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CHANNELNOMICS QUARTERLY

Crossing the X-CHASM

WHY THE TRANSITION FROM TRANSACTIONAL TO CONTRACTUAL REVENUE MODELS IS A MUST AND WHAT MAKES IT SO HARD

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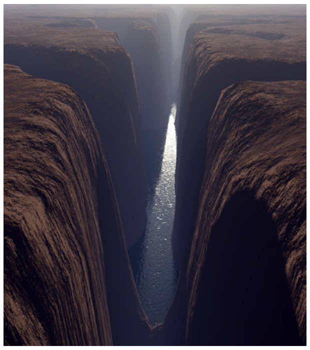

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Crossing the X-Chasm

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Editor's Letter

Cut the Complexity Tax on Your Business

T.C. DOYLE

EDITOR,

CHANNELNOMICS QUARTERLY

Sometimes, the smart move is to subtract, not add.

A company we know reduced the size of an MDF request form from 12 pages to just one. Afterwards, program utilization skyrocketed and partner satisfaction improved.

Amen to that, a point scored for ease of doing business (EODB).

But here's the even more interesting part. After making the change, the vendor discovered that all of the data it had collected in the 12-page form — vital information that it worried it couldn't live without — was actually never put to use. It sat untouched, unverified, and otherwise unloved for years on end.

Sound familiar? It does to us.

Channelnomics has long advocated for EODB as a critical means of improving channel performance. We even published a report on the topic in 2019. In our Ease of Doing Business analysis, we found that vendors that prioritized EODB earned three times more partner wallet share than those that did not.

Vendors struggle with complexity. Among other things, they drive partners batty by asking for too much information, impede the closing of business, and make it extremely difficult for partners to put together offers for customers. When partners complain, their requests go unanswered, sometimes for years.

Try as they might, many channel professionals simply can't help themselves when it comes to devising, implementing, and managing programs that they feel deliver consistent and predictable outcomes for partners. New science helps explain why complexity inevitably creeps in.

In a paper published in the journal Nature in April 2021, researchers at the University of Virginia describe the results of a series of experiments. In one, participants were asked to consider ways to balance out an asymmetric diagram. The vast majority responded by adding things when, in fact, subtracting a few elements was the far simpler and more elegant solution. In test after test, researchers found that "people systematically default to searching for additive transformations and consequently overlook subtractive transformations."

Channelnomics sees this all of the time in the tech industry when changes are afoot. Recognizing that their go-to-market strategies may be ill-suited for the post-pandemic world of digital services, Microsoft, Dell, Zoom, and a significant number of other tech vendors are revising their partner programs. In many instances, vendors are overhauling some of the most basic elements of program design. This includes HP, which has replaced a program with four program tiers, four specializations, and 18 sub-specializations with a two-tier program called Amplify.

Vendors are making changes to reduce costs, reward more dedicated performers, and improve experiences for partners and end customers. Microsoft, for one, is replacing the Microsoft Partner Network (MPN), which boasts 400,000 partners worldwide, with a new, point-based channel program that eliminates traditional tiers in favor of tracks that reflect partner capabilities and specializations. (See page 14 for more.)

Understandably, partners are wary of industry changes — and for good reason. Over time, programs tend to get more complicated, not less. When they become overly complex, satisfaction suffers, utilization declines, and performance lags.

***T.C. Doyle** is the vice president of strategic content at Channelnomics. Follow him on Twitter at @tcdutah.*

WHAT'S TRENDING ON BRAINSTORM...

War in Ukraine Takes a Toll on Tech Workers

A Channelnomics Q&A With Acronis CEO Patrick Pulvermueller

The full Q&A is available on the Channelnomics YouTube page and in the Channelnomics Brainstorm repository, along with our latest how-to primers, analyst notes, and more. Channelnomics has created several assets for understanding the Ukraine crisis, including news updates and economic analysis.

Patrick Pulvermueller

Many global companies have suspended operations in Russia and taken active roles in aiding the Ukrainian resistance since the war broke out. Acronis, for one, severed all ties following the invasion in solidarity with Western sanctions and in support of Ukraine's resistance. But the decision to leave Russia altogether, CEO Patrick Pulvermueller says, wasn't simple.

Acronis, which was founded in Singapore and is headquartered in Switzerland — two of the most neutral places on earth — has several Russians and Ukrainians on its payroll. In April, Channelnomics founder and CEO Larry Walsh spoke with Pulvermueller for perspective.

Channelnomics: Was [leaving Russia] a very difficult decision, or was it an easy and natural one?

Pulvermueller: It's not an easy decision to make. Because even if you try to stay neutral, you pick one side. … Nevertheless, taking into consideration that 100% of our customers, 100% of our revenue, was not in Russia, for us it was clear that we had to protect these customers and protect the revenue. …

Channelnomics: Among the 50 different nationalities that you have on your 2,000-member team, there are a fair number of Russians and Ukrainians who work for you. How is this affecting all of them?

Pulvermueller: Many of my employees around the world — and we have 34 different locations — have never experienced war or a conflict of this type. Therefore, it hurt them; it did impact them mentally. And we're there for them. … What we see now … is that people, after the initial shock, went into the mode [of saying], "OK, we have to deal with it. What can we do? What can we as individuals do to make a difference?" That's what they're focusing on now.

Brainstorm is a Channelnomics program that provides ongoing access to tailored intelligence, peer collaboration, and individualized program consultation.

For more information, visit www.channelnomics.com/brainstorm.

CHANNELNOMICS QUARTERLY

Channelnomics™ believes exceptional insights enable channel professionals to turn vision into reality. Channelnomics is a business strategy and research firm focused on connecting channel professionals with the people and insights that enable them to optimize and evolve their channel strategies. Our industry experts work with companies around the world to provide the evidence they need to validate and structure their strategies. Our clients, in turn, benefit from the improved go-to-market performance, faster time to market, and better return on partner relationships. Channelnomics Quarterly is the journal that encapsulates the experiences of our research and engagements that result in better-performing routes to market.

Tip of the Quarter: How to 'Win' Your First 60 Days on the Job

NEW TO THE CHANNEL? CHANCES ARE YOU'RE FEELING A LITTLE OVERWHELMED GETTING TO KNOW YOUR COMPANY, ITS PRODUCT LINES, AND POSITION IN THE INDUSTRY. THIS IS IN ADDITION TO UNDERSTANDING YOUR DUTIES AND EXPECTATIONS. IT'S A LOT, WE KNOW. BUT WE'RE HERE TO HELP YOU SUCCEED ON YOUR FIRST 60 DAYS ON THE JOB.

One proven way to get started properly is to develop a 180-day plan. We suggest you think of things along the lines of exposure, immersion, and mastery. To that end, think about your first six months in terms of three basic building blocks. In the first two months, you'll want to observe and learn. In the next 60 days, you'll want to review, plan, and socialize your ideas. After, you'll be ready for days 121 to 180 — the time to execute your strategy. Here are three goals for days 1 to 60.

Goal No. 1: Be able to explain your go-to-market strategy to an outsider with no gaps or omissions. For the first 60 days, focus on learning your company's products, channel programs, and partner profiles. Push yourself to understand why partners would want to align with your company — i.e., what your company's "partner value proposition" is.

Goal No. 2: Identify your top five competitors and how you compare to them. To do this, determine what you believe to be your company's strengths, weaknesses, shortcomings, and opportunities. Be sure to compare notes with your manager so that you develop a common worldview.

Goal No. 3: Understand the top three drivers of your business — partner satisfaction, deal volume, and recruitment, for example — and you're nearly done. Finally, define the key objectives, KPIs, and broader company goals for you and your team. It's a lot, we know. But the channel moves fast. And remember: You got this.

Look for advice on how to win days 60 through 120 in the Summer 2022 issue of Channelnomics Quarterly.

Channel Leaders' Top-of-Mind: Insights From Global Leaders on Automation, 'Out of the Box' Partnerships, and MSPs

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.

Using Automation to Drive Revenue

What's an innovative way to respond to a sales crisis?

"If you have a sales problem, [some] throw more salespeople at it. To me, if you have a sales problem, you have to throw more automation at your partner channel so they can be more successful and drive velocity and growth."

– Kim King, *Senior VP of Strategic Partners and Alliances, Hitachi Vantara*

Building a Channel to Amplify Out-of-the-Box SaaS Services

Are there real opportunities for partners to work with out-of-the-box SaaS providers and their services?

"The short answer is yes. … We're definitely seeing the need for hand-holding. People come to the platform. Sometimes they would say, 'where do I even start?'… But they need that push — someone to corral them to get their work done. Sometimes they just need someone to give them homework. They need someone to walk them through it and share best practices so they aren't perpetuating old issues from their previous system. … Even if you're a large enterprise company, you're able to come and say, 'let's work smarter across the board.' But somebody has to manage this."

– Sarit Chalamish, *Senior Channel Partner Manager, monday.com*

Cracking the Code to Working With MSPs

What do most companies get wrong when trying to build a channel with MSPs?

"If you're a legacy vendor or even a newer vendor that understands the reseller market, there's a distinct difference between them and MSPs. The biggest challenge they've got, I find, comes down to vanity. My brand, Datto, is not as important to the end user as it is to the channel. I sell to managed service providers, who add me to a stack of six, seven, eight, or 10 other technologies that they sell under their brand to the ultimate end user. … So, I grow my business by making sure the managed service provider is growing their brand. The important component of that is being a little less vain about our brands and our labels."

– Rob Rae, *Senior Vice President, Datto*

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

You're Doing It Wrong: Partner Automation Priorities and Miscues

HALF OF ALL TECH VENDORS ARE STRUGGLING TO DEPLOY NEW PARTNER PORTALS AND PARTNER AUTOMATION SYSTEMS THIS YEAR. SO SAY VENDOR PROFESSIONALS POLLED FOR THE CHANNELNOMICS 2022 CHANNEL OUTLOOK REPORT, PUBLISHED IN MARCH. IT'S AN ASTOUNDING STATISTIC, BUT UNDERSTANDABLE GIVEN THE BACKDROP OF SOLUTION-SELLING IN 2022.

Partners are moving faster than ever. And they're working with more vendors now than at any time in the past decade. Furthermore, partners are pivoting to digital subscriptions and managed services. Add it all up and it's easy to see why partners want greater efficiency and ease of doing business from their vendors.

Props to those who are trying to provide these things by investing in partner relationship management (PRM) automation technology. But here's a news flash that may be as unwelcome as it is unsettling: If you're implementing a glorified marketing webpage instead of adopting an integrated toolset that optimizes the data and information partners need most, you're doing it wrong.

"Partners want streamlined access to the customer, deal, and rewards information they need to get their jobs done, not outdated or disconnected marketing materials," said Gary Sabin, vice president of product management at Impartner. "And they want everything integrated and without suboptimization."

At Impartner, a world leader in PRM automation and Channelnomics business ally, Sabin oversees a team of developers. While he applauds those thinking about implementing automation technology, he appeals to companies to put partners first.

So do other PRM vendors. In engagement after engagement, they tell us they have to educate tech vendors on priorities. Many want to bombard partners with marketing messages, special promotions, and updates on new training requirements the moment partners log in. Partners, instead, want relevant business data.

"Dashboards. World-class integration. Exacting experiences. These are what channel partners are clamoring for today," Sabin said.

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- Larry Walsh, CEO & Chief Analyst, Channelnomics

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Crossing the X-Chasm

Why the transition from transactional to contractual revenue models is a must and what makes it so hard

>> **By** T.C. Doyle

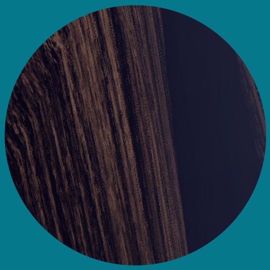
A THOUSAND NEW CUSTOMERS IN A SINGLE YEAR. IMPROVED STANDING AMONG ALLIANCE PARTNERS. INDUSTRY RECOGNITION FROM NO LESS THAN GARTNER. AND $80 MILLION IN NEW FUNDING FROM AN OUTSIDE INVESTOR WITH A PROVEN TRACK RECORD IN TECH.

Can things like this come from changing business models? They can, says M-Files, a Texas-based developer of intelligent information management technology for companies that work in professional services, financial services, manufacturing, and more.

Between 2019 and early 2021, M-Files transitioned from a traditional perpetual-license business model to a Software-as-a-Service (SaaS) model that resulted in a spate of new business, a jump in valuation, and a new and more promising future, according to CEO Antti Nivala.

Thanks to its new business model, M-Files is ideally positioned to help "customers and partners reap the benefits of innovative licensing options to leverage the cloud instantly or in a phased and targeted manner at their discretion," Nivala said in a release.

Embracing a new business model, however, isn't as easy as changing logos or marketing strategies. To achieve its



>> EMBRACING A NEW BUSINESS MODEL ISN'T AS EASY AS CHANGING LOGOS OR MARKETING STRATEGIES. M-FILES HAD TO OVERHAUL ITS TECHNOLOGY, ITS MANAGEMENT PRIORITIES, AND EVEN ITS COMPANY CULTURE. <<

aim, M-Files had to update its technology, its management priorities, and even its company culture. Moreover, the company had to make a leap of faith. Any revenue lost from the sale of perpetual licenses, insiders had to believe, would be more than made up for by new sales of software subscriptions. It was an immense risk that tech industry companies everywhere are wrestling with.

Some, including Adobe, have already passed through what Channelnomics calls the "X-Chasm," a period during which revenue from traditional sources often drops precipitously before revenue from new streams replaces it. (Channelnomics calls this the X-Chasm because of the way new and old lines of revenue form a distinct "X" when plotted on a two-dimensional graph.)

Crossing the X-Chasm can upend companies of any size, industry, or customer focus. Today, for example, traditional automakers are wrestling with a once-in-a-century technological conversion that's putting enormous strain on their established business models. This, of course, is the switch from internal combustible engines (ICEs) to electric-powered vehicles (EVs). More than a change in power sources, the transition is forcing carmakers to rethink everything from where they sell vehicles (online versus dealer showrooms) to how they profit from the autos they build (EVs require only a fraction of the servicing that ICE-based cars do).

Given the difficulties associated with implementing a "Plan B" successfully, very few leaders in one era pivot effectively to remain leaders in another. As more tech companies try to transition from traditional product transactions to subscription sales, more will find themselves challenged to pass through the X-Chasm. Here's why.

THE CHASM'S CATALYST

Tech companies are transitioning their business models for a mix of reasons related to customer demands and internal benefits. Here are just a few:

- Many customers now prefer to fund their technology investments through operating budgets instead of capital budgets.
- Subscription sales create a stream of recurring revenue, which provides tech companies with greater predictability and stability, leading to higher valuations.
- Digital services offer tech companies a more efficient way to deliver new capabilities and improved security than traditional hardware and software upgrades.

As noted, the rewards for making a successful transition to subscription sales and recurring revenue are significant. Consider the investment community, which loves subscription businesses. Investors prize annual or monthly recurring revenue (ARR/MRR) because it produces more predictable financial results, greater "stickiness" with end customers, and higher valuations. Since embracing subscription sales, Microsoft, for one, has added billions to both its top and bottom lines, and more than $1 trillion to its market capitalization.

It's little wonder that Oracle, Cisco, and Microsoft are all transforming their businesses so they can generate most, if not all, of their revenue from subscription services. Not surprisingly, more than one-half of all software revenue today is generated from subscriptions, according to the analyst firm IDC. And more than half of software vendors are expected to switch to subscription sales by 2023. SaaS alone now accounts for more than 75% of enterprise software revenue, up from just 6% in 2010, according to McKinsey & Co.

Today, most legacy technology companies are devising and implementing plans to take advantage of the benefits of ARR and MRR. This includes those that built their businesses on one-time product transactions. As one might imagine, legacy companies have the most difficult time crossing through the X-Chasm because their financial models, sales strategies, compensation plans, partner engagements, and cultures were

ACCORDING TO IDC, MORE THAN ONE-HALF OF ALL SOFTWARE REVENUE TODAY IS GENERATED FROM SUBSCRIPTIONS.

built for another era. Many fall prey to what the late author Clayton Christensen described in his 1997 New York Times bestseller "The Innovator's Dilemma."

That book refers to an organization's inability to respond to a disruptive threat, be it from a new tech innovation, a change in customer buying habits, or a new and superior business model. When challenged, many companies double down on their existing business model until it's too late to pivot to something new. This happened at Kodak, Novell, Tandy, Wang Laboratories, and many other once-successful companies.

It almost happened to Microsoft, which tried unsuccessfully for nearly a decade to extend the life of a traditional license-sales model while gradually growing cloud subscription sales. During that period, Microsoft's share price and revenue remained flat while others with robust subscription businesses — notably, Adobe, GitHub, Salesforce, and Zendesk — enjoyed dramatic growth.

Like many stuck in the X-Chasm, Microsoft's executive leaders didn't want to abandon or even de-emphasize a lucrative traditional revenue stream (Windows and Office) in favor of something more nascent. Sales leaders, in particular, didn't want to endure the pain of winding down one revenue stream while growing a new one from a relatively small base. "Heading into the trough" of the X-Chasm, in other words, was simply too much to bear.

Fortunately for Microsoft, its board of directors recognized that crossing the X-Chasm was an organizational imperative. It replaced the company's leadership team and committed to cloud subscription sales fully. Not long afterward, Microsoft's fortunes began to turn up.

While Microsoft, Apple, and others have the financial wherewithal and leadership to ramp up new revenue models, many companies do not. For them, crossing the X-Chasm can be a perilous undertaking that's made all the more difficult by uncertainty and disruption.

WHY CROSSING THE X-CHASM IS SO PERILOUS

Transitioning from a legacy transaction-oriented product sales model to a new subscription model is difficult for a number of reasons. As mentioned, there are operational, organizational, and financial challenges that must be addressed. Cultural and personnel issues often crop up too.

Because of all the disruptive forces involved, almost every X-Chasm crossing will be too fast for some, too slow for others. Regardless of where an organization's journey begins, it can expect one or more of the following to happen.

- Transactional revenue from the one-time sale of perpetual licenses declines after more flexible pricing plans are unveiled.

- While new revenue builds, traditional revenue — the kind that keeps lights burning and salaries paid — falls ever more rapidly.

- Expenses rise as a result of the new business model's ramp-up. These expenses come from necessary investments in new automation systems required to manage subscription sales, new sales plans, legal reviews, and more.

In an ideal world, different business units within an organization would pull together to address those challenges and help facilitate a transition. But business units often fail to respond properly. Some fall back on old familiar ways and refuse to budge. Others demonstrate a willingness to act but simply don't know how to prioritize.

In general, tech companies can expect to run into several business challenges when crossing through the X-Chasm.

Business challenges include:

- Competing priorities
- Unfamiliar revenue recognition formulas
- Shifting compensation plans
- Reduced shareholder value
- Unexpected expenses

WHAT TO EXPECT AFTER A LEAP INTO THE VOID

Vendors should accept that there will be suffering that comes with a business transition. What's more, technology innovators should accept that not everyone, including personnel, partners, and customers, will stick around to the end of a transition. Finally, tech vendors must prepare adequately to manage their transition to ensure that they don't lose sight of their overall objectives.

To be sure, there will be plenty of distractions along the way. Costs for new automation systems will be higher than companies first imagine. Cultural resistance will likely be greater than what's anticipated. And the burden to communicate, explain, and provide rationale for decisions to key constituents will be enormously taxing. (People often forget what they're told no matter how many times they hear it.)

Then there are things beyond an organization's control, such as a rise in subscription fatigue due to the sheer number of organizations that have adopted subscriptions as their preferred business model.

Despite the many challenges, though, legacy technology vendors that want to thrive today will have to defy history and cross through the X-Chasm nimbly.

>> VENDORS SHOULD ACCEPT THAT THERE WILL BE SUFFERING THAT COMES WITH A BUSINESS TRANSITION. <<

>> **By** Alice Gunther

Walls Come Tumbling Down:

Microsoft's Massive Channel Overhaul Will Have Broad Implications

MICROSOFT'S NEW POINT SYSTEM IS GENERATING PLENTY OF COMMENTS — AND CONTROVERSY. BUT WHAT DOES IT MEAN FOR THE FUTURE OF THE CHANNEL?

In March, Microsoft rattled its partner community with the announcement of a new channel program designed to replace its longstanding Microsoft Partner Network (MPN). The new Microsoft Cloud Partner Program eliminates the Gold, Silver, and Bronze tiers of MPN in favor of the "Partner Capability Score" (PCS), a new eligibility metric the company referred to in a blog as "a holistic framework for measuring partner performance, skilling, and customer success" by means of "certifications, added customers, successful deployments, and overall growth."

To be eligible for the Microsoft Cloud Partner Program, a potential Microsoft partner must attain a PCS of at least 70 points out of a possible 100. It's not hard to read between the lines to see what Microsoft is doing: intentionally reducing its base of roughly 400,000 partners to only the strongest and most committed performers.

Partners hoping to retain their status in the program will need to meet the eligibility requirements by October, so if you're a Microsoft partner, you'll need to get moving quickly. If you're not a Microsoft partner, you'll still want to take note of what the vendor is doing, because there's an important takeaway for every partner organization: When a major company appears to be dispensing with the "long tail" — the collection of low-performing solution providers that make up the bulk of vendors' partner bases — others are bound to follow suit.

SEVERING THE LONG TAIL

> **>> IT'S NOT HARD TO READ BETWEEN THE LINES TO SEE WHAT MICROSOFT IS DOING: INTENTIONALLY REDUCING ITS BASE OF ROUGHLY 400,000 PARTNERS TO ONLY THE STRONGEST AND MOST COMMITTED PERFORMERS. <<**

As Larry Walsh, CEO and chief analyst of Channelnomics, puts it, "Point systems really are saying that either you're in the program or you're not." By raising the eligibility bar for its channel program, Microsoft joins a growing list of vendors that are paring down their partner networks to focus their energy on those that generate the most revenue. This flies in the face of conventional channel wisdom, which uses the Pareto principle, or "80/20 rule," as a benchmark.

Applying the Pareto principle to the channel implies that a typical channel arrangement sees 80% of partners contributing 20% of overall channel revenue. But Walsh says it's a misconception that the channel's long tail adheres to that rule. "Going back as far as I can remember, it's been more like 90/10, or 95/5," he said, calling the imbalance "endemic to the channel."

In the past, large partner bases were a bragging right, but as service costs change, it's becoming increasingly impractical to maintain the "long tail." "This isn't just Microsoft," said Walsh. "Every vendor is going through this process of trying to figure out how to bring the most value out of their channel programs with the least amount of cost and effort, because it's just too expensive. The days of having these big profit pools [to] pull from to support channels are disappearing. The margins are getting tight." Moreover, Channelnomics research shows that 83% of channel chiefs struggle to get their partners to meet their goals, while 77% have trouble demonstrating the value of their channel programs.

NO MORE TIERS?

Maybe that's why the traditional tier-based model has come under scrutiny in recent years, with critics contending that it gives partners access to benefits and resources in a way that doesn't reward effort and fails to motivate investments in capabilities and performance. Point systems like the one Microsoft is adopting give partners the chance to earn channel program status through investments, activities, and sales and revenue contributions. Microsoft partners that want to differentiate themselves can earn "Specialization" and "Expert" designations by acquiring additional capabilities and demonstrating technical expertise. But they won't have this opportunity without meeting the requirements for the baseline "Solution Partner" level.

Microsoft's isn't the first partner program to challenge the typical tier structure, but it might be the most influential. "It has enough muscle in the market to be able to make a change like this and weather criticism, more so than other companies would," Walsh said. He acknowledged that Microsoft's decision is likely to lead to greater adoption of similar systems down the line, as its influence will "give other companies some air cover in which they can experiment."

But don't shed any tears over, well, the shedding of tiers just yet: Walsh doesn't anticipate that the classic system is going anywhere anytime soon. For one thing, it's useful for reseller channels

>> WHEN ENCOURAGING PARTNERS TO STEP UP THEIR GAME, IT'S IMPORTANT TO UNDERSTAND THAT SUCCESS MAY LOOK DIFFERENT FOR A SMALLER PARTNER THAN FOR A LARGER ONE. <<

and transactional product sales. Also, it gives fledgling vendors a template for partner-program design and clearly sets out and codifies partner expectations for benefits, requirements, and rewards.

Ultimately, partner segmentation isn't really about tiers vs. points, Walsh says. It's about allowing partners to leverage their strengths to contribute the most to a vendor's go-to-market objectives.

If Microsoft's experience is any indication, though, companies considering dealing this kind of blow to the traditional channel structure should expect strong pushback from their partner bases.

PARTNER RESISTANCE

While it's easy to understand why raising the eligibility bar would also raise the hackles of partners comfortably embedded in the program, Microsoft's critics in the partner community have concerns worth paying attention to. The PCS is focused on proficiency in six distinct solution categories: data and AI, infrastructure, digital and application innovation, business applications, modern work (i.e., Microsoft 365), and security. This means partners that engage across multiple areas of the Microsoft portfolio have a greater chance of accruing a higher PCS, skewing the program in favor of partners large enough to afford multiple technology practices.

There's also the concern that the Microsoft Cloud Partner Program places too much emphasis on new-customer acquisition without recognizing the effort companies put into customer retention, which supports reliable recurring revenue. Smaller partners are concerned — and rightfully so — that the new rules prioritize larger partners with more money to throw around.

The maintenance of hard-working small partners in anticipation of greater returns down the line likely isn't a high priority for a company as large as Microsoft. But companies gaining inspiration from Microsoft's new program should be aware of the principles at work. When encouraging partners to step up their game, it's important to understand that success may look different for a smaller partner than for a larger one — and that vendors with channel programs invested in the success of smaller partners will want to take that into account when adjusting their metrics.

On the whole, however, Channelnomics believes that Microsoft and companies like it are taking an important step in the right direction by emphasizing quality over quantity in their partner networks. While letting go of revenue sources — even underperforming ones — might appear counterintuitive, doing so will allow companies to focus their energy on their greatest strengths in the partner network, creating new opportunities for the most capable partners while encouraging others to pick up the pace by building their skills, improving their performance, and increasing their commitment.

By the Numbers
Harmony & Discord

TWO DIFFERENT CHANNELNOMICS STUDIES, ONE OF PARTNERS (CHANNEL FORECAST) AND THE OTHER OF VENDOR CHANNEL PROFESSIONALS (CHANNEL CHIEF OUTLOOK), REVEAL HARMONY AND DISCORD WITHIN THE IT CHANNEL. HERE, CHANNELNOMICS EXAMINES WHERE PARTNERS AND CHANNEL PROFESSIONALS AGREE AND DISAGREE.

>> **By** Dr. John Spinda

[HARMONY]

PARTNERS AND CHANNEL CHIEFS expect channel revenue growth this year.

Despite the pandemic, war in Ukraine, and supply-chain issues everywhere, both partners and vendors remain cautiously optimistic.

58%

OF VENDORS are investing in through-channel marketing automation (TCMA).

46%

OF PARTNERS view automation as a significant driver of growth.

Vendors see value in the efficient, scalable, and consistent brand messaging TCMA can provide. Likewise, partners see the rewards associated with TCMA, including enhanced marketing support and faster time to market.

[DISCORD]

30%

OF PARTNER revenue, on average, is expected to come from managed and cloud services.

55%

OF VENDORS say MSPs will be a very valuable partner type for them this year.

Whether it's due to the stability of a recurring-revenue model or the ability of managed and cloud service providers to attract new accounts, vendors value MSP partners at a high rate that doesn't necessarily align with the percentage of revenue that managed and cloud services currently yield.

PARTNERS believe technical training programs have the potential to drive growth as a channel program feature.

VENDORS report that they struggle to get partners to participate in training and certification programs.

Partners rate technical training programs as the top channel program feature to drive growth this year. Paradoxically, vendors say their No. 1 training and certification challenge is getting partners to participate in programs. The disconnect may come from the blurriness associated with measuring the true value and impact of training programs. For instance, Channelnomics research over the past decade has shown a weak correlation between partner training and growth.

74%

OF VENDORS reported being challenged in demonstrating ROI for channel marketing programs.

59%

OF PARTNERS report expanding sales/marketing as their top strategic investment priority this year.

Given the erosion of many customer bases over the past few years, both partners and vendors appear keen to embrace marketing as a retention strategy this year. But disconnects remain. While nearly six out of 10 partners plan to expand their investments in sales and marketing this year, almost three-quarters of vendors struggle to demonstrate ROI for channel marketing.

WHILE VENDORS AND PARTNERS ARE ON THE SAME PAGE WHEN IT COMES TO THEIR OVERALL OUTLOOK ON THE MARKET, TCMA, AND THE REFERRAL MODEL, THEY'RE NOT QUITE AS ALIGNED IN THE WAY OF MANAGED SERVICES, TECHNICAL TRAINING, AND CHANNEL MARKETING PROGRAMS.

1/3 OF VENDORS plan to launch or expand referral programs.

1/4 OF PARTNERS plan to expand compensated referral relationships with vendors.

Channelnomics research found that only 3% of vendors see referrals as their most valuable route-to-market model, far behind sell-thru and sell-with models. From the partner perspective, our research suggests that instant rewards are 20 times more desirable than long-term residual payments, which is important to remember as the channel shifts to recurring-revenue models from transactional sales.

Poly Redefines the Value of Technology

Poly launched a simple voucher program to overcome supply-chain woes. After, it learned an invaluable lesson on the business benefits of improved environmental sustainability.

>> **By** Leora Schwadron

- **Website:** poly.com
- **Year founded:** 2018 (Plantronics: 1961; Polycom: 1990)
- **Headquarters:** Santa Cruz, Calif.
- **President & CEO:** Dave Shull
- **VP of Global Channel Sales:** Nick Tidd
- **Revenue:** $1.73 billion (fiscal-year 2021)
- **Product segments:** Voice and video solutions

As employees return to offices after working from home throughout the pandemic, employers find themselves facing new workforce challenges. Among them is the need to upgrade office equipment to the same standards workers became accustomed to while working from home. This new reality has led to a surge in buying, as evidenced by record PC sales in 2021, which jumped 14.8% over 2020 despite industry-wide supply shortages.

Buying new gear, however, is only half the battle. What to do with older equipment is posing an equally difficult task for many IT and business leaders. Sensing an opportunity, Poly developed a voucher program that's accelerating new sales and accommodating older equipment with great success. It's also demonstrating how businesses benefit when they commit to environmental sustainability.

CHANGE IMPERATIVE

Like many tech vendors, Poly, a world leader in communications and collaboration equipment, faced challenges in 2020 and 2021. Price erosion was creeping into its world thanks to a large number of devices that were making their way to the secondary market for used and recycled equipment.

Every time a used piece of equipment turned up there, more pressure was put on the prices of new Poly gear. So, Poly began developing a program that could both stimulate demand for new technology and create a fiscally responsible and sustainable way to dispose of older products through authorized business partners.

SOLUTION & RESULTS

Enter Poly Renew, a voucher program specifically targeted at Poly customers with older Poly VVX and CCX phones. Companies willing to recycle their used Poly phones through authorized dealers would receive vouchers to buy new replacement equipment at discounted prices.

Once a customer obtains an RMA from Poly's website, they connect with an authorized Poly Renew partner to arrange for the return of their used equipment. From there, partners use an online portal to facilitate the return of the phones to Poly, which will then issue rebate vouchers for new products. The portal allows users to track their vouchers and order progress, which is especially helpful given the vast supply-chain issues worldwide.

Preliminary data shows that the program has generated significant new business and enhanced customer stickiness. Because the trade-in program enables Poly to sell both new and refurbished products, it gives the company and its partners twice the opportunity to make a profit.

There's more: One of the key benefits of the program is improved warranty management. By managing its refurbishment program itself, Poly is bringing some standardization to warranty claims. This is because products refurbished by third parties have different price and warranty structures, which can cause confusion for end users who believe they're receiving a manufacturer's warranty for used equipment.

Poly believes that its philosophy and strategy around protecting the end user and ensuring sustainable disposal are winning propositions that will result in benefits for customers and partners alike.

Distribution Is Evolving With the Times, Not Turning Its Back to Them

>> **By** Lawrence M. Walsh

As more legacy technology vendors transition from transactional to service- or consumption-based sales models, they're asking what role the traditional two-tier model of selling through distributors will play going forward. This question isn't new.

Since the dawn of the Internet, everyone from futurists to pundits has predicted the disintermediation of distribution resulting from more technologies being sold online through marketplaces and e-commerce. To some, the role distribution plays in the service-based market seems to decline as fewer tangible products and durable goods need warehousing, logistics support, and credit and financing facilitation.

So, is distribution done? No, but the shift to services does mean distributors must change the way they transfer their value. For example, distributors around the world, and particularly in mature markets, have invested heavily in developing platforms and resources that facilitate cloud and managed services sold and supported by partners. They continue to invest in these capabilities as a means of offsetting the decline in traditional fulfillment and credit/financing functions of the two-tier legacy model.

For more than 15 years, major distributors in mature markets have resold, supported, and managed service-based products on behalf of vendors and service providers. More than one-half of distributors offer some level of service enablement and support to MSPs and through reseller partners.

While services are not new to distribution, two-tier service capabilities are not evenly distributed around the world. Distributors in mature markets such as North America, Western Europe, and the Pacific Rim (Australia, Japan, South Korea) are more likely to have well-developed and mature service programs, platforms, and portfolios. Distributors in emerging markets have service capabilities also, but they're best described as nascent.

THE CHANNELNOMICS PERSPECTIVE

Some vendors believe digital services provisioned through the cloud will diminish the value of distribution. While there are elements of truth to this sentiment, the reality is far more nuanced. Distributors recognized a decade ago that services would transform the way vendors and partners consume, sell, and support technology. They also recognized the challenges that vendors and partners would face in bringing services to market. Distributors have developed, and will continue to develop, platforms and resources that facilitate and support the delivery of vendor services to and through partners. Distribution's service divisions are especially valuable to smaller partners, which don't always have the means or resources to develop the sophisticated administrative capabilities for selling and delivering services to their end customers.

As if that's not attractive enough, distributors are providing vendors scale in different ways. Some vendors are leveraging distributors to train and enable partners in the adoption and marketing of their services. Through distributors, they're finding the capacity and speed to expedite business and market development that's beyond their in-house resources. While distributors do face challenges in the service-based channel, their value isn't diminishing. It's simply evolving.

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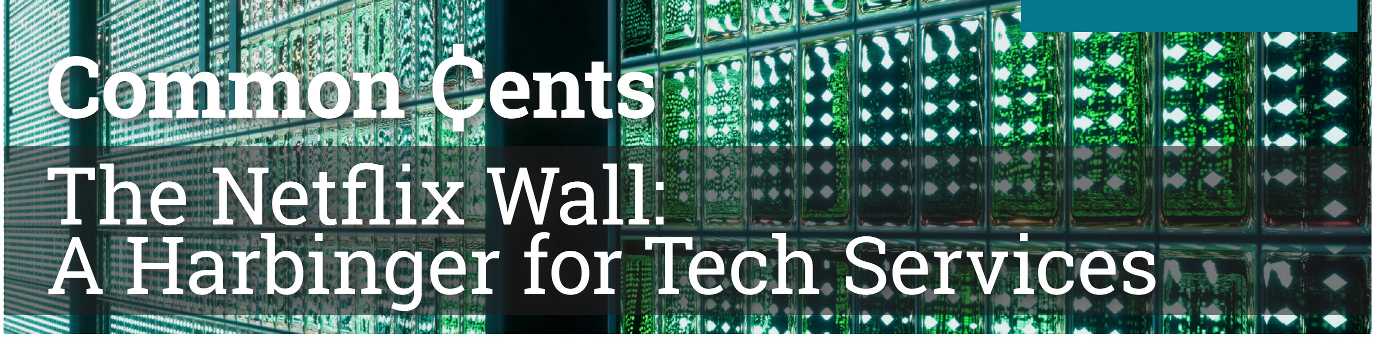

Common Çents

The Netflix Wall: A Harbinger for Tech Services

>> **By** Lawrence M. Walsh

NETFLIX HAS HIT THE WALL. THE POPULAR STREAMING SERVICE LOST 200,000 PAYING SUBSCRIBERS WHEN IT EXPECTED TO GAIN 2.5 MILLION. WORSE, THE COMPANY EXPECTS TO LOSE 2 MILLION MORE IN 2022.

Co-founder and CEO Reed Hastings says the Ukraine war, inflation, unauthorized account sharing, and increased competition have contributed to the company's sudden decline and challenging outlook. To counter the trend, Netflix is clamping down on subscriber password-sharing abuse, cutting content production, and considering the introduction of paid advertising.

Streaming services have steadily eroded the once-iron grip of cable companies and studios on content creation and distribution.

In the technology market and channel, the equivalent is managed and cloud services, which are generating massive fortunes in Silicon Valley and beyond.

Microsoft labored for years with a valuation of $200 billion to $250 billion until it mastered cloud and application services; then it rocketed to its current $2 trillion market cap. Amazon generates the bulk of its profits through AWS, giving the marketplace provider a $1.5 trillion valuation. Google Cloud is giving Alphabet new life as it steadily increases contractual, recurring revenue. And SAP, which anticipated stagnation after it acknowledged missing the cloud wave, is seeing its fortunes turn on the strength of digital transformation services.

All tech vendors, it seems, are looking to build subscription and contractual services — many sold via the channel — as a means of replacing lackluster transactional product sales. In doing so, they hope to drive up market valuations. PC vendors have nascent DaaS offerings. Apple wants to sell its iPhones and iPads through subscriptions. And HPE's GreenLake aims to change how enterprises build and pay for data center equipment.

The lure of recurring revenue is irresistible. The promise of predictability and consistency is great. Even better are the scalable profits; with services, you can support more customers with fewer resources, which stabilizes and, in some cases, increases effective margins. That's why Wall Street rewards service companies with higher valuations.
Here's the rub, as Netflix demonstrates: The good times don't last forever.

Increasing competition, market saturation, and compounding expenses of multiple subscriptions will eventually cause the cloud and managed service segment to hit the same wall as Netflix.

Many service providers have effectively offset the commoditization and saturation factors with the expansion of new services that increase revenue opportunities. But even then, tech service providers will eventually reach a plateau.

Tech services have a long way to go before they reach the Netflix wall. But knowing a line exists should give vendors a reason to plan for what comes after the service wave.

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- Lori Cornmesser, Vice President, Worldwide Channels, CyCognito

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