All change

Building a channel strategy for a fast-changing world

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Change or die

Routes-to-market in the technology sector are evolving as quickly as the technology itself. Without the right strategy and partners in place, vendors risk becoming as obsolete as the floppy disk.

Building the right routes-to-market is a key part of any technology company's go-to-market strategy. It doesn't matter how compelling your solution is, without effective channels in place to reach your target customers, you'll never achieve your sales goals.

Yet in a rapidly changing landscape, firms are struggling to evolve their routes-to-market model to reflect changing conditions.

This is particularly true in larger businesses who have a natural - although often sub-conscious - tendency to assume that what brought success in the past will continue to deliver it in the future.

As a result, many businesses are operating a channel model that is sub-optimal, resulting in lower growth, loss of market share and missed opportunities.

> Traditional channel strategies are killing traditional technology vendors. To survive, your business needs a routes-to-market model that meets the challenges of the future head-on.

In this eBook we look at:

- The industry forces that are challenging existing routes-to-market strategies
- The areas in which current routes-to-market are falling short
- The dangers of failing to refresh strategies to reflect a changing landscape
- Building routes-to-market strategies that really work

Change is inevitable and unavoidable

A wide range of forces mean that yesterday's routes-to-market strategies are unlikely to be fit-for-purpose in today's market. In the face of channel disruption, new technologies and shifting buyer behaviours, every technology company faces a stark choice – change or die.

The unstoppable and diverse forces of change

- **Transformative technologies**
- **Cloud now mainstream**
- **Convergence disrupting categories**
- **Shift to bi-modal IT**
- **Decisions driven outside of IT**
- **Buyers demand insight**

A channel undergoing rapid transformation

- The traditional IT channel is in a state of flux
- Established VARs and Distributors are reinventing themselves
- Hybrid business models are now the norm
- Increased investment in managed services, consulting and app development
- 'Born-in-the-cloud' businesses challenging existing resellers

Technology transformation

To keep up with rapid technology developments, IT vendors are having to continually realign their offerings. Channel relationships must be constantly reviewed to stay relevant.

We're in a phase where multiple transformational technology changes are in play simultaneously.

The transition to hybrid infrastructures, the growing importance of the Internet of Things, mobility, Big Data and Analytics, and the incorporation of social and collaborative technologies is driving change from multiple angles simultaneously.

Established vendors are under constant pressure to keep up, and there will inevitably be some significant casualties in the foreseeable future. The IDC 2016 forecast report states "by 2020, more than 30% of IT vendors will not exist as we know them today". Change or die indeed.

Responding to these changes is forcing vendors to exist in a state of continual upheaval, permanently re-aligning offerings to maintain relevance. Most of the big beasts of the technology industry, including IBM, Oracle, Microsoft, HPE and Dell/EMC are in the midst of a reinvention process.

This constant change in vendors' focus and offerings means that channel relationships need to be constantly re-evaluated to ensure they stay relevant and profitable.

In its 2016 forecast report, IDC states that "by 2020, more than 30% of IT vendors **will not exist as we know them today**".

Cloud now mainstream

Cloud is now the mainstream in enterprise IT, disrupting existing channel models and putting traditional revenue streams at risk.

Having proved their worth, cloud technologies have moved from proof-of-concept to line-of-business applications.

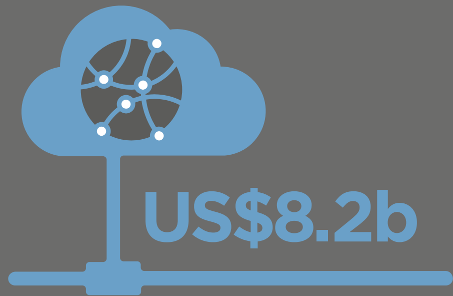
We've now reached the point where cloud infrastructure is not just the future but the present, and is increasing the way that businesses of all sizes consume their IT. Where the market demands cloud-first products and services, vendors are under pressure to change their offerings to maintain (or grow) their margins.

Customer spend has not decreased, it has simply changed focus. Researcher TBR says "54% of global enterprise respondents now report using public cloud services, a market poised to reach $133bn by 2018".

This long-heralded shift is having a profound impact on all areas of the value chain, and is putting many channel businesses under pressure as margins on traditional business are squeezed. Gartner has forecast that disruption to the data centre infrastructure market will result in severe pressure on vendor and channel margins by 2017[1].

Microsoft recently reported commercial cloud revenues now exceed $10bn helped by **120% year-on-year growth of Azure**.

Microsoft Azure



Canalys estimates that worldwide expenditure on cloud infrastructure services reached US$8.2 billion in Q1 2016, **up 53% year-on-year**[2].

Convergence disrupting categories

Convergence challenges existing category and channel relationships as customers look to simplify their IT. Established vendors may need to build new partnerships to extend functionality or reach new segments.

One of the significant trends that we're seeing across the IT industry is the move towards converged products and services.

This is a common theme across numerous sectors. In communications for instance, we're seeing the convergence of traditional telephony functions with the world of collaboration tools and apps. And in hardware infrastructure a major growth area is Converged Systems, which combine server, storage and network technologies into pre-integrated solutions that 'drop in' to the client's data centre.

Meanwhile the rise of the Internet of Things is bringing together hardware and software, across areas as diverse as mobile, security and data analytics.

This convergence disrupts traditional product categories and can cut across established channel relationships. Vendors need to seriously consider the future of converged products and services, both in terms of what their customers want, and who they will need to partner with to take those solutions to market.

Convergence **disrupts traditional product categories** and can cut across established channel relationships.

Shift to bi-modal IT

The move to bi-modal IT is creating radically different buying behaviours. Traditional routes-to-market are often ineffective for innovative solutions, forcing vendors to re-evaluate their approaches.

The bi-modal IT concept demands a two-pronged approach to selling.

The industry's relentless focus on IT stability and longevity has shifted, as Gartner reports a rise in businesses who manage two separate, coherent modes of IT delivery.

The first is typically tasked with managing core, traditional IT functions, focussing on stability and efficiency. The second is responsible for supporting new initiatives and innovations that drive the business forward, and is focused on agility and responsiveness.

Selling into these different modes of IT presents different challenges to vendors and channel partners alike. Different groups of decision-makers are often involved, each with very different drivers and buying criteria. Depending on which mode of IT is being targeted with a particular solution, vendors will need to use different messages, different sales approaches and quite possibly different routes-to-market.

Vendors will need to ensure that they have **the right messages, the right sales approach and the right routes-to-market** for the mode of IT that they are targeting.

Decisions driven outside of IT

To sell successfully in the new IT landscape, vendors will need to reach beyond traditional IT buyers. Instead they will need to connect with Line of Business owners to build the influence required to close deals.

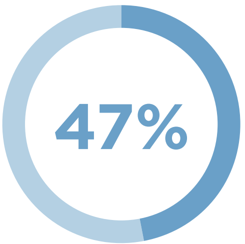
Partly as a result of the move to cloud services, IT purchasing decisions are increasingly being made, or heavily influenced by non-IT buyers.

Many buyers are simply bypassing IT channels to access the cloud services they need.

One survey found that a whopping 72% of professionals with influence over IT budgets do not work in IT[3], while IDC has predicted that by 2019, 47% of IT purchases will be funded outside of the IT department[4].

This means that sales success will be increasingly dependent on being able to engage and influence non-IT contacts.

For some traditional resellers, who have built their business on their technical expertise and relationships with the IT department, this presents a major challenge. Not all will have the skills, the business knowledge or the contacts to successfully sell into non-technical line of business owners.



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Buyers demand insight

Buyers are increasingly resistant to product-led marketing. Instead they expect IT providers to provide insight and guidance to inform their purchasing decisions and demonstrate business value.

With information so readily available via a Google search or via technology analysts, well-informed business buyers no longer need to speak with suppliers to learn about products.

This self-reliance makes them increasingly resistant to product-led marketing.

Organisations now see IT as a high profile strategic asset, and are looking for suppliers who can help them make the connections between new technology and business value.

They want to work with companies that offer additional value by sharing insights, opinions and advice – not just tell them about technology features.

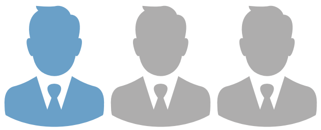
And with IT complexity becoming an increasing challenge for most enterprises, customers are looking for providers that can help them simplify their IT environments. They need partners who can deploy integrated solutions to achieve their business objectives, rather than sell discrete pieces of technology that need to be bolted together in-house.

Customer self-reliance makes them increasingly **resistant to product-led marketing**.

Implications for routes-to-market

The unstoppable and diverse forces of change are making the IT channel undergo rapid transformation. And this demand for constant reinvention looks set to continue indefinitely, destroying those who cannot implement the required operational and strategic restructuring.

The traditional IT channel is in a state of flux



More than a third of partners see themselves as being in a state of rapid transformation[5].

Established VARs and Distributors are reinventing themselves

Existing players are adapting to stay relevant and take advantage of new growth areas. For example, leading distributors such as Avnet, Arrow and Ingram Micro now have active cloud programmes.

Hybrid business models are now the norm

Traditional resellers have expanded their offerings to incorporate managed and cloud services.

2/3 of VARs now garner more profit from managed services than from product resale[5].

Increased investment in managed services, consulting and app development

Some channel businesses are investing in new capabilities to meet demand for customised applications, and to develop their own Intellectual Property.

For example, SCC recently announced the establishment of a major new DevOps facility in Vietnam.

‘Born-in-the-cloud’ businesses are challenging existing resellers

Unhindered by cultural baggage or addiction to cash-cow products, cloud resellers are in many cases growing at a faster rate than older channel businesses.

Apay Obang-Oyway – Ingram Micro European Cloud Director quoted in CRN:

“The fast-growing cloud resellers are often not our traditional type of partner... Looking back three to five years, we hardly knew them then – these are the ‘born-in-the-cloud’ channels. Traditional channels who have been relying on cash-cow products based on customers’ capital expenditure will find that they face a lot more competition.”

Routes-to-market strategy:
Key considerations

The cumulative impact of all these IT industry changes is far-reaching, and has significant implications on vendors' routes-to-market strategies. To succeed, they need to manage every factor simultaneously to build a coherent, targeted strategy.

- New skills required
- Success looks forward
- Innovation challenges traditional
- Building multi-dimensional channels
- Partner collaboration is key

New skills required

Changing technologies and buyer habits require partners with new skills and knowledge to stay ahead of the curve.

The changes described above demand that the successful channel partners of the future develop a new set of skills and capabilities.

The ability to develop and sell propositions focused on business needs, rather than technology features, will be critical. Specialist domain expertise – of a vertical sector or a business function – becomes more valuable during the sales cycle, while technical expertise is less so in relative terms.

Engagement with decision-makers outside of the IT department is also crucial, helping them understand how new technology is deployed to address core business needs, or to plan and deliver IT transformation initiatives, simplifying complex IT environments.

Value-add skills like consultancy and change management will become more valuable, particularly as margins on traditional products are squeezed. Already, many partners make more of their profit from consultancy services than they do on product resale.

> Vendors must ensure that they have partners who are able to engage outside of IT, sell on business value and deliver value-adding services.

Success looks forward

Vendors must invest in the right partners for tomorrow – past results do not guarantee future success.

Yesterday's stars could be tomorrow's dogs.

The partners and channels that delivered success in the past are unlikely to provide the same returns in the fast-changing technology sector.

Business models need to evolve. Not every partner will make the transition, while others will fail to strike the balance between embracing new opportunities and maintaining profitability. Some will find their revenue streams and profits dry up as they are unable to re-skill and re-focus to meet new changes quickly enough.

As you struggle to cope with continuous channel upheaval, you need to be looking ahead, identifying and investing in partners that will deliver tomorrow's growth. Relying solely on an established partner base is a risky strategy for any vendor, particularly if they are ill-equipped to meet the challenge of change.

> Select partners who are also able to transition quickly in response to changing customer demands and new technologies.

Innovation challenges traditional

Innovative offerings may require new routes-to-market to achieve the penetration expected.

Existing channel partners may not be motivated to back new offerings.

As vendors introduce new offerings in response to changing customer demands, they may find their traditional channel is slow to embrace them.

Established channels may initially ignore new offerings because of the risk to existing revenue streams. For example, if a partner's financial model is reliant on big slugs of income from product sales, then the need to pay the salary bill and the rent every month can act as a powerful disincentive to push customers towards a subscription-based service.

Introducing a new technology also has the potential to complicate a sales process or expose gaps in a partner's skills and knowledge. The partner may be tempted to stick to what they and their customer are comfortable with, rather than take the risk of trying to sell a superior solution which pushes them outside their comfort zone.

> Established channels may have strong disincentives to push disruptive products.

Building multi-dimensional channels

A uni-directional model cannot address demands for integrated solutions and managed service propositions.

The traditional linear channel model is no longer fit-for-purpose.

While the flow from vendor to sales channel used to be one-directional, a changing landscape requires a completely different approach.

In a solutions and services-led world, vendor products aren't just resold, they're packaged up by channel partners and offered to customers as part of a broader integrated solution or managed service proposition. Joint propositions are now the name of the game; sell-with is now often as important as sell-through.

This has significant implications for how you build channel programmes, engage partners and organise internal resources. You need different processes and skill-sets in your channel management and channel marketing functions to build multi-dimensional engagements with partners.

> Joint propositions are now the name of the game; sell-with is now often as important as sell-through.

Partner collaboration is key

A healthy partner eco-system is key to delivering the integrated solutions your client demands.

Collaboration across partner eco-systems is also becoming more important.

Customers want to buy integrated solutions, not discrete products. Yet very few partners support the full technology stack. Most lack the full breadth of business and technical consulting, project management, integration and app development skills needed to deliver those complete solutions.

You need to think not just in terms of enabling partners to sell a particular product or service, but how to build an effective eco-system, where each partner can leverage each other's skills to better meet customer needs. This has implications on systems, processes and commercial programmes.

> Closer collaboration is key to building an eco-system that can be used by every partner to better meet customer needs.

> If your routes-to-market strategy and partner programmes don't reflect the changes that are taking place within the market, the costs could be significant.

Adapt now or risk failure

The cost of failing to adapt reduces competitiveness and costs market share.

Misaligned partner programmes and outdated routes-to-market strategies are costly.
The costs and consequences could be significant, including:

- **Missing out on new market opportunities**
- **Inability to achieve market traction for innovative new offerings**
- **Diminishing returns on marketing and channel investments**
- **Lack of channel engagement because what you do is not seen as central**

> Routes-to-market must be fit-for-purpose, or vendors risk loss of market share, relevance and even their existence.

It is essential that you take the necessary steps to ensure that you have a routes-to-market model which is fit-for-purpose.

Building a routes-to-market model to meet your growth objectives

To succeed in a changing marketplace, vendors need to regularly review and refresh their routes-to-market strategy. The OneGTM framework can be used to build and optimise a strategy that works across every channel.

Go-to-market strategy and goals

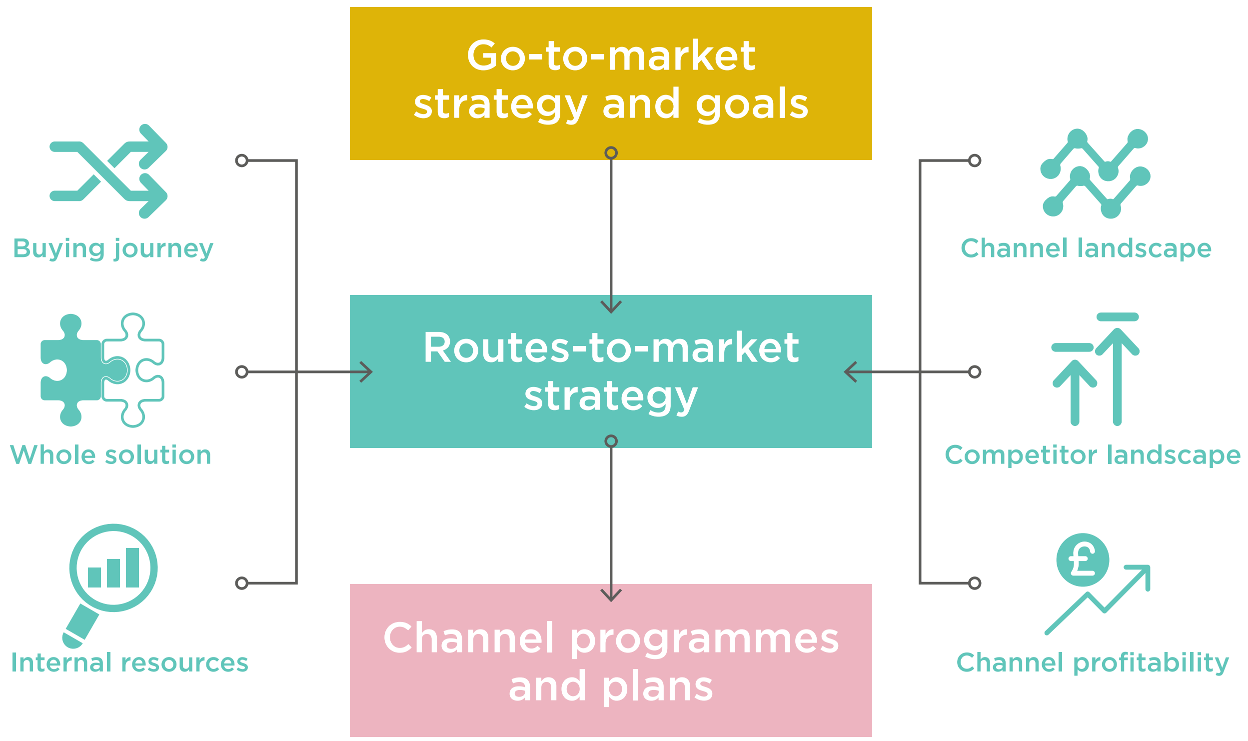
Before building a robust routes-to-market strategy, you must be clear on what your go-to-market strategy and goals are. A key element is having clarity around your target segments. You can't define your optimum routes-to-market strategy unless you know which market you want a route to.

Routes-to-market strategy

The right inputs allow you to build a robust routes-to-market strategy, which is aligned with the needs and behaviours of your target customers, reflects the market and accounts for your strengths and weaknesses, enabling you to achieve your go-to-market objectives.

Channel programmes and plans

Your routes-to-market strategy should be used to develop partner propositions, define channel programmes and build successful, high-growth channels that are capable of delivering on the strategies and goals already defined.



Understanding the inputs required for a robust routes-to-market model

Only by understanding customer preferences, partner capabilities and the challenges of each channel, is it possible to build a workable routes-to-market strategy. Every plan needs to consider these inputs.

Buying journey

To understand which channels generate demand and close sales, it is vital to understand the typical customer buying journey. Consider what the typical triggers are for a potential purchase, what information sources a customer will typically rely on, who has access to decision-makers during the buying journey, and what other purchase decisions the sale may be linked to.

Internal resources

Any decisions about routes-to-market must be informed by a realistic appraisal of internal resources. Do you have product and skills gaps that you need partners to fill? Which of your strengths can be used to build the right channels? Do you have weaknesses that will limit your ability to attract certain types of partners?

Competitor landscape

Take time to monitor what competitors are doing, both direct and in adjacent categories. Where are they investing in? What types of channel partners are they seeing success with? How are they changing their programmes to reflect changing market conditions? These insights can then be applied to refining and strengthening your routes-to-market model.

Whole solution

It's rare that a single technology product provides a complete solution to a customer's business need. It will usually be part of a broader solution and interdependent on other products and services to deliver value. Considering the whole solution is vital to understanding the eco-system of complementary potential partners, and will also identify the gaps in your own offering that must be addressed.

Channel landscape

A routes-to-market strategy must reflect how the market is today, so it's vital to build a picture of the channel landscape and actively monitor how it's changing over time. Key areas to consider include the types of organisations active in adjacent categories, which types of channel business are on the up/in decline, and which business models should be/are dominating.

Channel profitability

Profitability levels vary significantly across different channels, depending on the relative power of channel partners, typical margin levels, the costs to serve etc. Some routes-to-market may offer volume growth but relatively low margin, others will enable you to retain higher margins but will never offer significant scale. By understanding the profitability of each channel, it becomes much easier to define profitable routes-to-market.

OneGTM can help you achieve channel success

Our go-to-market services enable B2B technology companies to deliver integrated channel development and marketing programmes that drive results and deliver effective ROI.

Get in touch:

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References:

1 Datacentre disruption to hit channel margins, CRN, 2014 **2** Canalys, 2016 **3** LinkedIn research, 2014 **4** Worldwide Semi-annual IT Spending Guide: Line of Business, 2016 **5** Canalys, 2016