultimately consumed by end customers. Under sell-thru, end customers are responsible for payment.

The distinction is more than semantics. In a classic sell-thru model, tech vendors have a pretty clear understanding of how their products are positioned, priced, and delivered. In a sell-to model, MSPs combine products and services into a bundle that's sold to end users. That means tech vendors lose control over how their technologies are priced, marketed, and paid for.

In "The Downside of Working With MSPs," a report published by Channelnomics in 2021, we acknowledged MSPs' shortcomings. "Vendors that blindly seek MSPs because of model alignment look past their limited capabilities, lackluster sales records, subpar renewal performance, and inability to evolve their models for future market conditions."

Channelnomics believes this sentiment to be more pervasive today than when we wrote those words one year ago. (For insights on which types of partners may be more suited to vendor aspirations today, read the article on page 10: "Perfect Timing: Why a Business Sideshow Now Finds Itself in the Channel Spotlight.") ●

MSP Analysis: Strengths, Weaknesses, Opportunities, and Threats

STRENGTHS

- Are the go-to choice of vendors serving SMBs around the globe
- Ideally positioned to offer outsourced systems administration and management
- Possess cross-platform and multidisciplinary skills
- Can make money from multiple business models simultaneously
- Rely on a proven business model that attracts investment

WEAKNESSES

- Play a limited role in the strategic mission of customers
- Have a limited focus on business-specific applications
- Are challenged to match the convenience and pricing of marketplaces and vendors
- Depend on common tech automation tools that reduce their differentiation
- Are underinvested in sales excellence, customer success, and marketing

OPPORTUNITIES

- Exploit customers' pivot from brands to solutions to cement role as trusted advisors
- Introduce customers to new automation
- Manage the integration, billing, and renewals of SaaS investments
- Provide ongoing security and compliance solutions
- Play a bigger role in the business outcomes of customers' tech usage

THREATS

- Vendor-operated marketplaces and other direct-sales efforts
- The escalating cost of providing managed services across multiple platforms
- An inability to expand into business apps, verticals, and more
- The rise of new business models that are incompatible with managed services

Changing Channels

Elevating the Conversation: Bridging the Divide Between Channel Leaders and Boards of Directors

A Channelnomics Q&A with GitLab's worldwide channel leader, Michelle Hodges

> *Every company at a different stage of growth is going to have a different reason for [their channel].*

CHANNEL CHIEFS ARE OFTEN CHALLENGED TO EXPLAIN AND demonstrate the value of partner programs and relationships to decision-makers in their organizations. Those decision-makers include corporate executives to whom channel leaders report, as well as corporate boards of directors.

Michelle Hodges, vice president of worldwide channels at GitLab, has made it a priority to get to know and work with her organization's board of directors. She presents to the board directly and makes every effort to inform and educate individual board members on the value that the channel provides to the company. Specifically, Hodges takes great pains to keep board members updated on the key metrics and strategies her department relies on.

None of this would be possible, Hodges says, without the time she has put into learning the board's priorities and pressures. Hodges spent months asking questions, poring over strategy documents, and attending meetings. Only after that did she seek permission to engage with the board.

The reward for her work? At GitLab, the board now understands how the channel can produce critical results that serve the business. In this Q&A with Channelnomics founder and CEO Larry Walsh, Hodges details how she made this possible.

Channelnomics: *I've heard channel leaders speak frequently about the need to have a seat at the table. And typically, what they're talking about is having some level of decision-making or influence among C-suite leaders. They want to know that their the voices are being heard, that their agendas are being considered, that their decisions are being accepted. But that doesn't always translate into success. I've noticed that boards are having a lot more say in this as well. Considering that boards are extensions of the investors behind these companies, whether they're public or private, how important is it for a person in your position to reach above even your C-suite to have that level of contact and communication with your boards?*

> *If you have a board member who's a huge champion and sponsor of the channel … it's absolutely an important relationship.*

Michelle Hodges: I think it's critical. Many in a channel role, particularly at some of the larger organizations, run channels hard. That's the job. But it's not until you ask your leadership team and then get deeply intimate with the answer they provide that you understand the bigger picture. You need to understand the pressures that they're under by the board, and why they [have a channel business]. And every company at a different stage of growth is going to have a different reason for [their channel]. What is the value that it brings the business? Are you under pressure and facing a turnaround because your margins are too high? Are your customer acquisition costs too high? Are your earnings out of whack? Are your renewal rates too high or too expensive? You need to understand those metrics at the management level. But then you must consider what it means to the board and what they're trying to get done or how they're trying to help the company be successful.

Channelnomics: *Do board members understand why you're talking to them? Or do they see this as just another person in the company who's coming in and trying to sell them on some idea or investment?*
Hodges: I tend to seek the understanding of the operating executive or the board executive — the advisor that's looking after the route-to-market business — to understand which lever within the channel they're trying to use to accomplish which goal, and really dig into that to understand the impact of the business. [I want to] speak their language in terms of the metrics that they're seeking and be able to show demonstrable results so that they're better educated and can ask the right questions in the next setting for instance.

Channelnomics: *Do board members understand the distinction between the channel and a direct-sales organization, and do they assign them different values?*
Hodges: The board members I seek out are normally the go-to-market executives and the ones who understand channels. So I can build that relationship and they can represent my business well to the rest of the board. Every once in a while … you'll run into board executives who just don't understand the channel. They don't come from a channel background or they were in a channel that was very low-value with a high-discount model. And so they've got a bad taste for the channel. Again, for me, it always goes back to the metrics that are important to them and the real-life examples to back up those metrics. I seek to serve and educate rather than argue in those situations.

Channelnomics: *So, does having a relationship with the board help smooth or build bridges with executive teams?*
Hodges: I would say 100%. If you have a board member who's a huge champion and sponsor of the channel — if you speak the same language, they believe in what you're presenting to them, and it's meeting their needs in terms of their expectations — it's absolutely an important relationship.

Channelnomics: *How do you approach this? To some, it might seem like you're jumping the chain of command. How do you coordinate or develop a relationship with the board without alienating your own leadership or management?*
Hodges: I ask for an introduction. … I advocate for our business, but I also ask rather than circumvent.

Channelnomics: *And typically, do you find that your approach is well-received?*
Hodges: The more I understand what the board is looking for, the easier it's gotten. It's taken a couple of rodeos to know what my purpose is. So, OK, I want to present my stuff to the board, but [my] stuff isn't going to be that interesting unless [I'm] putting it in a framework that makes sense to them. And it normally needs to start with that introduction to the board, [when I] ask them what's important to them. Why do they think the channel is important? And if it's not important, where do they think it should be? Then I tailor [my] content to [answers to] those [questions].

Channelnomics: *I can't wait to call you Madam Chairperson.*
Hodges: No kidding.

▶ Visit our website at **www.channelnomics.com/blog** to listen to the full podcast with Michelle Hodges, or to check out another Changing Channels conversation between Larry Walsh, CEO of Channelnomics, and a thought leader in the channel.

The Agenda

For 25 years, Rod Baptie has helmed Channel Focus, the premier event for channel professionals that shapes the industry through community and collaboration.

>> BY **LARRY WALSH**

WHEN ROD BAPTIE WALKS OUT ON THE MAIN STAGE OF Channel Focus next month in his trademark double-breasted suit and coiffed white hair, a quarter-century will have passed since the first time he hosted the event — and nearly three decades since the prototype that sparked the fuse of innovation for the conference producer Baptie & Co.

This year, Baptie & Co. presents the 25th annual Channel Focus event, the premier gathering of technology channel executives and their up-and-coming staff. The conference provides an opportunity for practitioners, strategists, and thought leaders to exchange ideas and insights into how this business we call "the channel" works and can get better.

In the mid-1990s, Baptie, a one-time chef turned advertising entrepreneur, got tasked with launching an IT company, Soft Cell Technologies, in Europe. The engagement was such a success that it led to two-dozen projects supporting the rapidly expanding technology industry. Then came a pivotal moment: an event that sparked the birth of Channel Focus.

Humble Beginnings

Following his success in advertising, Baptie set up a consulting company to aid technology businesses developing in new markets. In 1994, the agency held an industry event in Frankfurt, Germany, to showcase technology businesses. In Baptie's own words, "The event was dire, but the content was amazing."

The lesson that came out of that first foray, Baptie says, is that people will forgive a bad event if the content is great. The conference business conflicted with the core value proposition of the consulting agency, so Baptie and his team doubled down on the former. In 1998, Baptie & Co. launched Channel Focus in San Diego, an event featuring industry luminaries such as Rick Hamada of Avnet, Ian Bonner of IBM, and John Russell, founder of Reseller Management magazine.

The event set the tone for what Channel Focus would become: the focal point of a professional community where ideas are exchanged in collegial collaboration.

"Channel Focus isn't just an industry conference. It's become a staple for fostering people's career journeys, for forming authentic, collaborative, and successful personal and business relationships," said Theresa Caragol, a longtime Baptie collaborator and the CEO of AchieveUnite, a strategic consulting and education firm. "Channel Focus has been a pioneer in tackling hard and sticky issues before anyone else in the industry."

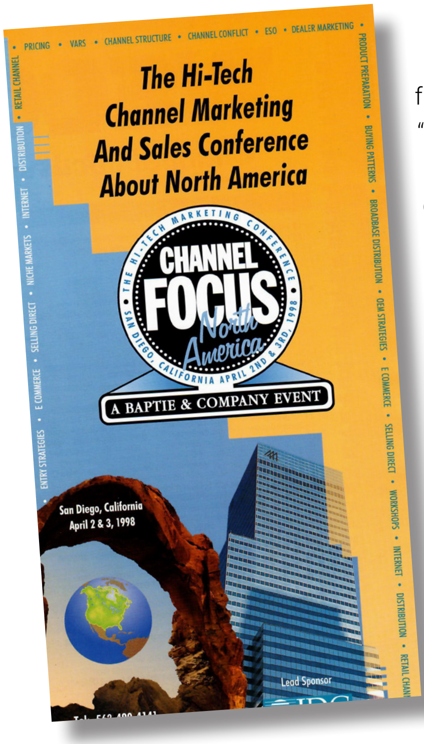
Attention to Detail

What makes Channel Focus the nucleus of the channel professional calendar is the attention to detail by the Baptie team. Rod Baptie is more than a producer working behind the scenes. He's a tireless leader and master of ceremonies who's made bringing channel professionals and practitioners together his life's work.

"Rod Baptie's ability to connect and network not only [gives] him valuable insight into the thinking of channel leaders. It also makes him absolutely fantastic at connecting you to [the people] you need to talk with to create some unique value you didn't see coming," said Ross Brown, senior vice president of Oracle's Cloud Partner Ecosystem for North America and a

Setter

A TIRELESS LEADER: In launching Channel Focus, Rod Baptie has created a conference that's instrumental in helping channel professionals network, collaborate, and innovate.



THE BEGINNING:* *The first Channel Focus in 1998 sparked the fuse of innovation for Baptie & Co.

frequent Channel Focus speaker. "He's a human LinkedIn."

Baptie & Co. has turned conference design and management into a science. Each Channel Focus starts with Baptie setting the agenda with topics based on his countless conversations across the industry. From there comes speaker recruitment. Baptie personally selects all the keynote, session, and panel speakers that fill the two-and-a-half-day event.

"We're constantly asking people what they're looking for and what they want. We ask our speakers, sponsors, and attendees what they want and need," Baptie said. "We're not arrogant in thinking we have the answers. We're very good at finding the people and tapping into their knowledge for our events."

That's just the starting point. Each Channel Focus has more than 300 touchpoints and milestones to ensure smooth and efficient execution. The Baptie team checks each presentation, walks through session materials with speakers, and provides notes for improvement long before people arrive at the conference venue. And once on-site, Baptie walks all speakers and moderators through a detailed show plan to ensure everyone knows their places and expectations.

"More conference organizers should follow the Baptie presentation process," said Taylor Macdonald, a frequent presenter at Channel Focus and a former Sage Intacct channel chief. "Rod is adamant that attendees get actionable knowledge and value from every presentation and workshop. That's the Channel Focus difference and why the event is one-of-a kind."

The Same, but Evolving

Perusing 25 years of Channel Focus agendas reveals an interesting phenomenon: While the speakers change, the issues remain quite consistently the same.

In 1998, Bill Cate, then head of channels at Sun Microsystems, spoke on managing channel change. Ken Wasch, then president of the Software Publishers Association, opined on the implications of e-commerce. And Trina Ward of Netscape lectured on best practices for building strategic analysis.

Attendees of the 2022 conference can expect to hear about evolving channel models and digital transformation, the entry of new partner types to the ecosystem, and how to effectively build alliances. The topics would be familiar to event-goers in the late 1990s, although the circumstances have changed dramatically.

And the agenda crafted by Baptie is anything but static. Recent years have seen the introduction of diversity, equity, and inclusion (DEI); the advancement of women's leadership and rising channel stars; and discussions on how macroeconomic trends affect the channel economy.

"Channel Focus is constantly striving to identify the latest trends from top channel leaders to further the development and continued success of the channel and those whose careers are based on it," said Craig Schlagbaum, who is senior vice president and channel chief at Comcast Business and serves on Baptie & Co.'s advisory board. "Rod Baptie is tireless in reaching out to the community and ensuring that every event agenda is not only the timeliest but also the most relevant to all attendees across many areas of the channel."

The balance between consistency and evolutionary change makes Channel Focus a fresh resource for keeping industry veterans and newcomers engaged in a dialogue. Through the conversations at Channel Focus, channel professionals can share their experiences and potential resolutions to problems, advancing the state of the art.

"What distinguishes Channel Focus from other channel events are the attendees and exhibitors. The list reads like a 'Who's Who,'" said Sal Patalano, a longtime Baptie supporter and executive vice president of North America at Plentific, a SaaS platform provider for property management. "This translates to speakers and panelists who are delivering timely and pertinent content. If you rely on the channel as a critical component of your GTM strategy, this event is a must."

Looking Ahead

Channel Focus 2047 — when the event hits its 50-year anniversary — is a long way off, but Rod Baptie doesn't anticipate changing his methodology or guiding principles for managing the conference. And he expects it to endure and evolve over time, along with technology.

"A lot of the issues haven't changed and won't change, but they *will* become more sophisticated," Baptie said. "The channel is about relationships, and I don't think that will ever change." ●

Be sure to register for Channel Focus, which will take place Sept. 13-15, 2022, in Carlsbad, Calif. Visit **https://channelfocuscommunity.net/events1/conferences/cfna-2022.**

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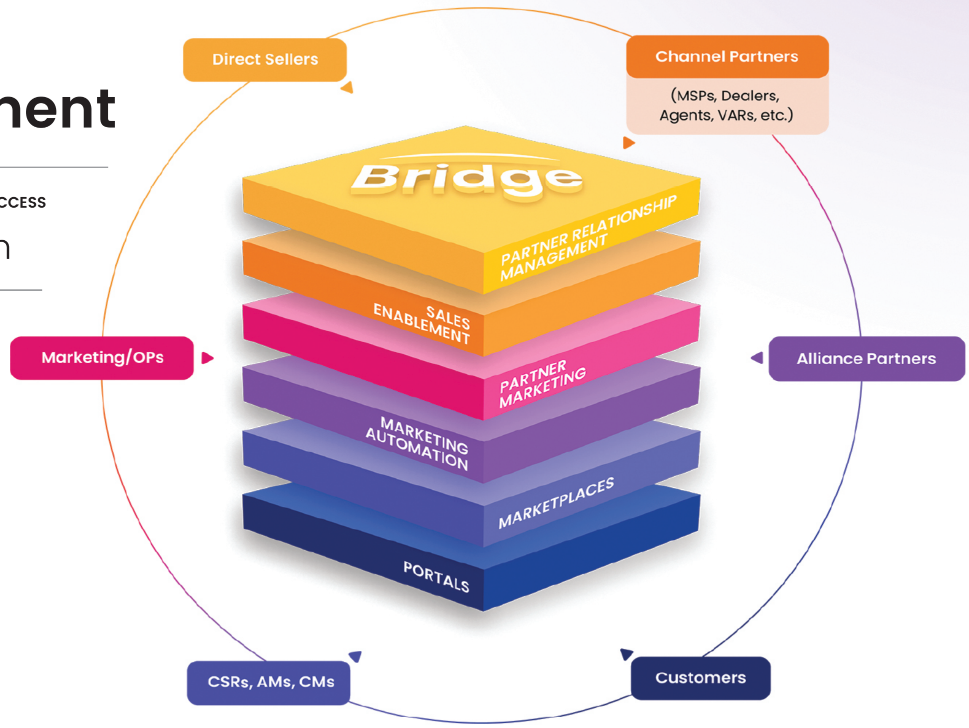

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By The Numbers

Pitting Winning Percentages Against Business Velocity

>> BY **DR. JOHN SPINDA**

An upcoming Channelnomics report reveals growing tension between margin integrity and sales velocity within partner organizations. The culprit? Non-standard pricing (NSP), which is widespread among vendor organizations.

At some companies, more than 80% of deals go through a special bid desk where requests for NSP are reviewed. On the average, nearly half of channel sales go through the NSP process.

Here's why this is making life more challenging for financial, sales, and channel professionals.

1

NSP is widespread and growing.

NSP is requested for **46%** of all channel deals.

Nearly half of NSP requests **(49%)** are approved by vendors.

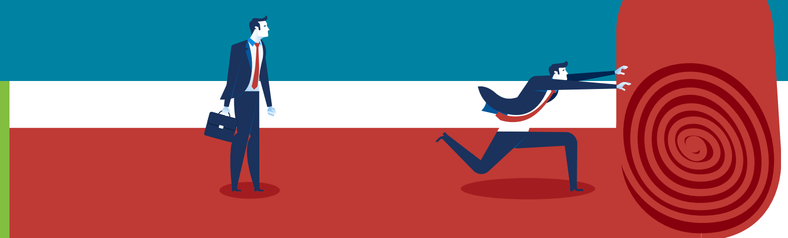
50% of partners anticipate requesting more NSP from vendors **in the next 12 months.**

2

Partners say NSP has a clear impact on loyalty...

87% indicated that their favorite vendor to work with offered greater NSP discounts than their least favorite vendor.

Among favorite vendors, NSP discounts total **34%** off list price, while discounts among least favorite vendors are typically **20%** off list price.



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...and on deal-win percentage.

14% of partners say that NSP is vital to their ability to win new business.

"We provide more value to customers and vendors when we have a chance to compete against both other vendors and the CDWs of the world. We don't just push boxes."

— CEO/President of a VAR in the Northeast U.S.

For all of its benefits, NSP can slow business velocity.

6 out of 10 partners say they need decisions on NSP requests in 2 days or less to win customers' business.

29% rated faster turnaround time on NSP requests as the most desired improvement to the NSP process.

"When you take too long with decisions, it pushes the whole process back and makes us lose sales."
— Manager at a regional systems integrator in the Northeast U.S.

5

This explains why NSP is coming at the expense of ease of doing business, a key to long-lasting partner satisfaction.

Vendors with a high EODB quotient enjoy, on average, **3 to 7 times more wallet share** than vendors with a low one.

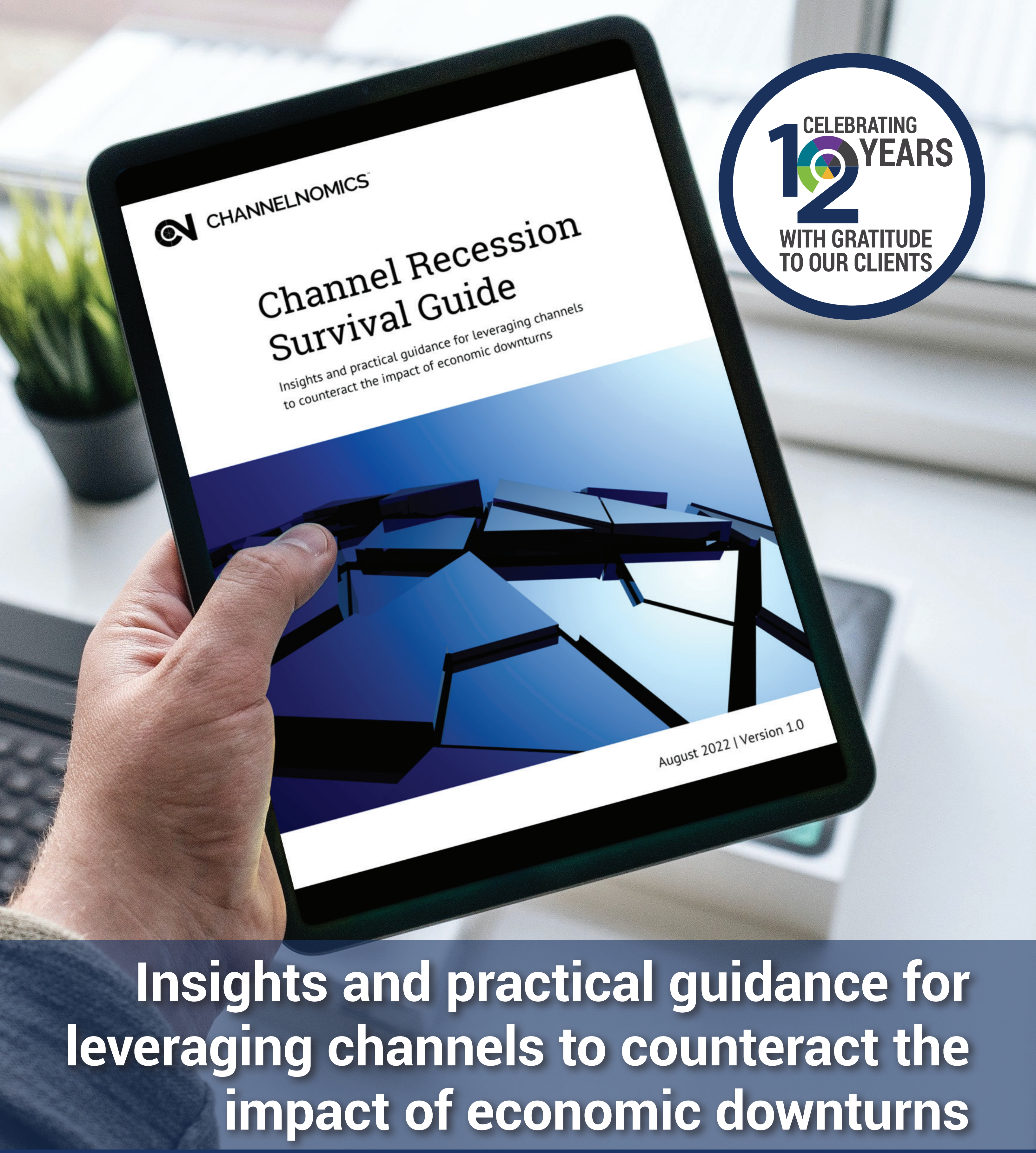
"It costs overhead when we have to keep negotiating; give us your best price up front."
— Manager for a regional MSP in the Midwest U.S.

Automating the NSP process offers hope, but vendor adoption remains modest.

Less than half of vendors **(46%)** have an automated/CPQ system in place, which explains why partners have nuanced views of NSP programs.

"[NSP] affects our business very much, so that's why we strive to work with companies that have short waiting times."
— Manager for a regional SaaS provider in the Southwest U.S.

DR. JOHN SPINDA is the research manager at Channelnomics.
Visit our website at www.channelnomics.com/library to download our research reports and guides.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Guest Column

Help Your Channel Partners Modernize Their Marketing

>> BY **HEATHER K. MARGOLIS**

FOR AN INDUSTRY THAT PRIDES ITSELF on doubling chip throughput every two years or so, it's disheartening to see how little progress has been made when it comes to through-partner demand generation. E-mail campaigns? Golf events and three-act webinars? It's clear many vendors are in a rut — and the results prove it. Every year, we see increasingly lower returns, yet we keep doing the same things over and over. It's the very definition of insanity.

But guess what? You don't have to drive yourself crazy to enjoy better results.

It's time to flip partner marketing on its head and actually help our partners drive revenue. To do that, here are five key elements that you should build into your through-partner marketing strategy:

1. Digital Advertising

With 45% of small businesses reporting having a paid search strategy in place and 55% using display ads (as per LOCALiQ), it's clear that digital advertising is one of the most effective ways to reach potential buyers. For partners, the challenge is cost. Digital advertising works only with the right strategy and investment, so it's certainly not the easiest way to enable partners. But if you can pool partners' funds, or lead them to an agency, it can make a huge impact. By helping partners target specific keywords and audiences, you can ensure their ads reach the right people.

2. SEO/SEM

By helping partners optimize their websites and content with specific keywords, you can make sure that their sites appear at the top of search results. As it turns out, leads from SEO are eight times more likely to become paying customers than those generated through traditional ad campaigns, according to SmallBizGenius. And even knowing exactly what they want and where to get it, people still search online to figure out if there are new, less expensive, more innovative options. You should make sure that they're finding your partners.

3. Partner-to-Partner/Ecosystem Marketing

Partner-to-partner marketing, or ecosystem marketing, enables partners to focus on their niche and team up with strategic allies leveraging a pooling of funds. While homing in on their specializations, individual partners gain the benefit of speaking with a louder megaphone. Talk about doing more with less.

4. Social Selling

Helping partners leverage social selling is one of the most efficient ways to get them connections so they can build new relationships with their prospects. In fact, 31% of B2B professionals say that social selling has allowed them to build deeper relationships with clients, according to OptinMonster. By educating partners on how to connect with prospects and post thought leadership content, you'll teach them to fish for the long term. Think about incentivizing the behaviors you want, not just increasing sales.

5. Account-Based Marketing

Account-based marketing (ABM) campaigns increased by 225% in the past 12 months, according to NetLine. Helping partners target specific accounts increases their win rate and saves time. This approach is particularly effective for partner marketing because it allows you to tailor your message to individual accounts. By doing that, you can generate more leads and resonate more deeply with prospects.

By staying up-to-date on the latest trends and implementing these strategies, you can ensure that your partner marketing strategy is successful. It may keep you and your partners off the golf course, but your results will be worth it. ●

HEATHER K. MARGOLIS is the chairperson and founder of Channel Maven, an agency specializing in IT channel demand generation. You can find her at LinkedIn: **www.linkedin.com/in/heatherkmargolis/**.

Common Cents

Resist the Urge to Reactively Solve Problems

>> BY **LARRY WALSH**

WHEN CHANNEL PEOPLE COME TO me looking for guidance on why their program or initiative isn't producing the response or results they intended, I find myself referencing a nearly quarter-century-old episode of "South Park" called "Gnomes."

In it, the boys are struggling with a school assignment to describe the purpose and workings of business in a free market.

In the background, gnomes — the garden variety — are stealing the kids' underpants and taking them to their underground lair. The boys eventually discover what's happening and confront the gnomes, who explain that collecting underpants is their business. This exchange prompts the gnomes to explain how their business works. And, of course, there's a slide.

The lead gnome says, "Phase 1: Collect underpants. Phase 3: Profit." Phase 2 is a question mark. When the gnome calls out to his confederates to fill in the blank, they respond, "Phase 3 is profit." Nobody knows the answer; nobody knows what the execution phase is.

If this installment of the irreverent cartoon series isn't taught at Wharton, it should be.

Channel programs and initiatives are often like the gnomes' business plan. They have action (Phase 1) and outcome (Phase 3), but the middle is undefined. Frequently, vendors are in such a race to solve problems that they define programs and actions without ever considering the root causes of those problems — what drove them to create a new program or framework — or the potential outcomes. Just like the gnomes, they make assumptions and jump into action.

> "*Too often, channel teams are reacting to requests without fully investigating or understanding the problem or the opportunity presented to them.*

In the channel, the process unfolds first with conversations about what someone (typically a business unit) needs. Then it proceeds immediately to partner requirements and incentives to perform. From there, there are timelines to set and milestones to establish. After all that comes the defining of outcomes, or the intended results.

Yes, that's an oversimplification, but it's not without a foundation in reality. Here's a real-world example: I was speaking with a vendor exec who was talking about applying the Technology & Services Industry Association's LAER customer engagement model to its new services. My question: "What makes you believe your partners are interested in your services and can implement this model?" Dead silence.

Too often, channel teams are reacting to requests without fully investigating or understanding the problem or the opportunity presented to them. They race to address these requests or directives through the lens of their existing resources and operating parameters. As a result, they often misunderstand the issues and apply solutions that won't work in the long term.

Channelnomics' approach, and our advice to everyone, is to start at the end. Define the objective of the program or initiative and identify the evidence of why it's advantageous for your company. From there, work backward to define the program elements, mechanisms, value propositions, rewards, and qualifications.

It turns out that our gnome friends taught us a valuable lesson: When it comes to channel development, making assumptions will invariably lead to disappointment. ●

LARRY WALSH is CEO and chief analyst at Channelnomics. Follow him on Twitter **@lmwalsh_CN** or send an e-mail to **lmwalsh@channelnomics.com**.