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2019 TOP DIGITAL STORIES

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2019: THE YEAR OF M&A (AGAIN) AND BANKRUPTCY

Here we are again, ringing in the new year with expectations of a busy 12 months to come in the channel. 2019 certainly didn't disappoint. There was no dearth of news headlines, including surprises that rocked to their cores some companies doing business in the channel.

The partner community was stunned as big names filed for Chapter 11 bankruptcy. Windstream filed after being sued for spinning off assets into a real estate investment trust. Fusion Connect did too, saying acquisitions of MegaPath and Birch failed to meet performance projections. Sungard Availability Services decided bankruptcy was the best move to reduce its $1.3 billion debt, then emerged from Chapter 11 in just 24 hours. All had — and are still having — ramifications on their partner communities.

It seems that every year we ask if merger and acquisition activity can get more rampant, and every year the answer is yes. When I asked our edit team to come up with stories to write about for this issue, no fewer than four picked something around M&A — and there could have been more. The master agent/distributor community continues to consolidate, with AppDirect gobbling up a number of masters under its AppSmart brand, and a private equity company buying Tech Data. In the IT channel, ConnectWise's purchase of Continuum will change how MSPs do business for years to come. Those are just a sampling.

For this issue, our editors have each contributed one or more recaps of what, in their minds, were some of the most impactful stories of the year. Notice I didn't say "biggest." Yes, you'll find a review of Windstream's bankruptcy and the various M&A activity I've mentioned above, but that's not all. Are you familiar with SASE (pronounced "sassy")? It was introduced this year and is poised to shake up the world of SD-WAN — a technology with which many partners are just beginning to familiarize themselves. Also on the technology side, the trend toward hybrid clouds and multiclouds really started to take shape in 2019. We provide a look at what it means for partners and suppliers.

As we all map out our "vision" for 2020, I'm confident in predicting that many of these stories will continue to shape the channel in the coming year. What we don't know, is what's to come. I, for one, am excited to see what's in store.

Craig Galbraith is executive editor of Channel Futures and Channel Partners.

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Will Microsoft Windows Virtual Desktops Give a Boost to DaaS in 2020?

BY JEFFREY SCHWARTZ

Microsoft has lofty ambitions that its new cloud-based virtual desktop-as-a-service (DaaS) will lift its partner ecosystem in 2020 and several years to come.

After a year-long preview and buildup of the partner ecosystem, Microsoft's WVD became generally available in October. Delivered through the Microsoft Azure public cloud, WVD provides a virtual DaaS with connectors available or coming to end-user computing environments from providers such as Citrix, CloudJumper, Igel, Liquidware, Nerdio and VMware, among others.


Microsoft's Brad Anderson

WVD is not the first cloud-based DaaS service — AWS launched its virtual Windows desktop service called Amazon WorkSpaces a few years ago and some of Microsoft's WVD alliance partners offer their own DaaS services. Microsoft itself had launched a cloud DaaS offering called Azure RemoteApp but after making a deal with Citrix two years later, Microsoft retired RemoteApp.

Determining that the market is now ripe for cloud DaaS beyond the core user base of those with traditional VDI, Microsoft came back with a vengeance with the launch of WVD. In addition to offering a migration option for those with legacy VDI infrastructure, cloud DaaS is suited for organizations that want to deliver a cloud-managed desktop experience for organizations that prefer to no longer manage traditional Windows desktops. Others are considering it because they desire or require a more controlled environment, perhaps for a contingent workforce.

WVD is also an alternative for organizations that still have systems with Windows 7, which Microsoft will stop supporting on Jan. 14. While Microsoft recommends upgrading to Windows 10, WVD offers an alternative Windows desktop deployment, configuration and management. Microsoft is emphasizing that WVD is the only cloud DaaS that will include extended support for Windows 7 for an additional three years. Because Microsoft sets the terms of Windows licensing, it can offer that exclusivity, along with another key benefit: WVD is also the only cloud-hosted DaaS that allows multisession Windows 10 virtual desktop and application images, support for an enhanced version of Windows Server Remote Desktop Services (RDS) that optimizes performance of the virtual operating system and Office 365 ProPlus.

Similar to existing cloud DaaS offerings that are now available from others, Microsoft's WVD provides usage-based subscription pricing and delivers the customer experience as an optimized terminal session. The OS image, apps and data run and are processed in the cloud and delivered using a newly enhanced version of Microsoft's Remote Desktop Services (RDS) protocol to PCs, thin clients, Macs and any device based on iOS or Android, or through any HTML 5-compatible browser. Months before the release of WVD, Brad Anderson, corporate vice president for the Microsoft 365 platform, told us: "Interest in this has just been off the charts. It's exceeded all the expectations of what we had mapped out in terms of interest in this." Scott Manchester, Microsoft's group product manager for WVD, demonstrated the GA version at November's Ignite conference and said the company is seeing "amazing adoption," for the new offering. "Being able to run a full Windows 10 experience in a multiuser environment is literally the holy grail for virtualization admins," he said.


Coretek's Ray Jaksic

Nevertheless, most partners are still working with customers in proof-of-concept deployments at this point. "Every customer wants to at least try to understand WVD and what it could do for them, said Ray Jaksic, chief strategy officer at Coretek Services, a Microsoft partner that has worked closely with the company on WVD while it was in the early preview stage. "It has created an incredible amount of buzz from that perspective."

2019: The Year Hybrid Cloud and Multicloud Hit Peak Hype

BY KELLY TEAL

2019 might go down as the year of “hybrid” and “multi” cloud — at least from the vendor side of the house.

After years of pushing enterprises to consume single-provider public cloud platforms over on-premises data centers (and organizations pushing back), vendors conceded the necessity of dual and varied approaches.

And even as they released the requisite products to fulfill customer requests, many of the cloud providers tried to make their launches sound like unique and novel ideas.

Let’s be clear: They were not.

The hybrid cloud and multicloud momentum of 2019 simply served as necessary responses to client requirements. Otherwise, the cloud vendors that didn’t keep pace would lose market share. Demand, meet supply.

Predictions from early in the cloud era appear to be coming to fruition. Ten or so years ago, as “cloud” took root as a buzzword (thank you, Cisco, for that new spin on long-available off-premises data centers), more forward-thinking analysts and observers understood — and forecast — that public cloud would not act as the panacea vendors hoped.

That the shift from capex to opex spending, while beneficial in myriad ways, also was likely to amount to greater expense over time.

That not all enterprises would embrace certain data leaving their four walls.

Fast forward to 2019 and those predictions have materialized. Hence, the rise of hybrid cloud, first, and multicloud second.

Juniper’s Michael Bushong

Regarding hybrid cloud, the announcements flowed so numerously throughout the year that there is no way to fit them all in this short end-of-year review. Vendors and their hybrid cloud news included:

- Amazon Web Services Outposts
- Google Cloud Platform Anthos
- Microsoft Azure Arc
- Hewlett Packard Enterprise’s GreenLake
- Dell Technologies Cloud
- IBM Cloud
- Oracle
- Rackspace

As one example of the figures supporting the rise of hybrid cloud, Nutanix released its second global Enterprise Cloud Index survey and research report. Nearly three-quarters (73%) of respondents said they are moving some applications off the public cloud and back to on-premises; 22% of those users were moving five or more applications.

Earlier in 2019, Patrick Moorhead, principal analyst with Moor Insights and Strategy, positioned the trend with acuity.

“The hybrid cloud is real and the space is about to explode,” he told us. “With AWS, Azure, Google Cloud and IBM Cloud on board, there’s no putting the genie back in the bottle.”

The same started to apply to the so-called multicloud. As in, you know, spinning up public and hybrid cloud services from more than one vendor to ensure redundancy, different service options, user experience, regional government compliance and so on.

As Michael Bushong, vice president of enterprise and cloud marketing at Juniper Networks astutely noted, “Incumbents hoping to cling to existing customers will be forced to choose between participating in the multivendor control game or providing their own solutions in a more open environment.”

And organizations were indeed taking advantage of more than one cloud in 2019.

Take the stats released by Business Performance Innovation (BPI) Network with A10 Networks as proof. That firm’s study found that about two-thirds of companies have deployed applications across two or more public clouds, while 87% said they expect to increase their reliance on public or private clouds over the next 24 months.

Based on that uptake, it seems reasonable to assume we’ll see more vendor declarations in 2020 about multicloud interoperability.

In other words, expect more hype.

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ConnectWise M&A Was 'a Game Changer'

BY ALLISON FRANCIS

There was a flurry of major M&A activity in the IT industry this year, one of the most notable coming from ConnectWise at the IT Nation Connect conference back in October. There, the company announced the acquisitions of Continuum and ITBoost, as well as a strategic partnership with Webinfinity. This was one of the biggest deals of the year for several reasons.

ConnectWise CEO Jason Magee called the acquisition of Continuum in particular a game-changer for the MSP and TSP space, certainly considering the growing need around cybersecurity talent and skills these days.

ConnectWise's Jason Magee

"This will still allow the ConnectWise partners the power of choice," said Magee at the time of the announcement. "If you look at what this brings to the table, there are two mindsets in the industry. There are those who want to invest the time, talent and treasure and build it themselves, versus what Continuum has perfected over the years around the 'hire a general contractor/managed offering' mindset. Bringing these two together will allow the flexibility of an MSP or TSP, regardless of business maturity and where they are in their business life cycle and mindset."

The idea behind snapping up and joining forces with these companies was to put more problem-solving resources, tools for efficiency and fuel for growth in the hands of partners while transforming ConnectWise into a technology and services platform for the entire technology channel.

According to Magee, these transformational moves were centered around ConnectWise's partners' pain points and solving for their needs around increasing inefficiencies, and how they're striving to be more productive.

The merger was also designed to give ConnectWise an in to the valuable SMB market — those managed service providers without the time or resources to manage their own processes and PSA operations.

When Magee assumed the ConnectWise helm as CEO in February 2019, he made it clear that unlike other RMM/PSA providers post acquisition, ConnectWise wouldn't take their infusion of cash to head in the direction of backup and disaster recovery (BDR), but that it would remain focused on what the company does best — back-end business management solutions for MSPs. With the announcements made at IT Nation Connect, it's clear that he has stayed true to that.

All four announcements were designed to boost efficiencies for partners while mitigating their risk, as well as rocket ConnectWise into a position where it can offer a holistic technology and services platform as it enters 2020:

The partnership with PRM tool provider Webinfinity will simplify the relationships TSPs have with their technology suppliers, centralizing touch points for areas such as deal registration, co-marketing, training and enablement, communication and more.

The acquisition of ITBoost increases efficiencies for TSPs with a next-generation IT documentation system.

The union with Continuum allows ConnectWise partners to use Continuum's AI-enabled services model to grow and scale in the critical areas of remote monitoring and management, security and data protection without the requirement of increasing headcount.

Finally, since security is not a problem to be solved, but a risk to be managed, ConnectWise is launching a new security initiative — calling on the entire industry to fight back against cybersecurity threats. No matter its role, each and every company needs to do its part to help make the entire industry more secure.

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Master Agent Consolidation Continues

BY JAMES ANDERSON

We've seen a major acquisition directly impact the master agency market each of the last three years. First it was ScanSource buying Intelisys and Sandler Partners buying X4 Solutions in 2016. Then it was Telarus purchasing CarrierSales in 2017. 2018 brought us AppDirect's purchase of WTG and creation of AppSmart, and AppSmart continued the trend in 2019.

The B2B marketplace provider bought Michigan-based Telegration in the fall and followed that up by purchasing North Carolina-based Converged Network Services Group (CNSG). That makes for three master agents that comprise AppSmart. Co-CEO Vince Bradley and AppSmart executives say their M&A focus will pay off with the deepest technology portfolio in the industry and a deep geographical footprint. It's an opportunity for CNSG to expand nationally. Subagents say AppSmart's platform will provide the automation they need to operate more efficiently.

> **"We want to make it easy to sell. We want to make it easy to transact. That shouldn't be a big part of your day."**
>
> *—AppSmart's Van Murray*

"We want to make it easy to sell. We want to make it easy to transact. That shouldn't be a big part of your day," AppSmart co-CEO Van Murray said.

Blockbuster deals between vendors — such as CenturyLink and Level 3 or T-Mobile and Sprint — are raising the stakes for masters. If suppliers come together and choose to consolidate their channel partner programs, you'll want to be too big to cut.

"If you're not a top 10 [partner], you kind of don't exist as a master," a master agent executive told us. The pressure's on.

Utah-based Telarus tested the waters recently by purchasing a partner's operational assets, but will it look for a new ally as it expands internationally? Will Avant Communications or perhaps its Chicago neighbor TBI look beyond organic growth to attack the market? Does Georgia-based MicroCorp's strategy change now that AppSmart has gobbled up a competitor in the Southeast market (CNSG)? And will Intelisys/ScanSource make another investment? We could ask similar questions about companies like Sandler Partners, Planet One Communications and Telecom Consulting Group (TCG).

And if they choose to engage in M&A, who will be the target? Will they buy small assets to patch up weaknesses? Will they follow the path of the distributor Tech Data, which a private equity firm plans to purchase? Does a horizontal acquisition make the most sense, or is it better to match with someone from another industry? Intelisys, for example, paired with a distributor in ScanSource. WTG turned down offers from other masters and distributors, choosing instead to team up with AppDirect, a SaaS company. Master agents need to think about M&A differently, according to Bradley. "In order to transform and be successful in the long term, master agents in the field truly need to partner with technology companies to do more," he said.

We'll be keeping our eyes peeled in 2020 for the next move. And organizations were indeed taking advantage of more than one cloud in 2019.

Take the stats released by Business Performance Innovation (BPI) Network with A10 Networks as proof. That firm's study found that about two-thirds of companies have deployed applications across two or more public clouds, while 87% said they expect to increase their reliance on public or private clouds over the next 24 months.

Based on that uptake, it seems reasonable to assume we'll see more vendor declarations in 2020 about multicloud interoperability.

Keep your eyes peeled for the next move.

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Tech Data's Acquisition: M&A Alive and Kicking in Distribution

BY LYNN HABER

When the clock struck 11:59 p.m. ET on Dec. 9, 2019, and the "go-shop" period to solicit alternative acquisition proposals from third parties expired, Tech Data's most notable competitive offer from Warren Buffet was rebuffed. At that time, the gavel came down and the acquisition bid by Tiger Midco LLC — an affiliate of funds managed by Apollo Global Management — for the Clearwater, Florida, distributor was set for $6 billion.

What didn't work out for the Oracle of Omaha did work in Tech Data's favor. Buffet's competitive bid offer of $140 a share trumped Apollo's initial offer of $130 share, made on Nov. 13, which ultimately led Apollo to raise its bid to $145 a share, raising the venture capital firm's initial offer by $600,000. Buffet kept his promise to not get into a bidding war.

Tech Data's Rich Hume

The acquisition of the 45-year-old distributor, ranked 88th on the Fortune 500, is the latest shake-up in the tech distributor sector that NA channel partners have seen in the past few years. And, let's not forget that Tech Data played its own role in that shake-up with the Avnet acquisition in 2016. Familiar big-name distributors such as Ingram Micro, Avnet Technology Solutions, ScanSource, Intelisys, Synnex and Westcom-Comstor have all seen their futures rewritten as a result of M&A fervor. Other recent acquisition talk in distribution has swirled around HNA Group, owner of Ingram Micro, since December 2016. In late 2018 there was an unfruitful effort for Ingram Micro by Apollo Global Management and another more recently by the RRJ-led group to invest $4 billion in HNA.

"Over our 45-year history, Tech Data has grown to become one of the largest and most respected technology distributors in the world. This agreement reflects the significant progress we have made in our strategy of delivering higher value and positions us for continued growth and success," Rich Hume, CEO of Tech Data, said in November at the time of the acquisition bid by Apollo. "The investment of funds managed by one of the world's leading global alternative investment managers will afford us additional resources to accelerate our ability to bring to market the technology products and solutions the world needs to connect, grow and advance. The transaction will enable us to build on our success, making Tech Data a growth platform and enabling us to further differentiate and expand our end-to-end solutions and provide our channel partners with unparalleled reach, efficiency and expertise."

"I think that what's been happening in the past few years, is the realization that when you look at the marketplace from the standpoint of complex emerging technologies — cloud, IoT, AI, machine learning (ML), big data —all the areas that we see growing, that it becomes important that the IT ecosystem supply chain can provide the necessary support and services for the building block technologies of the future," Frank Vitagliano, CEO of the Global Technology Distribution Council (GTCD), told us.

"When the investment community looks at the value of some of the distributors, they see how important they are, and how that will continue to be going forward because of the core competencies they've built up. That's why you're seeing Apollo, and even Warren Buffet, see this [distribution] as the kind of business that they could invest in," said Vitagliano.

At the end of October, Tech Data reported third quarter fiscal year 2020 results of $9.1 billion, worldwide net sales, a decrease of 2% compared to same quarter results last year. That said, Americas net sales were up 2% to $4.2 billion, Asia Pacific net sales were up 4%, or $.3 billion, and Europe sales were down 6%, or $4.6 billion. Tech Data reported $37.2 billion in sales in fiscal 2019.

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SD-WAN, Say Hello to SASE

BY JAMES ANDERSON

The value proposition of software-defined wide area networking (SD-WAN) drastically shifted in 2019 as the technology matured. MPLS replacement and cost savings were the talk of the town two years ago, but vendors are now playing up other factors in conversations with customers. One such factor is SD-WAN's agility and elasticity, which helps customers accomplish their business goals in an increasingly mobile, cloud-based world.

Data abounds at "the edge" of their network as remote workers and branch offices play an increasingly influential role. The explosion of disparate cloud-based workloads across the enterprise presents a security challenge as well as a networking challenge.

"While the cloud is agile, elastic and ubiquitous, enterprise networking and security infrastructure have been just the opposite," Dave Greenfield, Cato Networks' secure networking evangelist wrote in a blog post. "The network is rigid and static. Security is fragmented between physical locations, cloud resources and mobile users."

Enter the secure access service edge (SASE), a term that vendors like Cato, VMware and Open Systems recently started using to describe their platforms. It's a Gartner concept, recently defined as "combining WAN capabilities with network security functions (such as secure web gateway, cloud access security broker [CASB] and software-driven perimeter [SDP]) to support the needs of digital enterprises." Gartner drew attention to the term in its August report "The Future of Network Security Is in the Cloud," in which it stressed the importance of giving today's distributed workforce universal, secure access to the network.

"Branch offices still need to connect to the internet and you still need a peice of hardware to do that."

—IT Harvest's Richard Stiennon

"What security and risk professionals in a digital enterprise need is a worldwide fabric/mesh of network and network security capabilities that can be applied when and where needed to connect entities to the networked capabilities they need access to," the report said.

We should be clear that SASE adoption doesn't come at the expense of SD-WAN. SASE is a big-picture goal for the enterprise — the vision for solving a crucial customer pain point — and SD-WAN remains a key component.

"Branch offices still need to connect to the internet and you still need a piece of hardware to do that," IT Harvest Chief Research Analyst Richard Stiennon said in a Forbes column. "Let's face it, SD-WAN is just a fancy name for a programmable router."

Gartner said only 1% of companies had an explicit SASE adoption strategy at the end of 2018, but it predicts the number to reach 40% by 2024. We'll watch to see how vendors use the language of SASE and SD-WAN — and it will be interesting to see how cybersecurity companies like Palo Alto Networks position themselves.

"The digital business is all about speed and agility. We operate faster and we operate everywhere with remote offices and mobile users," Greenfield said. "Pulling teams and resources together regardless of location to develop new products faster, deliver them to the market sooner and respond more quickly to changes in business conditions are hallmarks of digital business transformation."

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Windstream's Financial Woes

BY EDWARD GATELY

It's no exaggeration to say all eyes in the channel were on Windstream this year as it filed for Chapter 11 bankruptcy in February and has endured numerous high-profile challenges ever since.

And it could be several more months before the communications giant submits its reorganization plan and is able to emerge from bankruptcy. A big part of the holdup is its battle over its lease agreement with Uniti. Windstream pays Uniti about $650 million annually to use their network.

Windstream said it needs until Aug. 25, 2020, to complete its restructuring plan and exit bankruptcy.

Back in February, Windstream said it had no intention of filing for bankruptcy and that it fully expected a favorable ruling in its court battle against Aurelius Capital Management, a Windstream bondholder. However, the court ruled that Aurelius was entitled to a judgment of nearly $310.5 million, plus interest, after July 23, 2018.

Meanwhile, Windstream had about $5.8 billion in outstanding bonds and loans, which led to the bankruptcy filing. The Securities and Exchange Commission then removed Windstream's common stock from listing and registration on the Nasdaq. The company's common stock commenced trading on the OTC Bulletin Board or "pink sheets" market.

Tony Thomas, Windstream's president and CEO, said his company continues to work to modify its arrangement.

The filing immediately had the channel buzzing, with clients worried, agents bracing for potential commission reductions and master agents hoping for the best. Shane Stark, Carrier Access' vice president of vendor and channel relations, and a member of the Channel Partners Editorial Advisory Board, said "In the past when that happened, there's been no interruption of service, but anytime something like this happens, people start to wonder what's going on."

In the meantime, Windstream's quarterly losses have mounted, most recently with a $129 million loss for its third quarter.

Windstream was mandated by the bankruptcy court to streamline its partner program, which included 31 standard agreements. Partners then received a letter saying their current agreements were null and void, and that they were required to sign new agreements or risk being cut off from commissions. Needless to say, reaction from partners wasn't all positive. One smaller master agent representative said his agreement included evergreen protections that were not part of the new agreement he was being asked to sign. He also said the new agreement included new sales and revenue requirements, and if they didn't sign, Windstream could either stop paying commissions or pay less than what was previously agreed upon.

As for the Uniti battle, Tony Thomas, Windstream's president and CEO, said his company continues to work to modify its arrangement. Uniti is a publicly traded real estate investment trust (REIT) consisting of network assets that Windstream divested in 2015.

"Indeed, the litigation against Uniti is a gating item in these Chapter 11 cases that must be resolved in order for the debtors to formulate a go-forward business model and file a viable Chapter 11 plan," Windstream said in a bankruptcy court filing. "The outcome of that litigation will lead to a determination of the true nature of the Uniti arrangement, which is critical to the formulation of a Chapter 11 plan."

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IBM May Be Learning Some Valuable Lessons from Red Hat

BY TODD R. WEISS

IBM's $34 billion acquisition of open source vendor Red Hat was completed in July and the open source universe has not imploded.

When IBM first announced the deal in October of 2018, many critics piled on saying they worried that IBM's bloated, old-style corporate culture would de-energize Red Hat and cause the company's innovative spirit to wither and decay. The critics said they thought the acquisition of Red Hat by Big Blue would potentially halt or frustrate the open source vendor's forward progress of the last 20 years or so, leaving it a stodgy and less innovative version of itself.

The deal continues to mean a lot of change and transitions for IBM and Red Hat, from product portfolios to marketing impacts, but it also has been bringing out benefits such as new opportunities for partners and potentially lucrative product alignments. Both companies kept their own channel organizations and are continuing to work with their own partners into the future, but they also left the door open for collaboration when needed.

The match itself, which has been called the largest software acquisition in history, makes a lot of sense at first glance. The IBM Red Hat deal comes more than 20 years after both companies first began working together, dating back to when Red Hat was just a startup offering its open source Linux operating system as a free download or on CDs at technology conferences. Back in 2000, IBM invested its first $1 billion in Linux as corporate leaders began to see the promise and staying power of the then-nascent computer operating system, which was being created at the time by Finnish university student Linus Torvalds. Within a few years, IBM upped its investment in Linux for the enterprise to more than $5 billion and those investments and interest have continued.

Each side is familiar with the other. Their joint history is there. Their technologies work together and their expertise and services structures are complementary.

And more recently, some experts are saying that the acquisition can even be directly beneficial for IBM and its long-stodgy background because it can gain some direct and helpful lessons from the smaller, nimbler and more progressive Red Hat culture and ecosystem.

> Some experts are saying that the acquisition can even be directly beneficial for IBM and its long-stodgy background because it can gain some dorect and helpful lessons from the dmaller, nimbler and more progessive Red Hat culture and ecosystem.

I recently attended the KubeCon open source conference in San Diego where I chatted about the aftermath of the IBM Red Hat deal with an open source luminary who has been watching the move since it was unveiled.

Contrary to all the criticisms heard from some people, this open source expert said he is already seeing what he called the "Red Hat-trification" of IBM, where some of Red Hat's nimbleness and innovations are starting to rub off on the corporate structure and processes of the monolithic IBM.

That sounds promising and welcome for IBM as a major side benefit to the acquisition of Red Hat as 2020 approaches. Now let's see what IBM does with this intriguing development. Imagine that — the potential for innovative thought leadership from Big Blue as it takes lessons learned from a successful open source company back into IBM. Here's something we should keep watching over the next year.