

The **XaaS** Revolution

Distribution's Pivot
to the Future



XaaS Factors in Focus and On Demand

Technology was never of greater importance than in the year 2020. With the right tools in place, companies were able to overcome global lockdowns, workplace disruptions and travel bans — and remain successful. At the root of that success? Everything as a service (XaaS), which ensured workers could continue collaborating, conduct business as usual and pioneer breakthroughs.

Much of what organizations and end users depend on to produce these outcomes is delivered, financed and supported by the world's leading distributors and the thousands of ICT integrators and consultants that depend on them. Through wave after wave of technology disruption, this community of companies has persevered through good times and bad.

The world's distributors of ICT goods and services are experts at helping their partners find their way through the fog created by this massive interruption. Those valued partners and enablers include members of the Global Technology Distribution Council, representing 22 distributors that do business in North America, South America, Europe, the Middle East, Asia and Africa.

There are several factors driving XaaS adoption. These platforms allow businesses to better support remote workforces, quickly deploy new technologies, and make instant updates. Those advantages explain why XaaS is big business today. In 2019, global sales totaled nearly \$120 billion, [according to Reports and Data](#). The XaaS market isn't just large; it continues to gain momentum — increasing by 25% per annum, [states Research Insights](#), and will soon top \$345 billion globally.

The role distributors play in an XaaS-dominant industry is evolving, and members of the GTDC are working hard to expand their support and influence in this innovative space. This report highlights the value-added services that distributors can and should provide in the future, as well as the specific support those companies offer today.

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XaaS Up Close: Scope, Size and Solutions

XaaS Up Close: Definitions and Market Sizing

Remember when having regular access to music meant purchasing a physical copy of a recording? While a handful of enthusiasts still buy vinyl records, CDs, or cassettes, most of us now rely on digital streaming services that charge a recurring fee.

A parallel transformation is happening with business applications. That movement has actually been underway for [the better part of a decade](#), and two developments have pushed XaaS to the forefront of the tech industry. One big driver, of course, is the maturity of cloud-based services, which match if not exceed the performance, functionality and security of on-premise solutions.

Another undeniable factor: the global pandemic, which forced millions of organizations worldwide to rethink how they acquire, deploy and manage technology assets and capabilities. During lockdowns, cloud computing proved its worth. With it, businesses could stay open, workers could stay productive, and students could continue to learn. Without access to XaaS solutions, the activities performed by millions of global workers would have come to a screeching halt.

From DaaS to the Edge

Empowered by cloud computing delivered as a service, more business executives and technology professionals are assessing all the available options for leveraging XaaS. In addition to applications, many are exploring alternatives such as device-as-a-service, data-as-a-service and security-as-a-service. Additional use cases will almost certainly come to the attention of businesses and ICT providers as these new technologies mature — including AI, blockchain, IoT and edge computing.

Just 10% of corporate data is produced outside a data center today; over the next few years, that will increase to 75%, thanks to IoT and mobile devices, [according to Deloitte research](#). To keep up, companies will shift a significant portion of data processing to the edge, further increasing demand for flexible as well as scalable services. In short, the sky's the limit for cloud-based XaaS computing.

“Distributors are making progress on many fronts when it comes to XaaS. But one thing vendors need is help understanding the basic offers and models that XaaS supports. Some of the fundamentals and standards are not clear or universally adopted and guidance from distributors would be valuable.”

Donna Grothjan
Vice President
Worldwide Channels
Aruba

Level Setting in the Cloud

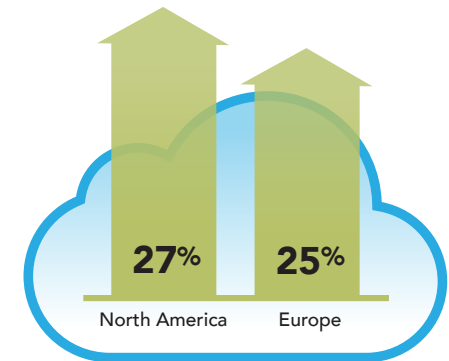
While definitions vary, many consider XaaS to be ICT delivered as a digital service that resides in a private, hybrid or public cloud environment. That framework includes applications, tools and infrastructure provisioned over the internet and paid for with funds from operating budgets.

The XaaS delivery method comes in many forms, but the most common models are Software as a Service (SaaS), Platform as a Service (PaaS) and Infrastructure as a Service (IaaS). IaaS is often called “compute” services and includes basic hyperscaling capabilities such as processing, networking, and storage, sold on a monthly basis. PaaS builds on that foundation, adding services such as operating systems, virtual machines and/or commerce of testing platforms.

SaaS Action Driving Momentum

The final piece is SaaS, a software distribution model where a provider (think vendors or other third parties) hosts the applications and makes them available to customers via the internet. Channel-oriented companies may also offer an administration portal for ICT providers to easily deploy, monitor and manage these solutions for clients and end users. Microsoft 365, Salesforce CRM and Google Workspace are all examples of SaaS platforms. Distributors also employ this model to support their partners’ cloud management needs. As shown in the graphic, distributors drove strong double-digit year-over-year cloud growth in 2020 — in both North America and Europe.

“Unlike traditional IT, which requires up-front purchase or licensing, the XaaS or flexible-consumption model allows customers to consume and pay for IT services based on what they need and use, typically through a subscription or pay-per-use,” [says 2021 research from Deloitte Insights](#).



Cloud YoY Growth in Distribution

2020 vs. 2019

Sources: The NPD Group (North America) and CONTEXT (Europe)

Distribution's Connections and Directions

Though growing rapidly, the market for XaaS is currently a relatively small percentage of the overall demand for ICT goods and services. The same is true in distribution as well. Until it becomes a major, if not preferred, business model, ICT distributors have time to modernize their businesses.

But not much.

Portfolios of Change

As this report highlights, vendors that account for a significant percentage of distributor sales, including HPE, IBM, Cisco and others, are transforming their technology portfolios so their innovations can be sold and delivered as digital services. As these companies change their business models, distributors are well-positioned to grow with them in new ways as they have done historically. Moreover, some of the fastest growing and most promising technology companies are not yet leveraging distributors to their full extent today.

However, almost all of those organizations, as well as their ICT provider partners and consulting communities, could benefit greatly from those relationships. But will vendors avail themselves of those opportunities? The challenge for distribution is enlightening these emerging XaaS vendors on all of the current and potential options.

Distributors are already adapting and enhancing their resources and enablement programs to demonstrate even greater value to the emerging vendor communities. "XaaS presents a tremendous opportunity for channel collaboration," suggests Stacy Nethercoat, senior vice president of advanced solutions for Tech Data. "With a multi-disciplinary team of experts, distributors can help IT services providers quickly gain a competitive advantage and deliver more comprehensive support to their clients."



Vendor Upstarts and Incumbents in the Mix

Upstarts and Incumbents: How Tech Vendors and Developers Are Transforming Value Delivery

Though a relatively modest part of their business models today, the world's leading tech giants plan on making XaaS the nexus of their technology products and services portfolios tomorrow. Take HPE. In June 2019, [the company announced](#) it would offer its entire portfolio of technology solutions as a service come 2022. And it's not alone.

Networking giant Cisco announced in August 2020 that it would transition the majority of its portfolio to solutions that can be delivered as a service. That move is something Cisco once feared would significantly limit its growth opportunities. But no more. The San Jose-based company says it is now poised to take a leadership position in the XaaS revolution. Already, 78% of its software revenue comes from services sales — and that number is growing.

From Development to Packaging

Interest in XaaS is not only driving how vendors package their solutions, but also what they develop. Again, take Cisco. The company sees more opportunities in cloud security, cloud collaboration, SD-WAN and automation than other parts of its traditional business, [according to reports](#). Not one to be left behind, Dell founder [Michael Dell announced](#) that “the vast majority” of its portfolio would move to the consumption model and as-a-service offerings.

Microsoft is also embracing XaaS and has been moving away from the commercial licensing model for more than a decade. After pandemic-related lockdowns took hold in 2020, the company saw a spike in revenue that has continued to this day. In Microsoft's fiscal 2021 second quarter, intelligent cloud sales jumped 23% to \$14.6 billion, prompting company CEO Satya Nadella to [proclaim](#), “What we have witnessed over the past year is the dawn of a second wave of digital transformation sweeping every company and every industry.”

One of the drivers of this transformation is the growing realization that you can simply do more with XaaS than with traditional computing architectures. In a survey of 600 leading enterprise IT professionals, [Deloitte Insights found](#) experts were “more than twice as likely to view XaaS as better than traditional IT across a wide range of IT attributes.” They include advanced features and functionality, reliability and performance, ease of management, ability to acquire the right IT skills to deploy/manage, data security and customer experience.



IT professionals more than **twice as likely** to view **XaaS as better** than traditional IT

Source: Deloitte

Distribution's Connections and Directions

Cost savings are always a top consideration, but end customers see many other benefits in moving to XaaS subscription models. Using a consumption-based approach, they can:

- Quickly deploy new technology solutions across their organizations
- Scale investments to match actual consumption
- Avail themselves of the latest in technological innovation
- Integrate different technologies more tightly
- Reduce maintenance and customization expenses
- Achieve new flexibility to power through calamities

Given the real and perceived benefits of XaaS, the vendor community is unlikely to reverse course on its transition. Nor is it likely to exclude distributors from the formula, given the reach, scale and channel-focused services they continuously evolve and refine. Vendors that don't understand how distributors can help today – and in the future – will likely be in a weaker overall position. Just a look down memory lane about direct vs. indirect models clearly reveals how two-tier distribution prevailed. Vendors that started out doing business direct often concluded (or learned the hard way) they missed prominent market share opportunities until switching course. Even the internet's emergence gave rise to perceptions of distribution's demise while the industry actually thrived as the web took off. Distributors are the backbone to many ecommerce models and have emerged among the largest players in the overall space.

While vendors transition existing technologies or develop new XaaS solutions from scratch, distributors can experience some challenges expanding these platforms into their own marketplaces and catalogs. APIs are often the sticking point. This coding is often proprietary and may not easily assimilate with other distributor integration points. While these proprietary distribution platforms may give them a leg up on their rivals, vendors suggest it may delay market momentum.



A complex network diagram with numerous nodes and connecting lines, rendered in a light blue color against a dark blue background. The nodes are of varying sizes and are interconnected by thin lines, creating a dense web of connections. The overall aesthetic is technical and digital.

Distribution's Big Pivot in Value Delivery Models

Distribution Moves Aggressively Forward

The massive transition underway in the tech industry has forced or inspired many companies to innovate in new ways. This includes the industry's distributors and, most notably, members of the GTDC. Take Paris-based specialist distributor Exclusive Networks, which helps cybersecurity, cloud and DevOps vendors and other technology innovators find partners and extend capabilities throughout Europe, Middle East, Africa, APAC, and increasingly, North America.

Representing Fortinet, Palo Alto Networks, Nutanix and others, this GTDC member is aggressively expanding its XaaS offerings so partners can provide customers with the capabilities they want most, says CEO Jesper Trolle. Its innovative Exclusive on Demand solution (X-OD) enables partners to digitally transform their business, deliver superior customer experiences, leverage big data for new insights and embrace flexible consumption models to take advantage of the growing subscription economy.

A New Level of Partner Enablement

Exclusive Networks has also developed a portfolio of on-demand subscription offerings that it markets as X-OD services. In early 2021, Exclusive Networks expanded that portfolio to include the Fortinet Security Fabric. Fortinet says the X-OD services align with "how we see the world and how we want our partners to be enabled and supported."

Partners and end customers are responding positively. Today, for example, subscription sales at Exclusive Networks are growing five times faster than traditional sales. The same is true throughout the distribution channel.

In 2020, cloud platform services sold in the U.S. through distributors via small VARs climbed 29% year-over-year, according to The NPD Group, a leading research firm that also offers subscription-based services that track actual distribution sales-out results and related attributes. For large VARs that source from distributors, sales of cloud platform services jumped even more (78%).

Another GTDC member, Ingram Micro, is also working to increase XaaS momentum in the U.S., EMEA (Europe, Middle East, and Africa), LATAM (Latin America), and Southeast Asia. In March 2021, Ingram Micro inked a deal with AWS that calls for Ingram Micro to help the cloud provider increase momentum for its core IaaS platform technologies in developing markets.

"There are a number of roles that distribution can play for us, both tactical and strategic. They can help identify, recruit, onboard and enable born-in-the-cloud partners. Secondly, they can aggregate technology and billing so that end customers get the benefits of XaaS that they might otherwise struggle with."

Daren Finney
Worldwide COO,
Partner Sales & Ecosystems
Citrix

The multi-year deal is significant because it not only deepens Ingram Micro's commitment to the XaaS market but draws the company closer to a technology provider that could become a bigger competitor over time. Like other distributors, including Tech Data, Arrow, and SYNnex, Ingram Micro is aggressively building out its software marketplace in ways that both complement and compete with other marketplaces. For serving channel partners and their customers, distributors enjoy an inherent advantage in that they are known for having the backs of solution providers, whereas other platforms can undermine or detract from their own success.

In addition to their cloud services and software marketplaces, distributors are developing ways to offer hardware and devices as a service. The GTDC report [Thriving in the New Normal](#) provides an in-depth look at those activities in the era of digital transformation.

D&H shared its approach to XaaS. Working with device manufacturers such as Dell, Lenovo and Hewlett Packard, this GTDC member developed a platform that paves the way for channel partners to offer customers devices sold as a service. What makes the offering compelling is not just the way D&H has structured the price of devices to be sold for a monthly subscription, but also the way it has layered in value-added services on top of its base offering. Doing so allows channel partners to offer their end customers products that fit their budgets and their skill levels, too.

The End Game

Some end customers, for example, have IT departments and thus do not need device management or basic troubleshooting capabilities sold with their device services. But others, including the vast majority of small business customers, lack a CIO and, often, a dedicated ICT department. For these customers, D&H partners can layer in everything from warranty support, end-of-life disposition services, software configuration, and SaaS provisioning, security, device management IT support, and device trade-in and upgrades. With D&H's everything-as-a-service offering for end-point devices, its partner community can offer any combination of these services for one monthly price.

"We believe XaaS is taking off everywhere in the channel, including among those whose primary business is helping small businesses with basic automation."

Jason Bystrak

Vice President, Cloud Business
D&H

Distribution's Connections and Directions

The more progress distributors achieve by expanding their XaaS offerings and capabilities, the more opportunities they uncover. While AWS continues to be a tech powerhouse, in Q4 of 2020, revenue growth dropped to 28%. Industry experts suggest its delivery model could benefit from deeper distribution relationships.

"Each month, some very large deals involving our software originate with AWS," says one vendor channel chief. "We are thrilled for the business but worry our end customers may not get the best service, particularly with respect to the channel."

Wherever the AWS Chips May Fall

XaaS providers like AWS present threats and opportunities. The expansive network of ICT integrators, MSPs, MSSPs, VARs and consultants who work closely with distributors is a force-multiplier, broadening the sales, engineering, and support capabilities for cloud vendors.

While XaaS companies eager for growth may offer discounts on services sold through online marketplaces, distribution can deliver a wealth of value-added programs. The SMB often relies on IT services providers to manage their cloud-based systems. Leveraging distribution, those partners can ensure greater customer success.

"With the staying power of work from anywhere and many corporations moving to a truly distributed workforce, the move to XaaS will open more opportunities for the channel – and our partners in particular," emphasizes Kirk Robinson, SVP and U.S. Chief Country Executive for Ingram Micro.

The company's global relationship with AWS highlights the alliance opportunities in the XaaS space. Those connections benefit ITSPs and end customers, suggested Matt Huff, president of Redapt, in a recent CRN interview. "A lot of what AWS offers Ingram Micro can build a program around. We get a single point of contact with someone who knows our business." The resources and guidance distributors offer the tech community are hard to ignore, especially for firms targeting the SMB.



Expectations as XaaS Expands in Partner Circles

Looking Ahead...

While the industry transition to XaaS is a major development, it is nonetheless another opportunity for distributors to modernize their offerings, deliverables and capabilities while still providing the logistical mettle, financing, support, and marketing services they are known for. That situation may not be clear at first blush. However, the opening for distributors in this space is considerable.

[This recent report](#) from Deloitte provides some clarity:

“Some channel partners are changing their business models to match tech companies’ XaaS transformation efforts and deliver new forms of value. But many partners are struggling to adapt their business approach for the new as-a-service world. Their concerns range from a lack of specialized talent to worries about the near-term financial implications of transforming their business models.”

Delivering Programs, Policies and More

These areas are precisely where distribution can help. Distributors provide programs, policies, and offerings to meet almost every need or demand imaginable. The opportunities become clearer if you look at the XaaS revolution through the eyes of an end user.

With minimal fuss, those customers can go online and select all of the infrastructure, platforms, and apps required to run their business. Those portfolios include computing power, commerce abilities and solutions that help to promote, sell and support whatever goods and services those organizations offer.

But most clients don’t provision their own technology. Many people have those capabilities today but choose to focus on their own business responsibilities. Managing ICT assets is not in their wheelhouse. So, they hand over product selection, provisioning, management, securitization and administration of tech assets to a trusted third party.

“As a hardware vendor, you can imagine how grateful we are for all that distributors do. One thing I’d like to see going forward is how they transform their marketplaces into places where you can not only buy technology but also sell it.”

Nancy Thomas

Global Head Video Collaboration
Channels Development
Logitech



The Last Word and Key Takeaways

The Last Word...and Key Takeaways

No matter what you call it — everything, anything or something as a service — distributors, vendors and channel partners have ample opportunity to elevate their game in the XaaS economy. For example, during a recent GTDC Vendor Advisory Council (VAC) forum to support the development of this report, participants pointed to numerous ways distributors can strengthen XaaS models. Challenges persist, but the advances distributors are making mirror in some ways the successful evolution of their software businesses from physical CDs to ESD with comprehensive licensing services.

Simplifying Complexity, Driving Platform Progress

As one vendor executive emphasized in relation to Arrow Electronics' ArrowSphere cloud delivery and management platform, "XaaS is becoming a bigger and bigger part of our business while eliminating complexities for channel solution providers. ArrowSphere offers a very clean billing and deployment process in which these partners can opt to leverage the platform themselves or 'as a service' on their behalf direct to end users. The approach accelerates business and overcomes many challenges we prefer to outsource this way. We are making a lot of progress."

XaaS on the Rise

- **Fast deployment, management and monitoring of new technologies**
- **Enabling end customers to better match investments to consumption while leveraging the latest innovations**
- **Tighter integration of disparate technologies**
- **Lower maintenance and customization expenses**
- **Increased flexibility and speed in addressing changing needs, including workforce transformations**

End-to-End Engagement

Every aspect of the channel is gearing up to optimize XaaS expertise and related activities, from handling multi-vendor contracting, subscription management and technical support to product logistics (hardware, applications and all forms of infrastructure, both digital and physical) as well as marketing and financing. And it's all ultimately in the name of satisfying end customers. That's what matters most — no matter what advantages you and your company want to bring to the XaaS table. The potential is limitless. Vendors that engage with proactive distributors and channel partners will reap greater rewards in this economy, no matter what you call it.

When it comes to processes and activities, logistics and administration, solutions and multivendor choices, the value of distributors now means more than ever. Although XaaS has already spearheaded a once-in-a-generation technology revolution, distributor ecosystems will help perpetuate and shape this new legacy in the making.

Wherever you strive to grow in the as-a-service future, carefully cultivated partnerships are imperative.

They always prevail regardless of where the channel and technology turns.

Distribution Industry Poised for XaaS Growth

- Enabling both vendor and solution provider XaaS strategies for vertical markets and customers ranging from SMB to large enterprises
- Developing portfolios of on-demand subscription offerings and value-added services that can be layered on top of base vendor offerings
- Distributors can deliver any combination of options, including:

Warranty support

End-of-life disposition

Software configuration

SaaS provisioning

Security device management

Device trade-in and upgrades

Behind the XaaS Scenes: Report Methodology

Methodology

This report is a product of the Global Technology Distribution Council (GTDC), which consists of the world's leading IT and ICT distributors. GTDC members drive approximately \$150 billion in product and services business annually.

The report was produced by CommCentric Solutions, a leading channel-focused communications business with a dedicated research practice as part of its Tampa-based operations.

The report leverages insights gleaned from qualitative interviews with GTDC leadership, industry analysts, channel partners and members of the GTDC's Vendor Advisory Council (VAC). Interviews were conducted between December 2020 and March 2021.

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