

the
MARGIN

Channel Survey 2019

In association with Axiz, Dell Technologies
and Microsoft



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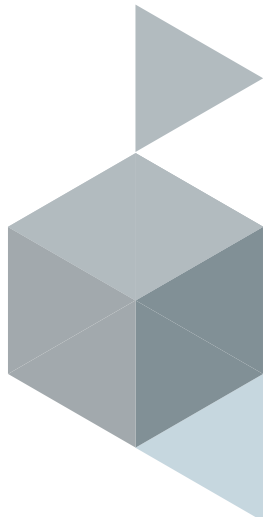
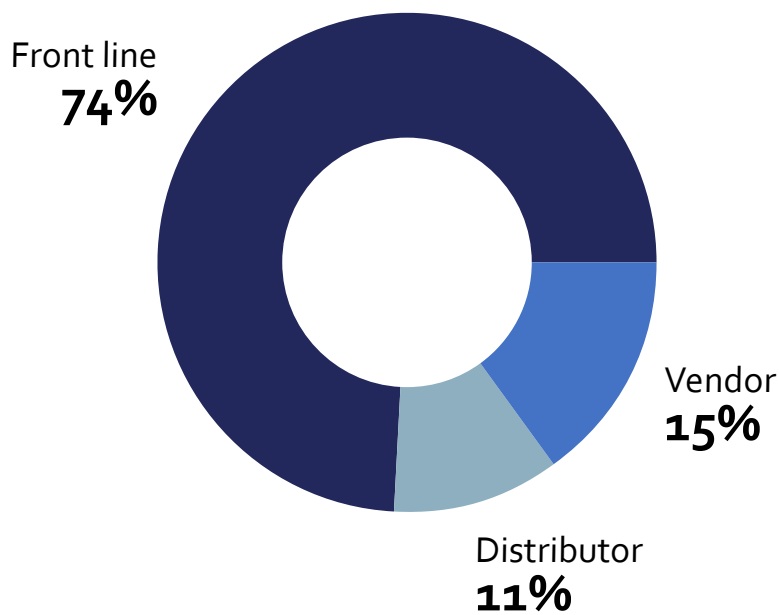


Executive summary

ITWeb's *The Margin* magazine, in association with Axiz, Dell Technologies and Microsoft, ran its second annual survey in 2019. Participants from across the ICT channel were polled, from 12 August until 19 September, for their opinions on major economic, business and technology trends affecting the status of the local market and the supply chain. From over 400 responses, a total of 340 were verified as channel respondents.

The responses represented the three major categories of players in the channel – vendors (14.4% of respondents), distributors (11.3%) and front line (74.2%) respondents. The 'front line' category consisted of resellers, systems integrators, independent software vendors and managed service providers.

Respondents, by category



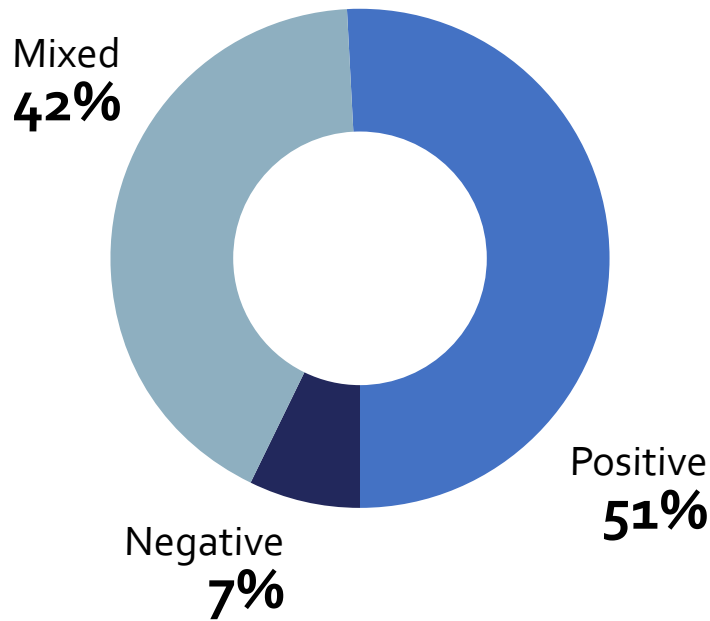
Outlook for the year ahead

Taken in isolation, the outlook from respondents for the year ahead seems positive, with 51% specifically identifying a positive outlook, and 42% identifying 'mixed'. However, when contrasted against the 2018 survey results, there has definitely been a shift in sentiment. In 2018, 63.6% of all respondents had a positive outlook, which compares to 51% in 2019. Mixed outlook accounted for 31% in 2018, but grew to 44% in 2019. The negative sentiment grew to 7% in 2019 from 5.5% the year prior. In 2019, frontline respondents were the most negative of all (8%).





Outlook 2019/20, all respondents



The major factor listed by respondents for the more depressed perspective was the uncertain economic and political outlook. In total, 74.9% of respondents cited the uncertain economic and political outlook as the biggest threat to their organisation's outlook for 2019/20. Broken down into the different channel player categories, this factor was listed most frequently by the front line respondents (78.5%), then by distributors (70.4%), and lastly by vendors (60.0%).

Macroeconomic factors were definitely top of mind for the channel, as the next most selected threat was the rand/dollar exchange rate, which was cited by 57.9% of all respondents.

The next tier of threats to respondents' outlook related to the local market, with an 'increasingly competitive

Most pressing threats to the organisation

	Listed concern	
Uncertain economic/political outlook	74.9%	Tier 1
Rand/dollar exchange rate	62.4%	Tier 1
Increasingly competitive market	38.6%	Tier 2
General business environment	31.3%	Tier 2
Skills shortage	27.9%	Tier 3
Broad-Based Black Economic Empowerment score	25.1%	Tier 3
Crime levels	24.1%	Tier 3
Forthcoming regulations/legislation	18.2%	Tier 3
Disruption from new digital players and/or technologies	16.6%	Tier 3
Failure to meet market demand	10.7%	Tier 3
Wide-scale security incidents	9.1%	Tier 3
Internal lack of cohesion	8.5%	Tier 3

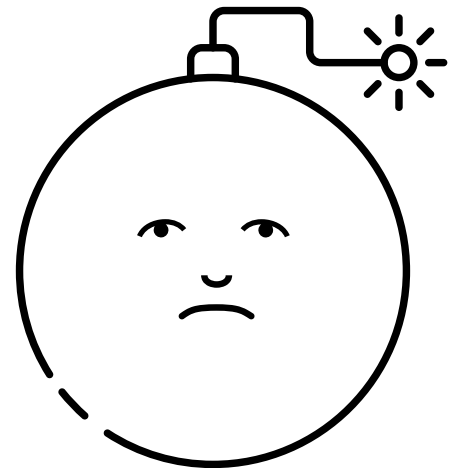
market', which was cited by 35.9%, and then the 'general business environment' cited by 31.6% of respondents.

The third tier of respondents' concerns were around the skills shortage, listed by 27.8% of respondents, and B-BBEE rating,

which was listed by 27.3% of respondents. These were ranked above other threats, including digital disruption, crime, forthcoming regulation and legislation, and wide-scale cyber security incidents.



Front line respondents listed the most concerns, with an average of four, which compares to an average of three for the other category respondents. This, combined with the most negative sentiment in their organisation's outlook, doesn't paint a particularly positive outlook from those on the front line.



Beyond the specific threats to their own organisations, the following threats for the entire channel were ranked, as below:

Threats to the wider channel

	Listed concern
Uncertain economic/political outlook	41.4%
Rand/dollar exchange rate	9.7%
Skills shortage	9.1%
Increasingly competitive market	7.5%
Failure to meet market demand	6.0%
Disruption from new digital players and/or technologies	5.6%
General business environment	5.3%
Broad-Based Black Economic Empowerment	5.3%
Wide-scale security incidents	4.1%
Crime levels	3.1%
Forthcoming regulations/legislation	2.8%

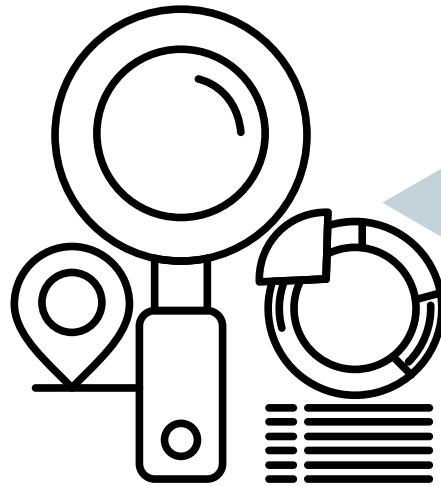
** Respondents were only able to list one option*

While the two most frequently selected answers among respondents for the entire channel – economic and political uncertainty, and rand/dollar exchange rate – were the same identified threats as for their own organisations, it's interesting to note that the skills shortage ranked as the third most pressing concern for the wider channel.



Top areas of business focus

Asked what the top areas of business focus for their organisations were, and able to pick multiple answers, respondents prioritised the following:



Areas of business focus

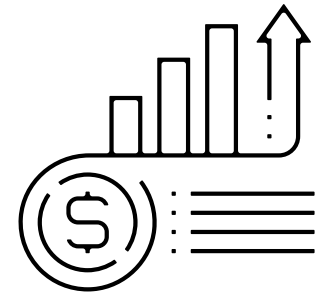
Finding new customers	79.6%
Growing market share	60.5%
Upselling existing customers	56.4%
Improving market awareness for your offerings	51.7%
Improving customer experience, such as launching a self-service portal	40.8%
Improving margins	40.4%
Launching new product/service offerings	36.7%
Encouraging innovation within the business	35.1%
Shifting from product to service focus and switching income streams	32.3%
Digitally transforming your business	31.7%
Finding and improving appropriate skills	31.3%
African expansion	21.0%
Improving black economic empowerment and transformation	14.7%
Legal and regulatory compliance	12.5%

The top answer – finding new customers – was consistent across all three categories of respondents. Growing market share, and improving market awareness were the next most popular options among vendors and distributors. However, upselling existing customers and growing market share were the second and third choice for front line respondents. This demonstrates that front line companies are concerned with 'going deeper' with their existing client base, knowing that acquisition costs for customers are high. It also shows that vendors and distributors are looking to raise the profile of their offerings with the market.



From volume to value

As the channel players strive to professionalise and change the perception of the channel being populated by 'box droppers', the sales focus is supposedly no longer about 'selling volume', but rather it's about providing value. Respondents were asked to rate the sales focus of their own category of channel player (available options were: value, volume, somewhere in between), as well as the other two player types. Based on the most popular responses, it appears that each category views their own sales focus most highly, as respondents ranked their own category as providing value.



A general trend also seems to be that respondents ranked those players directly downstream from themselves as most concerned with selling on volume.

Selling on value or volume?

	Vendors	Distributors	Front line
Vendors (think of)>	Value (53.3%)	Volume (46.7%)	Value (48.9%)
Distributors (think of)>	Somewhere in between (40.7%)	Value (51.9%)	Volume (40.7%)
Front line (think of)>	Somewhere in between (46.9%)	Somewhere in between (41.3%)	Value (54.8%)

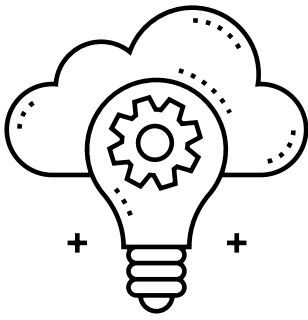
Top technologies

Respondents were asked to rate technologies where there's most interest and focus in the next 12 to 24 months.

Technologies of interest

	Listed concern
Cloud (SaaS, IaaS, PaaS)	71.1%
Security	56.3%
IoT	40.6%
Networking	32.4%
Software/application development	32.4%
AI	29.9%
Big data	29.9%
Virtualisation/software-defined X	28.3%
Devices (mobile/productivity/gaming)	27.4%
Process optimisation and automation	25.8%
Hyperconverged infrastructure	23.0%
Blockchain	11.3%
BC/DR	8.2%
Augmented, mixed, virtual reality	7.2%

There was consistency in the leading priorities from 2018, as cloud, security and IoT were consistently selected as the top three technologies in both years.

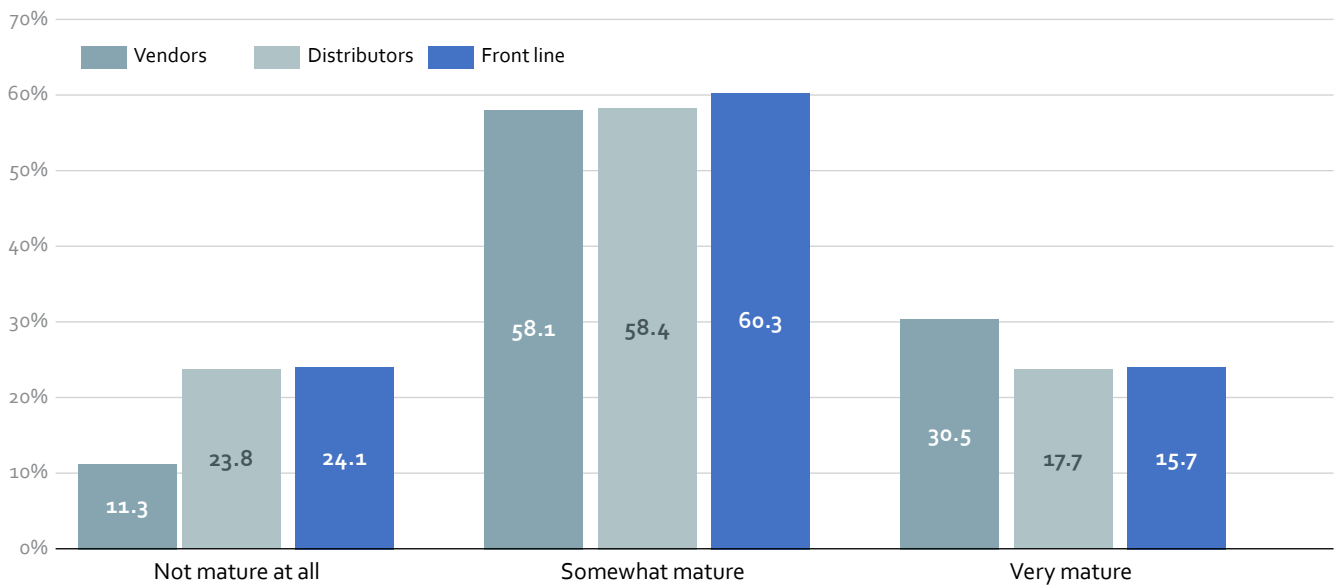


The cloud and the channel

With the cloud being the top priority technology among channel respondents, and the most disruptive in terms of business models and expenditure patterns, the research delved further into this area.

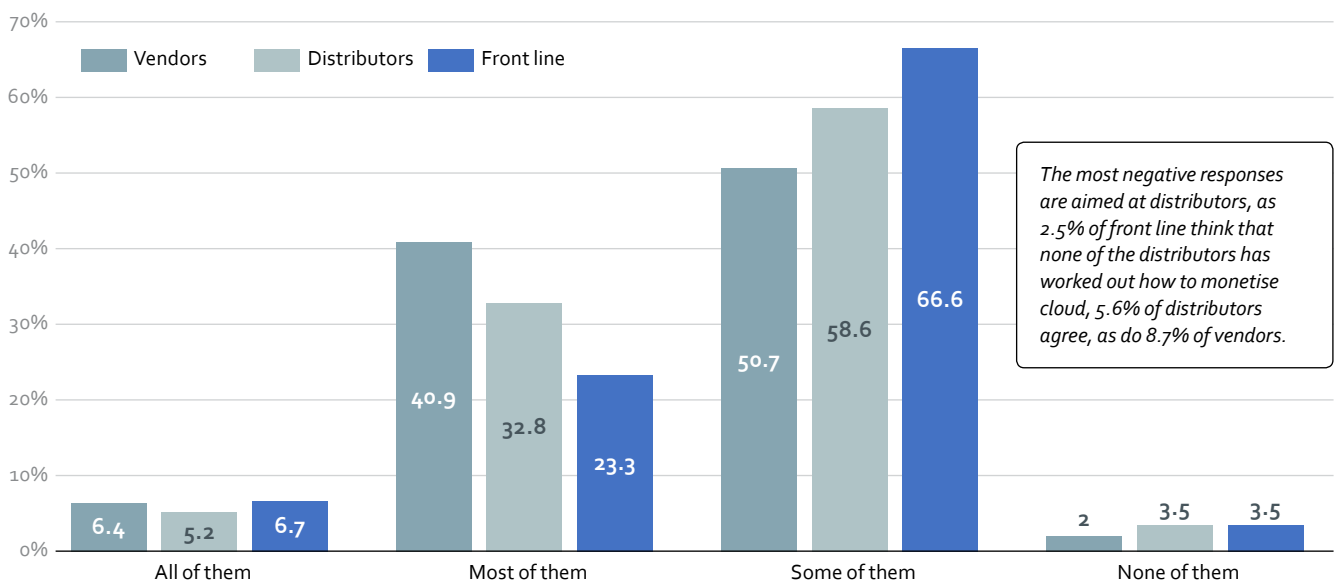
Vendors were identified as being most mature when it came to cloud offerings, as they were categorised by 30.5% of total respondents as being 'very mature'. However, the middle option of 'somewhat mature' was where most channel players were positioned, with front line respondents being the highest ranked in this block.

Maturity of cloud solutions and services



When asked which channel player type had best worked out how to monetise cloud, the category with the most 'all of them' responses, perhaps a little surprisingly, was front line. Collectively, vendors seem most advanced.

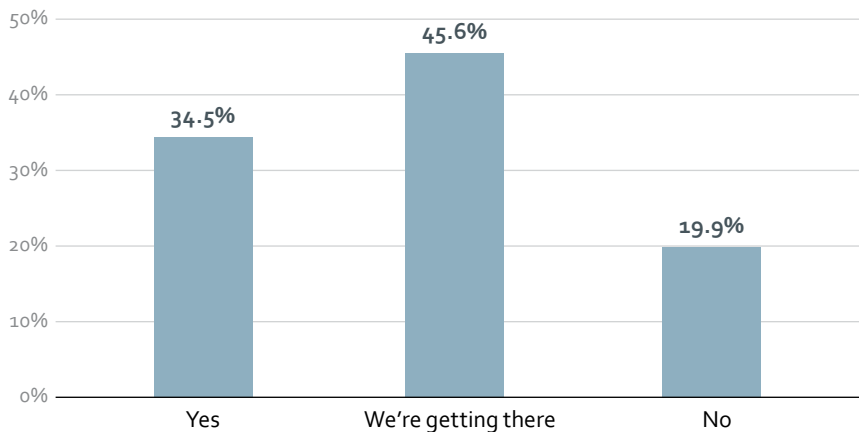
Monetising cloud





As cloud moves income stream from once-off to recurring annuity, 38.9% of vendors say they've made the shift to this model, 44.4% are 'getting there', and 16.7% admit they haven't made the shift. This reflects similarly to the picture from all respondents.

Have you made the shift from perpetual licensing to recurring annuity? (All respondents)

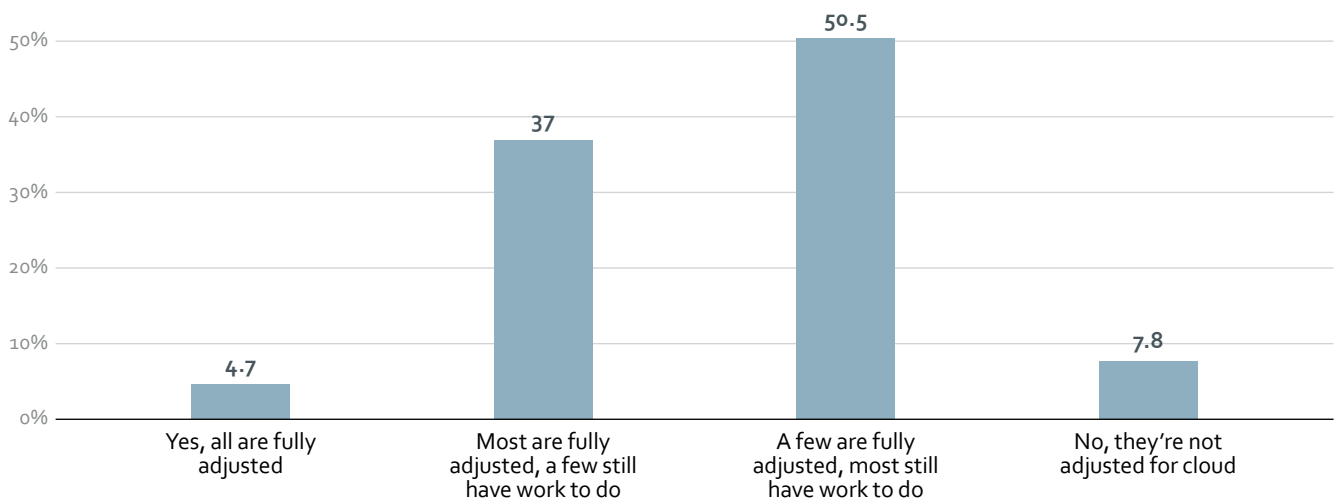


Determining how much revenue comes from annuity, 30.3% of vendors say that this accounts for more than 75% of income. This compares to 13.9% of all respondents, when asked the same. The most common bracket of income from annuity is 10-25% – that's according to 28.7% of total respondents.

Cloud-focused partner programmes

Respondents were asked to rate how well vendors have adjusted their partner programmes to the new dynamics involved with incentivising distributors and partners to sell cloud. The over-riding response was that only a few vendors have made the transition in their programmes, but most still have work to do.

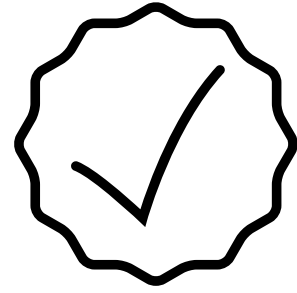
Are vendors' programmes fully adjusted to incentivising partners to sell cloud?





Transformation

Broad-based Black Economic Empowerment is an issue the South African channel has been grappling with for a long time. However, it seems more progress is definitely needed, and the channel's perception is that the situation has worsened. In 2018, 7.1% of respondents said either their company or the broader channel wasn't doing enough. In 2019, this combined figure rose to 16.8% of respondents.



	2018	2019
The wider channel is doing its bit	26.5%	18.0%
We, as a company, are doing our bit	34.7%	36.0%
It's a broader issue than the channel can deal with	31.6%	29%
We, as a company, are not doing enough	5.1%	7.6%
The wider channel is not doing enough	2%	9.2%



About The Margin

The Margin magazine is aimed specifically at the IT reseller channel in South Africa and across the continent. Published by ITWeb and produced by the team behind ITWeb *Brainstorm*, *The Margin* focuses on the issues and trends that really affect the companies in the business of selling technology.

With a broad variety of relevant topics and editorial coverage, *The Margin* offers something of interest to senior-level, decision-making executives right through the value chain, from vendors to distributors, ICT service providers to systems integrators and VARs, and dealers to electronics retailers.

ABC-certified, *The Margin* reaches over 4 000 targeted readers in print, online and digital formats.

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