The Vanishing VAR

HOW THE TRADITIONAL BUSINESS MODEL IS CHANGING ... AND WHAT VARS CAN DO ABOUT IT
Introduction

- Appia’s partners across the U.S. face serious challenges
- We commissioned Empire Research Group to put those challenges in perspective
- This presentation reports what they found
  - It may confirm the direction you are already taking, or
  - It may be a call to action
WHAT WAS
The Customer

- Customers did not have in-house staffs or had staff with limited expertise
  - They relied on VARs for virtually all their IT and telecom needs
- VARs could succeed with only a few specialties
- Customers preferred to own the equipment and have it on-site
The “golden age” created vast new opportunities

- Coupled with a robust economy, the market for new hardware and software grew rapidly
- Fewer VARs meant less competition, especially in a rapidly growing market – there was enough to go around
- VARs earned high margins because hardware and software required specialized knowledge
The Vendors

- Channels were simple
- Vendors defended the channels and saw VARs as their (only) indirect go-to partners
- Vendor go-to-market strategies left room for VAR profitability
THE VANISHING VAR

WHAT IS
The Customer

- Has in-house staffs who are concerned with job security
- Wants a one-stop shop that can provide solutions simply and seamlessly
- Wants to cut CAPEX and OPEX
- Has virtually unlimited options for purchasing hardware and software
The Market

• Hardware is in the cross-hairs
  ○ Networking equipment is mainly replacement
  ○ PCs are rapidly falling behind tablets and other mobile devices
  ○ 75% of VARs expect a decrease in blade server sales
  ○ 73% anticipate a decrease in mid-range server sales
  ○ Traditional PBX equipment is expected to be only 5% of the market in the years ahead

• “Gray” channels - eBay, used equipment vendors - are emerging and grabbing share
The Market

- Hardware and software are increasingly “plug and play” and require less specialized knowledge
- Every offering has many competing vendors and solutions
- Convergence is a reality
  - More players chasing the same business
  - Increases VAR costs because new skills are required
Vendors are proliferating channels
- Every new channel represents a lost opportunity for VARs
  - CDW’s sales of $8 billion in 2008 are once would have gone to VARs

All but the largest, most efficient VARs with channel power are being pushed to the side
- Vendors seem to be willing to pay the price when it comes to channel conflict
Distribution remains one of the most misunderstood ‘value-added’ pieces of the supply chain
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- Vendors are saying, “Where’s the value-add?” and concluding that VARs can’t get them to their revenue and profit goals
- Consider what such major players as Cisco, Dell, HP, and IBM are doing ...
Acquisition of Linksys as part of its SMB strategy adds new competitors
- 200,000 new resellers worldwide
- Sells through Best Buy and other retailers

Discourages “box pushing” by moving from discounts based on partner level to discounts based on specialization
- Required training adds to VAR costs
• Dell sees its future in services and desktop and server support and other programs already target a key source of VAR revenues
HP is providing leads to CDW in a SMB sales alliance

- Target is the traditional VAR market segment: Accounts with 499 and fewer employees

- Little wonder why VARs are asking, ‘Why is HP subsidizing its number one channel ... at our expense?’
IBM recently announced that it will switch from an uncontrolled distribution model to controlled distribution with new certification requirements. IBM says this was designed to ensure channel partners have the skills to add value and that they are not simply “moving products.”
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THE IMPLICATIONS
These Changes are Hitting the VAR

- VAR job postings keep falling
- VARs report:
  - Decreasing margins
    - Hardware margins are averaging 5-6%
    - Services margins are averaging 20-25%
  - Consolidations and even business failures
  - Increasing conflict with vendor direct sales over opportunities
  - Loss of customers to new channels and competitors
Many VARs Don’t Seem to Get It

- Only 14% of VARs are changing their business models
  - 37% generate some recurring (as opposed to one-time) revenues
  - 49% still think hardware and software sales, professional fees for installation, and break-fix support will see them through
Allison Watson, head of Microsoft’s Worldwide Partners Group, says she doesn’t know what VARs will be called in the future

- They won’t called VARs or Solution Providers
- They won’t be doing what they’ve been doing

The ones who make the change will be called successful.
The direction VARs take will determine which survive, which thrive – and which die.

*Without a significant change in business models, VARs and regional service integrators face extinction.*

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STRATEGIES TO SUCCEED
There are Strategies to Succeed

... for those who:

- Can face reality
- Want to protect their existing customer base and gain a competitive advantage in securing new customers
- Are committed to meeting their customers’ evolving needs in new ways
- Have leadership that is willing to evolve their business model
## The Core VAR Strategy

### The Vanishing VAR

- Buy hardware and software from selected vendors at a discount
- Earn one-time revenues from hardware resale, professional fees, support
- Rely on vendors for “pull” marketing

### The New Model

- Deliver solutions, not components
  - “The box is out”
- Choose what you need from as many vendors as necessary to achieve best of breed at a price that delivers value
- Focus on recurring, not one-time, revenues

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Where’s the Market Going?

Customers are looking for solutions to address these and many other key trends:
- Cloud computing
- Mobility
- Convergence
- Scalable processing and storage
- Business intelligence
- Smart security management
Managed services are a key opportunity
- Offered on a longer-term, contract basis
- Include some form of monitoring and are backed by SLAs
- Proactive and not reactive

Popular managed services already offered by VARs:
- Network management
- PC support and help desk
- Security management
- Backup and recovery
- Asset management
- Communication services
Managed Services A Key Opportunity

- Growing at 18% CAGR worldwide, while other IT is growing at 8%
- 63% of organizations used some form of managed services, up from 46% in 2007 – Network World

*SMBs are turning to managed services to address telecom technology and networking needs, and to reduce the total cost of ownership of IT*

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Actual managed services growth is outpacing early forecasts
Managed Services Make Sense

To the customer:
- Lower initial investment
- Lower operating costs
- No new platforms to support
- One source, one invoice
- More time for IT to focus on what matters most
To the VAR:

- Managed services are sold on an ROI basis
  - They are not a technology sale
- This allows higher margins on hardware sales, installation and training fees
- Recurring revenues make VARs less vulnerable during economic downturns
- Traditional VAR will lose to MSPs as customer adoption of MSP approach continues to increase

Higher margins on equipment sales
Managed Services
More customer stickiness
Recurring revenues
Premium installation revenues
Now Ask the Hard Questions

- Is a strategy that includes managed services right for you?
  - The reasons VARs succeed in offering managed services vary from VAR to VAR
  - But for most, the key is leadership who are convinced that the traditional VAR model must be replaced with one that recognizes reality and who are willing to invest
If Managed Services Are for You ...

- Should you do it yourself?
  - Staff additions
  - Investment required
  - Time to market
  - Risk of mistakes -> impact on customer relationships
  - But allows you to control
- Or should you work with a managed services provider (MSP) partner?
  - Shorter time to market
  - Lower investment
  - But requires choosing a reliable partner
Some have chosen to go it alone, but the VARs who are succeeding are working with MSP partners.

The results for one VAR?
- 50% of sales are recurring revenues
- A $1.5 million business on the brink of failure is now a thriving $4.1 million business
Who’s the Right Partner?

- A large and satisfied customer base, earned by providing services customers need, backed by SLAs with teeth
- A broad portfolio that fits the needs of the customers you serve ... and wish to serve
- A product/service roadmap that makes sense
- Solutions that can be tailored to your customers’ requirements
- Gives you the tools you need
- Does not compete with you
The traditional VAR is vanishing
- Vendor interests are colliding with VAR interests
- Customers have unlimited options
- Margins for hardware and services are low

Invest in the right solutions with the right partners

It’s not too late:
- The majority of customers have not yet adopted managed services
- Only 14% of VARs offer managed services
Introducing Appia
Appia’s Mission

Provide innovative and reliable managed services that make a demonstrable difference in our customers’ success
Overview

• Founded in 2001
• Over 1,500 customers representing every major industry vertical
• Focus is on small and midsized companies and organizations (25-250 seats)
• Profitable and cash-flow positive
• *Inc.* 500 list of fastest-growing private companies six years in a row
• Ranked on MSPMentor’s list of the top 100 MSPs in the world
Appia’s Services

Communication
- Hosted PBX
- Mobile Services
- SIP Trunks

Collaboration
- Audio Conferencing
- Video Communication
- Web Conferencing

Networking
- Design and deployment
- Management
- Monitoring
- Reporting
- Security
- Network Device Support

Colocation
- From one RU to a cage
- Onsite smart-hands

Our roadmap includes all of the key communication and network services a small or midsized customer needs
Appia’s Values

• We understand and propose solutions to meet customer requirements, even if it means we do not immediately get a customer’s business.

• We make working with us as easy for the customer as possible by simplifying every aspect of our business that touches our customers.

• We take responsibility when we are responsible and recognize that our customers’ sense of urgency needs to be our sense of urgency.
Appia Helps Customers Simplify and Save

- Best-of-breed technologies level the competitive playing field
- Managed services reduce capital investments and operating costs
- 24/7 support ensures service reliability
- One point of contact means managing fewer vendors
Appia’s Management Team

Victor von Schlegell, President: Over 10 years of experience in Voice over Internet (VoIP) and related technologies, and founder of one of the world’s first VoIP networks

William Bollinger, Vice President for Projects: More than 20 years of experience in traditional voice, VoIP and related technologies

Jeff Schroeder, Vice President for Engineering and Operations: Over 15 years of experience in network management and telecommunications

Kathryn Rohder, Director of Finance: Over 20 years of experience in financial management in a wide variety of industries

Jason Ulm, Vice President for Sales: Over 13 years of direct sales experience in the IT and telecom industries

Jay Cox, Vice President for Telecommunications Management: Over 35 years experience in both regulated and next-gen telephone services
Proven Results

Sturgis Hospital needed a phone system to handle incoming traffic, while providing scalability for future expansion and a planned integration of the hospital’s remote sites.

Appia worked with the hospital to design an IP voice system to meet all of its needs, and that could grow as the hospital’s needs changed.

Soon after the system was installed, Sturgis Hospital recognized an impact on its telecom expenses. “We’ve definitely seen a savings in our monthly phone charges,” said Sturgis’s HIS/Telecom Manager. “In the long term, we’ve also reduced network maintenance costs by having only one network as opposed to two.”
Appia Responds

MNJ Technologies Direct suffered two lightning strikes that virtually destroyed its network hardware, phones, and workstations.

Though Appia’s engineering staff had no prior knowledge of MNJ’s network or hardware configuration, Appia agreed to accept this time-critical challenge.

Appia engineers began work immediately and within seven hours, MNJ’s voice and data systems were up and running with enough capacity to perform daily operations.

“Appia jumped right in that day and came to the rescue,” said MNJ’s Director of IT.
Testimonials

The Appia hosted IP network has delivered everything promised and then some. Besides sharply cutting our phone bill, it has reduced administrative costs, provided flexibility for future growth, and strengthened our organization.  

Scott Michelsen, President, American Mattress

Let me just start by saying WOW! I made the call [to Appia] last Tuesday to ask if we could change out all our phones and have the system up and running over the weekend. Never in my wildest dreams did I think it would become reality. It was amazing the way everything came together. ProLiance could not be happier with the end result.  

Andrew Payne, Director of Information Technology, ProLiance Energy

Because of Appia’s dedication to customer service, we have the lowest rate of customer churn in the industry, and a #5 ranking on MSPMentor’s top 100 MSPs in the world.
Thrive with Appia as your managed services partner

appia
the cloud at work

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