Redefining Distributor Value

in a Solutions-Based Channel

Building Next-Generation Partner Development Services
Redefining Distributor Value in a Solutions-based Channel

The data and other research for this study includes detailed responses from the following GTDC members doing business across the world: 20:20 Mobile, Arrow Electronics, Avnet, Computer Gross, Ingram Micro, ScanSource, SYNNEX, Tech Data and Westcon. Their commentary and input focused specifically on programs and services provided during the 2010 calendar year. The GTDC and its research partner for this undertaking, PartnerPath, are grateful for this in-depth support as well as the candid perspectives of technology vendor channel executives interviewed for the study.

Learn More

To find out more about this “Redefining Distributor Value” study or other aspects of the IT distribution industry, please contact either PartnerPath at info@partner-path.com or the GTDC at info@gtdc.org. Click here for additional details on each organization.

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The distribution game is changing. Moving in lockstep with vendors and VARs transitioning to solutions-based sales, distributors have continually enhanced their services. They're evolving beyond legacy financial and transactional services to provide invaluable partner enablement and development resources to their customers. It's an ongoing transition that shifts distributors from a legacy tactical role to a much more strategic one.

PartnerPath and the Global Technology Distribution Council (GTDC) embarked on this joint research project to quantify the degree to which distributors are altering their business models to take a more active role in real partner development. The results of this study may surprise some vendors. Our queries across the nine participating GTDC members clearly illustrate that IT distributors across the board are aggressively building enablement services to the benefit of their VAR customers and vendor stakeholders.

Now, if only every vendor could find ways to take advantage of this shift in distribution services.

Our research shows that distributors have already started helping a number of vendors by beefing up their analytics-based marketing, technical and sales development services. But there are other vendors who have still not recognized the opportunities new distribution capabilities afford their channel management practices, or cost structures.

Too many vendors today measure and evaluate the potential impact of distribution by looking in the “rearview mirror.” They only invest in initiatives that continue to pigeonhole distributors into the limited role of transactional and financial facilitator. If vendors want distributors to invest in high-margin services and act as a more integrated part of the partner development team, then these companies need to start treating them like an integrated extension of their own partner enablement resources and plans.

Are you looking in the rearview mirror to evaluate your distribution partnerships? Go beyond the transactional perspective that many vendors mistakenly adopt.
Evolution of Distribution Models

IT wholesale distribution began over 35 years ago as a means of simplifying the route to market for hardware and packaged software. Over the past 20 years the trend in distribution services has taken an increasingly technical and solutions-focused approach. Distributors have continually invested in services well beyond basic logistics to provide solutions that solve a wide variety of VAR competency and productivity challenges.

If you look at the distribution market’s evolution, you can group the progress into three main stages:

• **Legacy Distribution:** Transactional “pick, pack and ship” services plus credit management were the dominant value propositions offered by legacy distribution for nearly two decades. These still exist as core competencies for all distributors today, and most stakeholders agree they are performed with amazing efficiency and increasingly lower costs.

• **Value-Based Distribution:** In the 1990’s distributors began to differentiate themselves by specializing in a narrower band of product categories. They began to delve into deeper technical specialization and focused more on specific verticals and/or channel segments.

• **Solutions-Based Distribution:** The next step beyond value-based distribution sees today’s wholesalers emphasizing VAR business development, market segmentation and sophisticated sales and technical enablement to help their customers realize faster and more specific market success.

Distributors have always offered dedicated sales and account management as benefits to their customers. But it hasn’t been until recently that distributors have started working with suppliers to offer in-depth business and practice development to VARs. Distributors are now growing VAR revenue and loyalty by helping them identify new technology and market practices through distributor-facilitated business planning. Distributors are also assisting VARs with business transformation awareness and training as cloud computing continues to encroach on traditional on-premise business models.
Value Services Detailed

Extensive research gathered for this study reveals that technology distribution services are growing most rapidly in four primary areas:

- Channel Enablement
- Channel Activation and Onboarding
- Sales and Technical Support
- Cloud Services

The vendors who have historically benefitted most from these solution-based services are the enterprise-class software, storage, server and networking lines (i.e., IBM, HP, EMC and Cisco). But now, volume-based device manufacturers and software publishers are also retooling their distribution models and economics to accelerate the ramp and productivity of their channel partners. As more vendors learn from the case studies detailing these next-generation partner or market-development services, everyone in the channel ecosystem reaps the benefits.

Channel Enablement

Over 85,000 VARs attended at least one distributor-led bootcamp in the last year.

The key components of many distributors’ channel enablement efforts include business planning, VAR education and readiness, and, to a lesser degree, professional services orchestration. Distributors today offer an increasingly diverse range of education services to the VAR community – offerings that help vendors scale their channel enablement efforts more easily.

"We want our partners to understand how to sell solutions versus selling point-products," says Tom Cahill, director of channel sales for Hewlett Packard. "All of our distribution partners have programs around ramping, certification and enablement that helps partners do that. What it helps us do at HP is effectively scale."

In collaboration with key suppliers, distributors are developing and delivering face-to-face and online trainings for horizontal technology solutions such as Unified Communications as well as vertical market applicability. Avnet Technology Solutions in the United States has developed a week-long vertical market training called HealthPath University designed to help VARs understand, not only the technology opportunity in healthcare, but also the daily business and regulatory challenges that healthcare providers encounter. The result is a better-educated and engaged VAR prepared to standardize their new practice on technologies they know and can support.
Vendors are also leveraging distributor training resources to drive greater coverage or specialization for a particular technology solution set. Arrow and Oracle, for example, recently teamed up to offer free specialized sales and technical training for the Exadata database solution. Arrow was instrumental in the content development, delivery and driving event attendance. The result was a 20 percent increase in the number of partners achieving specialization in the first year.

Distributors partnered with VARs in over 32,000 end-user professional services engagements in 2010.

Professional services is another expanding service area for distribution. Distributors’ professional services investments include providing network assessments, proof of concepts, technology briefings, assisting with proposal development and project management – all available on a for-hire basis by VARs.

"In the commercial space, our distributors fundamentally manage the whole process of channel engagement around Professional Services for us,” says Paul Mayes, director of distribution sales for NetApp.

Distribution professional services staff frequently engage with the end customer directly, but always in conjunction with a local VAR. Distributor professional services teams are also usually on the front end of potential opportunities and have the ability to influence technology and vendor selection. Since distributors are nearly always involved in the transactional sales component, vendors will benefit from the smooth opportunity management process from prospect to deal booking and closure.

Meanwhile, business development services have evolved to help VARs identify, develop and expand new practices that tap into additional customer segments. Vendors, in turn, can get value by taking advantage of the end-to-end development services distribution now offers today. Distributors not only help VARs identify specific end-user market segments for the partner, they also give them the necessary support to capitalize on selling to those markets – on a scale the vendor cannot always support.

Helping VARs investigate and build their next technology practice may also mean helping them capitalize on immediate opportunities. When Avaya acquired Nortel Enterprise Solutions assets in late 2009, they turned to Westcon Group in North America to assist in training legacy Nortel partners in the Avaya way, and also evangelize the new broader offerings Avaya could provide these VARs if they stuck with the vendor through the transition. The resulting “Rapid Ramp” sales and readiness transition plan executed by Westcon resulted in over 150 new certified partners for Avaya in 2010. “The Rapid Ramp program gave our partners an added comfort level and recommitted them to sell our products,” says John Spiliotis, vice president of US channels for Avaya. “It was a priceless retention tool for Avaya and gave Westcon tremendous credibility for their execution process.”
Channel Activation and Onboarding

Channel activation refers to the critical function of preparing partners to sell and manage customer sales pipeline after basic sales and technical training has been completed. This is not product training, but a more holistic effort that includes field selling support, demand-generation marketing and demystifying vendor channel programs. The aim of many of these distribution programs is to accelerate the VARs’ ROI in a technology investment and provide them with customer-ready tools and resources to drive qualified leads faster.

Distribution Channel Enablement

When Avaya needed help supporting the transition of legacy Nortel customers to the business, it was able to count on its distributor to efficiently and methodically train 150 new partners through a comprehensive “Rapid Ramp” program.

Distributors recruited and on-boarded more than 55,000 VARs into vendor programs over the past year.

While VAR channel marketing has been a distribution core competency for decades, distributors have developed a more end-customer-centric focus in recent years. The most common approach for distributors is to prepare templates, presentations and sales tools on common solution areas such as security and identity management or selling virtualization into SMB customers that can be co-branded by reselling partners. This also presents an opportunity for vendors to work with distributors to make these materials broadly available and embraced by the right profile of VAR.

Demand-generation services offered by distributors are not limited to self-serve templates. Another common offering is outsourced telemarketing services where the distributor will not only provide the telesales activity but also develop the customer target list using internal and external list sources. Research for this study found that surveyed distributors conducted or facilitated over 4,000 end-customer demand-generation campaigns last year. These campaigns brought in close to 147,000 qualified end-customer leads. This is co-marketing activity the vendor did not need to plan or execute, offering an invaluable asset to newly authorized partners: active leads.
Distributors are also increasingly providing the back-end infrastructure and support for live end-user events, including venue selection and logistics, content development and delivery. In the case of live events, distributors work jointly with a local VAR (or group of VARs) and select vendor partners to ensure proper messaging and effective lead capture. These are solid, tangible services for vendors to leverage, given the distributor’s ability to follow up directly on qualified leads with participating VARs.

Vendors have also begun to leverage distributors to help drive new channel program membership, renewals, specializations and up-leveling within their own partner programs. Most vendors’ partner programs are self-service by design, but having the support of distributors driving broad partner progression is critical. Lenovo recently teamed with SYNNEX in the U.S. to drive enrollment into a new healthcare practice, and the program is currently on track to recruit 500 to 700 new active purchasing healthcare VARs in its first year. When properly focused on clear market targets and armed with the right economic benefits, distributors have proven to be effective catalysts for channel activation.

Distributors managed over 4,000 end-customer demand-generation campaigns in 2010, resulting in 147,000 qualified end-customer leads for participating VARs.
Sales and Technical Support

Distributors have always maintained a robust phone-based telesales operations. But these resources have generally placed greater emphasis on transaction and account management than true sales development activities. It’s only natural given the sheer number of partners and product lines the average distributor supports.

Today, solutions-based distributors that have deep technical expertise, specialized training and business development practices are leveraging these assets to segment their sales activities along horizontal technical solution or vertical market lines.

Arrow ECS has created a sales segmentation service for both vendors and VARs called the Intelligent Service Center (ISC). ISC is an integrated set of business and market analytics tools designed to identify specific end-customer markets and opportunities. ISC can be used by suppliers for product launches or to increase sales of niche products by not only identifying capable VARs in a geography but also end customers who meet the required profile.

VARs also leverage ISC to identify additional sales targets in their territory and as validation to build out additional practices. In one case, ISC data convinced a VAR that had sold a small number of local healthcare solutions that there was enough total opportunity in their area to make an investment in Arrow sales and technical training. The investment brought in two significant new opportunities that closed within four months.

Greater numbers of distributors are now utilizing their technical and licensing specialists staff to help VAR partners close business at the end-user level. This is not a revolutionary change, but has been a necessary progression of distribution’s services reach over time, based on partner demand.

In an average month, the major global distributors associated with the GTDC participate in over 1,700 end-user sales engagements. These are not generic conversations. Distribution sales specialists or sales engineers typically are involved in opportunities early enough in the pipeline to have influence in both the VAR and end-user technical decision.

Not only do distributors directly enhance the end-user experience, but this high volume of transactions and engagements also gives distributors a powerful base of
business intelligence about end-user market segments. This has resulted in most global distributors building very sophisticated business intelligence tools to help their vendors and VARs identify new market opportunities with precision.

In one case, Cisco was able to take advantage of the power of its distributor's business intelligence data to help pinpoint partner recruitment in its campaign to improve SMB channel coverage. “Small business is one gap for Cisco in which distribution offers accelerated programs,” says Julie Hens, Vice President of channels and U.S./Canada distribution for Cisco. "Leveraging our distributors is critical to extending our coverage model to Cisco channel partners."

Too often vendors view the relationship opportunity with distributor sales resources too narrowly, forgetting the incredible amount of data and sophisticated corps of field specialists that can be put at the vendor’s disposal if the vendor is prepared to make an investment. And it may not even require a big monetary commitment; all it may take is an investment in time to build the necessary field relationships and conduct joint planning.

**Distribution Sales Support**

Distributors’ business planning and sales enablement allowed HP healthcare business to outpace overall HP revenue by 200%.

Riverbed leveraged its distributor's sales training capabilities to educate over 200 partner reps from 70 countries in a year. Channel sales through that distributor increased 69 percent as a result.

**Extending Value Services to the Cloud**

Much has been written and predicted about the role of traditional VARs in cloud computing. Business transformation is garnering most of the attention and for the right reasons – VARs and system integrators have a challenging road ahead. While not invisible, the role of IT distribution in an emerging “anything-as-a-service” world has received less public speculation, despite the belief that distributors face an even larger degree of uncertainty. The reality is that distributors have been making investments and business model adjustments over the past several years that have begun to establish the role they will take with this “disruptive technology.”
Distributors are investing in three primary cloud models today:
• Pass-through for third-party services
• Distributor as back-office provider
• Distributor as service provider

These three areas are not mutually exclusive. Many distributors are pursuing at least two, if not all three, simultaneously.

Vendors that provide direct billing to the end customer will not require distribution credit or billing services. Should they still employ a partner channel for better sales and referral coverage, they will still need scale and cloud evangelism services from their distribution partners. Vendors are beginning to employ a fee-for-referral payment model for both VARs and distributors. In exchange, distributors will provide one or more of the following services:
• Evangelization of the vendor’s cloud service
• Sales training and activation
• Pre-sales support (i.e., mixed licensing environments)
• Marketing demand-generation services

The upside of this model for vendors is a relatively low investment for base-level coverage. A more weighty downside is that distributors thrive in a transaction-based world, and the lack of something tangible to “sell” (a SKU with a price point) is somewhat counterintuitive and operationally challenging for them. Even Microsoft, a vendor with a large amount of distribution and channel clout, has only experienced moderate success with their online services through distribution because they have not yet moved to a transactional SKU-based role for the distributor.
Vendors that adopt a two-tier sales and billing approach for cloud services will find a more receptive and engaged distribution community. Multi-national distributors such as Tech Data and Ingram Micro have made large infrastructure investments in sophisticated billing systems that allow for multiple services on a single invoice. Through these systems they can handle service providers’ unique billing schemes on the back end to present a uniform monthly or quarterly recurring bill to individual VARs and/or their end users. This is a huge benefit for end users that buy multiple vendor solutions for mixed cloud and on-premise environments and who prefer a single-invoice option. It also makes it easier for channel partners to centralize and manage the billing relationships with their customers. Vendors considering leveraging two-tier distribution for their cloud services should explore this business model first before deferring to a referral-only model.

Most radically, some distributors are acting as the service provider, developing services that include hosted collaboration, remote network monitoring, data warehousing and disaster recovery services. Distributors offer them through a two-tier sales and billing model. Distributors pursuing this path believe they avoid competition with existing VAR services because they use this option to fill gaps for VARs who lack this infrastructure. For vendors and service providers who are willing to be flexible, patient and consistent, leveraging distributors as service providers may realize an important advantage of industry consolidation and giving more innovative distributors exclusive or “first mover” advantages.

All three of these models represent a continuum of cloud service benefits distribution is looking to provide. On one end, most distributors see the cloud trend as a way to accelerate what they do best, by selling a higher volume of mobile devices and components that will be bought for either consumer or service provider consumption. Gear still has to move from point A to B. On the other end of the spectrum, some distributors are hatching plans to become service providers and attempt to differentiate by offering a breadth of cloud services along with billing and financing services in the form of a totally integrated cloud service.
When thinking about this continuum of cloud services through distribution, it is important for vendors to get out of one-dimensional thinking. There are valid roles for distributors with different scale, skill sets and investment mentalities all the way across that continuum. Vendors need to have a distribution coverage model that allows for varying levels of sophistication and investment across their global distribution community.

**Vendor Imperatives**

Clearly, distributors are motivated to continue to evolve their services and remain relevant as brokers of the IT world. As a result, they are delivering advanced partner technical education, practice consulting and sales specialization training on behalf of vendors that have the vision to leverage these services.

These higher-margin services, however, can't be created without the help and support of the vendor community. Vendors need to continue to foster distributors' efforts to invest in channel development services. This requires a shift in thinking for vendors to view distributors as long-term enablement partners. Results are still measured quarterly, but investment planning should span 12 to as many as 18 months forward. Success will more naturally follow vendors who make sustained investments and empower and demand results from their distributors around the development of true partner skills development and market success.

Vendors who follow these distributor engagement strategies will likely achieve the best results:

1. **Show your distributors a path to investment in new partner development services.**
   
   Distributors are investing in specialization that delivers value to both VARs and vendors. Vendors need to pull out the channel P&L model and think creatively about how to include distributor systems and programs as a direct, not indirect, extension of their own operations. This may include the “outsourcing” of certain partner development services previously conducted exclusively by the vendor.

2. **Invest in the organizations that create sales success.**
   
   With more sophisticated pipeline tracking systems in place, distributors are far better equipped than in the past to track and land qualified opportunities with or on behalf of their VAR customers. Too often, distributors are disconnected from the vendor’s direct VAR and end-user demand generation efforts. This may or may not require an expansion of the vendor’s channel marketing budget, but rather requires a shift from vendor-direct to partner-led (and distributor supported) sales and marketing programs.

3. **Utilize distribution core competencies to extend cloud coverage.**
   
   It is still early in the cloud services business, but distributors are not taking a passive role. They still provide many of the same non-transactional services such as VAR profiling and recruitment, education and demand-generation marketing. Distribution has always added value by removing cost from the supply chain and will continue to develop methods for reducing costs and complexity from the partner development cycle. VARs are still a critical local touch point to the end user, and they (and their vendor and distribution stakeholders) continue to look for ways to add value in a cloud world. Distributors are still a viable way to scale to this audience.
Expectations must be properly set here as distributors are still high-volume, low-margin organizations. Vendors must be willing to pay for services as they ramp and gain partner adoption but, more importantly, also hold the distributors accountable for delivering promised return on investment. Ideally, vendors should be collaborating with distributors to develop a new set of metrics that measure distributors’ channel development success. While 10 to 15 years ago the expectations revolved around quarterly purchases and total sell through, in 2015, smart vendors will be using a whole new set of metrics to gauge two-tier success, including per-VAR productivity, percent of net-new revenue, services attach rate, time from program enrollment to first deal and subscription renewal rates.

What’s Your Take?
The GTDC and PartnerPath appreciate your interest in this comprehensive study, Redefining Distributor Value in a Solutions-based Channel. If you have related comments or suggestions, please feel free to share them with us at info@gtdc.org or info@partner-path.com.
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About PartnerPath - Established in 1997, PartnerPath, LLC, (Mountain View, CA) increases the impact of partnering by designing, implementing and automating effective partner models. PartnerPath’s clients entrust them to formulate growth strategies, build route-to-market models, perform competitive benchmarks, design partner programs, facilitate partner advisory councils, and provide temporary experts for project management and program execution. Drawing on decades of combined experience, PartnerPath makes available a vast library of partnering resources, hosts regular informational webcasts, and offers PartnerG2, a comprehensive partner intelligence subscription service. For clients looking to optimize the partner relationships and improve organizational efficiencies, PartnerPath also offers a hosted partner automation system called PartnerPath. For more information please visit www.partner-path.com.

Key Contributor: Ken Rankin

Ken is an IT channel strategy professional with nearly 20 years of channel management, program and business development experience. He has held vendor management, distribution strategy and channel program roles with some of the largest companies in the industry, including Microsoft, Citrix, Vanstar and Tech Data. Most notably, Ken held the position of Global Distribution Lead for SMS&P at Microsoft for a period of four years. Ken has extensive experience with VAR, distribution, ISV, direct marketer, retail and online service channels. He is a graduate of the University of Florida with a bachelor’s degree in Finance.

About the GTDC - The Global Technology Distribution Council is the industry consortium representing the world’s leading IT distributors. GTDC members drive more than $100 billion in annual worldwide sales of IT products, services and solutions through dynamic business channels. We help our members and IT vendors strengthen their partnerships and address industry-wide issues and opportunities. In addition, the GTDC enables vital industry insight for financial analysts and media looking for a definitive view of actual tech trends and the central role of IT distributors. Our executive-level conferences, services and research partnerships make the GTDC your one-stop resource for distribution industry information and strategic engagement. For more information, please visit www.gtdc.org.