



twenty one twelve group

2019 PREDICTIONS

2112 SPECIAL REPORT

Seven channel predictions for 2019 and beyond

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In this special report, 2112 lays out seven predictions based on contemporary trends that will unfold over the course of 2019 and beyond.



2019 PREDICTIONS

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The technology industry loves change.

Change is the reason many vendors and partners remain viable.

Technology evolution is the catalyst that enables vendors and partners to sell more product and replace older products with newer ones. Change is the motion in the technology lifecycle. And with those changes come new trends that reshape the industry, business models, and channel practices.

The 2112 Group is a student of channel trends and dynamics. We study the industry to advise vendors on what will come next in business models, partnership best practices, and technology consumption. We're constantly looking at the trend lines to see where the industry will go next and how that direction will affect channel strategies, structures, and operations.

In this special report, 2112 lays out seven predictions based on contemporary trends that will unfold over the course of 2019 and beyond. Many of these predictions are years in the making; some are already well underway.

What's certain is that all are going to change the way vendors and channel partners go to market in the near future and long term.



**Change is the motion in
the technology lifecycle.**

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VENDORS PUSH PARTNERS OUT OF THEIR COMFORT ZONES

Technology, business models, and the market are evolving. If that evolution were a race, technology vendors would be far ahead of their average partner, which, according to 2112 research, sells only three cloud products or services. Further, most of those offerings are relatively basic and commoditized.

Vendors need partners to sell, deliver, and support advanced technology products and services, such as Big Data, Internet of Things (IoT), automated systems, and cognitive computing solutions. Vendors need partners adept at bridging the gap between the past and the present (and future) to integrate new products and services with legacy infrastructures.

The average partner earns 21% of its gross revenue from cloud computing, but sells only 3 services.

Source: The 2112 Group 2019 Channel Forecast Report

Partners don't evolve for a number of reasons, but it's mostly because they're risk-averse. Partners are quite comfortable with what they know and what's allowed them to achieve success. Changing and evolving represents a huge risk, as failure in untested endeavors could have catastrophic results.

In 2019, vendors will push partners to move out of their comfort zones to adopt new technologies, skills, and resources; operate under new business models; and anticipate future market needs.

VENDORS PRIORITIZE NEXT-GEN PARTNERS, DE-EMPHASIZE THE LAGGARDS

An extension of the “push out of comfort zones” prediction is the notion that vendors will place more emphasis on next-generation partners and de-emphasize companies that fail to adapt and align with their business and go-to-market needs.

The idea seems simple, yet it's antithetical to traditional channel thinking. The conventional channel strategy is to stratify partner programs and go-to-market models, giving every partner an opportunity to participate. The idea behind this: “A rising tide raises all boats.” That is, all partners will reap the benefit of those opportunities and demonstrate enhanced performance as a result.

48% of channel chiefs say getting partners to adopt new technologies and products is their biggest challenge in 2019.

Source: The 2112 Group 2019 Channel Forecast Report

But vendors are figuring out that they can no longer afford to support all partners and must make choices. They're designing programs that focus specifically on partners investing in their own programs, products, and go-to-market models. They're looking to align with partners that already have, or are building, the capabilities they need to compete in the future technology market. They want partners they can plan budgets against.

Partners content with the status quo and looking to live off of traditional vendor compensation and incentives will find few opportunities and resources at their disposal.

NON-IT PARTNERS FLOOD CHANNEL PROGRAMS

Channel partners are no longer just value-added resellers (VARs), systems integrators (SIs), and managed service providers (MSPs). As technology permeates the products of vertical industries and business operations become increasingly digital, new classes of partners are taking their place in vendors' go-to-market strategies and channel programs.

Some examples of non-IT partners influencing or fully reselling services include accounting firms, lawyers, digital marketing agencies, and other professional service firms. Those companies are recommending technology products to their customers. In some cases, they're incorporating technology services, such as Software-as-a-Service, as a means of delivering their offerings.

Only 9% of channel chiefs believe traditional VARs will be the best partners in 2024.

Source: The 2112 Group 2019 Channel Forecast Report

But non-IT partners go beyond those that influence and refer. They also include manufacturers, health care providers, and logistics and transportation companies. IoT is one area that's transforming operations in those industries, and acting as the impetus for them to incorporate, connect, and influence traditional technology selections as part of their go-to-market strategies.

In 2019 and beyond, non-IT technology companies will have a much greater share of voice in the technology procurement and consumption process.

VENDORS ENTHUSIASTICALLY EMBRACE MARKETPLACES

Over the past two years, vendors have expressed worry about the threat posed by marketplaces such as Amazon and Alibaba. Their market power and data analytics give them more control over the go-to-market process, the customer, and customer data. In addition, vendors have been wary of the tension marketplaces can create among their channel partners.

30% of channel chiefs see marketplaces as a disruptive trend for traditional partners.

Source: The 2112 Group 2019 Channel Forecast Report

In 2019, vendors will not only embrace marketplaces; they'll develop and expand their own marketplace models. Vendors have figured out something 2112 advocated last year: If a product doesn't require a human in the sales process, automate the sale.

Vendors are racing to get marketplaces in operation to automate business and consumer sales, expedite sales processes, and make tighter, direct connections with customers. Marketplaces and automated digital sales will radically transform the channel in 2019 and beyond as more products are moved from a two-tier go-to-market model to a single-tier one.

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PROFESSIONAL SERVICES GAIN CHANNEL IMPORTANCE

Technology complexity and the rise of automated sales through marketplaces will increase the need for expert-level pre- and post-sales professional services. A product might not need human involvement to sell, but in many cases, customers will need professional guidance to get the most out of their purchase.

28% of channel chiefs rate customer satisfaction as the top means of measuring partner performance.

Source: The 2112 Group 2019 Channel Forecast Report

Since the inception of the channel, vendors have told partners that profitability is a product of their value-add services. Product sales were and always should've been just a minor part of the partner profit model. As we move forward, vendors will increasingly lean on partners to shift away from product sales and provide the planning, adoption, integration, customization, and support services customers need – particularly when it comes to cloud-based services.

Correspondingly, vendors will craft new channel programs that emphasize and reward partners for their expertise, service delivery capacity, quality of service, and influence on customer retention and sales expansion.



PARTNERS GET REWARDED FOR PERFORMANCE AND OUTCOMES

Vendors frequently tell partners they must engage in consultative selling, or, more precisely, they must know their customers intimately, design technology solutions to meet business needs, and measure value on how well their solutions meet those needs. In other words, they must sell on outcomes.

37% of vendors plan to introduce new partner specializations and incentives in 2019.

Source: The 2112 Group 2019 Channel Forecast Report

Customers have different expectations of their technology investments than they did in the past. They're no longer content with feature-creep upgrades or the latest design changes. They want systems and services that delight them. They want a positive experience. And, most of all, they want an outcome measured not just in cost savings but also in contributions to their company's growth.

In 2019, you'll see more vendors reward partners for business planning, formal and active sales processes, development of tools and resources, professional service performance such as time to resolution, and customer satisfaction. Revenue will remain an important part of the vendor-partner metrics equation, just not the biggest part.



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VENDORS INVEST IN AND ACQUIRE PARTNERS

Vendors need more partners that look and act like them. They need technical and professional service capacity to cover the customer support needs of the total addressable market. Moreover, vendors are willing to pay for that capacity through direct investments in – or outright acquisition of – partner organizations.

In the past year, vendors steadily ticked up the pace of partner acquisition, particularly service providers and systems integrators. In 2019, that pace will pick up even further as vendors look to expand their service capabilities and capacities through regional and national acquisitions.

55% of vendors plan to increase investments in partner development.

Source: The 2112 Group 2019 Channel Forecast Report

While vendors are acquiring partners, they're also looking to shape partners' business development. Vendors are going beyond the use of traditional market development funds (MDF) to aid partner growth and expansion. Some vendors are taking stakes in their partner organizations to provide the capital infusion needed to add staff, skills, and infrastructure for advanced technologies and professional services.

In 2019, look for vendors to expand their acquisitions and investments in the partner community.

In Ernest Hemingway’s classic novel “The Sun Also Rises,” a character responds to the question of how he went broke: “Two ways. Gradually, then suddenly.” Well, that’s how change works in the channel. Change comes slowly – gradually over a period of years – and then suddenly explodes.



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We believe the time for gradual change is over and sudden change is upon us.

The predictions noted in this special report may seem familiar, and they should. Most of these changes have been in the making for years. The industry – vendors, distributors, partners, and customers – has talked about them time and again. And, in many cases, people described these changes as inevitable, but always in the future.

Well, the time has come for these changes. The predictions by 2112 are based on our observations and research. We believe the time for gradual change is over and sudden change is upon us. It’s incumbent on technology vendors to plan for and execute against these changes to remain ahead of the curve, relevant to the market, and viable in the future.

As always, 2112 welcomes thoughts, feedback, and questions. Share your questions and comments with us via e-mail at info@the2112group.com.

2112 SERVICES

The 2112 Group is a specialist in channel research, strategy, and enablement services. 2112 works with vendors and distributors around the world in understanding channel dynamics, crafting new and innovative routes to market, measuring channel performance and perceptions, and developing enablement and communications programs to foster better channel outcomes.

- Strategy Services
- Channel Program Design
- Market and Channel Research
- Partner Relationship Management
- Channel Executive and Team Coaching
- Partner Assessment and Intelligence Tools
- Partner Training and Enablement
- Channel Evangelism and Promotion



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