Remaking the CHANNEL

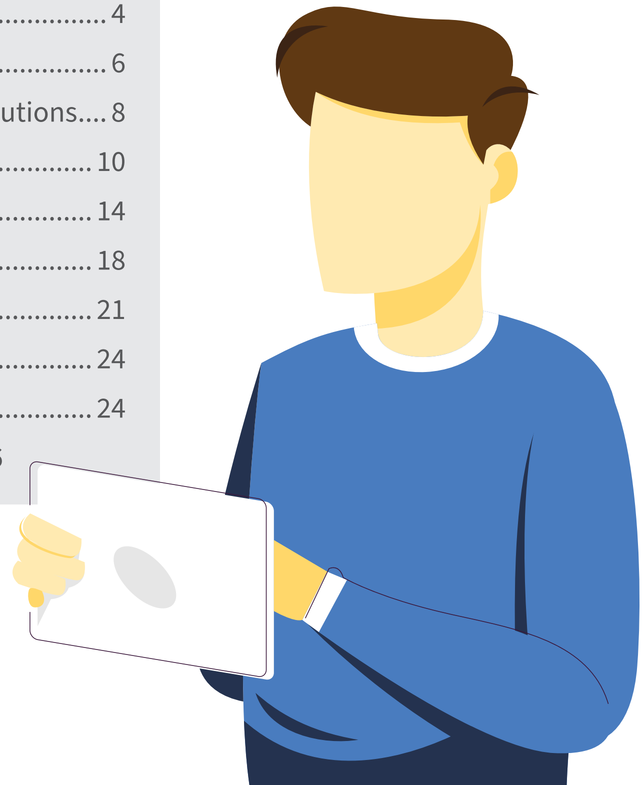
6 Buyer Trends Changing How We Partner

partnerpath

2020 STATE OF PARTNERING STUDY

Inside:

Preparing for the Future.......... 2
Digital Age Disruption 4
Trend #1: Customers are expecting business outcomes 6
Trend #2: Producing business outcomes requires complex solutions.... 8
Trend #3: Emerging line-of-business buyers.......... 10
Trend #4: Customers are purchasing as a subscription.......... 14
Trend #5: Customers are researching online.......... 18
Trend #6: Customers are transacting online 21
Remaking the Channel.......... 24
About this Study.......... 24
Appendix.......... 25-26



PREPARING FOR THE FUTURE

Complexity of a non-linear buying journey

In the old linear channel model, the customer buying journey was controlled by salespeople – at the vendor or the reseller. The customer had to connect with a reseller for product specifications before deciding which technologies they wanted to purchase and getting a quote. Only list prices were ever communicated from the vendor. The reseller received a hefty discount from the vendor (via the distributor) and set whatever price for the customer they wanted.

The digital age ushered in a new model where the customer defines their own buying journey which is typically non-linear and heavily reliant on digital interactions. There is a wide range of channel partners positioned as potential advisors to the customer with an array of services, pricing and transaction options. The availability of information on the internet provides the customer with knowledge about the costs of and the price they should pay for products – driving down the margin partners make on reselling those goods. The value partners provide has shifted from offering product knowledge to implementing, integrating and operating

A solution provider is an organization that combines hardware, software and services to address a customer's business need. Often referred to as channel partners, they span the ranks of resellers, consultants, professional services firms, agencies, service providers and systems integrators. Collectively we call them solution providers because they design, implement, integrate, run and manage technology solutions to fulfill customer business needs and opportunities.

A vendor, supplier or brand is defined as an entity that sells something. Although the lines are blurring in the technology industry, this typically means a hardware, software or as-a-service product.

technology solutions. With less money tied to reselling motions, channel partners are fighting with each other and with vendors for lucrative service dollars.

Proving channel value

Aligning and selling through, to and with partners is widely accepted. Leading companies are investing in channel programs, people and technology. To double their business in four years, Salesforce is recruiting 250,000 new partners. Microsoft is recruiting 7,500 new partners each month. Every day AWS adds 50 new partners to the Amazon Partner Networks and has doubled its channel size for three years in a row. And yet the value of the channel seems tenuous. In the last few years at channel events and executive roundtables, I've repeatedly heard the complaint, "I need to prove the value of indirect partnerships to my executive team."

The goal of this report is to help technology channel professionals succeed in their partnering endeavors. Showing future value of the channel requires embracing new types of indirect partners and unique engagement models along with evolving metrics of what it means to be successful in partnerships. We hope to highlight the changes happening with buyers, solution providers and vendor partnering models to prepare channel executives for the future.

Translating trends

At PartnerPath, we watch technology trends reported by analyst firms such as IDC, Forrester and Gartner and translate those trends into insights and actions for the channel players and technology vendors that leverage indirect routes-to-market.

In our 15 years of studying trends in the partnering ecosystem, we've seen a change in not only the questions we ask but also the maturity of partnering models across the technology industry. There is evidence of cross-pollination of channel insights, models and frameworks between the IT industry and consumer goods (like guitars), machinery (like tractors) and financial services (like payment gateways). Sharing best practices in engaging, empowering and evolving channel models across industries accelerates success globally. A rising tide floats all boats.

Our 2020 State of Partnering report includes data collected in a December 2019 survey of 109 technology vendors (including Cisco, DocuSign, SAP and VMware and other companies of various sizes) and 244 solution providers running the gamut from extremely large organizations such as World Wide Technology Group to small companies like Kraft & Kennedy. More data on the profile of study respondents are available at the end of this report. In addition to these 26 pages, be on the lookout for bite-sized data and insights via our blogs, videos and webinars.

DIGITAL AGE DISRUPTION

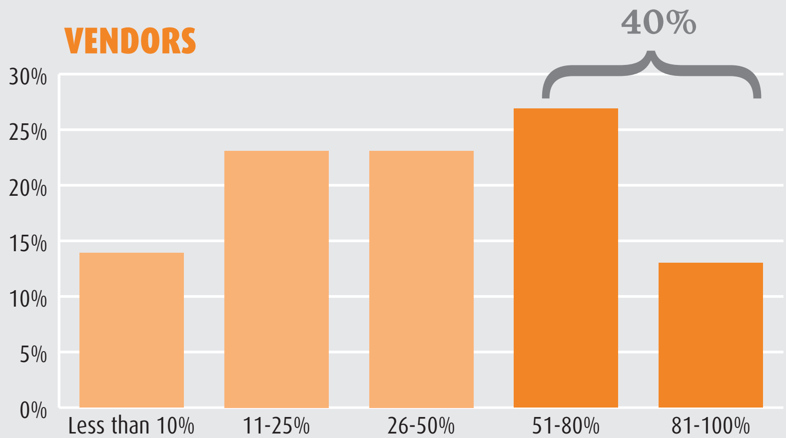
Changing buyer preferences

The digital age has changed the way buyers discover, evaluate, choose, purchase and use technology. The buying process has changed in six significant ways:

1. Buyers are looking for outcomes for their business challenges. The technology they buy must do more than function, it must produce the desired business outcome.
2. Those outcomes often require multiple products and services that come together as a full solution. Channel partners build those full solutions.
3. Buyers are increasingly line-of-business executives. For example, a Vice President of Sales, a Chief Marketing Officer and a Human Resources executive each have their own budget and are purchasing technology solutions to help them achieve a business outcome.
4. Buyers are increasingly preferring to purchase technology as a subscription, which hits their budgets in an easier-to-digest monthly operating expense that can be theoretically be canceled at any time versus a large lump sum capital expense.
5. Nearly all buying decisions start with a Google search. Buyers are well-educated by the time they reach out to a salesperson (at either a vendor or solution provider).
6. Buyers are increasingly willing to transact online. That subscription model (point #4) is more likely to be purchased electronically (yes, even for B2B).

Channel relevance

Don't mistake these shifts in buyer preferences as an indication that indirect channels are less relevant to technology vendors' business models. The data shows the contrary. Channel partners are driving increased revenues for technology companies and also a larger share of vendor cloud or subscription business. 40% of the vendor respondents to this year's State of Partnering study indicate more than 50% of their revenues are driven (not simply fulfilled) by partners. This is up from 32% reporting the same amount of revenues driven by partners last year. Several years ago, we changed this question from, "What percentage of your revenues go through partners?" to put an emphasis on how partners drive the revenue. To us, the value of a channel is to influence the buyer on purchasing a technology



Channel partners continue to drive more of the vendors' revenue.

THE PERCENTAGE OF OVERALL ANNUAL REVENUE DRIVEN BY PARTNERS IN 2019 solution and recommending a specific vendor or brand – not just reselling the products.

The good news is a whopping 74% of the vendor respondents indicated their partner-driven revenues will increase in 2020. This points to vendors becoming increasingly reliant on partners to create full solutions that address customer needs. While only 4% said their partner revenues would decrease, this decrease is something to keep an eye on as buyer preferences and behaviors change.

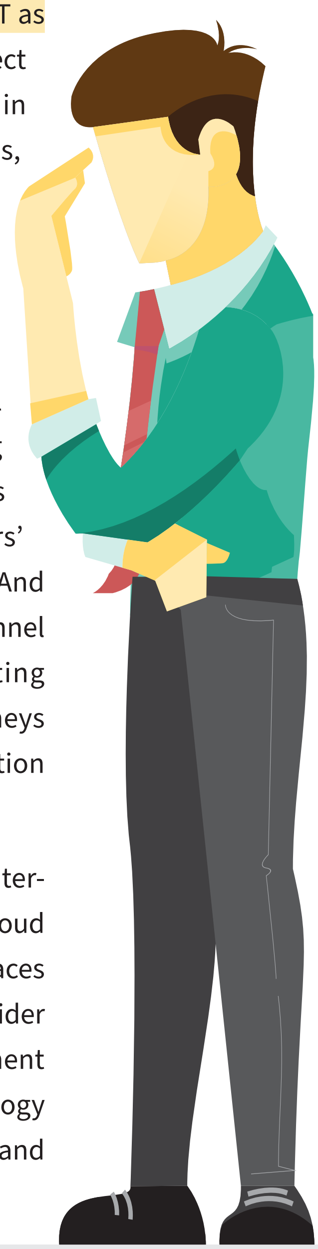
Channel angst

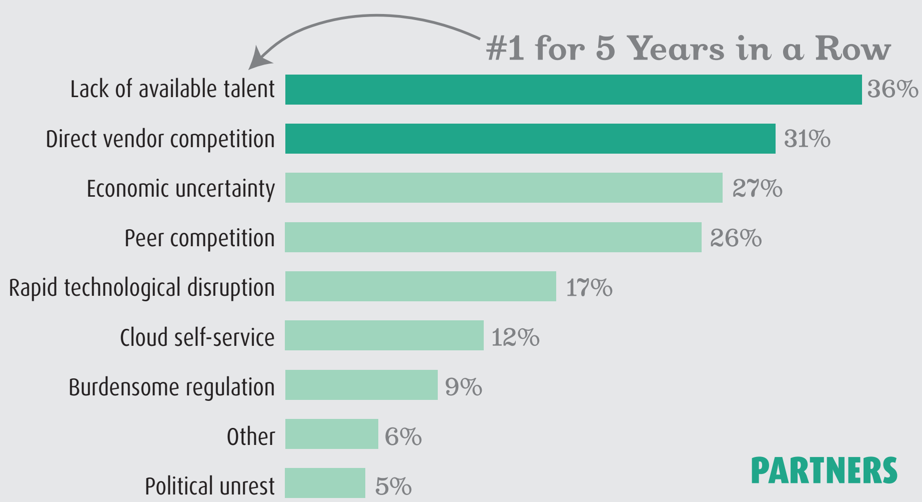
Although 75% of the world's trade goes through indirect channels (per Forrester), the channel media has widely reported doom and gloom for the IT channel. They warn of everything from the complete irrelevancy of the current IT channels to forced transitions and consolidation.

Indeed, the solution provider respondents from our State of Partnering study indicate general anxiety about their overall businesses heading into this new decade. Although the majority expect their revenues and profitability to grow in 2020, they are concerned with navigating changes in technology products, business models and economic conditions. For the fifth year in a row, solution provider respondents consider a lack of available talent (36%) for emerging technologies such as Blockchain, AI, VR and IoT as their top threat to business growth. Direct vendor competition (31%), primarily in rivalry for providing post-sales services, moved up from third to become the second-largest threat to solution provider businesses in 2020.

General economic uncertainty (27%) (no doubt caused by a U.S. presidential impeachment and 2020 election along with ongoing Brexit negotiation) is at the forefront of solution providers' minds for the first time in four years. And more competition (26%) with new channel entrants including digital marketing agencies, accounting firms and attorneys round out the top threats to the solution providers' overall outlook.

Surprisingly, the hyped 'channel disintermediation' predicted by the growth of cloud self-services and technology marketplaces didn't place in the top five solution provider concerns. Nor did the recent government regulation threatened to large technology companies (Facebook, Apple, Amazon and Google among them).





Talent shortage limits partner growth.

THE BIGGEST THREATS TO PARTNER BUSINESS

TREND #1: CUSTOMERS ARE EXPECTING BUSINESS OUTCOMES

Forrester: Business leaders rarely have a line item in their budget for a specific product. Instead, they have an initiative, with a goal, an objective ... and a desired outcome.

At the Cisco Partner Summit in November 2019, Chuck Robbins, Cisco CEO and channel champion claimed, "Never has technology been more important to our customers and never have they cared less about the technology." Chuck's statement underlines our earlier point: customers expect to leverage technology to produce outcomes.

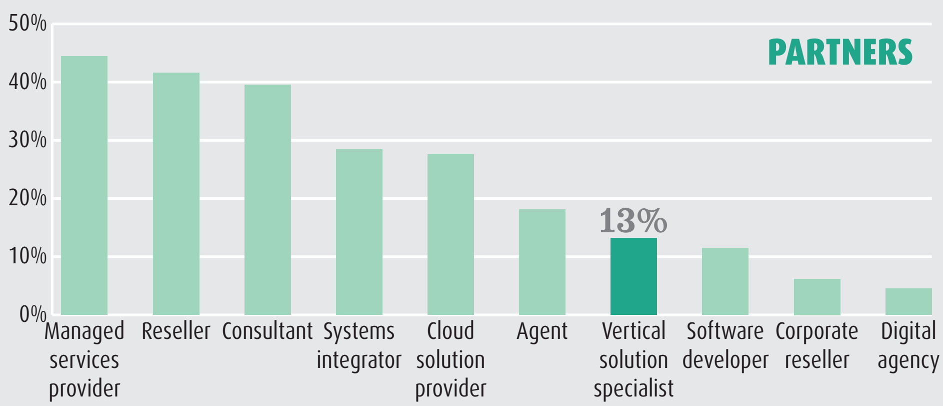
My younger brother, George, is a great example. George is a doctor and doesn't really understand or care much about technology – other than it enables him to do his job. He spends his summers wake-surfing on Lake Tahoe and asked his solution provider for the ability to read detailed medical scans from his boat. He doesn't know or care about the technology stack necessary. He just wants – and will pay for – the outcome of working remotely.

Partners are becoming more specialized

To more effectively produce business outcomes, solution providers are becoming more specialized. In the example of my brother George, not only does his solution provider need to understand the security required in the medical vertical (HIPAA, anyone?), but also the needs of a small regional facility in a second-tier market.

13% of solution provider respondents in our study chose vertical solution specialists as one of the several business types they identified with. That's grown from 5% three years ago, but it's not enough. CompTIA found that 28% of solution providers in the U.S. indicated they were "mostly specializing on a narrow range of vertical industry services and solutions" which is inspiring albeit a bit vague.

As solution providers strive to deliver business outcomes, lack of available talent is the top threat to their businesses. They need to find people who are technically capable and also experienced in the business needs of sub-vertical industries. As solution providers become more specialized to meet customer needs, direct vendor competition (#2 threat) and peer competition (#4) become less challenging to their business growth.



Vertical solution specialists are emerging.

HOW PARTNERS CLASSIFY THEIR BUSINESS

The more they create differentiation with their business models and services, the less likely they are to directly compete with vendors or other solution providers. Over the past five years, the percentage of solution provider respondents threatened by peer competition has steadily decreased as their business models morph to meet customer needs.

Often, delivering outcomes to their customers requires some IP development by the solution provider. Whether it's a piece of custom code, integration, policy definition or methodology developed specifically to address a client's unique business need, 14% of respondents classified themselves as software developers. In fact, 20% of solution provider respondents generate more than a quarter of their revenues from their own IP.

Enable vertical solutions

VENDOR ACTION

As buyers demand outcomes to their business needs and partners invest more in specializations and IP development, vendors need to enhance their partner training and sales playbooks to incorporate vertical business solutions. 35% of the vendor respondents indicated developing a vertical solution/selling approach is one of the top five partner enablement needs for 2020. 22% of vendors said increasing partners' vertical solution capabilities was one of their top three priorities for 2020. Only 16% of the vendor respondents currently offer training to design and position a micro-vertical solution [Appendix B] and 15% said vertical market expertise was one of their top partner performance metrics (beyond sales volume of course).

Vertical Solutions

35% selling approach enablement needed

22% increasing partner capabilities is a priority

16% vendors currently offering training

15% vertical expertise is a top partner metric

This isn't to say vendors aren't offering technical, solution and market specializations or certifications to the solution provider community. Many vendors require solution provider partners to earn a specialization through a formal training and certification process to progress up the program levels. The consensus is: partners need to prove they have the chops to ensure a satisfied customer. The solution providers will still want specialization badges to differentiate their capabilities from their peers, but those are more likely to come from industry associations rather than individual vendors in the future.

Unsurprisingly, more vendors offer technology/product certifications than any other type of specialization (87%). Less widespread among vendors, a growing trend is to offer solution certification (55%), (e.g. risk management) – where more than one product comes together with design and implementation methodologies to create a standard for customer satisfaction. But perhaps the most interesting vendor innovation is offering market or industry certification (29%) (e.g. healthcare) to help partners produce a customer outcome.

87% technology/product certifications

55% solution certifications

29% market/industry certifications

Provide APIs

VENDOR ACTION

54% of the vendor respondents would like partners to build an application on their platform and 47% of vendors offer partners access to APIs. We see this continuing to grow with the percentage of solution providers that consider themselves software developers.

Many vendors are adding program benefits to partners that build IP. Chuck Robbins highlighted, "Cisco is evolving their programs to encourage an outcome-driven software-centric model with innovations around software development." SAP is putting an investment behind partners innovating on the SAP platform. During their Partner Summit in the spring of 2019, SAP announced they would allow partners free access to the SAP cloud platform for test and development as part of their Next Generation Partnering strategy.

TREND #2: PRODUCING BUSINESS OUTCOMES REQUIRES COMPLEX SOLUTIONS

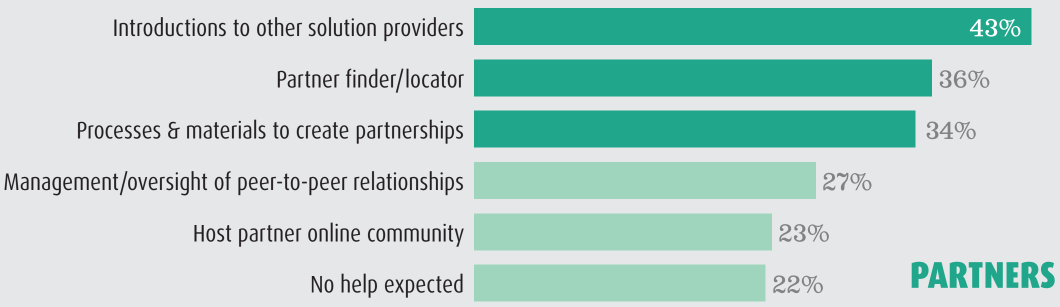
Gartner's B2B Buying Journey report: "more than three-quarters of the customers Gartner surveyed described their purchase as very complex or difficult."

IDC's report on the IT complexity index indicates, "delivering more sophisticated solutions to increasingly sophisticated customers often requires increased complexity. Maintaining high levels of application availability is more difficult and more complex than delivering services with lower service-level agreements (SLAs). And simplifying the user experience often requires hiding greater levels of complexity behind the scenes — the simpler an application is for the user, the more complex the underlying IT infrastructure must often become."

Partners are partnering with other partners

Designing and delivering complex solutions that meet customer outcomes is hard work for solution providers. We see more attention paid to global systems integrators (GSIs) in recent years because of their ability to put together complex solutions. Increasingly, smaller regional players are relying on other solution providers with technical knowledge, experience with micro-verticals and/or additional skilled resources to help them deliver outcomes for their customers. 34% of solution provider respondents indicated they regularly partner with 3-5 other partners (up from 20% in 2019) and 18% regularly partner with 6-10. The growth of cloud/subscription models is going to continue to elevate this need to work with other solution providers according to 63% of the solution provider respondents.

Much of this growth in peer-to-peer relationships will be between transacting and non-transacting partners. The channel is increasingly including organizations that influence customer buying behaviors along with those that resell solutions. For example, traditional resellers are partnering with organizations that influence line-of-business executives. These peer-to-peer relationships often result in introductions to new vendor relationships, an expanded portfolio set and an overall competitive advantage for all parties.



Partners need help finding compatible partners.

EXPECTATIONS FOR VENDOR ASSISTANCE IN FORMING P2P RELATIONSHIPS

> Only **43%** of vendors facilitate partner-to-partner relationships and **9%** have partner-to-partner collaboration as a top five initiative in 2020.
>
> [Appendix C]

77% of the solution provider respondents expect some help from vendors in developing these partner-to-partner relationships. To that end, they would like a partner finder solution (36%), introductions to other solution providers (43%) and processes and materials to create partnerships (34%). Most vendors invest in the development, deployment and curation of a partner finder solution to help customers locate solution providers. However, data shows 37% of the usage on a partner finder is partners looking for each other, and 44% of the usage is from internal sales, marketing and partner management people (according to a top vendor).

VENDOR ACTION

Foster partner-to-partner ecosystems

An interesting finding is the solution providers' desire for introductions to other relevant partners. We see this as part of the evolving role of the partner account manager (PAM). One way to help a solution provider thrive is to understand their business model, strengths and growth desires and make relevant introductions to other like-minded solution providers. The PAM of the future will have access to much better data and insights about the partners they directly manage and all the other organizations partnering with their company. Does one partner have an end-point security certification, and another have experience with a regional radiology group's business needs? Put them together to address the customer's opportunity and produce excellent outcomes. Even better, provide them with contracts to formalize their partnership plus the processes and policies to ensure effective collaboration.

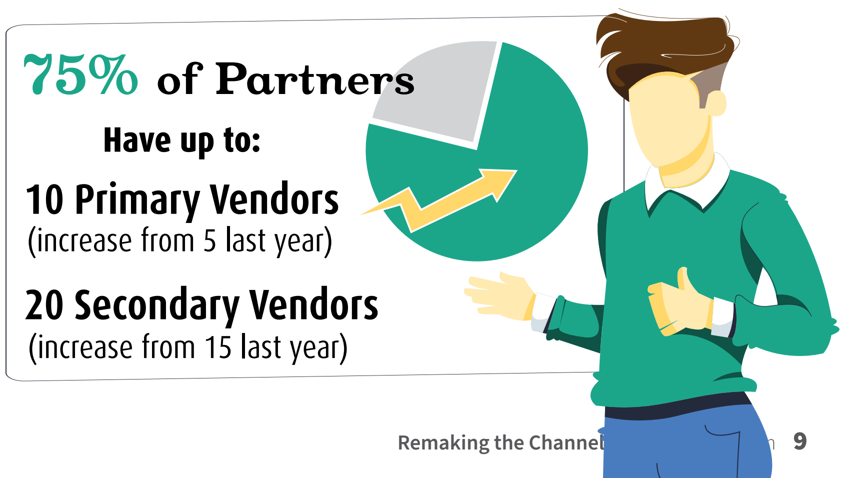
VENDOR ACTION

Validate cross-vendor solutions

21% of the vendor respondents recognize and reward partners for solution development but only 6% measure partner success on developing a full solution. The vendors' technology relationships can streamline solution providers' success in producing customer outcomes. Vendors give partners a leg up on solution development by validating their products work seamlessly with another vendor's products – removing the initial compatibility evaluation from the solution provider's shoulders.

Traditional distributors face considerable headwinds in this digital age of disruption and could add value to their solution provider customers by validating cross-vendor solutions. They are uniquely positioned since they carry a wide variety of vendor products. However, for the past two years, only 10% of solution providers respondents and 17% of vendors respondents indicated they leverage distribution partners for solution aggregation. [Appendix D & E]

The number of lines a solution provider carries also affects their ability to put together a solution. 75% of solution provider respondents carry up to 10 primary vendor lines (up from 5 last year) and up to 20 secondary vendor lines (up from 15 last year). The solution providers continue to add vendors to their line cards to ensure they have access to the technologies needed to address customer needs. 90% of solution providers indicated they were likely or very likely to add new technology and/or a new vendor. In our "5 Stages of the Partner Journey" report we highlighted the primary reason solution providers look for a new vendor is to address a customer need.



TREND #3: EMERGING LINE-OF-BUSINESS BUYERS

Forrester: 58% of business executives are significantly involved in deciding and hiring third party services firms to implement and integrate these projects into the back-end of their company.

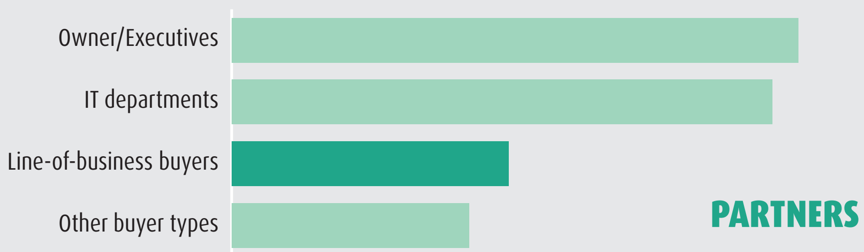
As Jay McBain, Principal Channel Analyst at Forrester said during our yearly channel predictions webinar, 65% of all technology decisions are now made by business leaders. 30% of the time those business leaders actually block IT from involvement in the purchase decision because they don't like the IT team's bureaucracy and slow processes. Line-of-business executives spend 51% of their time on technology. Whether they're in marketing, sales, operations, finance, HR or partnering – they are spending more of their work time evaluating, using and optimizing technology solutions than in their functional work.

Partner business models are evolving

When you ask a room full of solution providers if they are resellers, they all raise their hands. Then if you ask if they are managed service providers, they keep their hands raised. The same if you ask if they are consultants. Their business models are morphing. They are generating new offerings and finding new ways of making money. In fact, on average the solution providers chose 3.1 classifications for their businesses. That's up from the 2.8 choices they made just last year. The 244 solution provider respondents chose the classification of Managed Services Provider the most (44%) then Reseller (42%) then Consultant (40%) with fewer identifying with the older term Systems Integrator (28%) or the newer classification of Cloud Solution Provider (28%).

43% of the solution provider respondents indicated more than a quarter of their sales come from owner/executive buyers. Only 21% indicated more than a quarter of their revenues come from line-of-business buyers – and that's not enough. It's a big investment for solution providers to hire and train marketing and salespeople to develop strong value propositions to a line-of-business owner (such as a chief marketing officer) instead of selling in the traditional way to IT departments. But the traditional solution provider ecosystem has to move faster here or lose even more ground to new channel entrants.

Indeed, selling to the line-of-business buyer is broadening the types of channels to include more non-traditional players such as SaaS-related businesses and consultancies, MSPs, digital marketing



Partners are not keeping up with growth in line-of-business sales.

SOURCES OF PARTNER SALES (RESPONSIBLE FOR MORE THAN 25% OF REVENUES) agencies and professional services firms like law offices and accounting firms. These non-traditional channels are parlaying their own experience using technology into new revenue streams by recommending, reselling, implementing, integrating and optimizing technology products and business processes for their clients.

The decline in gross profit from traditional resale (hardware or software) is spurring solution provider evolution to new revenue streams. Though MSP margins are shrinking and most MSPs aren't able to get above ten people (Forrester), the solution providers ranked Managed Services as their highest gross profit margin offering. 30% of the solution provider respondents indicated more than a quarter of their revenues came from managed services. We see this as a split between those that can be successful at managed services and those that will never get their managed services off the ground. Vendors should know the difference between those two types of solution provider and not waste time trying to engage those that will never succeed.

Managed Services
Post-sales Services
Pre-sales Services
SaaS Resale
Agent/Influencer
Traditional Software Resale
Traditional Hardware Resale

Partners are starting to charge for pre-sales services.

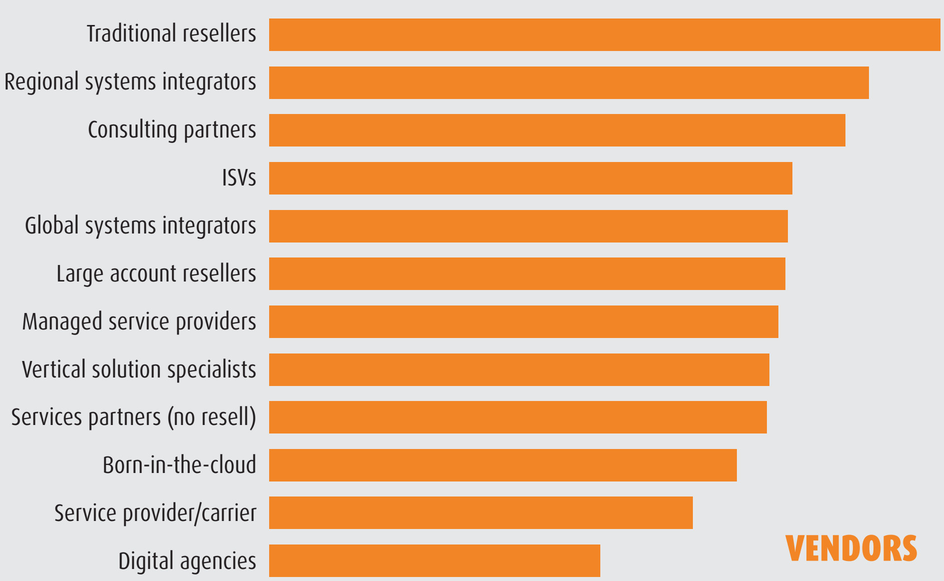
SOURCES OF BEST GROSS PROFIT MARGIN RANKED BY PARTNERS

The solution provider respondents ranked pre-sales services third in average gross profit margin this year – behind managed services and post-sales services. Yay! It sadly ranked last in the 2019 study. To us, this means the solution providers are making headway in charging for the advice, consulting and design services they have tended to give away to secure the product purchase. Though these pre-sales services will never be as profitable as the big post-sales services, it is good to see solution providers making some profit on their consulting services.

VENDOR ACTION

Create flexible programs

One thing is for sure as we head into a new decade, there is a wider variety of partner types engaging in vendor ecosystems, driven by buyer behaviors and line-of-business buyers with larger technology budgets. 31% of vendor respondents offer training to help traditional reseller partners sell to line-of-business buyers. And more is needed as 40% of vendor respondents feel the



Vendors are engaging more different types of partners.

TYPES OF PARTNERS IN VENDOR ECOSYSTEMS

ability sell to the LOB is a top-five channel partner enablement need for 2020.

The majority of the vendor respondents' ecosystems are comprised of traditional resellers. Yet other types of partners are becoming more common. Vendor respondents indicated more than a quarter of their ecosystem is now made up of a combination of consulting partners, vertical solution specialists, services partners that do not resell, managed service providers, born-in-the-cloud partners and digital agencies.

48% of vendor respondents indicated engaging new types of partners was one of their top five priorities for 2020. [Appendix C] It ranked fourth in the overall priorities for 2020 behind being easier to do business with (57%), increasing partner sales competency (38%) and recruiting and on-boarding partners (53%). To find new partner types, vendors need to learn what partners read, what events they attend and who they follow online.

Several leading IT vendors are segmenting their partner ecosystem by business model – what the partners do with the customer (resell, refer, integrate, service, develop, etc.) instead of by type/label. Think about classifying partners with a verb (action), instead of a noun (label) as what they do with the customer is more relevant than a generic industry label. It's a subtle shift and solution providers will no doubt still select multiple business models (verbs) as they may integrate systems, consult and resell all for the same customer. Nevertheless, vendors will find it more effective to engage, empower and manage partners aligned with the actions they perform with customers. If a partner resells, the set of communications, tools, materials and resources are different than a partner who provides professional services to customers.

The challenge for vendors is to create partner programs that accommodate a wide variety of partner business models. How do you effectively engage, empower and manage a partner ecosystem where one partner may build IP on your platform, consult with the customer on business process changes and resell your technology products? It gets a little more complex for vendors when another partner only consults. As we move through the next decade, channel executives will be running four partner ecosystems as one. One will be an influencer channel that doesn't transact, another will be the traditional resale channel (vendors can't yet drop that motion), a third will be a channel that drives the retention and renewal needed for subscription models and the fourth will be a developer channel that embeds the vendor's technology into a larger solution. Designing a flexible and robust program that unifies these channels is the challenging task for channel chiefs in 2020 and beyond.

Four Partner Ecosystems Working As One

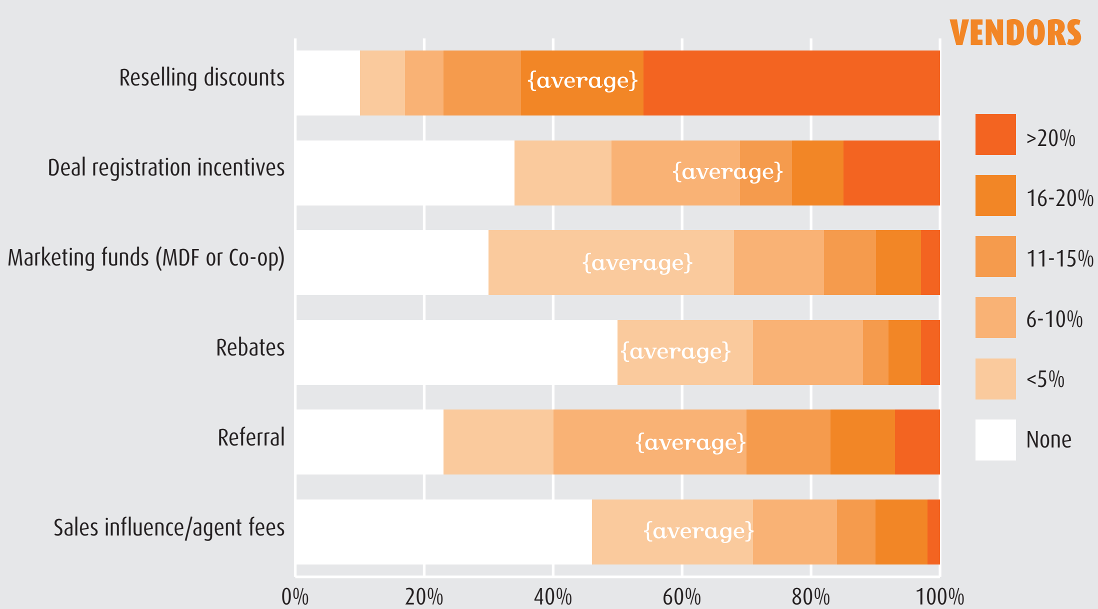
VENDOR ACTION

Evaluate incentives

Vendor incentives are changing to align with each partner's unique financial needs and interests. Partners that only consult aren't motivated by the 87% of vendors that compensate partners with a discount from list price. Although we've seen a decrease in the overall percentage of discount (averaging 16-20%) offered by vendors, 46% of the vendor respondents are still offering discounts of 21% or more to reselling partners. Although Salesforce is shutting down its resale program, for the majority of vendors this model isn't going away anytime soon. There was an even split between vendor respondents expecting to increase and decrease reselling discounts in 2020.

66% of the vendor respondents offer deal registration incentives, about the same amount as last year, but we've seen the average amount for deal registration inch up slightly into the 11-15% range. 31% of the vendor respondents indicated they would increase deal registration incentives with no one indicating a decrease. Co-marketing and rebate incentives continue to average in the 5% range – with several vendors (18%) edging up co-marketing to the 6-10% range and 43% of vendor respondents indicating they would increase co-marketing funds in 2020. We see co-marketing funds becoming increasingly important to solution providers as they adopt digital marketing activities to drive increased influence in the buying journey.

92% of the vendor respondents have some type of referral program and 30% of respondents indicated they would increase the referral amounts in 2020. 48% of vendors with a referral program only offer a referral reward for the first year of the sales price. This is short-sighted if you'd like to keep the partner engaged in the success of that customer. The telco industry offers a classic example of how this plays out. A partner will flip a customer between AT&T and Verizon once their commission payment terms expire. So, every three years the partner switches the customer to the other service to get the customer referral payments. You have to admit, it's fairly painless switching between the two. Instead, consider what 22% of the vendor respondents are already doing: keep the partner engaged in the customer and loyal to you by paying the partner a recurring referral fee for the life of the customer.



Reselling discounts slip while deal registration and MDF slowly increase.

RANGES FOR INCENTIVES OFFERED TO PARTNERS

TREND #4: CUSTOMERS ARE PURCHASING AS A SUBSCRIPTION

By this year, Gartner had predicted all new entrants and 80% of historical vendors will offer subscription-based business models.

Zuora: Over the past seven and a half years, the Subscription Economy has continued to thrive, growing more than 350% as consumers increasingly demand access to convenient, digital services over the ownership of physical products.

Partners are investing in customer success (from land to retain)

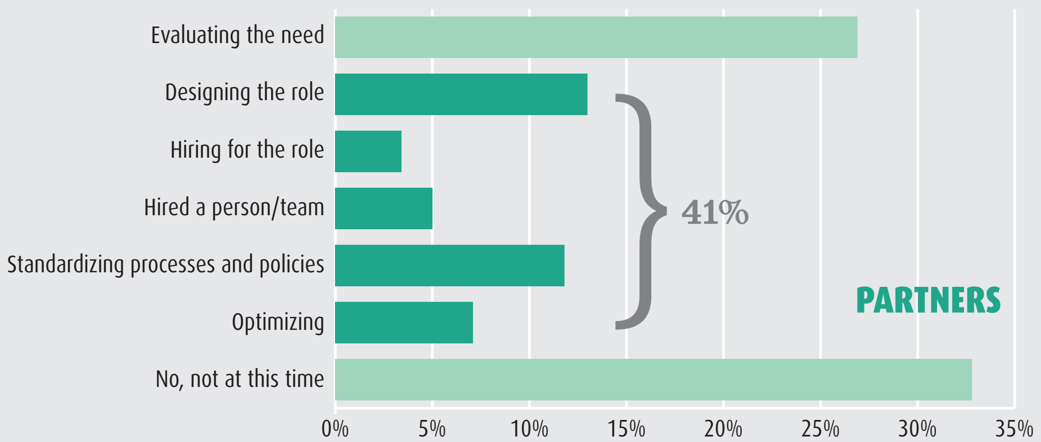
The old customer acquisition funnel is dead. It is widely known consistent and constant customer engagement leads to an increase in customer lifetime revenue. But did you know that a 5% increase in customer retention increases profits by 25% to 95%? Or that an engaged customer lifecycle generates 23% higher renewal revenue and 10% higher renewal margins?

Partners have been slow to invest in the customer success initiatives required to be profitable with subscription models. But it is coming. 41% of solution provider respondents have some form of customer success initiative underway. Whether they are starting to design the role or are optimizing the team, solution providers are waking up to the need for customer success management.

Customer success is not customer satisfaction nor customer experience. These terms get thrown around a lot, often with what seems like the same meaning. You may say, “We rate our partners on customer satisfaction, that’s the same thing, right?” No, it’s not.

The umbrella term of ***customer experience*** is defined as the result of every interaction a customer has with your business, from navigating the website to talking to customer service to receiving the product/service they bought. Partners therefore greatly affect your customer experience. Every interaction the customer has with your business, whether through solution providers or by directly engaging with your people, processes and policies, is important.

Customer satisfaction is the degree to which a customer is happy with your product or service. All customer satisfaction is part of customer experience, not all



Partners are investing in customer success initiatives.

CURRENT STAGE FOR CUSTOMER SUCCESS MANAGEMENT INITIATIVES customer experience is part of customer satisfaction. (Like bourbon and whiskey.) Solution providers have always cared about creating satisfied customers. The customer belongs to them too (and may be even more valuable to them than to the vendor). Solution providers typically desire to sell a bevy of products and/or services to the same customer. They want the products, or more importantly, the solution to satisfy customer expectations so they can sell more.

Finally, ***customer success*** is the business methodology of ensuring customers achieve their desired outcomes while using your product or service. The goal of customer success is to make the customer as successful as possible, which in turn improves customer lifetime value (CLTV) for your company. In the technology industry, customer success is most often measured as renewal rates or in a subscription-based world, churn rate. Churn, the annual percentage rate at which customers stop subscribing to a service, is a hot topic in the IT industry as more and more vendors move to a subscription model. 20% of the solution provider respondents count customer success as one of their top three company metrics however only 8% of solution providers consider churn rate as a top-three metric.

It is important solution providers pay attention to and invest in customer success. It's one thing for a customer to be satisfied with the product they bought ('this storage solution backs up my files pretty well at a good price point') but they need to also be

successful with the solution ('this storage product integrates with my other applications and is helping me to increase employee productivity'). Next-generation partners not only sell the subscription but are also responsible for the customer success motions of adoption, usage, expansion and renewal.

VENDOR ACTION

Invest in customer success initiatives

Even though it doesn't seem like customer success initiatives have taken off with the channel or in the vendors' channel programs, 61% of vendor respondents would like their partners to manage and secure the renewal. The cause for the disconnect between the roles vendors would like their partners to perform and those they actually do may center on compensation. 87% of the vendors pay the partner less on the renewal than they do on the original sale. They compensate more for a net new logo than a happy customer with repeat business. Our clients tell us when you pay partners equitably for the renewal there is less customer churn.

Compensation encourages partners to perform customer success activities and training empowers them to be effective. 45% of vendor respondents train partners on cloud transition hurdles but only 25% train on customer success methodologies. Worse, only 10% of vendor respondents indicated partners investing in customer success initiatives was a top priority in 2020. [Appendix C] Whether a solution provider is selling cloud solutions as a subscription, per usage or per license, they need customer success methodologies. Period. If customers aren't operating a technology solution to produce an outcome, they're not going to renew or expand their purchase.

Cisco is pushing the envelope on customer success with several partner initiatives. They launched a customer success business specialization for their partner community in 2018. They call it CX or Customer

Experience, but it's customer success (see my tirade above on that topic). Cisco's goal was to help partners organize, operate and monetize customer success to accelerate the customer realizing the value to the technology purchase. They reward partners for hiring and on-boarding personnel and implementing a customer success model and have additional incentives for driving customer use, adoption, expansion and renewal of Cisco software products. As of the Cisco Partner Summit in November of 2019, Cisco reported 43% of their partners are adopting some form of the Cisco customer success program. This is in line with the percentage of solution provider respondents indicating they had a customer success initiative in progress. Cisco announced partners participating in their customer success program saw an excellent return including a 15% increase in purchases, a 20% increase in professional services, a 5-10% increase in customer footprint expansion and a 10% increase in renewal rates. All in all, Cisco asserted that embracing a lifecycle approach doubles a partner's business in 3-4 years.

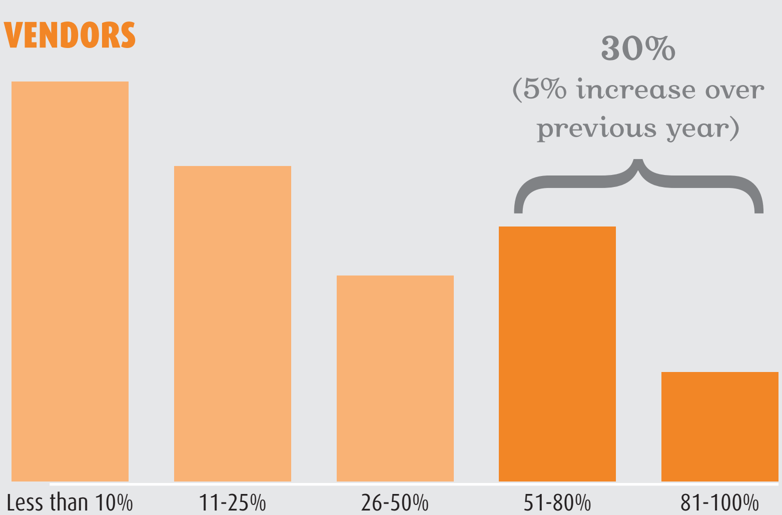
VENDOR ACTION

Drive the channel's transition to cloud/subscription-based models

After nearly a decade of hearing cloud computing was going to change the way the technology industry did business, it seems to finally have arrived. The majority of vendor respondents (53%) indicate more than 50% of their revenues are coming from cloud or subscription models. That's up from only 36% of respondents with the same amount of revenues from cloud just last year! Regarding the percentage of cloud-based revenue solution providers generate for the vendors, that number is also increasing though more slowly. 30% of vendor respondents indicate the channel is driving 50% or more of their cloud business (a 5% increase over last year).

A growing number of solution providers (37%) indicate they measure their success by the amount of monthly recurring revenue. Yet there was only a marginal increase in the number of solution provider respondents (16%) indicating they had more than a quarter of their revenues coming from subscription fees.

The solution providers' cloud business is growing more through the services they provide than the compensation they receive for recommending or reselling these solutions. Only 30% of solution provider respondents had more than a quarter of their revenue or profitability coming from cloud solutions (roughly no change in the last three years). This number seemed small to me, so I checked with several solution providers. They told me it's very difficult for them to separate the services revenue they receive between "cloud" and "non-cloud"– they see those revenues as simply "services revenue"



Channel-driven cloud revenues are increasing more slowly than the vendors' overall cloud growth.

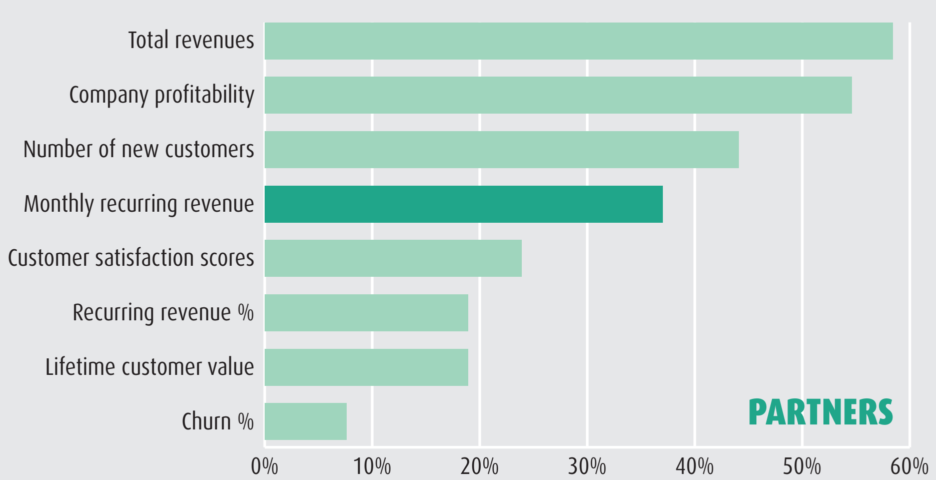
THE PERCENTAGE OF CLOUD- OR SUBSCRIPTION-DELIVERED BUSINESS (ANNUAL REVENUES) DRIVEN BY CHANNEL PARTNERS versus subscription licensing or reselling margins. Only 4% of the solution provider respondents indicated they weren't interested in growing their cloud revenues.

Many industry analysts and journalists refer to this glacial progress toward a cloud or subscription model as a business transformation for the solution providers. We propose solution providers are actually blooming a new business model under their current brand banner. They're not transitioning sales, marketing and services people to a new model but are instead hiring new people, developing new practices and creating a new division/group to attack the opportunities in cloud. As many vendors know from their own transition to offering products in a cloud platform, it's an entirely new mindset and set of skills to find cloud success.

80% of vendor respondents are supporting their partners' transition to cloud/subscription models – but not with the help partners report they need. The vendor respondents indicated the top three ways they help are by providing co-selling resources to help partners transition (57%), training (45%) and materials (44%) to educate partners on transition hurdles. 35% of vendor respondents believe their partners need business transformation enablement in 2020 and 29% indicated their partners needed enablement on selling and marketing a cloud solution. [Appendix A] It's energizing to see about 10% of vendor respondents are providing market development funds to help the solution providers develop an MSP practice. As we've seen in past studies, the journey to cloud starts with offering some version of managed services.

The solution provider respondents indicate a myriad of issues in trying to grow their cloud revenues. Surprisingly, competition from other solution providers or even the vendors doesn't top the list. Their #1 issue is a lack of marketing expertise (35%). Then it's nearly a tie between competition from the manufacturers/vendors offering the services directly (30%) and not having the necessary funds to invest in growing their cloud revenues (29%). This is completely understandable considering the countless investment needs tugging at the solution provider. They are deciding between: investing in more technical certifications, learning emerging technologies, developing their own IP, creating new services methodologies, implementing customer success initiatives (retention, renewal), generating digital marketing activities and hiring new resources.

Changing their processes and business models for cloud ranked near the bottom of the list of issues the partners have in transformation and yet it is a primary focus for the vendor respondents. Considering the struggle many traditional distributors are having finding relevancy in the cloud model (read: revenue streams), we're surprised only 12% of solution providers and 15% of vendor respondents report working through distribution for this cloud model transition training. [Appendix D & E]



Monthly recurring revenue (MRR) is a growing success metric for partners.

TOP METRICS FOR SUCCESS ACCORDING TO PARTNERS

TREND #5: CUSTOMERS ARE RESEARCHING ONLINE

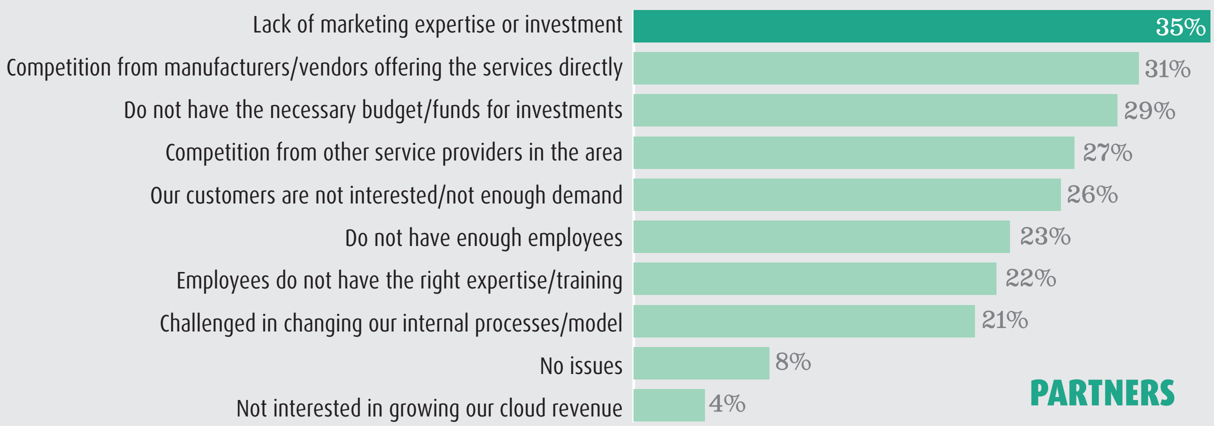
Gartner cites 68% of all buying decisions are made before anyone connects with a sales representative.

The Harvard Business Review indicates, "Customers may be better informed than ever, but CEB research shows they're deeply uncertain and stressed. With a wealth of data on any solution available online, a raft of stakeholders involved in each purchase, and an ever-expanding array of options, more and more deals bog down or even halt altogether. Customers are increasingly overwhelmed and often more paralyzed than empowered."

Partners are providing advice

Apparently, you can't believe everything you read on the internet and no one wants to fall for fake news. While it's true customers are increasingly turning to the web for research on product options and specifications, they're also turning to partners (trusted advisors) for advice on which applications and technology will address their specific business needs. A customer can get oodles of information on a product or service in a strategic Google search and a sales representative (in either a partner or vendor) is no longer the sole (or even primary) contact for product details. The salesperson's value is now to provide advice on how technology products come together to produce a business outcome. Partners are starting to recognize this shift. 70% of solution provider respondents expect consulting services to drive significant revenue growth for the next two years.

20% of the solution provider respondents indicated help developing pre-sales services (advice/consulting) is a top-five need in growing their cloud or subscription business. Many vendors offer only referral fees for cloud offerings – these don't provide a lot of profitability for the partners. Solution provider respondents ranked influencer/agents fees fifth in profitability margin after all the services options – and just above traditional hardware, software or SaaS resale models. As we mentioned in trend #3, most vendors are paying an average of 5% referral fee on the first year's revenue. Solution providers need to receive significant revenues from pre-sales consulting services to make a compelling



Partners identify their need to grow marketing expertise.

ISSUES TO CLOUD/ SUBSCRIPTION REVENUE GROWTH value proposition for an influencer-only model. The referral payments from the vendors alone won't cut it.

For partners to realign their business models to providing advice to customers – they need to be recognized as thought leaders. When customers perform online research, partners must have an online presence dominated by their insights and recommendations on leveraging technology to solve problems. Regretfully, traditional solution providers aren't known for their marketing prowess.

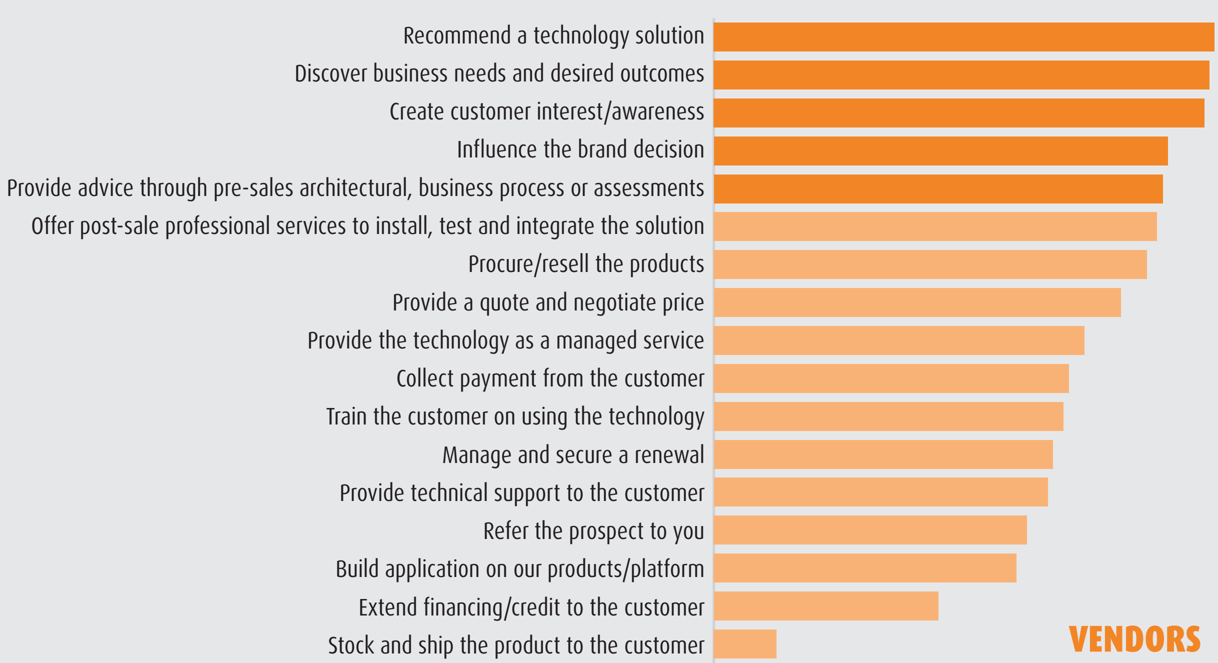
But at least the partners are self-aware in this regard. Digital marketing expertise is the #1 challenge the solution provider respondents cited when trying to grow their cloud/subscription revenues, significantly ahead of competition from manufacturers and lack of overall budgets to invest. On the bright side, four in ten solution providers are investing in marketing and social media, including hiring professional marketing talent.

VENDOR ACTION

Engage partners as influencers

I've said it 1,000 times. In the digital age, the value of an indirect channel is the influence over a customer's purchasing decision. Vendors want customers to purchase their products and channel partners want to make money on the services surrounding that purchase. Two things matter: who influenced the customer and who creates customer success with their purchase.

The top five roles vendors want partners to play in the customer sales and success cycle are all early-stage influence activities including: creating customer interest/awareness, discovering business needs and desired outcomes, providing advice through pre-sales architectural, business process or assessment services, recommending a technology solution and influencing the brand decision. Desiring these roles, vendors should implement affiliate and alliance program elements that recognize and reward influence, allowing them to engage more different types of partners (as discussed at length in trend #3). Over the past 15 years, we've seen vendors progress from rewarding partners at the point of transaction (resale volume) to prioritizing technical implementations via certifications to valuing the pre-sales activities that generate new customers. The more technology is delivered via cloud and requires less implementation expertise, the more we see this swing towards rewarding partners for the top-of-funnel activities.



Early-stage influence activities top vendor desires.

EXPECTED ROLES FOR PARTNERS IN THE CUSTOMER SALES AND SUCCESS LIFECYCLE

Vendors need to decouple resell from the value partners provide throughout the buyer journey and focus less on the percentage of revenues transacted through their channel partners. To keep up with new buying behaviors, vendors need to ensure they are engaging and rewarding the channels that influence the purchase decision. We can look to our own relationship with PRM here at PartnerPath for an example of influence. We provide insights and advice on Partner Relationship Management features, functionality and usability and align client needs to potential vendors. And of course, we offer services to evaluate, decide, implement, use, optimize and extend a client's PRM solution. We don't resell any PRM technologies nor do we accept any referral or influencer fees. How do you influence the influencers? We'll take that question offline.

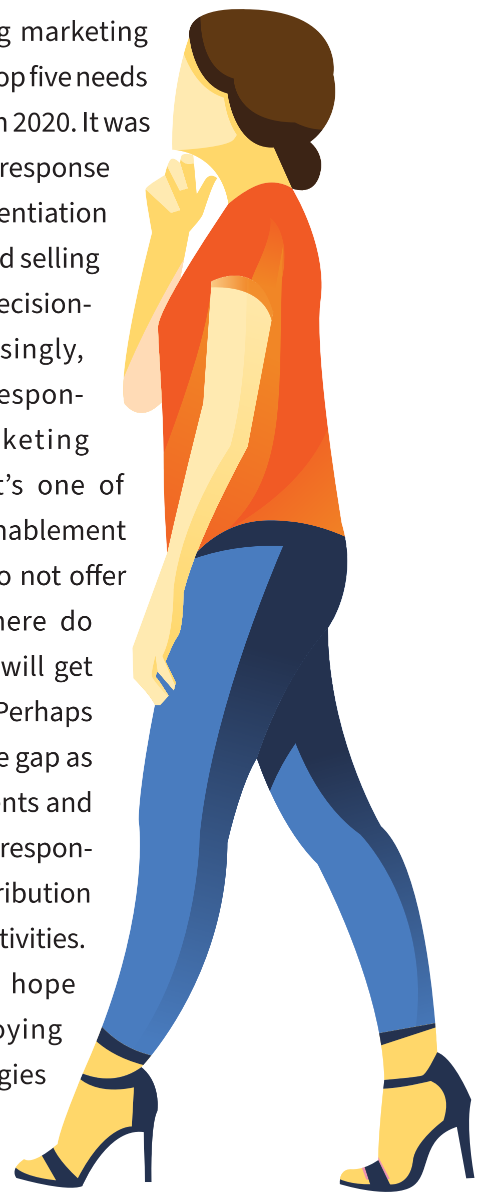
For decades, vendors measured the success of their channel teams on the revenues that passed through partners. In the last five years, metrics have been implemented to track revenues driven by partners, which many vendors designate as "partner sourced" revenue monitored via deal registration programs. As more organizations engage as influencers, the metrics will shift to measuring the material impact a partner has on the customer sales and satisfaction lifecycle.

VENDOR ACTION

Train on digital marketing techniques

Partners need to enhance their digital marketing expertise. The tired marketing activity of customer breakfasts isn't going to be successful as the channel evolves. Several leading vendors are using MDF spending policies to encourage digital campaigns. For example, one vendor is reimbursing their partners for LinkedIn Sales Navigator. Another top vendor is using account-based marketing efforts to target jointly aligned accounts on a digital front by directing prospects back to the partners' web presence and unique offerings. Our data shows partners who employ a digital marketing strategy generate four times the pipeline compared to those who don't. Email marketing has an ROI of 4200% and 84% of C-level and VP-level B2B buyers leverage social media in decision making. If partners aren't using digital marketing activities, they are missing 75% of the buyer journey and have less opportunity to provide influence and consulting during the consideration, evaluation and decision stages. To make the situation more ominous, digital marketing agencies are also entering as a channel – providing advice, recommendations and implementation services and creating new competition for traditional IT solution providers.

38% of vendor respondents chose designing and executing marketing campaigns as one of the top five needs for partner enablement in 2020. It was the third highest-ranked response behind selling the differentiation of our products (63%) and selling to the line-of-business decision-makers (40%). Surprisingly, only 28% of vendor respondents offered marketing training to partners. It's one of the top five needs for enablement and yet most vendors do not offer marketing training. Where do vendors think partners will get the training they need? Perhaps distribution will close the gap as 45% of vendor respondents and 30% of solution provider respondents are leveraging distribution partners for marketing activities. [Appendix D & E] We hope distribution is employing digital marketing strategies to bring partners into the current century.



TREND #6: CUSTOMERS ARE TRANSACTING ONLINE

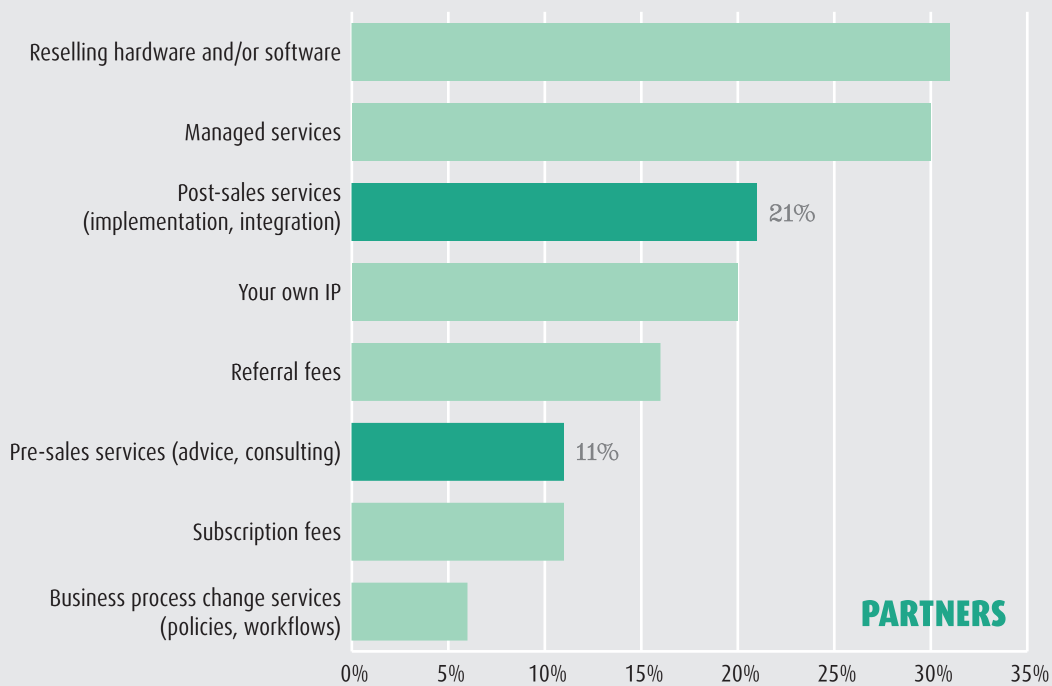
Marketing Profs: 57% of B2B companies believe commerce is rapidly shifting from offline to online, a point that seems to be validated by the significant investments B2C giants like eBay, Amazon, and Google have made in the B2B space.

In their B2B Buying Journey report, Gartner claims, "customers are largely channel-agnostic when seeking the information they need to get a job done. As a result, [vendor or solution provider] sales reps are not the only channel to customers, but simply a channel, and alignment across in-person and digital channels is crucial for supporting customers in the way they actually buy."

Business-to-business buyers are people like you and me. We all have been conditioned to expect seamless, high-quality online purchasing experiences. Whether it's buying a pair of shoes or a car, we know where to go, what to look for and how to purchase. As a result, we are beginning to look for a similarly simple experience when we make our business buying decisions. Instead of picking up the phone to call a vendor or solution provider for pricing, business buyers increasingly prefer online self-service—researching, finding, buying, and managing their purchases through a web-based platform.

Partners are relying on services

To survive in a world of diminishing resale relevance (and margins), solution providers don't have to adopt cloud or subscription models (gasp!); but they do have to shift to a service focus. Partners can thrive on project-based services contracts (with 75% margins)



Partners aren't generating enough of their revenues from services.

SOURCES FOR MORE THAN 25% OF PARTNER REVENUES to implement, integrate and optimize as-a-service solutions without having to transition their business models to rely on a trickle of subscription payments.

With the growth of buying direct from vendors or through marketplaces, reselling motions become less relevant to partner business models. As a result, solution providers need to step up their focus on services. Only 21% of solution provider respondents report over a quarter of revenues from post-sales services and only 11% of solution provider respondents have over a quarter of revenues from pre-sales consulting services. It's not enough. But those services generate the bulk of the partners' profitability. Growing pre-sales services is a challenge as it's hard to charge for influence. But there's no good reason for the paltry number of solution providers with significant revenues from post-sales services.

The only significant growth in services is coming from managed services. It ranked as the highest gross profit margin producing activity with 30% of solution provider respondents reporting over a quarter of their revenues from managed services. We expect this growth to accelerate as MarketsandMarkets predicts the global managed services market to increase by more than a billion dollars within five years – growing from $180.5 billion in 2018 to $282 billion by 2023.

VENDOR ACTION

Reduce services conflict

When revenues are ***paramount***, the act of transacting business with customers seems to be the most relevant action within the sales cycle. However, we assert the sale happened long before the quote was created or the contract signed. Since customers can transact directly with the vendor, through a marketplace or via a channel partner, they don't care where the product comes from and it doesn't matter who gets the PO. Forrester cites that 73% of business buyers find buying from the web more convenient and 17% are regularly turning to the web to transact. Over 20 technology marketplaces are taking off. These marketplaces emerge from infrastructures like AWS, Google and Microsoft. Some come out of SaaS organizations like Salesforce, Workday and ServiceNow and some come out of traditional companies like SAP, IBM and Oracle. There are even marketplaces for sub-industries like regional medical centers. The business customer of today doesn't need a channel partner – be that an agent, reseller, systems integrator or MSP – to purchase technology products.

The customer *does* need a partner to provide advice and services to implement and integrate the products into a full solution. Vendors also want partners to play services roles. 80% of the vendor respondents want partners to provide advice through pre-sales architectural, business process or assessment services. And 80% want partners to offer post-sales professional services to install, test and integrate a solution. Slightly fewer (77%) of the vendor respondents want partners to resell and 66% want partners to offer the technology as a managed service.

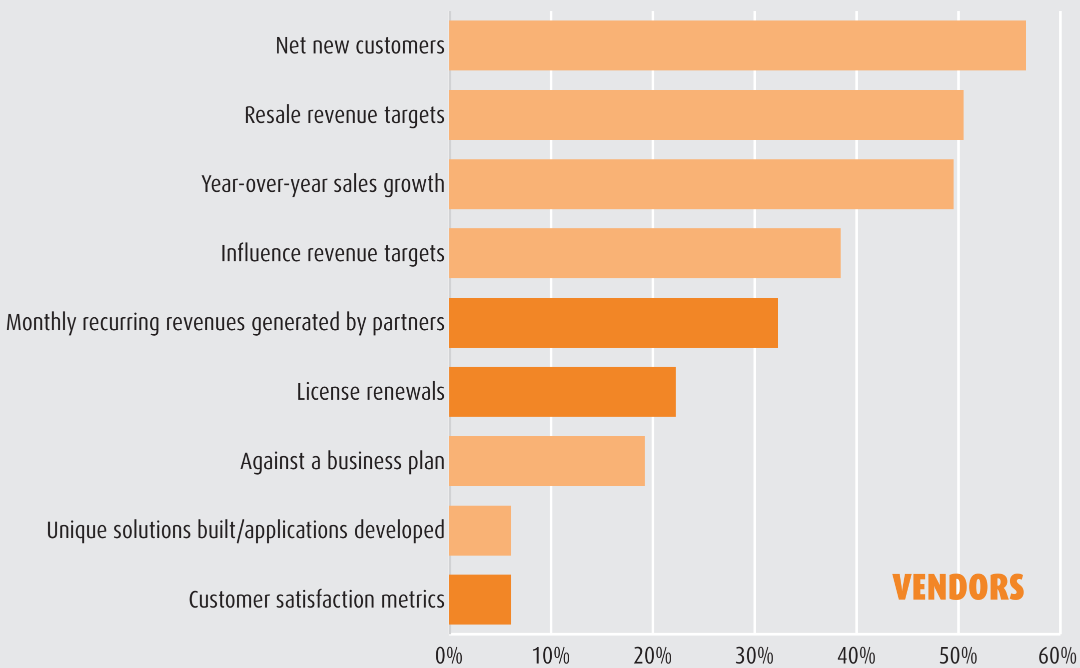
Most of the vendor respondents enable partners for post-sales technical implementation. 86% of them offer technical product training with 58% offering technical product certification. Only 38% offer professional services training. It's one thing to train on technical enablement which the vendors have been doing for decades, and another to also train on services opportunities surrounding their technologies. But most importantly, vendors need to remove the competition from their services team. Vendors make upwards of 70% margin on product sales where partners average less than 10%. Salesforce is shutting down their partner resale program – and expect their partners to grab the $4.29 of services that go along with every $1 of Salesforce licenses. The solution providers' only path to profitability is through lucrative services contracts. Vendors who want a vibrant, committed and successful channel need to figure out how to remove competition on services.

VENDOR ACTION

Implement new success metrics

How vendors measure partner success speaks volumes to their priorities. As [Peter Drucker said in 1954](), "What gets measured, gets managed." As the industry moves to cloud and subscription models, vendors need to change how they determine which partners are successful and valuable. Only 32% of vendor respondents measure partner success on monthly recurring revenues generated; 22% on license renewals and 6% on customer satisfaction. Most of the vendor respondents are still considering net new customers (56%), traditional resale revenue targets (50%) and year-over-year growth (50%) as the key measures of partner success.

With the growth of business buyers transacting online the value of partnerships is splitting between influence and customer success. Only 38% of vendor respondents measure the success of their partners based on influence revenue targets. Vendors must also value partners that help a customer succeed with the technology purchase evidenced by consuming licenses, minutes or terabytes. With the addition of new partner types, many of whom won't be interested in resale, leading vendors are now measuring "material impact" of the partnership – looking at customer satisfaction, usage, renewals and development of repeatable solutions. Each technology vendor has a different vision, goals, product set, history with the channel, direct sales strategy and commitment to partnering. What does partnering success mean in your specific situation and how will you evidence that success to your executive team?



Vendors need to measure partner success on new metrics instead of traditional revenue sources.

METRICS FOR PARTNER SUCCESS

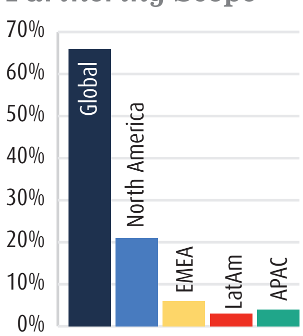
REMAKING THE CHANNEL

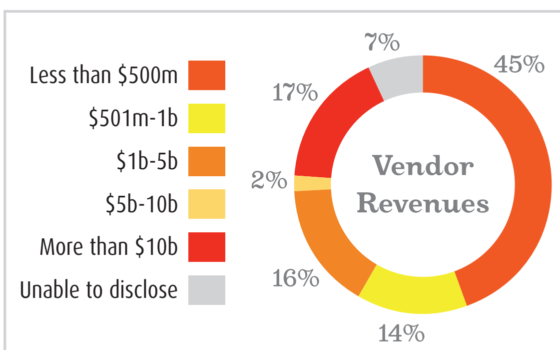
As we move into a new decade, the channel is taking steps to prepare for a future chock full of new buyers, emerging technologies and shifting business models. Solution providers are targeting new customers, shifting to recurring revenue streams, differentiating with vertical market expertise and increasing revenues from pre-sales services such as business process consulting and solution design advice.

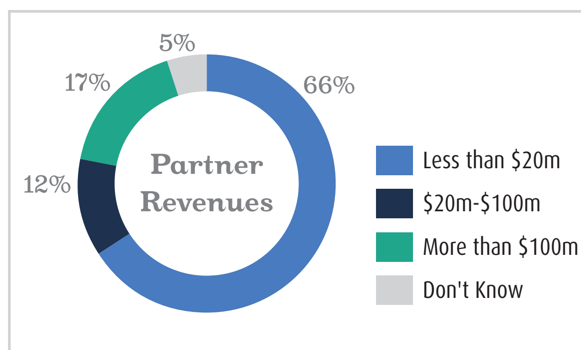
In response to the changes in the buyer behaviors, innovative vendors are changing how they partner. They are creating programs to engage, empower and manage partners with unique business models, including non-transacting partners that influence the customer at multiple touchpoints along the buyer journey. They are also training and incentivizing solution providers on customer success methodologies and tools as well as facilitating partner-to-partner engagement models to bring reselling and non-reselling partners together. Are you keeping up with these trends?

ABOUT THIS STUDY

Partnering Scope







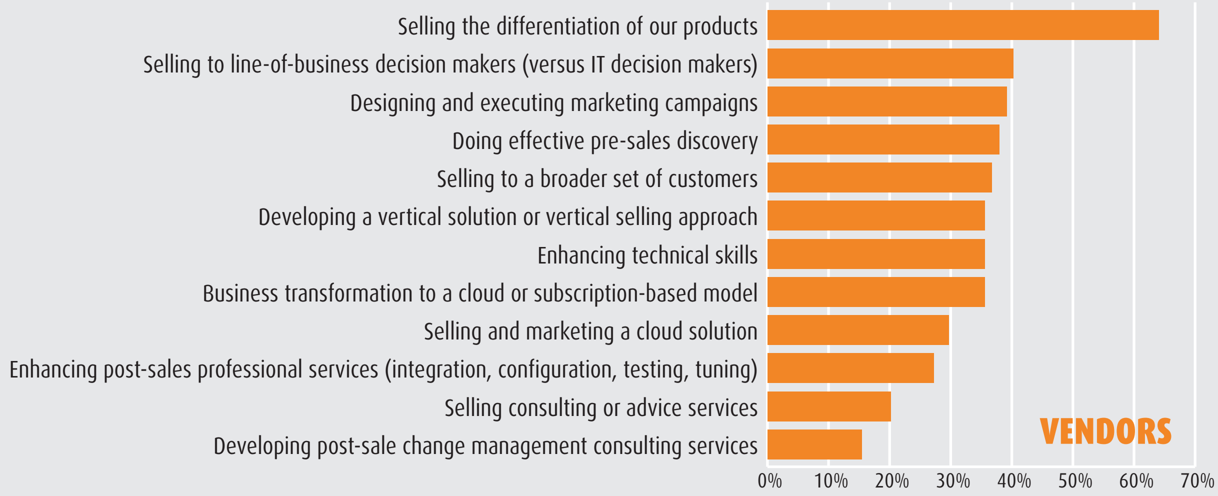
The 2020 State of Partnering survey was open in November/December of 2019 on the PartnerPath website. We had 244 solution provider responses and 109 vendor responses. We are grateful to Channel Partners and Channel Futures for their help to gather partner responses for this report.

Channel Futures unites the diverse ecosystem of companies that comprise the "new channel," which includes managed service providers, systems integrators, born-in-the-cloud services companies, specialized service providers, consultants, VARs and other organizations that operate outside of the traditional information and telecommunications technology (ICT) channel. Channel Partners is the official media of the Channel Partners Conference & Expo and Channel Partners Evolution.

Author Diane Krakora is CEO of PartnerPath and has two decades of experience defining the best practices and frameworks around how to develop and manage partnerships. PartnerPath is wholly dedicated to helping companies elevate the impact of partnering at any stage of their partner and channel development cycle.

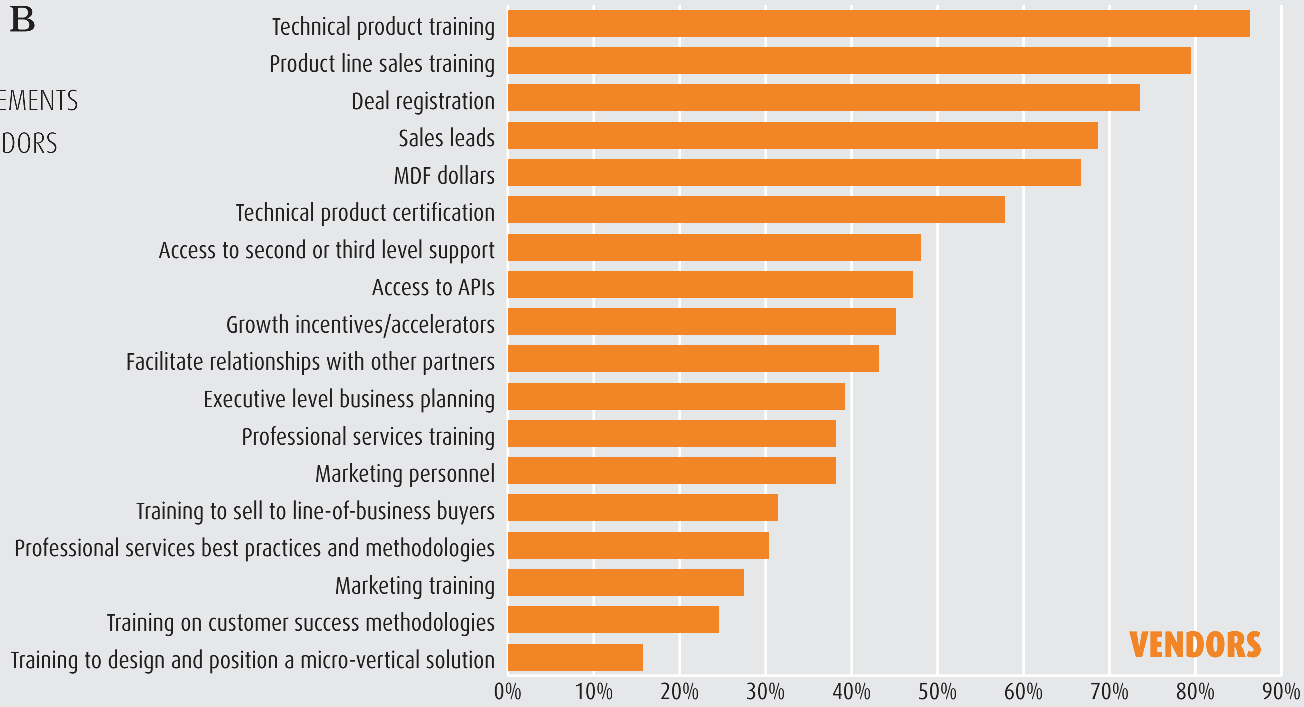
Appendix A

GREATEST NEEDS FOR PARTNER ENABLEMENT



Appendix B

ENABLEMENT ELEMENTS OFFERED BY VENDORS

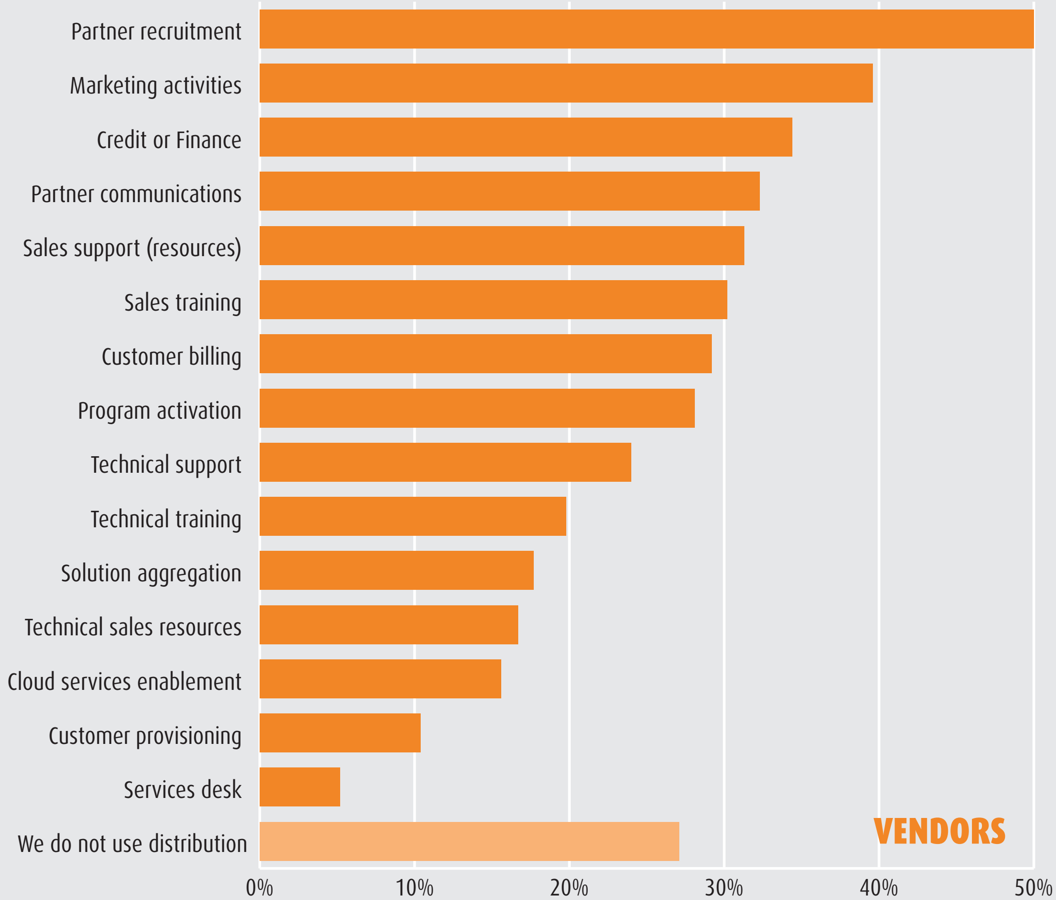


Appendix C

2020 PRIORITIES FOR GROWING AND MANAGING PARTNER COMMUNITIES

Appendix D

WHERE VENDORS ARE LEVERAGING DISTRIBUTION



Appendix E

WHERE PARTNERS ARE LEVERAGING DISTRIBUTION