

A large, stylized network map of the United States, composed of white nodes and connecting lines, set against a background of orange and blue gradients. The map is centered horizontally and spans most of the width of the image.

Tech Distribution **2025**

*Drilling Into the Industry's Direction, Evolving
Services and Increasing Channel Value*

About Tech Distribution 2025

GTDC RESEARCH The GTDC commissioned Vation to research and develop this report due to the firm's unique perspective on key participants in the IT value chain, from venture capitalists and OEMs – including emerging and established vendor partners – to the central role of distributors, the solution providers they serve and, of course, end customers.

This is the GTDC's first report to look at all of these dimensions to channel business and what to expect from distributors in the years ahead.

In addition to conducting in-depth interviews with leaders from all dimensions of the technology ecosystem, Vation gathered detailed survey responses from more than 50 top executives on the most important drivers for distribution partnership success today and expectations over the next five years.

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The value of this report amidst rapidly changing channels...

I've been close to technology distribution throughout my career – yet from the perspective of vendor partners, leading channel business, and as CEO of a large solution provider. In these capacities, I learned how distribution functions, what makes mutually favorable or even extraordinary outcomes possible.

Coming to the GTDC as CEO adds greater depth to my own insights about the world's most successful distribution companies. Our organization's members are at the forefront of the technology distribution industry...something that never ceases to change.

What's hot – and not – now changes faster than ever. We all know this. On the other hand, when looking at distribution as a whole, as an industry and in microcosms and subset markets that partner with or leverage distribution, a much more profound story emerges. We commissioned Distribution 2025 based on extensive surveys of key ecosystem participants to more deeply understand the value of this industry today and how it's evolving in the years ahead. This report delves into:

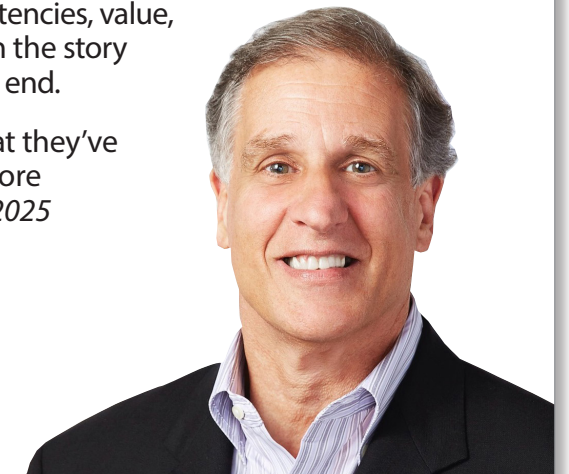
- **Why distributor ecosystems are delivering deeper end-to-end value, from VCs and OEMs to solution providers as well as end users**
- **How distribution's role and services are expected to evolve and grow while building on traditional advantages**
- **What vendor partners can do to capitalize on emerging markets by unlocking the channel's full power through distributors**

Many channel "insiders" like us have first-hand knowledge of distributor competencies, value, proof points and aspirations. Those outside these circles can easily miss out on the story beneath the surface – and not realize pick/pack/ship was the beginning, not an end.

Distributors in the years ahead will be seen in a different light – including what they've already accomplished over decades. Their impact is deeper, engagement more far-reaching. Service offerings are of increasingly higher value. *Distribution 2025* will help you understand what's in store.



Frank Vitagliano
CEO, GTDC

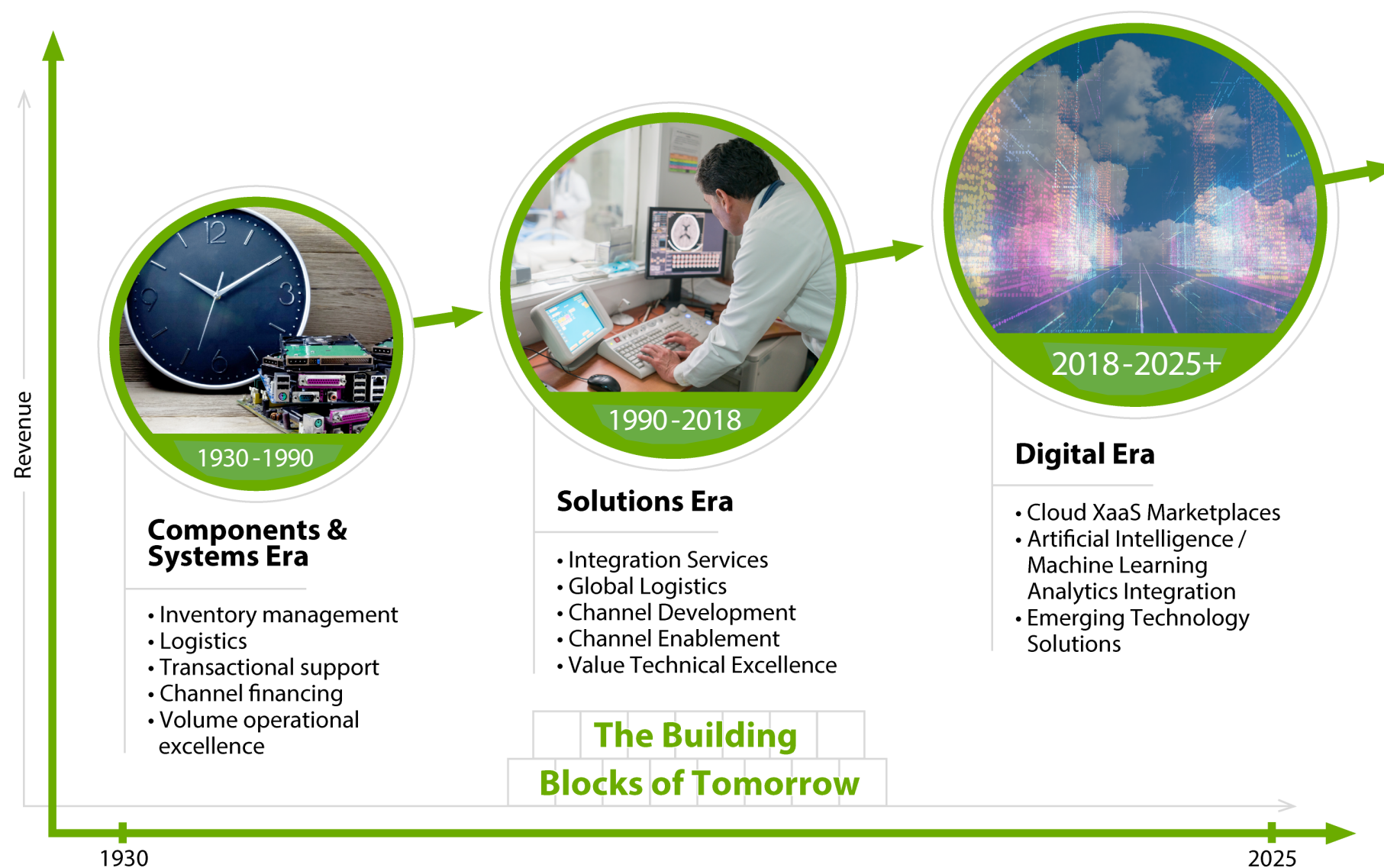


Decades of Progress – and an Increasingly Encouraging Outlook

Technology distribution dates back to the 1930s when components business shaped those early formative years – and ultimately as mainframes gave way to minicomputer platforms and workstations, and as the PC revolution took off. This era relied heavily on pick/pack/ship fundamentals that have always been a mainstay of distributors, serving as precursor to the increasingly dynamic role they are expected to play in the years ahead.

The “digital era” is here, with cloud-based “XaaS marketplaces” gaining ground amidst other industry advances feeding extraordinary new opportunities for distributors. All the emerging developments and more widely entrenched technologies and products have common bonds in leveraging the value and reach of distributors and the solutions providers they serve.

Although the symbiotic role of distributors, vendors and the channel now extends well beyond on-demand fulfillment for infrastructure and equipment, including hundreds of thousands of point products and leading-edge software, the operative word remains “solutions.”



Distribution Value & Growth Through the Years

Building Blocks of Distribution

Vation provides the following analysis to position the evolution of distribution's strategic value to the high-tech ecosystem over time. We further analyze those values created by distribution against the Upstream (OEM/Emerging Tech) and Downstream (Reseller/SI/MSP) profit and loss statements. Today's global and regional distributors drive value for their "Upstream" vendors and "Downstream" resellers by creating economic scale that augmented the income statements of both upstream and downstream constituents.

First, from a historical perspective, distribution has been a go-to-market partner in technology for over 80 years, beginning in 1935 with used radios and radio parts. Modern-day broadline distribution evolved in the 1970s and through specialists that entered the mix and grew over time. With this long history, there is a corollary core competence of agility to market needs. Here you'll see how Vation defines the phases of major distribution business model adaptations over the years (as shown on the previous page).



1930 - 1990

Component and Systems Distribution

The first era of distribution solved the upstream need for inventory and logistics management at scale. This extended era witnessed many types of technologies utilizing the emerging go-to-market model of distribution. As noted, radio technology and parts were the first entrants, followed by computer systems and supplies varying from diskettes to printer ink. Those lines expanded as vendors needed distribution globally for subsystems and systems as the decentralized compute era neared. Along with the key inventory management and logistics support from distribution, core competencies of quote to cash were developed in distribution, including financing support for the flourishing high-tech channel. This era saw the emergence of distribution as a volume-based business model with operational excellence.



1990 - 2018

Solutions Distribution

The second era of distribution built upon the operational excellence of the first phase by creating cross-vendor solutions distribution. The era augmented the volume ability of the first era by building a value-based business model with technical excellence. In the Solutions Distribution era, distributors accented upstream vendors by integrating multi-vendor solutions, including data center offerings. In this era, distribution also added channel development and enablement to its value proposition to assist vendors in identifying the right reseller/SI/MSP fit for their solutions. Once identified, the distributors focused on the channel enablement for the integrated solutions. The integration, development and enablement services all augmented the profit and loss statements of both the upstream and downstream constituents.



2018 - 2025+

Digital Distribution

The next era of distribution focuses on Digital. As the world digitizes everything, the technology needed to support the end users' transformation will include investments in emerging technologies of Artificial Intelligence/Machine Learning, Cloud/XAAS, IoT and Security/Analytics for everything. The core value distribution solutions of data center, and integrations from the Solutions Distribution era, and the global logistics, quote-to-cash operational excellence from the Component and Systems Distribution era will continue to be core needs of both upstream and downstream constituents. The evolution of the Component Era transactional support for recurring and subscription business models is a key evolution to support the Digital Era. Similarly, the integration services created in the Solutions Era will need to evolve for the support of AI/ML and Data Analytics systems integrations within IoT solutions. Finally, how the distribution industry monitors and accelerates the adoption of emerging technologies will be an added value for all upstream and downstream constituents. With thousands of venture-funded firms in AI and Security solutions, the upstream startups need an accelerated path to success, while the downstream resellers and MSPs need triaging of these vast numbers of firms and solution categories to implement the best digital solutions for their customers.

Upstream and Downstream Financial Analysis

As we analyze the financial impacts across the simplified income statement, we see the ongoing space for the distribution industry to thrive providing solutions in the digital era that neither upstream, nor downstream, constituents would have the financial appetite to provide themselves. Each value service was created to facilitate the manufacturer's supply chain and scale the go-to-market motion in a more economic manner than the manufacturer could build internally. Similarly, the distributor's solutions provide augmentation to the downstream resellers, MSPs and SIs. The analysis represents the impacts on the upstream manufacturer's and downstream constituent's simplified income statement of partnering with the distributor for the various services.

Between the Balance Sheets

During the Components Era, distribution's ability to optimize the COGS through inventory management and logistics practices enhanced the upstream and downstream constituent's gross margins. The transactional support and financial services programs built in the Components Era optimized upstream and downstream SG&A spends through distribution's operational excellence. These practices rendered improved EBITDA for all constituents.

As the Solutions Era brought technical excellence, further optimization of COGS and SG&A, opportunities were developed by distributors to enhance their upstream and downstream constituent's profit and loss statements. Enhanced global logistics support and hardware/software integration across vendors provided superior COGS optimization for both upstream and downstream participants with distribution. Further, channel ecosystem development and enablement at scale drove improved SG&A gains for all parties.

As we now enter the Digital Era for distribution, all parties can further improve their balance sheets. Appliance-based AI/Analytics and security solutions will be enabled by distribution's manufacturing and supply-chain capabilities to optimize upstream COGS. Cloud marketplaces will lower the SG&A expenses for rapidly providing, assessing and deploying SAAS and PAAS solutions through distribution. Integration of emerging technology vendors into broader OEM solutions will benefit all parties in the Digital Era.

Historic high-tech income statements across the value chain can be summarized as follows:

	Upstream Manufacturer	Distributor	Downstream Reseller
Revenue	\$100	\$100	\$100
- COGS	35	92	84
Gross Margin	65	8	16
- SG&A	35	5-6	8
EBITDA	30	2-3	8

Note: Figures shown are based on aggregate industry averages for respective sectors. Actual ratios will vary based on the type(s) of business models employed.

Current State of Distribution

The current state of the distribution industry is similar to the overall high-tech industry in several dimensions.

1. The major technology trends are:

- Migration to the Cloud
- XAAS solutions (Software, Platform, Infrastructure)
- Artificial Intelligence/Machine Learning
- Big Data/Analytics
- Blockchain
- Internet of Things (IoT)
- Mobility
- Security

2. The acceleration of investments

- Venture Capital Investments
- Private Equity Investments
- Strategic OEM Investments

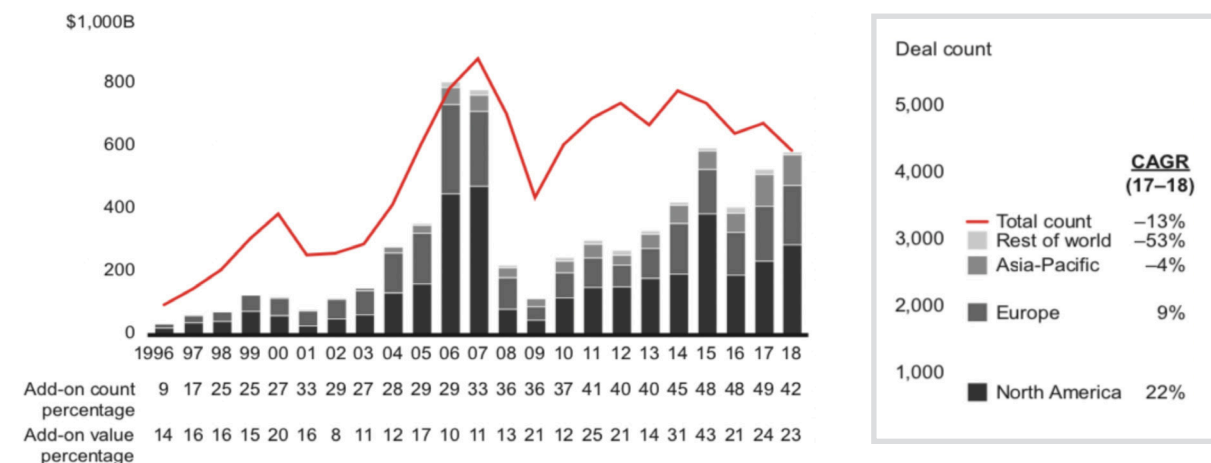
3. Go-to-Market

- Early-stage direct and agency sales strategies
- Mid-stage channel strategies
- Mature global distribution strategies

These technology trends have driven the enterprise and commercial markets over the past decade and will continue to do so through 2025. The list above is reflective of the data aggregated for this report.

At the same time, the acceleration of investments from the venture capital community, private equity firms and strategic OEMs has fueled rapid growth of innovation. Bain & Company, for example, reports that 2018 capped an amazing five-year acceleration in private equity, as shown in their Global Private Equity Report (top of next page).

Global Buyout Deal Value (Including Add-On Deals) • Bain & Company



Rising deal value in 2018 capped the strongest five-year stretch in history, while deal count reflected stiff competition and rising asset prices.

Notes: Excludes loan-to-own transactions and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on target's location

US Venture Capital Investment Reached \$130.9 Billion in 2018, Surpassing Dot-Com Era

With the acceleration of technology and investment, the go-to-market strategies have accelerated as well towards more scalable models. The initial go-to-market for many firms is a direct sales motion to capture logos of new customers. Once the initial capture reaches 50 clients, many tech firms begin to scale through utilization of the channel, and as the needs globalize, distribution becomes a key component in go-to-market. The go-to-market approach seeks to capture clients, then scalable revenue and finally margin optimization.

The distribution industry will need to continue to evolve with these trends. Distribution has successfully evolved with the industry over the past decade, and is expected by the survey respondents to continue to evolve and become even more strategic by 2025.

Background/Overview of Study Participants

Vation surveyed and interviewed key constituents from distributors and their Original Equipment Manufacturer (OEM) vendor partners in 2018. This study determined that the industry continued to see value in distribution, though recommended the GTDC evolve many components of its services to meet emerging needs of OEMs as well as distributors. In this *Distribution 2025* study, Vation surveyed and interviewed a wide range of segments to establish the current distribution value components and projected needs through 2025. Vation collected viewpoints from the entire high-tech value chain including venture capital; emerging tech companies; OEMs; distributors; resellers/systems integrators; and end users.

Distributors

Value-added services define today's technology distributors across the globe. GTDC members, the world's most successful distribution companies, drive approximately \$150 billion in annual revenue while serving 95% of the planet.

GTDC MEMBERS

Venture Capital Firms

As they invest in up-and-coming tech companies, venture capitalists view reaching distribution as a defining moment for corresponding products. It's the best and most efficient way for companies in their portfolios to scale.

Vendors: Legacy and Emerging

Leading technology vendors leverage distribution in a multitude of ways beyond "pick/pack/ship." Emerging companies are also a healthy aspect of the overall mix, with hundreds of new players in distribution each year.

Solution Providers/System Integrators

Distributors fuel channel business models with unparalleled proficiency, including fast access to comprehensive solutions, financing, pre- and post-sale support, training and other complementary services.

End Users

Although distributors help preserve the bonds that solution providers forge as "trusted advisors" to businesses of all sizes, their solutions and services are essential to end-user satisfaction wherever the channel goes – and grows!

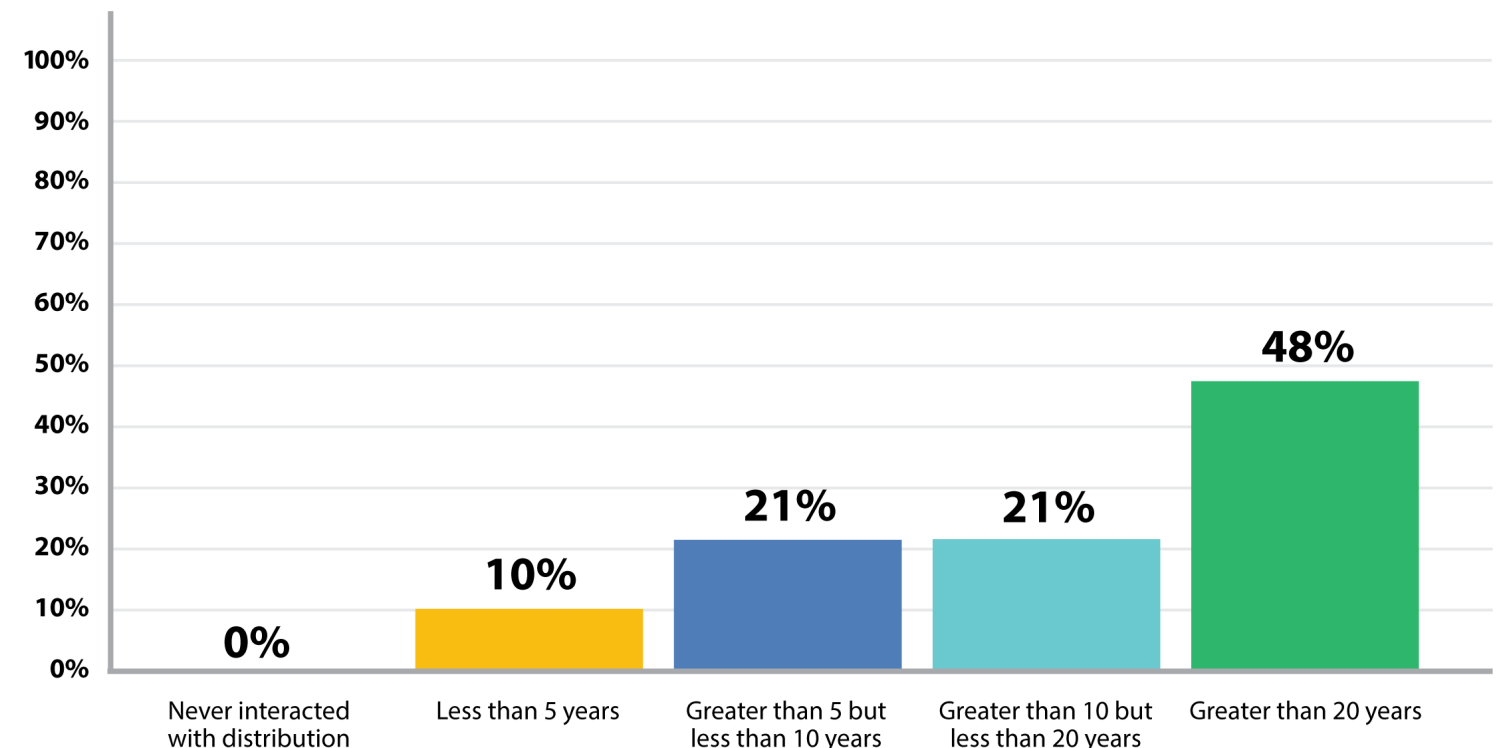
A 360-degree View of Distribution Through 2025

Distributors have always been solution experts, vetting the “best of the best” in what’s today becoming a vast sea of rapidly unfolding breakthroughs – already evident with artificial intelligence, machine learning, analytics integration and much more.

Value-chain executives surveyed and interviewed for this report see distribution playing a pivotal role in their growth aspirations as well as in making adoption of new offerings both possible and pervasive across SMB markets as well as enterprises of all sizes.

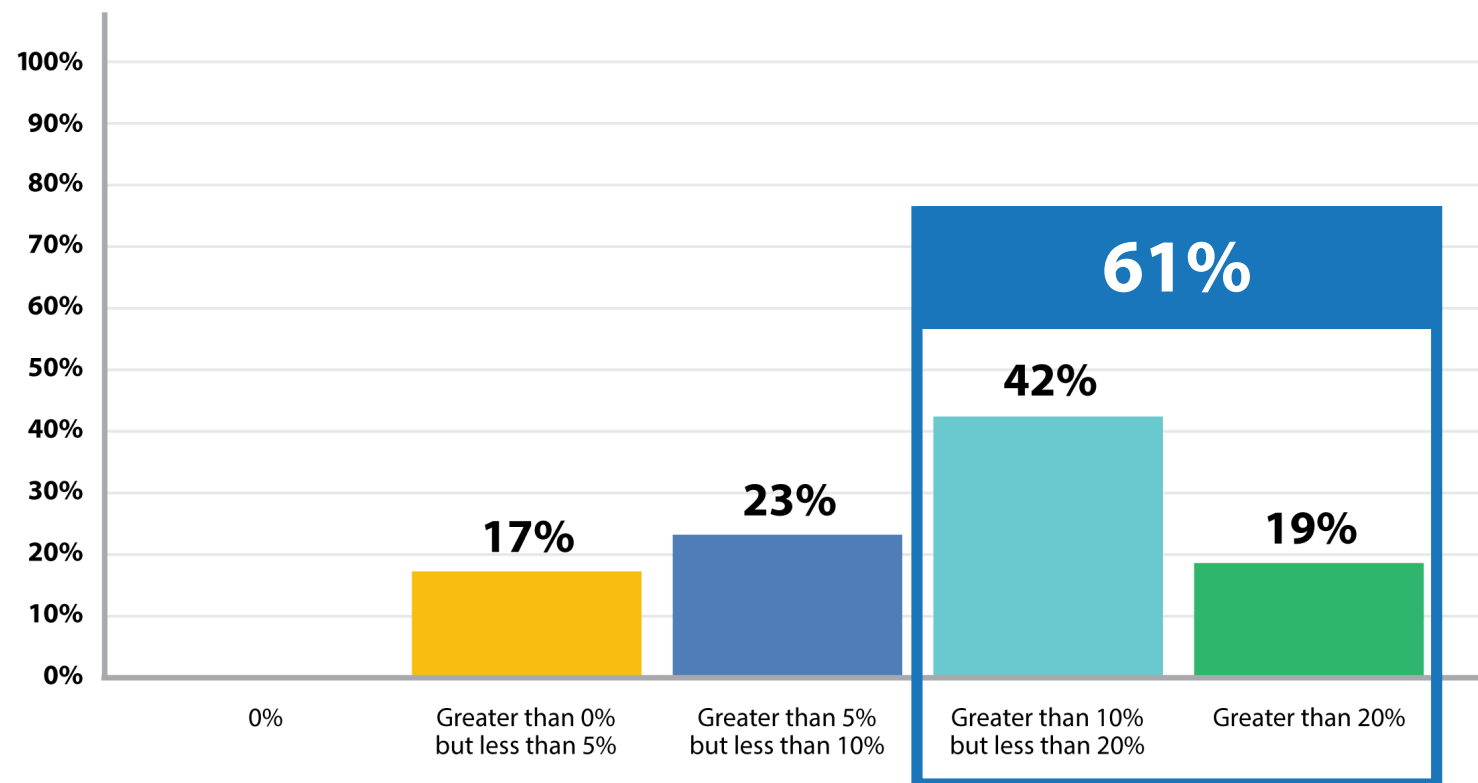
The 360-degree view of Distribution 2025 provides a compelling perspective in total and within specific industry segments. The majority of study participants – nearly 69% – possess greater than a decade of experience working with technology distributors. Those new to distribution also represented a sizable 10% of the respondents, and approximately 21% indicated between five and 10 years of distribution-related experience.

How long have you been in a position that has interacted with distribution?



Source: Vation research, Distribution 2025 report.

On an annualized basis, how much do you anticipate your distribution business to grow between now and 2025?



Source: Vation research, Distribution 2025 report.

Exploring the Growth Rates

Distribution 2025 study participants all confirmed they anticipate growth through distributors. More than half (61%) anticipate greater than 10% growth through 2025.

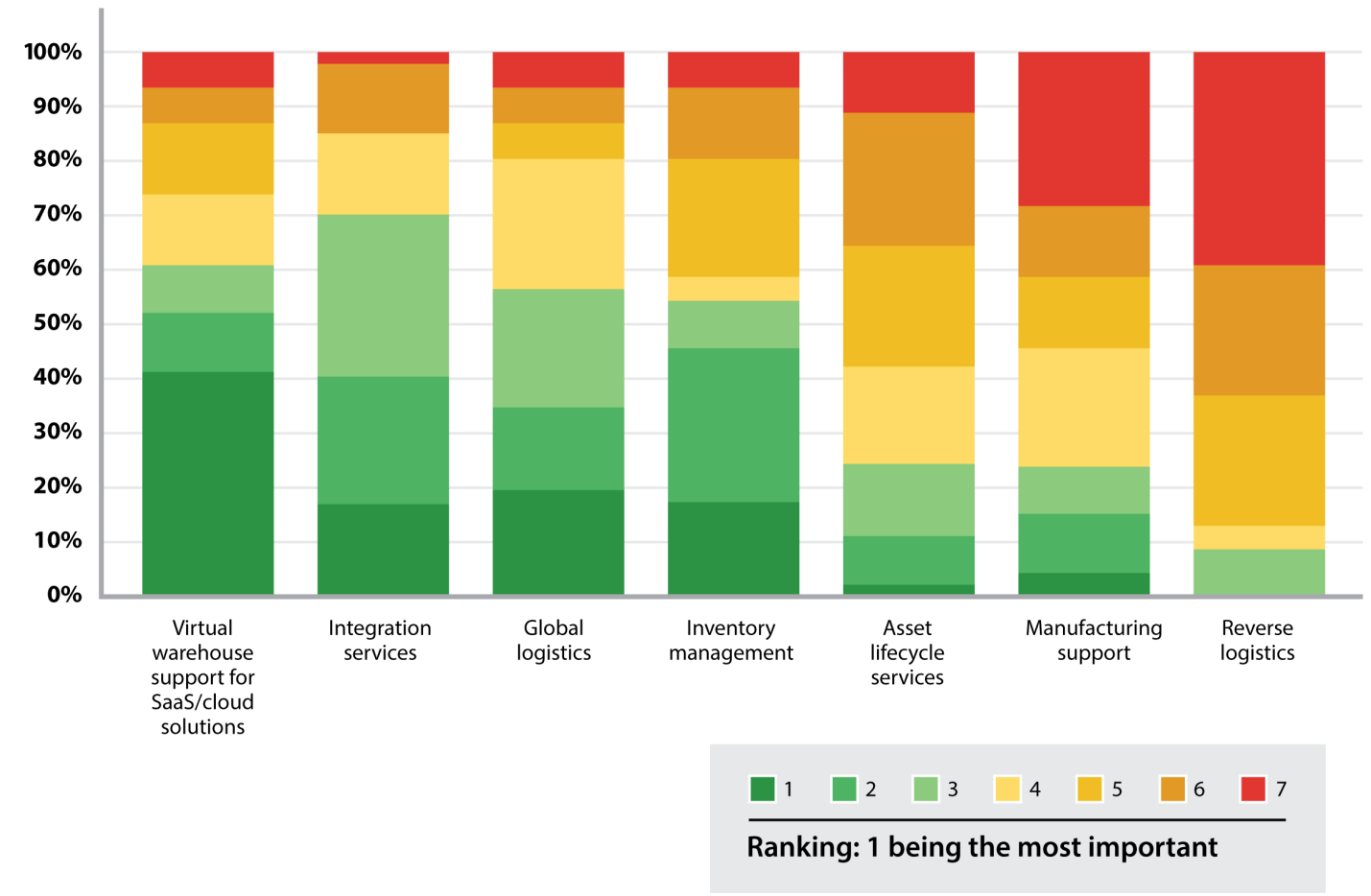
In many cases, based on industry interviews, the various sectors engaging IT distributors expect corresponding indirect sales to outpace direct business, if applicable. This represents a sea change where many companies had previously emphasized going direct, yet ultimately learned it was much more efficient and cost effective to leverage distributors and their channel customers – especially in reaching and serving small or midsize businesses as well as larger enterprises in niche vertical markets.

Living in a Virtual World With Physical Demands

“Virtual warehouse” cloud solutions ranked highest in importance among other distribution core competencies that continue to evolve. Many longstanding distributor core competencies will remain critical, according to survey respondents, who cited the continued importance of integration, logistics, inventory management and asset lifecycle services, for example.

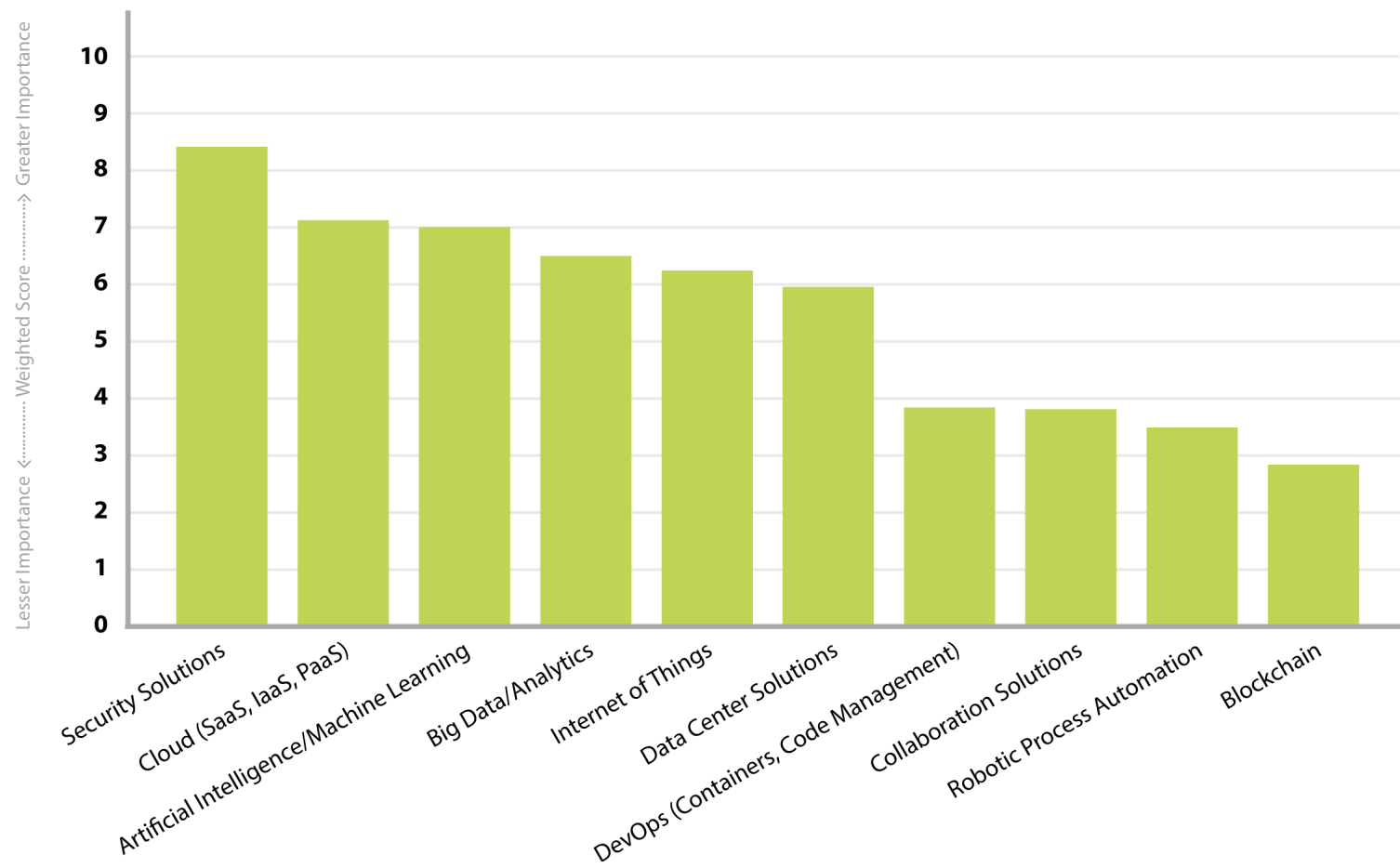
Manufacturing support and “reverse logistics” are also expected to play a role as distribution models evolve, the latter gaining attention due to environmental concerns pertaining to the disposal or re-use/re-furbish of equipment. In addition to supporting solution providers in a broad range of ways, distributors also perform numerous services supporting both hardware and software companies.

How would you rank distribution supply-chain capabilities projected in the year 2025?



Source: Vation research, Distribution 2025 report.

Technology Trends in the Year 2025



Source: Vation research, Distribution 2025 report.

Future State of Distribution

Survey respondents are expecting the distribution industry to evolve with the high-tech industry and serve an even more strategic role in 2025 than in 2019. The survey respondents ranked the need for Security, Cloud and Artificial Intelligence practices as the top three most important technology areas in 2025. The Internet of Things and Big Data/ Analytics closely followed the top three, while current-day solutions maintained a need for continued competency in Data Center, DevOps and Collaboration solutions. Blockchain and Robotic Processes were scored lower in importance.

Future State of Go-to-Market Services

The top three services respondents point towards for 2025 are current core distribution services:

1. Partner Enablement

The respondents validate that the current need for the channel to be enabled will continue in 2025.

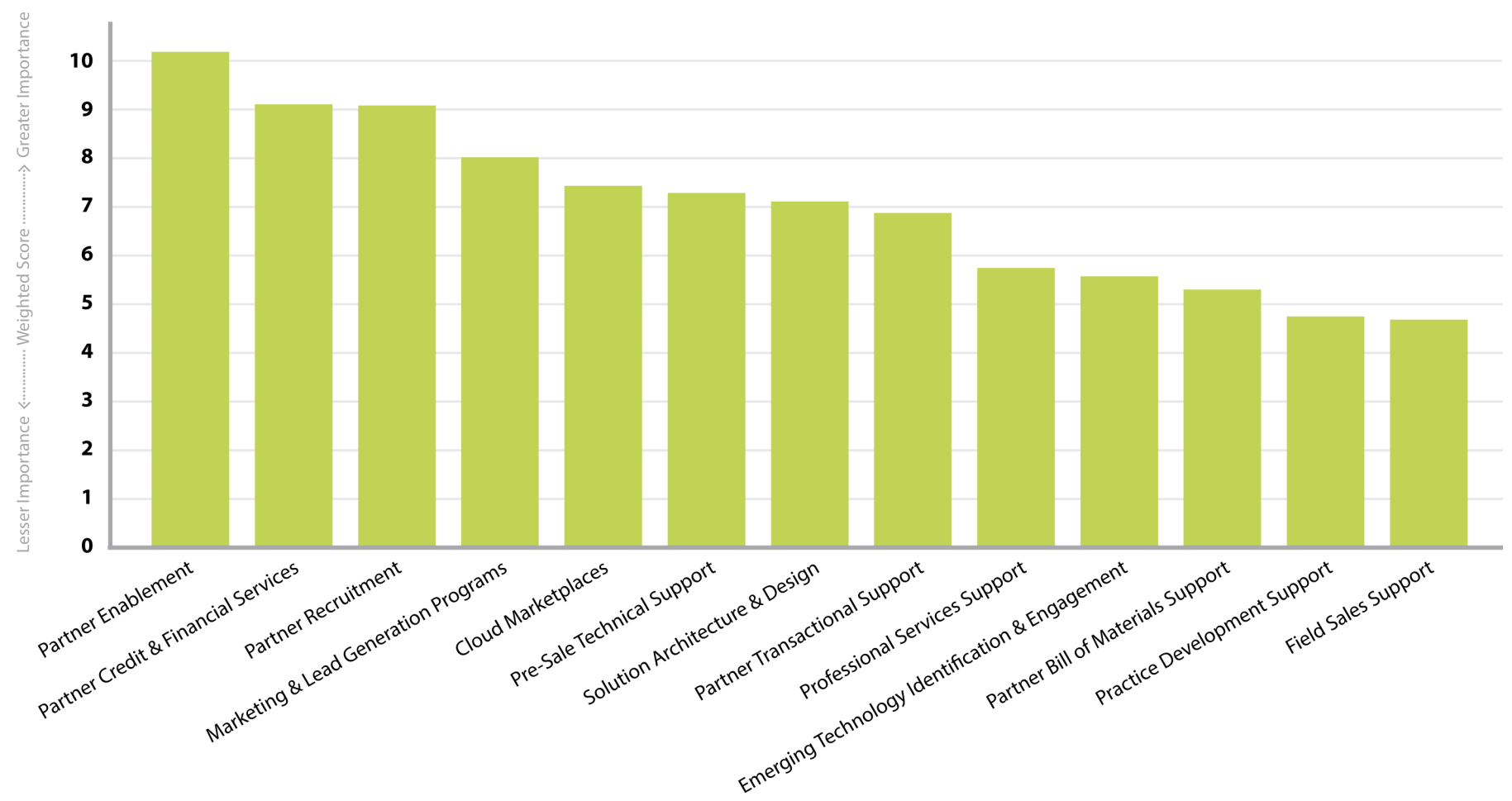
2. Partner Credit and Financial Services

The respondents also validate this current core function will continue to be important in the future.

3. Partner Recruitment

The respondents also validate this current core function will continue in importance through 2025.

Given the technology trend expectations cited on the previous page, respondents ranked the need for the following distribution go-to-market services.



Source: Vation research, Distribution 2025 report.

Summary/Conclusions

As we distilled all the *Distribution 2025* interviews and survey results aggregated across multiple industry sectors – from distributors, venture capital businesses and OEM partners to solution providers, integrators and end users – a clear picture emerged:

- 1. Distributors have effectively evolved over the years to keep pace with the changing requirements of the IT industry**
- 2. Distributor core competencies will remain crucial in the future and cannot be easily replicated, if at all, by any other IT ecosystem participants**
- 3. Distributor value is on the rise and expected to thrive and gain momentum through 2025 as respective business models and portfolios transform**

Distribution 2025 findings point to distributors as increasingly strategic partners. If distributors continue to be agile and build new capabilities for the digital era, they will continue to grow at an accelerated rate.

Building on Core Competencies, Driving New Value

Although distributors are continuously evolving through the creation of new and enhanced services, survey responses underscored how core competencies developed over decades will remain instrumental: from operational excellence in distribution volume – in the Components and Systems Distribution era – to the Solutions Distribution era, which built upon the first era by delivering integration services with technical excellence in value models.

The era of Digital Distribution is upon us now and will further capitalize on the “building blocks” of previous eras. Through end-customer demand for digitizing their businesses, the need for Artificial Intelligence, IoT, XaaS and security solutions, for example, will create and fuel new waves of opportunity for distributors as well as their customers and partners.

Solution and service innovations will remain a central force, particularly given the historically demonstrated agility and go-to-market value of distributors over the past 85 years. Both upstream and downstream constituents agree on the needed services, and the distribution industry is fast at work to deliver those services.





Data for this report was collected, compiled and analyzed over the course of five months (June - October 2019). Vation expresses its gratitude for the candid responses shared online as well as in personal interviews subsequently conducted. For more information on Vation or the content of this study, please contact:

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