RESEARCH REPORT

DECEMBER 2015

State of the Channel - Australia

CompTIA

About this Research

CompTIA's *State of the Channel -- Australia* study provides an overview of the size, shape and growth factors of the information technology (IT) industry's indirect channel based in Australia.

The research was conducted in one part:

The quantitative study consisted of an online survey fielded to IT channel firm executives and professionals in Australia and New Zealand during September 2015. A total of 200 IT industry companies participated in each of the three international surveys (Australia, Canada, UK), yielding an overall margin of sampling error at 95% confidence of +/- 6.9 percentage points. Sampling error is larger for subgroups of the data.

As with any survey, sampling error is only one source of possible error. While non-sampling error cannot be accurately calculated, precautionary steps were taken in all phases of the survey design, collection and processing of the data to minimize its influence.

CompTIA is responsible for all content and analysis. Any questions regarding the study should be directed to CompTIA Research and Market Intelligence staff at research@comptia.org.

CompTIA is a member of the Marketing Research Association (MRA) and adheres to the MRA's Code of Market Research Ethics and Standards.

Key Points

- Fifty-two percent of respondents expressed hopefulness that the channel will fare generally well in the years ahead. That compares with 61% of US channel firms that said they felt similarly. The remaining half of Australian respondents either had a pessimistic view of the future or mixed feelings – or they didn't know.

- Six in 10 channel firms called their vendor relationships "stable," meaning the mix of vendors they work with is likely to remain status quo over the next two years. Some partners are taking a look at vendor options, however, with a third describing their current approach to vendor relationships as "exploratory" in nature. This means they expect to maintain current vendor ties, but are open to looking at new partners to work with. A small group (5%) reports relationships that are "shifting" in nature, meaning they have dropped a vendor partner in favor of another.

- For those firms that are pessimistic about the channel's future, the main reasons are concerns about general business challenges, new types of competitors in the field, IT skills gaps for emerging technologies, and cloud computing.

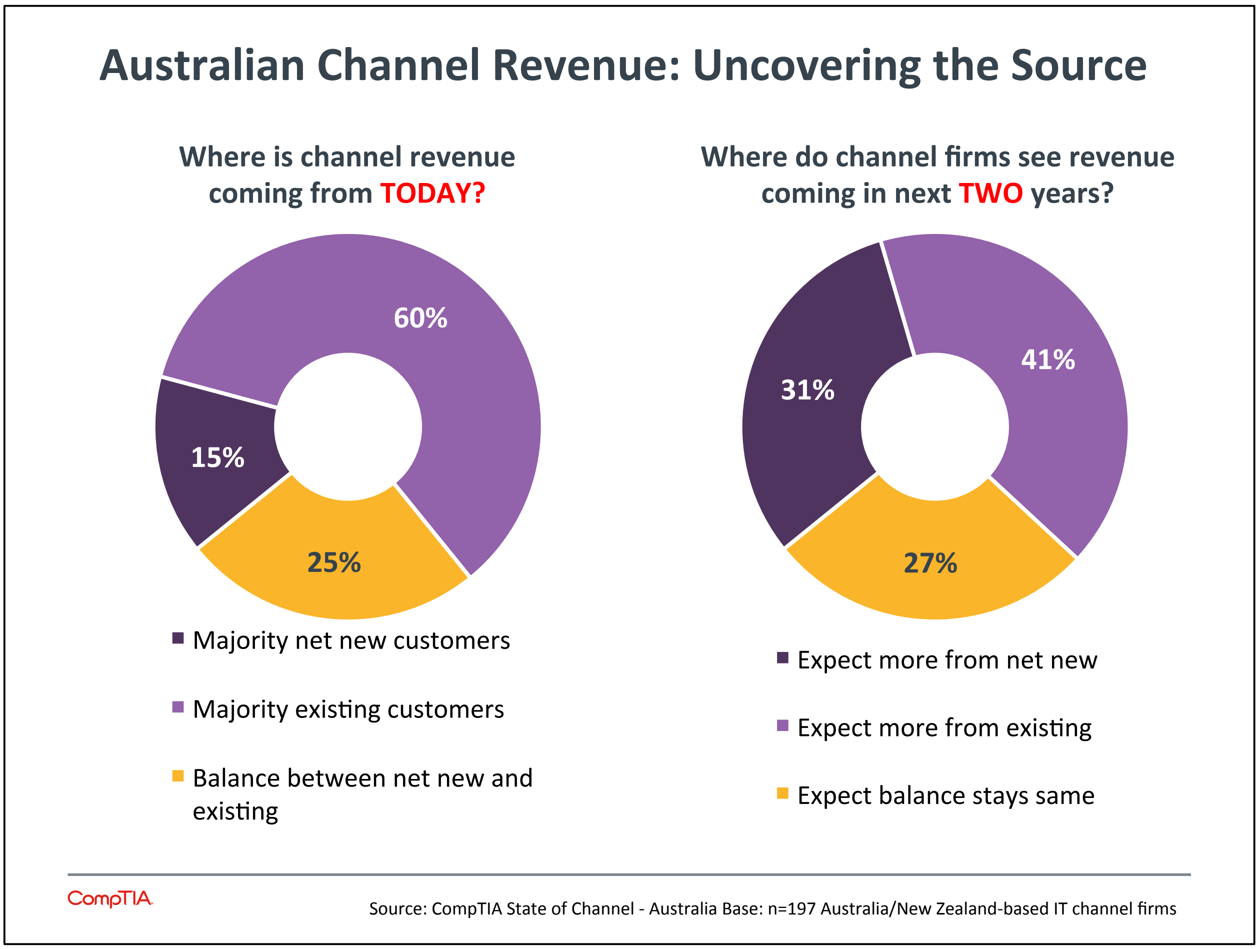
- Where is the channel expecting revenue growth to come from over the next two years? Broken down by business model, the numbers skew fairly evenly across the three major options: product sales (NET 39% expect growth), one-off project engagements (NET 43%) and recurring revenue (NET 42%). Another 28% said they expect to see growth from other areas such as warranty renewals. Consulting is an umbrella line of business that opens up across each of these four business models.

Market Overview: Australian Channel

As the channel continues to undergo a transition along with the rest of the industry, its practitioners undeniably face a number of challenges around today's customers, vendor partners, emerging technologies and business models. Despite the tumult, the channel remains surprisingly resilient and generally upbeat about its future prospects, as we'll detail in findings from CompTIA's *State of the Channel – Australia* study. The research reveals a host of key trends that underscore the challenges and opportunities the channel is facing today and attitudes about future prospects.

For the most part, however, we can report that the state of the channel is mostly good.

In terms of change going on in the channel, it remains a mixed bag. Some channel firms will shift their business model entirely to managed services or cloud, while many others will embrace the hybrid model, adding a services component alongside a product-based revenue stream. Still others, primarily veteran firms whose owners are nearing retirement, will maintain status quo with what they currently do today. The channel, in effect, morphs anew and remains the same simultaneously.



This year's research findings from CompTIA peer into the health of the channel and its future. But first, let's take a step back to review upfront some of the key characteristics of the IT channel, the variety of firms that exist and how certain trends are changing the way that the channel both looks and acts. By understanding where the channel is rooted today, the full impact of the ongoing transition phase shines through.

Sizing Australia's IT Channel

According to the research consultancy IDC, the global information technology (IT) market reached an estimated $3.7 trillion (U.S. dollars) in 2015. This covers revenue generated from the sale of hardware, software, IT services, and telecommunications (in some countries, referred to as ICT).

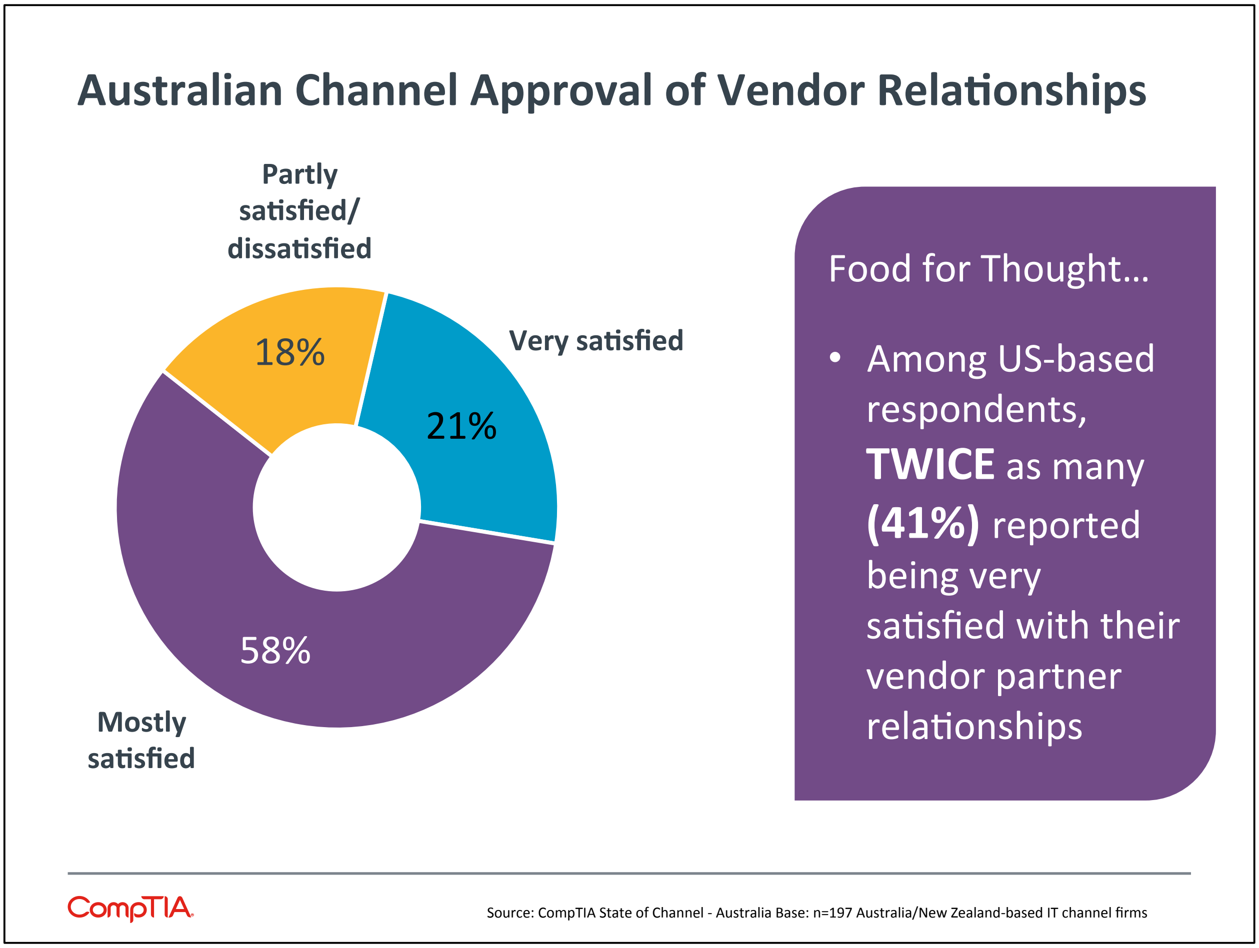
The vast majority of spending stems from IT purchases made by business or enterprises, with a small portion coming from consumer spending. With the increasing blurring of work and personal life, along with the BYOD phenomenon, it is difficult to classify certain types of technology purchases as being solely business or solely consumer.

- The Australia-New Zealand IT market reached $108.2B AUD ($76B in U.S. dollars) in 2015, which is roughly 7.1% of the total Asia-Pacific IT market, according to IDC. This includes revenue from hardware, software, services and telecom.
- In the aggregate, about 87% of Australian IT firms can be classified as small and medium size businesses using the traditional threshold of 500 employees to designate a small business.

Vendor-Partner Relations

Turning attention now to specific findings around the Australian channel, we will examine a number of areas including vendor-partner relationship trends. Basic facts tell us that indirect channel firms need technology vendors that engineer and build products and services that they then resell, recommend or provide consulting or repair around. Vendors, too, need the channel, from which they gain many advantages such as a far larger sales footprint and geographic reach, closer customer touch, and in some cases partner-based vertical skills. Partners that align successfully with the right vendors gain access to superior products and services to resell, in addition to other support resources and benefits.

It's a model that has remained in place despite many predictions of its demise over the years. Consider some numbers: Networking giant Cisco counts roughly 30,000 channel partners worldwide, 2,000 of which are managed directly by Cisco's channel support teams. Of those, the 500 top-performing partners have access to a single individual assigned to work with their firm. Software juggernaut Microsoft, in the midst of reinventing its business around the cloud, legendarily sports hundreds of thousands of partners worldwide. And even Amazon -- about as direct-to-consumer as any company in the market today -- has been bulking up its use of indirect channel partners for its Amazon Web Services. The Amazon website alone lists more than 1,300 official partners and company profiles, and those numbers are only growing.



But the market is changing. Think of cloud computing's impact on how technology is sold and consumed, or the IT skills gap problem that has left many channel firms behind in emerging technology acumen. And then there's the changing end customer, now equipped with more leverage and insight into IT-buying decisions and choices than ever before. Additionally, the as-a-service model for IT has loosened the definition of who is a vendor. Increasingly channel firms today are experimenting with or selling their own intellectual property – a product or a service – in addition to that of their vendor partners, thus blurring the lines.

The result is that vendor-channel relationships aren't always synergistic and can be at odds. Case in point? A third of Australian respondents reported that channel conflict with vendors increased over the past two years. A quarter of those respondents pointed the finger at vendors shifting their go-to-market strategy from indirect to direct sales. Channel conflict has always existed, but in an increasingly multi-channel world it has the potential to mushroom. Factor in new competitors such as telecom providers and digital agencies, and it's become far less evident who's doing business with or against whom.

As it stands today, the channel is wise to maintain a solid rapport with vendor partners. The old "don't bite the hand that feeds you" adage. And that likely explains the tendency to report positive satisfaction rates with vendors and partner programs over the past year. Eighty-two percent of channel firms report being either highly or mostly satisfied with their vendor relationships and partner programs in the past. But of that 82%, just 2 in 10 gave their vendors the highest satisfaction rating possible. The vast majority (64%) described themselves as moderately satisfied while 18% provided a tepid "partially satisfied/partially dissatisfied" answer. By comparison, U.S. channel firms are a lot more content. Four in 10 gave the highest marks available for vendor satisfaction.

This could be a simple matter of geography, in that many of the major tech vendors are headquartered in the United States and the experience of Australian channel may be that vendors are not as easy to do business with or that they do not have the same access to resources as their U.S. counterparts. CompTIA research consistently finds that difficulty in doing business with a vendor is a main reason channel firms drop them from their line cards each year.

Partner Program Participation Trends

Satisfaction levels may differ slightly between Australia and the US, but partner program participation is mostly on a par with one another. Most Australian channel firms are enrolled at some member level in a variety of programs, which function as the structural template for channel-vendor interaction. Programs detail the rules of the road for the relationship, and administer support services and other resources such as MDF.

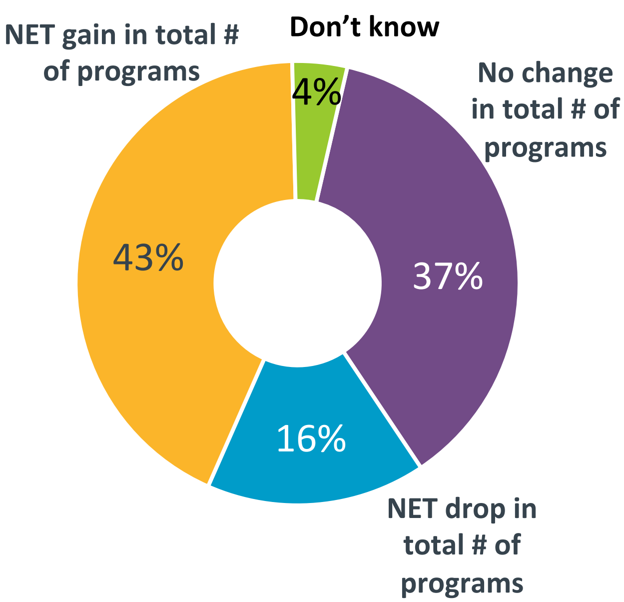
The biggest indicator of how many partner programs participated in is channel firm size. Larger and medium-sized entities are more likely to be working with a wide variety of tech vendors and as a result more inclined to enroll in a number of programs that reaches into double digits.

Micro-sized firms that employ fewer than 10 employees are the least likely to formally belong in multiple programs, citing the cost of membership as their No. 1 inhibitor. In Australia, 81% of that channel segment that does participate in a partner program enrolls in between just one and four of them. That compares with roughly 43% of small firms and 34% of medium/large companies that take part in that limited number of programs.

What is often more interesting to look at is how the mix of vendors changes each year. In addition to the routine vendor re-evaluation process many channel partners undertake, scrutiny has expanded strategically as an increasing number of cloud-based companies provide additional reason to shop around. Some channel firms are now considering leaving a long-time vendor partner for the new person down the street.

Asked to describe the current state of their vendor relationships, 6 in 10 channel firms called them "stable," meaning the mix of vendors is likely to remain status quo over the next two years. That's roughly 10 points higher than responses from U.S.-based channel firms but on a par with channel entities based in the United Kingdom and Canada.

Expectations for Partner Program Participation Next Year



The State of Vendor Relationships Today

STABLE (62%) Work with mostly unchanged mix of vendors

EXPLORATORY (34%) Maintain existing partners but research new vendors as well

SHIFTING (5%) Switching from legacy partners to new vendors

CompTIA. Source: CompTIA State of Channel - Australia Base: n=197 Australia/New Zealand-based IT channel firms

Some partners are taking a look at vendor options, however, with a third describing their current approach to vendor relationships as "exploratory" in nature. This means they expect to maintain current vendor ties, but are open to looking at new partners to work with. A small group (5%) reports being farther along in making actual moves. These respondents said their vendor alliances were "shifting" toward dropping some existing relationships in favor of new bedfellows.

Why do channel firms severe ties with vendors? There are myriad other catalysts, but a general difficulty in doing business is one of them. This complaint typically stems from poor vendor-partner communications, haphazard and ever-changing program policies and requirements, and the prevalence of channel conflict. Other thorns in the side include the cost of membership, reductions in margins, discounts and rebates, as well as insufficient pre- and post-sales support. Three in 10 respondents expect these types of vendor-based financial benefits to decrease to some extent over the next two

How the Australian Channel Locates Emerging Tech Vendor Partners

44%	Vendor Web site searches
44%	Industry trade publications
43%	Industry association conferences
39%	Vendor partner conferences
33%	Social media
30%	Word of mouth/other partners
22%	Vendor pitches

Main Reasons to Drop a Vendor Partner Program

Note: rank order listings are useful for summary purposes, but should NOT be interpreted quantitatively.
For example, the first-ranked item is not necessarily 8 times more important than the eighth-ranked item.

1. General difficulty in doing business with vendor
2. Vendor products no longer fit for customers/our business model
3. Cost of membership
4. Low margins, minimal discounts/rebates
5. Constantly changing requirements/benefits
6. Lack of marketing support
7. Insufficient pre- and post-sales support
8. Volume sale requirements too difficult to meet
9. Channel conflict with vendor's direct sales teams
10. Insufficient or ineffective technical training

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Source: CompTIA State of Channel - Australia Base: n=197 Australia/New Zealand-based IT channel firms

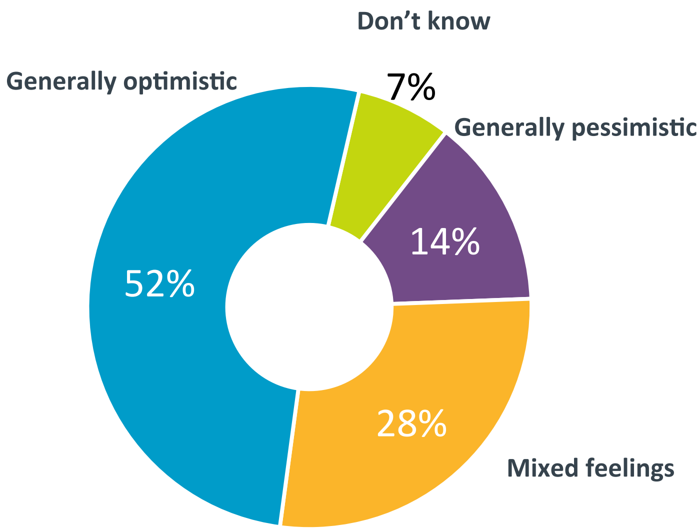
years, while 2 in 10 are anticipating an increase. The remainder predicts status quo in the level of traditional partner program resources made available to them. *See Appendix for additional data on these items.*

Progressive programs, products and financial incentives remain important to the majority of channel firms, and yet the era of cloud is changing what resources some value from a vendor. Consider that nearly 40% of respondents said that they would abandon a partner program because the vendor's products were no longer a fit for their customers or their own business model. That's telling. Customers are changing today as they realize more options around procurement, delivery and IT management than ever before. This has elevated demand for cloud-based solutions and managed services, and that by extension is changing channel behavior. It's also forcing a shift from traditional on-premise product and upgrade cycles to an on-demand services approach to technology acquisition. As a result, the industry as a whole, not just the channel, has had to respond. This includes Microsoft, the standard-bearer of packaged software for decades. Today, the Redmond, WA, company is reorienting rapidly to a cloud foundation, driven doubt in response to customers and partners moving in that direction. They are just one example of major vendors adapting their focus to market changes.

Channel Self-Assessment

With so much afoot in the industry, the future is on people's minds. What does it look like? Who survives? Whom do I partner with? For the channel, business model transformation, consolidation, attrition, new technologies and new types of competition are but a few of the realities it is facing.

Big Picture Opinion on the Future of the IT Channel



By region…

- US-based channel firms are more optimistic about the future than their Australian, Canadian and UK channel counterparts.
- Canadian channel firms tend to be slightly more pessimistic than firms in the other three geographies.

Source: CompTIA State of Channel - Australia Base: n=197 Australia/New Zealand-based IT channel firms

In examining the state of the Australian channel specifically, CompTIA asked respondents for their own assessment of where the channel is headed. By just a hair, the majority remains optimistic about the future. Fifty-two percent of respondents expressed hopefulness that the channel will fare generally well in the years ahead. That compares with 61% of US channel firms that said they felt similarly. The remaining half of Australian respondents either had a pessimistic view of the future or mixed feelings – or they didn't know.

Attitudes about the channel's future were consistent across all sizes of companies, with roughly half of firms from micro-sized to large – and in between – expressing general optimism. Similar correlations of size and sentiment occurred in those with either a pessimistic outlook or mixed feelings. It's a time of change in the channel, as mentioned previously, and with that comes trepidation as companies try to figure out where they best fit on the business transformation curve.

Reasons to Be Optimistic About Channel's Future

Note: rank order listings are useful for summary purposes, but should NOT be interpreted quantitatively.
For example, the first-ranked item is not necessarily 8 times more important than the eighth-ranked item.

1. **Cloud computing opening new doors**
2. **Customers still want a local provider to be a "trusted advisor"**
3. **Broader use of tech by all types of customers ups need for IT**
4. **Customer demand for managed services**
5. **Complexity of today's solutions and services**
6. **Customers want internal IT free to work on strategic projects**
7. **Demand for vertical industry expertise**
8. **Vendor direct sales insufficient to cover full market**

Source: CompTIA State of Channel - Australia Base: n=197 Australia/New Zealand-based IT channel firms

Cloud in general is generating the most optimism about the channel's future, with respondents touting it as a major opportunity driver. Unlike several years ago, the channel now recognizes that there are a number of critical places where they can play a role with cloud, including cloud integration, aggregation and reselling, as well as management and monitoring of cloud solutions. As they better learn to monetize this model – made easier for those with existing managed services experience – this positive outlook should continue.

Other upbeat factors to note? More than a third of respondents and 44% of the smallest in size (fewer than 10 employees) believe that the trusted advisor role for the channel is not waning. This is especially true for those companies that work with small end user clients that typically lack their own IT department and are looking for the guidance of a third party in their technology decisions.

Still others believe that increased complexity brought on by newer technologies and more routes to market and procurement options could indeed carve out a needed place for the channel in the future. Half of the largest Australian channel firms concur with this. Meantime, a third of all respondents believe the broader use of technology by all types of end customers – the consumerization of IT, BYOD, mobile apps, etc. – will drive the need for more IT experts to help with any variety of activities, including integration, customization and management of IT as well as consulting and training.

Demand for managed services is another strong optimism booster among roughly a third of channel respondents. Demand has indeed gone up judging by CompTIA's U.S.-based *Trends in Managed Services 2015* study, but the findings in that study also show that there is a long way to go in terms of customer familiarity and widespread adoption with the recurring revenue model. That's even more the case outside of the United States, including in Australia.

Consider just a few key pieces of U.S.-based end-user and MSP firm data that reveal just how much opportunity is still on the table with managed services:

- **65%** of current MSP customers still handle the bulk of IT needs internally
- **Half** of end users say the way their firm handles IT could be better -- most are handling in-house
- Just **13%** of channel firms offering some managed services get most of their revenue from it

Reasons to Be Pessimistic About Channel's Future

Note: rank order listings are useful for summary purposes, but should NOT be interpreted quantitatively. For example, the first-ranked item is not necessarily 8 times more important than the eighth-ranked item.

1. **General business challenges**
2. **New types of competitors (e.g. telecom providers)**
3. **Skills gaps for emerging/complex IT**
4. **Cloud computing and shift away from on-premises IT**
5. **Many aspects of IT easier to deploy and manage internally**
6. **Vendors increasingly going direct**
7. **Customer access to price and feature transparency online**
8. **Aging of the channel/lack of younger generation filling void**
9. **Wider availability of purchase options/customer self sufficiency**

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Source: CompTIA State of Channel - Australia Base: n=197 Australia/New Zealand-based IT channel firms

While on balance sentiment is largely optimistic, there are a number of factors that could lead respondents to have a pessimistic view of where things are headed down the road. The biggest potential cause for concern happens to be very basic and universal across all industries, not just IT. General business challenges, whether it's a dip in the economy, rising interest rates, lack of access to credit or other capital, or the inability to recruit and hire people with the right skills worry respondents.

And it doesn't have to be a macro event such as a recession that can bump a company off course. It can be much less than that. Two key employees quitting from a 10-person channel firm could easily escalate into a full-blown crisis, as could a sudden increase in office space rent.

Key Ingredients for a Healthy Australian Channel

1. Training (business and IT)
2. Availability of skilled workers
3. Vendors truly committed to partnering
4. Younger generations embracing channel
5. Support from industry trade associations
6. Rethinking the channel value proposition
7. More widely available/valued certifications

No one pessimism driver stood out over another dramatically as a concern, but roughly a third of respondents cited new types of competitors to contend with along with existing skills gaps for newer or emerging technology areas. New competitors include channel firms from the telecom services space, digital agencies, ISVs and other developers that are building applications and taking them direct to customers. Application development, in particular, is one of the skills sets that channel firms will be challenged to pick up and refine in future years. Additionally, we are seeing competition emerge from the ranks of non-IT organizations such as accounting firms that have created their own software IP or manufacturers such as carmaker Tesla, which has developed a custom ERP application. Who's to say that this package could not be resold to other companies down the road?

Changing Customers & Revenue Models

Lastly, there's another new competitor of sorts: the end customer. The end customer's shifting IT procurement options and preferences have a lot to do with this dynamic, as IT buying is no longer the exclusive domain of the IT department. More non-IT line of business executives such as marketing directors or finance officers are making IT decisions on their own, purchasing the apps or devices of choice for their departments. And this population is as likely to source technology directly from a retail establishment, online source or direct from a vendor as from a third-party channel firm. The numbers bear this out.

Channel Perception of Where End Customers are Buying IT

	Frequently	Occasionally	Not Yet, but Likely	Don't Know
Local electronics stores (e.g. Best Buy, Office Depot, Office Works)	20%	44%	19%	16%
Online retailers (e.g. Amazon)	18%	49%	20%	13%
VARs, solution providers, channel firms	16%	44%	22%	18%
Local general retail (e.g. Walmart)	14%	37%	24%	25%
Parallel channels (e.g. telecom, digital agencies, A/V)	14%	46%	24%	16%
Direct from vendors	13%	54%	20%	13%

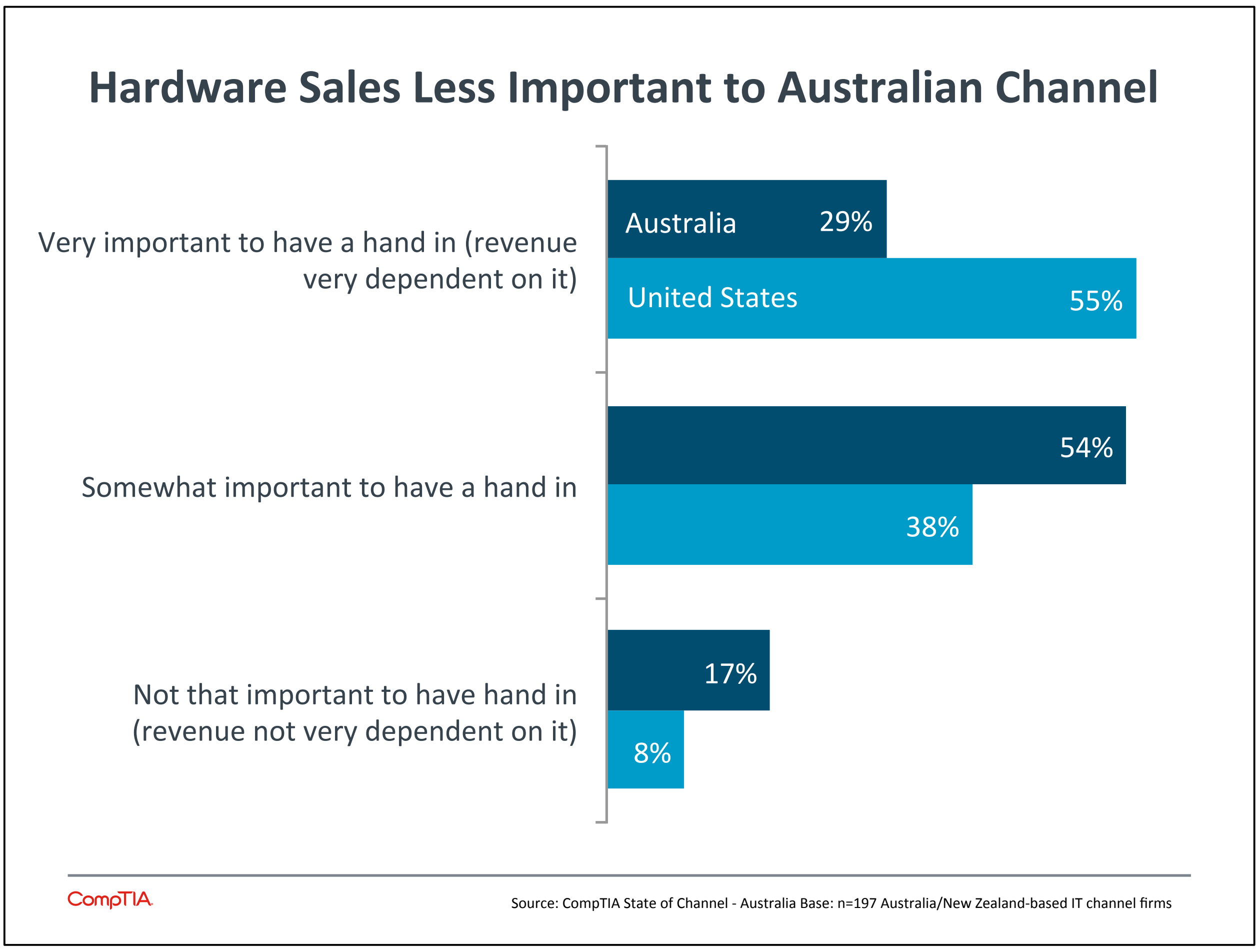
Source: CompTIA State of Channel - Australia Base: n=197 Australia/New Zealand-based IT channel firms

But there is opportunity to be found regardless of where the customer is sourcing its IT. As technology laypersons, these buyers are not always well versed in some of the potential issues that come with the use of specific products or services. That's where channel professionals with consulting chops come in. There are lucrative opportunities to be had in helping end users vet solutions ahead of purchase, regardless of where they eventually buy the technology. And then there are the follow-up opportunities around post-sales consulting and deployment services. These can span security, compliance, integration, training and other considerations tied to the newly purchased IT products or services.

In fact many channel firms today are providing consulting services without any corresponding product transaction. Twenty percent of Australian channel firms identified their main business model as consulting over the past two years. Half of those attributed their primary revenue source in the past year to consulting that involved no product reselling. Still others that do sell products and services credited a major chunk of their revenue to the consulting they do in conjunction with those other sales.

Take a look at current attitudes about hardware sales in Australia, which illuminate ongoing changes to traditional reseller models. Compared with their U.S. counterparts, far fewer Australian respondents deemed hardware sales "very important" to today's customer engagements. Twenty-nine percent said that hardware remains "very important" to have a hand in, compared with 55% of channel firms in the U.S. that did so. Instead, most Australian firms (54%) consider hardware sales "somewhat important" at best, while 17% see them as not important at all.

Among firms of various sizes, the very smallest (fewer than 10 employees) valued hardware sales the least, preferring to focus on consulting and managed services work with what are typically similarly small-sized customers.



Hardware sales do not vanish, obviously, and they remain important to the channel even in this era of cloud and everything-as-a-service. In fact 4 in 10 respondents said margins on products -- of which hardware comprises a piece -- count as the primary contributor to revenue. And yet as fewer channel firms rely on product transactions as their main revenue framework, they are turning to consulting and other services – integration, implementation, software development, cloud and managed services – to make up the difference.

So where is the channel expecting revenue growth to come from over the next two years? Broken down by business model, the numbers skew fairly evenly across the three major options: product sales (NET 39% expect growth), one-off project engagements (NET 43%) and recurring revenue (NET 42%). Another 28% said they expect to see growth from other areas such as warranty renewals. Consulting is an umbrella line of business that opens up across each of these four business models.

Positive Expectations for Growth by Business Model

	Micro	Small	Med/Large
Product sales (hardware/software/ peripherals)	38%	40%	38%
Project-based solutions & services	40%	42%	48%
Recurring revenue (managed/cloud services)	37%	45%	44%
Other (e.g. referrals, extended warranties, etc.	32%	26%	24%

Percentages above represent NET findings, combining responses for "significant growth increase" with "some growth increase."

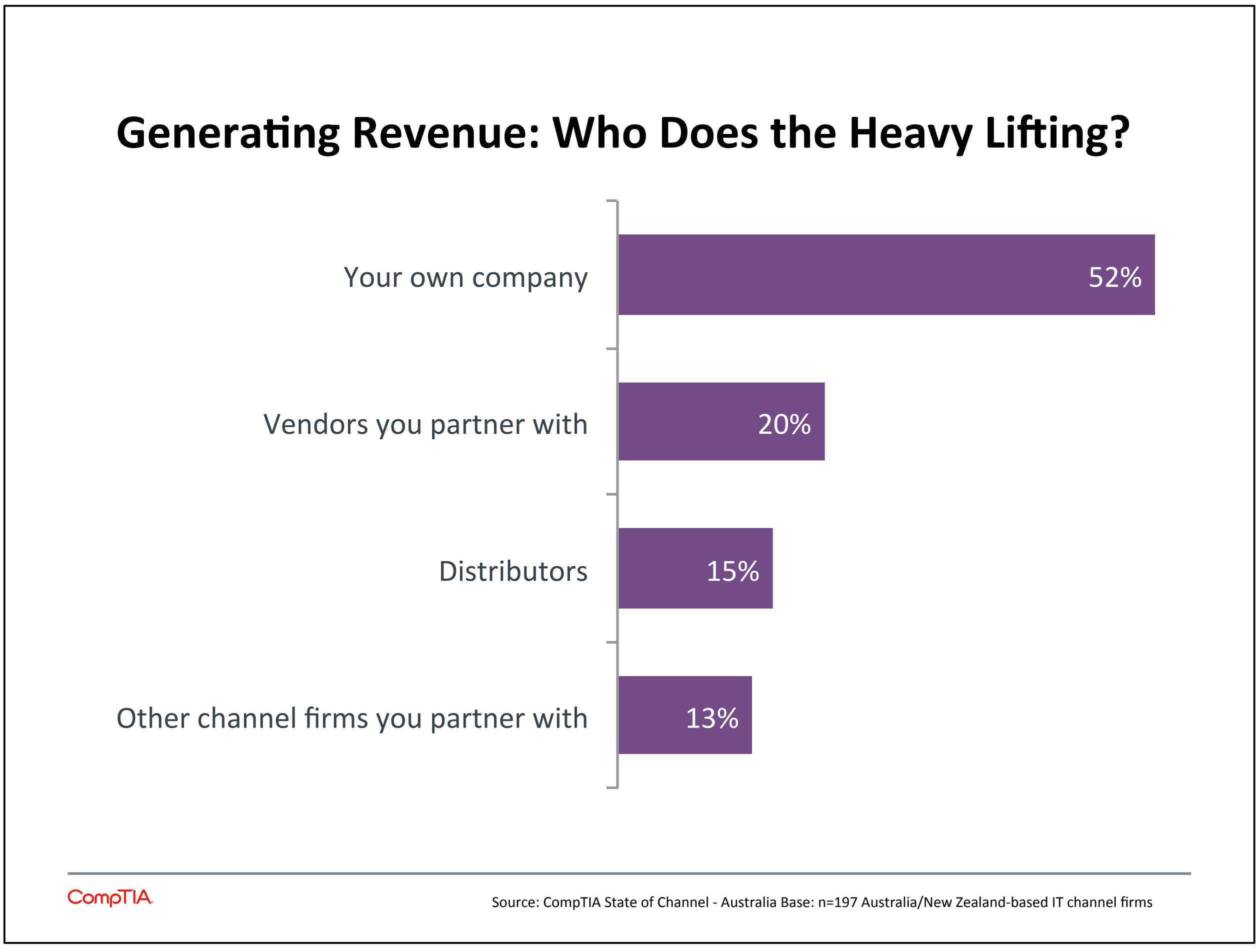
Source: CompTIA State of Channel - Australia Base: n=197 Australia/New Zealand-based IT channel firms

As it turns out, optimism for growth across all four segments is significantly higher among U.S.-based channel firms than for those in Australia. Just over half of U.S. respondents expect product sales growth, for example, while 63% predict project sales will go up and 59% anticipate recurring revenue increases. Another 43% see warranty-related sales increasing in the next two years. Those are NET figures as were those reported for the Australian findings. It's likely that the same reasons that U.S. firms report higher satisfaction with vendors may be in play here – more access to partner program resources that help with lead generation and closing deals, etc.

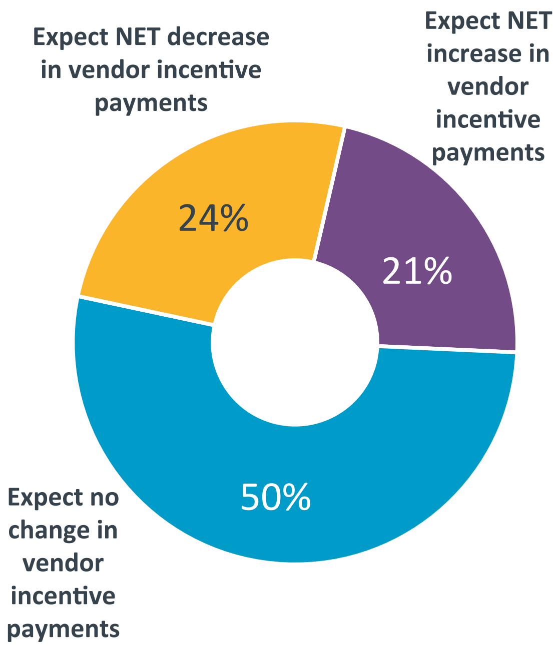
When it comes to customer demographics, Australian channel firms mainly serve the same-sized end user organizations as their U.S. counterparts. Typically these are SMB customers. Fifty-nine percent of respondents said their average customer had between 1 and 99 employees, the sweet spot for roughly 90%-plus of channel firms in existence today. And yet smaller firms are not the only customers served by Australia's channel. Another 42% of respondents said they also work with end user organizations ranging in size from 100 employees on up to enterprise-level. As it does in the U.S., the size of the channel firm tends to correlate with the size of its average customer. The largest channel organizations, for example, are twice as likely to serve larger-sized clients, while the smallest solution providers work primarily with customers that have fewer than 10 employees.

The channel isn't expecting a major shift in customer demographic in the year ahead. Seven in 10 respondents expect the makeup of their customers by size to remain the same.

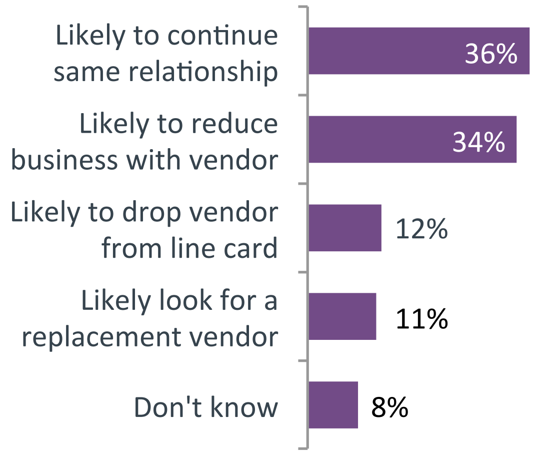
Appendix



Expectations for Vendor Incentives (MDF/spiff/rebates etc.)



Actions Likely to Be Taken if Vendor Benefits Reduced



Responses of "don't know" not included in the pie chart

Source: CompTIA State of Channel - Australia Base: n=197 Australia/New Zealand-based IT channel firms

Expectations for Revenue Growth by Tech Area

1. Cloud infrastructure (NET 49%)
2. Security (NET 47%)
3. Custom application development (NET 47%)
4. Database/data analytics/BI (NET 46%)
5. Mobility solutions (NET 46%)
6. Office productivity (NET 44%)
7. Cloud SaaS (NET 43%)
8. Storage (NET 42%)
9. Backup/DR (NET 41%)
10. Business process automation (NET 38%)

Source: CompTIA State of Channel - Australia Base: n=197 Australia/New Zealand-based IT channel firms