

Balancing the scales of power in the North American IT solution sales

Insight

ANALYSIS

The balance of power between Information Technology (IT) vendors and their partners is shifting. IT vendors, especially infrastructure vendors, remain highly dependent on the partners to sell solutions to the end user customers.

There is growing recognition and acknowledgement of the increased value that partners bring. However, the IT channel is changing rapidly; often faster than the IT vendors. The depth of the changes is deeper than meets the eye. A few (not all) of the changes are:

1. Increased rate of partner merger/acquisitions.
2. Rate of change to partner business models that are expanding to services is close to, or eclipsing, product resale. These include both the partners' own services or reselling others.
3. Expansion of offerings to include non-traditional partner offerings such as customer events, writing business books, and creating communities of likeminded partners.

As this evolution continues, the balance of power between vendors and partners will continue to shift. Neuralytix believes more end user power and influence is going to the partner in the IT infrastructure arena, as partners are getting more recognition for delivering solutions compared with the IT vendors.

More and more vendors are vying to get the channels attention to their products. A challenge for many, especially newer entrants, is competing at the channel level and the end user. Juxtaposing to this, is the advent of new IT startup vendors, competing for the partners' mindshare as well as the end users'. This is adding another level of complexity and competition, mostly on the vendor side.



It is important to note that this also affects infrastructure software (for example, virtualization, operating systems, etc.) The trend will continue to impact software applications soon as well. Database vendors are likely to be the last ones to feel the impact.

As mobility continues to ramp, it too will fall into the same scenario as the infrastructure track.

RATE OF CHANGE IN MERGERS/ACQUISITIONS

The rate of mergers/acquisitions with the IT partner community seems to be moving at lightning speed! Neuralytix research does not believe, if there is one clear answer. However, Neuralytix research indicates some ideas on *why* this happening. Some partners are looking to expand their coverage (in terms of geography), as well as skills (more software, more services, and additional IT products).

Mergers or acquisitions can be the most financially beneficial way to do this. It is the classic “build versus buy” decision. As IT partners get even bigger, this provides them a larger stick at the negotiation table with financiers and suppliers.

Details of how these deals are structured are not covered in this Insight. How the partners find each other is.

Ironically, vendors play a large role (wittingly or unwittingly) by setting up partner conferences, and trying to create partner-to-partner programs. Most vendors failed in their expected implementation of these networks, but theoretically “won” as it added fuel to the acquisition fire.

Some vendors even financed or bankrolled partner acquisitions, if the vendor feels it benefited them. Distributors also play a large role by building partner communities such as Venture Tech Network (Ingram), Tech Select (TechData), Arrow, Avnet, or Synnex’s conferences.

The net effect of mergers, acquisitions and partner-initiated networks results in a “buyers’ market” for the partners. As more power shifts to the partners, they will be able to drive harder



bargaining points with vendors, creating business on their terms versus the terms that the vendors currently hand to them.

In essence, Vendors are becoming technology “arms dealers.”

Vendors are complicating the landscape by merging as well as splitting, in the caes of CSC, Symantec and HP. Startup vendors entering the market with the latest technology, become attractive acquisition targets for the established vendors seeking the “brass ring” of the newest technology.

Neuraytix believes the movement in both vendors and partners in this market is the beginning of a systemic shift. The deck chairs are moving, but have not settled into their places yet. Neuralytix believes that at the completion of this systemic shift the dog (ie. the partners) will be wagging its own tail (ie. the suppliers) as opposed to the current situation, in which the tail is wagging the dog!

With more power will be in the hands of the partners, the role of the supplier will be primarily in product creation. Suppliers are enablers and the “farmers” keeping post on their domain. Partners are hunters looking for the next opportunity while tending to their customer base.

CHANGE BEYOND ACQUISITIONS AND MERGERS ... GOING TO THE CORE BUSINESS MODEL

Services

Partners business has been migrating to services, this is not news to anyone. As the percentage of services in relation to overall revenue increases, other revenues including product resale must decrease. This may take years for some partners who have multi-million-dollar resale business to fully take effect. That said, the overall market available to partners continue to grow as end-users recognize the increased value add partners bring to the table. `

The result of this change is a decreased dependence by partners on infrastructure vendors than in the past. With this increased independence attitude, the tides continue to shift.



Partners seeing the road ahead will choose to align, acquire, or partner with complementary partners to leapfrog the path. For some, the investment and time to do this on their own is not worth the risk of missing the chance to get in front of the shift.

As cloud or subscription models emerge, most partners that are not managed service providers (MSPs), do not care where the customer decides to invest – either on premise, or in the cloud. Either way, the partner can do it all – design, integrate, deploy monitor and manage.

These new consumption models will be sold by different vendors. For some, it can be in the cloud such as AWS or TerraMark. Interestingly, many partners do not see cloud adaptation growing as quickly as the suppliers want.

New Partner Pet Peeves!

One area that partners have openly and loudly voiced their concern is how “perceived authority” have been sticking their noses where they belong. Regrettably, these “perceived authorities” are traditional quantitative industry analysts, but obviously not Neuralytix!

Traditional quantitative industry analysts that provide IT pricing to customers are very disruptive. This market is not like the auto market with limited options. The IT market is dynamic, and with seemingly infinite number of permutations and combinations for options. For example, a x86-server could have almost infinite prices. These traditional quantitative industry analysts take a sample of market data and then derive and publish the “average” or expected price for a given product or solution that creates unnecessary havoc for partners. This is a continuing evolution. But partners are starting to speak out (albeit quietly) about the negative impact caused by the traditional quantitative industry analyst community.

As one partner protested to Neuralytix, “They aren’t [doing the] selling. They aren’t right all the time. They aren’t in the trenches.” To these partners, the traditional quantitative industry analysts rely too heavily on historical data and models in the hope that it is applicable to the current and future markets. With the systemic changes in the market today, it invariably leads to a conflict between what has been, and what will be.



Luckily for Neuralytix, these sort of comments vindicate Neuralytix's contemporary approach to market research, one that focuses on end-user enterprise value building. Our approach focuses on partners' and end-users' growth and competitive advantage enabling a free market approach to determining prices for the fast changing market in which we all operate.

BEYOND SERVICES

Many vendor may not be aware of how far some of the channel has moved in the last few years. Many have grown their business as well as their business sense. This allows some partners to expand beyond traditional IT product resale and services. In some cases, these new business models may include hosting customer events, writing books, giving presentations for example.

A case in point, is a partner in the Midwest that has expanded and grown by educating others on business practices and has grown and built communities with other partners (not through acquisitions). The aggregate of this community is now a \$2B company, 60% of the revenue being services. This example is an anomaly but Neuralytix believes many of the established successful partners have "spread their wings", becoming much more than what most saw/new as traditional resellers.

We give kudos to them. They have grown through market/vendor ups and downs. They are now using this real life education to for other purposes.

Neuralytix believes there is great value and lessons learned by these partners for other partners, customer and vendors. These partners have survived the "school of hard knocks", and are giving back to the community by shedding their own invaluable insight and knowledge.

Vendors unaware of what is behind the curtain with the partners are missing valuable insight, and if the vendor is unprepared, they could be blinded by the partners' actions when/if they feel the vendor is playing too heavy of a hand in directing the partners' models.

Not all partners have crossed this "chasm". But Neuralytix believes this is trend that will continue. In time, more partners will look to



seek their own destiny. They will not being as passive to the whims and demands of the vendors. It is true that IT product resale will continue, but the tides of change in the power of the relationship is upon us.

GUIDANCE

The key take away is that the partner community is not what you remember. To borrow an adage from the auto industry, “*It’s not your father’s Buick!*”

If partners are important to a vendor’s business, then vendors need to take another look at this vibrant community. They must also understand that the tides of change are upon the market. If partners were key to a vendor’s success, it would serve them well to get to know them, understand their models, and what they need to be successful. For vendors, the most important thing is to know your place – as a vendor you are an enabler, not the solution provider.

The vendor-partner relationship is like Lego. Vendors are the Lego bricks. It is the creativity that partners bring to the table that generates the innovation, and the success for end-users, partners and vendors alike.

CONTACT US

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