EUROPEAN DISTRIBUTION: MAKING THE DIFFERENCE

A special report by IT Europa for the Global Technology Distribution Council
INTRODUCTION

Latest research from the GTDC and others shows an upsurge in confidence in European channels. Partly this is based on the economies, but it is also clear that many vendors are turning to distribution to leverage the dynamics of the two-tier model. Distribution in Europe clearly gives an advantage in localisation and specialisation as vendors are indicating by signing up to give their products reach and support.

This special report by IT Europa examines the trends, looks at the supply of IT products in Europe and how it is changing and talks to some vendors who have stated a preference for the two tier model. “The distribution industry has become instrumental in much more than just delivering technology products to the right places at the right time,” says GTDC CEO Tim Curran. “Shipping product is no longer the mainstay. Today’s distribution leaders bring much more to the equation through their unique, highly diversified services portfolios.”
Europe has a higher proportion of small firms who tend to need more help with introducing new technologies, so the relationship with the reseller and support channel is very important. While larger enterprises have committed to cloud in large numbers, smaller businesses need advice and support through the transition. That this advice may well be business-related rather than on the technology issues is clear as the digital transformation is the largest transition to a new model that the market has faced since the spreadsheet was introduced.

As the GTDC’s own research shows; Q1 was a strong quarter for IT Distribution in Europe. In spite of continuing issues in the UK and the mainland over the Brexit discussions and the economic impact of elections that have taken place in France and will affect Germany later this year, IT Distribution showed strength across all major markets.

The Global Technology Distribution Council (GTDC)

The Global Technology Distribution Council (GTDC) is a worldwide industry association dedicated to defining and promoting the role of wholesale distribution in a successful and healthy information technology channel. The Council is comprised of the computer industry’s top wholesale distributors dedicated to serving “the channel,” a network of skilled VARs, Internet resellers and retailers focused on providing hardware, software, and services to businesses and consumers around the globe. GTDC members drive more than $130bn in annual worldwide sales of products, services and solutions through dynamic business channels.
GTDC CEO Tim Curran (right) says “Our research shows at least two months of really good growth in Europe in aggregate.” The telco and notebook sectors are performing strongly, he adds, as well as other new technology areas. The UK has exhibited strong and consistent growth and Germany turned positive in Q1 with incremental growth from a range of categories including telecoms. The US by comparison, has not been as strong in IT sales growth, hence the continuing interest from IT vendors in European expansion.

More data points to continuing European investment in IT include European sales of semiconductors reached over $2.8bn in February 2017, an increase of 5.9% versus the same month in 2016, says the European Semiconductor Industry Association (ESIA).

The growth in Internet of Things would seem to lie behind some of these figures as both the home security market and the European automotive industry have been investing in technology. Several important product categories grew strongly in February on a month-to-month basis: discrete, optoelectronic devices, and especially sensors (+4.6% compared to January) all experienced steady growth in Europe. Sales of application-specific chips were also positive in Europe compared to the previous month. And generally, the attitude towards introducing the new technologies is positive – February 2017, the European parliament rejected the idea of limiting growth through a tax on implementation of AI including driverless cars.

The IoT sector is growing rapidly, but has researcher Gartner has warned, it will need the support of the IT channel to be effective: Nick Jones, vice president and distinguished analyst at Gartner, said, “The IoT demands an extensive range of new technologies and skills that many organizations have yet to master. A recurring theme in the IoT space is the immaturity of technologies and services and of the vendors providing them. Architecting for this immaturity and managing the risk it creates will be a key challenge for organisations exploiting the IoT. In many technology areas, lack of skills will also pose significant challenges.”

Already distributors are investing in this area and are preparing to back the business partners with their own resources: GTDC member Arrow recently received the Business Development award from IoT connectivity products and services vendor Digi for being the distributor that created the largest pipeline for fiscal year and Arrow was recognized for its “ability to team with the Digi sales organisation to cultivate prospects”, the vendor says.

Not all the growth is in newer technologies; while traditional PC shipments in EMEA stabilised in the fourth quarter of 2016, registering a close-to-zero decline (-0.2% yr/yr) and reaching 20.7 million units, according to IDC, notebooks performed well across all EMEA regions (2.9% yr/yr), growing 2.7% in Western Europe and 3.3% in central and eastern parts. The strong demand was triggered by the commercial space, which grew 10.1% in Western Europe and 1.2% in Central and Eastern Europe, it says. The predicted growth areas for technology distribution will be covered in more detail later in this report.
WHAT DISTRIBUTION OFFERS

The reasons for using distribution are both the obvious ones such as localisation and for coverage. Many vendors have said that they would rather have a single regional relationship in Europe rather than have to set up local offices and resource them.

The need for local compliance is a rising issue, with nation states setting their own standards within a broader pan-European model. This will become an even greater effect in 2018 with the introduction of the need to show compliance. The GDPR requires companies to show how they meet with the principles – for example by documenting the decisions taken about a data processing activity. With EU member states able to set their own regulatory functions, and enforcement, this will become a major localisation issue for channels.

Europe has 23 officially recognised languages, and more than 60 indigenous regional and minority languages. There are also different elements to local business relationships and culture which need to be understood. English is most widely spoken, particularly among the young, and is the language of choice for the IT industry, followed by German, French, Italian and Spanish, but local businesses in the SMB sector will often choose local suppliers where there is a mutual level of understanding. Localisation of software and standards is particularly important in software.

Europe also has a leading global stance on recycling. The Waste Electrical and Electronic Equipment Directive (WEEE Directive) is the European Community directive 2012/19/EU on waste electrical and electronic equipment (WEEE) which, together with the RoHS Directive 2002/95/EC impacts consumers and technology supply businesses.

Secure and compliant recycling

GTDC member Tech Data is targeting the growing area of trade-ins in Europe, offering a service that will enable resellers to offer trade-ins on a wide range of mobile products and increase sales by driving adoption of the latest technologies and advancing refresh cycles.

Tech Data Renew provides an integrated trade-in service on smartphones, tablets and laptops. Proposals can be customised to meet exact needs of the customer and Tech Data can provide swift and decisive responses to requests for quotations on specific products. All of this is available through a dedicated portal, which can be accessed via Tech Data’s e-com platform, InTouch.

Simon Smale, Commercial Director of Services, Europe for Tech Data, says that the service meets a growing need in the channel. “As a leading distributor, Tech Data sits at the very heart of the market and we are constantly watching and analysing trends. Many businesses and individual users want to make use of the very latest technologies, which means they need to refresh devices more frequently. But they also want to make sure they get the very best value from their existing assets.

“Trade-ins are becoming an important element in the market, especially with premium brands that retain high residual values. The Tech Data Renew service provides resellers with a simple way to facilitate the trade-in of products and enables them to offer creative and attractive propositions to customers on new devices.”

All recycling and reselling is carried out in accordance with UK and EU legislation, including the WEEE directive. Data clearance services that guarantee data is removed from customer devices are also part of the process.
Logistics – the supply chain needs to be both responsive and able to adapt to increasing complexity and future challenges. The digitalisation of the delivery process and resource planning is essential for maximum efficiency; IT distribution companies in particular have been investing strongly in warehousing technology and delivery processes in recent years. This is not just a matter of storing and moving items, but dealing with localisation, local duties and taxes and monitoring transport continuously in case of delays, weather and other factors.

Internal systems and pricing is also an issue in technology product supply: with perhaps half of all IT products priced in US dollars, the facility to provide accurate information on which tenders and bids can be based is a prime function of distribution in its service to partners. Many will hedge currencies so as to provide a sound basis for customer pricing; there is also a sophisticated adjustment model which is used to keep price information current.

In software, especially delivered using the SaaS model or cloud, the control of licensing is another function which many distributors offer to their channels, with both licence management and upgrading handled automatically.

And then there is support and being able to offer a consistent service to customers on a global basis: Europe-headquartered Exclusive Group now has its PASSport Global Services division. This is a worldwide project to define and integrate a comprehensive set of high value professional pre- and post-technical services that enable channel partners in every territory to deliver greater market relevance, differentiation and annuity-generating opportunities.

David Ellis (right) is Exclusive Group’s Director of Global Services and the driving force behind the PASSport Global Services: “We now have a universal proposition available to partners across our APAC and EMEA footprint with truly global capability into more than 100 countries. At the core of this is a new enhanced premium support service that delivers in-country local language first touch support eight hours a day – backed by a global fully manned 24/7 support capability; a truly differentiated proposition.”

Distributor offers ecommerce logistics

In a move to support the Netherlands’ biggest web store Bol, GTDC member Ingram Micro’s Docdata, part of its Commerce & Fulfilment division, offers warehouse management and an advanced e-commerce system that can cope with peaks in demand in holiday seasons. Developed over the years by Docdata itself, the operation can respond effectively to market opportunities or developments and continually improve the online proposition to customers. Since being founded in 1999, Bol.com has expanded from €10m to around €1bn last year.

Orders range from tiny cosmetics to washing machines and the store offers eight million items, so the logistics challenge is significant – at its peak it handles hundreds of thousands of orders.

“E-commerce fulfilment? six orders per second with utmost precision. Thanks to Docdata, no problem at all!,” says Daniel Ropers, director of bol.com
“Following significant investments in the digitalisation of our support infrastructure, we are now able to offer a unified customer support experience that delivers consistency of delivery and service level targets.”

Finally there is the research and discovery process; few channel players have the resources to research the market continuously.

“Work closely with distributors and they will be able to guide you as to which products are going to be the winners,” GTDC’s European General Manager Peter van den Berg told the Managed Services and Hosting Summit in Amsterdam in April. Distribution is no longer just about pick, pack and ship, he says. The services on offer are many and varied, and are used to complement what the channel is doing.

65% of the business of one of the GTDC largest member is now in services, he told the conference, and in the last two years, the GTDC members have added over 600 new vendors, so they are a good source and indicator for channel partners looking to see which products and services are likely to be successful.

WORK CLOSELY WITH DISTRIBUTORS AND THEY WILL BE ABLE TO GUIDE YOU AS TO WHICH PRODUCTS ARE GOING TO BE THE WINNERS.
A SPECIAL REPORT BY IT EUROPA FOR THE GLOBAL TECHNOLOGY DISTRIBUTION COUNCIL

WHY VENDORS CHOOSE DISTRIBUTION

Hyperconvergence specialist Scale Computing has a 100% channel-focused model and has revamped its channel partner programme, aiming to make it more simple and profitable for partners, and is engaging with distribution to support its rapid growth.

The hyperconverged infrastructure market is a multi-billion-dollar market that is expected to grow at a faster rate than any other IT business over the next five years. CEO Jeff Ready says that channel programmes have a natural lifecycle, and now that the hyperconverged model has reached a size and become "legitimised", it can see a lot more potential, particularly using a two-tier model.

"in the past we have used a single tier model, but now we can use distribution to run and promote the channel relationships. Distribution is key for his business: "Having a true value-adding distributor is important and it plays a big part in making the channel part of an effective community, he says. "Pure volume [of sales] does not help us," he says, "we need an understanding, a storage background and the ability to provide solutions."

Others have also moved from working directly with partners to using distribution: for example, distributor Intelisys Global has signed UK-based network connectivity specialist, Blue Planet Networks, which will join its Supplier Partner family. Under the terms of a deal, Blue Planet will offer its next generation internet and SD-WAN technologies through Intelisys’ network of sales agents in Europe, the company said. Blue Planet had been selling previously its networking solutions directly to UK customers through its own reseller channel. Blue Planet’s CEO, John Hammond, the partnership with Intelisys means the firm will benefit from an accelerated sales cycle and the deal will help drive its growth plans across the EMEA region.

"Intelisys sales partners also gain faster access to our internet and SD-WAN technologies, allowing them to build out new sales opportunities – so it’s a win-win situation right across the channel. We are also seeing how Intelisys Global’s Technology Services Distribution model helps us to move remarkably quickly, as sales partners have already largely determined their client needs when they first get in touch and that results in a better outcome for everyone involved," Hammond says.

Distributor Hammer has signed an EMEA-wide deal with Spectra Logic, maker of high-capacity workflow, tape and disk-based products. It is Spectra Logic’s first two-tier deal anywhere, and Brian Grainger (below), Chief Sales Officer at Spectra Logic, who spent a year looking at options, says: “We could have hired salespeople and looked for resellers, but it made more sense to invest in a value-added distributor.”

In the home US market, it is relatively easy to identify the channels and buyers in supercomputing, but Europe, with its diverse cultures, languages and markets, is less straightforward, he says. “So in Europe, I decided to go with a known and respected channel.” And this is not just for the tape and disk products, but the full range, including video and the fast-growing data centre business, the markets spreading beyond the traditional supercomputing ones of scientific research, medicine and specialist data centres into surveillance and government, particularly as the business moves even more into the mid-market, he explains.
Vendor Palo Alto is building the momentum in its eco-system, Western European VP Dave Allen says. While admitting to macro-economic issues affecting confidence, the need for cybersecurity understanding and compliance has never been greater, he says. And there is a clear and expanding role for distribution: “We see lots of opportunities for partners. The recent announcements by the UK government on cybersecurity, the impending GDPR initiative, and the rise in the ransomware are making enterprises think even more about cybersecurity.”

The role is to educate channels and CIOs on how to tackle the broader issues, he says. For the customer, it is a business issue and not a technical defence. “In 2017, we are focusing on the services side with channels, enabling and educating them.”

Distribution is playing an increasing role in this education process. “The differentiator for partners is not in speed of supply but services, hence the value-adding nature of what they do now.” Distribution is no longer about a requirement to hold stock, he says, but in value creation, using technology as an enabler and for education. “The focus has to be on service, with the distributor offering the backline of support for the eco-system as a resource buffer, and this means building out services.

Informatica, the data analytics specialist, is looking to drive more business through channels, with a new programme and a push through distribution. Rodney Foreman, senior vice president partner ecosystem, says he plans to build a strategic network of value added reseller and independent software vendor channel partners to take it into smaller mid-market companies. The new INFORM Partner Programme’s two-tier structure aims to help specialist partners maximise their margins.

“Partners who have wanted to sell Informatica have not had a competitive programme to work through until now. We are investing in resources and commitment in Europe,” he says.

Distribution through Tech Data and Avnet is supporting this: “They help us to profile the partners, identifying the right partners to use in a given vertical market, and rapidly ramping up capacity. Focus on the right partners will help us in the market, building the business and taking share from the competition.”

After twenty years of controlled expansion in Europe, he says there has been a jump in growth – it now has 150+ partners and is looking for triple digit growth. Part of this has been the move to two-tier: “The value-added distribution model is a fundamental shift and a changed model. We need the VAD in the market, working with a subscription model. But it took time to figure out how to do it, with partners learning how to work with VADs, with configuration, pricing and so on. It is an evolving process.”

Vendor Riverbed sees further channel consolidation in 2017. Karl Meulema (below), Senior Vice President Global Channels, has been looking at his European two-tier model and sees concentration as the way forward. Instead of over 1000 partners in the region, he would prefer to deal with the top players who make the commitment, and this will boost distribution as well. The distributors play an important role in proving enablement – in their world the same consolidation is happening – more concentration. “We had fourteen distribution partners in EMEA, we are now down to eight, and we still have eight only because it is EMEA, and the African and Middle East businesses need local distribution.”

Karl Meulema
Nearly 62% expect indirect to outpace direct sales, with 13% indicating they are already 100% indirect. More than half of vendor channel executives expect double-digit growth in 2017, with 20% looking for more than a 30% rise. The range of products and services is also expected to expand: “We envision distributors selling devices on a consumption-based model as a means to attach public cloud services like Office 365, Enterprise Mobility Suite for Security, or Windows Enterprise subscription-as-a-service. This represents an immediate opportunity for distributors around the world. The business rationale makes sense and distributors are quickly absorbing and operationalising the concept,” says Jon Strausburg, Cloud Sales Director, SMB&D, Microsoft.

Over three-quarters (78%) expect distributors to develop new business around vertical market solutions. The GTDC identifies 12 categories of interest, including a balance of topics related to business partnerships and technology categories:

- Analytics
- Pro A/V
- Cloud Security
- Data Centre/Big Data/ Hyperconvergence Services
- Internet of Things
- Mobility

Cloud is not just software or SaaS delivery models: for example, the cloud-related share of total EMEA infrastructure revenue from servers, disk storage, and Ethernet switches grew by 6 percentage points compared with last year to 24.9% in 3Q16, says researcher IDC. In terms of storage capacity, cloud represented around 44.8% of total EMEA capacity in 3Q16, with 8.6% growth over the same period a year before.

IDC expects this market to reach a value of $10.9bn by 2020, from the five-year forecast, or 35.4% of the total market expenditure. “Fuelled by increasing maturity and adoption rates of many new cloud-dependent technologies such as the Internet of Things, cloud continues to represent an area of tremendous growth for the European infrastructure sector,” said Kamil Gregor, research analyst, European Infrastructure Group, IDC.

“In Western Europe, we are beginning to see not only specific solutions based on 3rd Platform and Innovation Accelerator technologies, but increasingly often innovative solutions that combine multiple technologies to harness unique value that none of the technologies could unlock alone,” said Gregor. For example, several emerging industry clouds in the region combine data from the Internet of Things edge devices with real-time and Big Data analytics in subverticals such as advanced building automation, manufacturing asset management, and predictive maintenance.
Regulatory compliance is becoming an increasingly important inhibitor of cloud adoption in the region, mainly due to political volatility in the EU, continuing throughout 2017, and as the end of a two-year transition period for the EU’s General Data Protection Regulation comes nearer. “Enterprises at the bleeding edge of innovation are looking into ways of mitigating these issues, for example by taking blockchain technology from the world of financial transactions and applying it to automation of policy compliance in complex cloud environments.”

**Digital technologies** have changed the way distributors conduct business. These new business models, particularly around cloud, mobility, vertical markets, emerging companies, security and enterprise technologies, will continue to grow, executives said, because millennials and end users increasingly have higher expectations for leveraging IT anywhere, anytime.

Cloud, Security and Data Centre ranked as the top three Solution categories; “Distribution is the scaling engine for our security solutions to drive reach and growth. They deliver valuable partner enablement and help them understand the business value that our offers unlock. We are activating a new niche set of partners in manufacturing, automation, healthcare, retail and finance that have built a business around security services. We’re confident our distributors will show us creative ways to open up that market,” says Julie Hens, Vice President, Global Distribution Sales, Cisco Systems.

**Cloud security** is an interesting area where Europe knows it needs to invest: Europe is the most malware-impacted continent says a recent study into cybersecurity by Malwarebytes. Examining data from more than 200 countries and almost one billion total malware detections / incidences between June 2016 and November 2016, it found that Ransomware became a favourite attack methodology used against businesses in the US and Europe, and that advertising fraud has also emerged as a primary threat, at times outpacing ransomware.

Europe saw 20% more infections than North America and 17 times more than Oceania. The countries hit hardest by malware in Europe are France, the UK, and Spain. The UK saw almost twice as many incidents as Russia, and Russia was not in the top 10 of countries hit by ransomware, despite its size and population.

**Mobility** has been a strong market in Western Europe for a nume of years, but has also been growing rapidly in distribution in eastern Europe in the last year or so. GTDC member ABC Data did research recently in IT spending intentions in the region. “The results of the research demonstrate that the CEE markets are still absorbing technology and have a potential to develop several times faster than Western economies,” says ABC Data CEO Ilona Weiss (below).

This is shown by relatively high demand for mobile devices such as smartphones and laptops. “In Central and Eastern Europe they generate a much higher sales growth rate than in Western Europe. Tablets are an exception here – both in our region and in the whole world they are less popular. They are being replaced by smartphones with larger displays,” she concludes.
CONCLUSIONS

The European IT industry has a new confidence in its ability to deliver, and customers are investing in solutions to keep themselves ahead in productivity, especially in software and solution sales.

New research by IT Europa reveals that in the last year, Europe’s top 500 Solution VARs increased revenues by 7%. The results support findings from Gartner which said that worldwide spending on software increased 6.0% in the last year. Cloud remains a driving force; for example, Microsoft says it is boosting European cloud investment to $3bn as it adds several initiatives.

For distribution the challenge is meeting the demands from channels; not just for effective and efficient product delivery, but supporting the partners with resources, advising on technology and business issues, dealing compliance and security issues and working locally while providing global coverage and scale.

For more information on the GTDC resources and initiatives go to gtdc.org

GTDC Members

Many of the issues covered in this report will be discussed at the GTDC Summit EMEA in Vienna in June. For further information or to register visit: https://gtdc.org/2017-summit-emea-register-now/