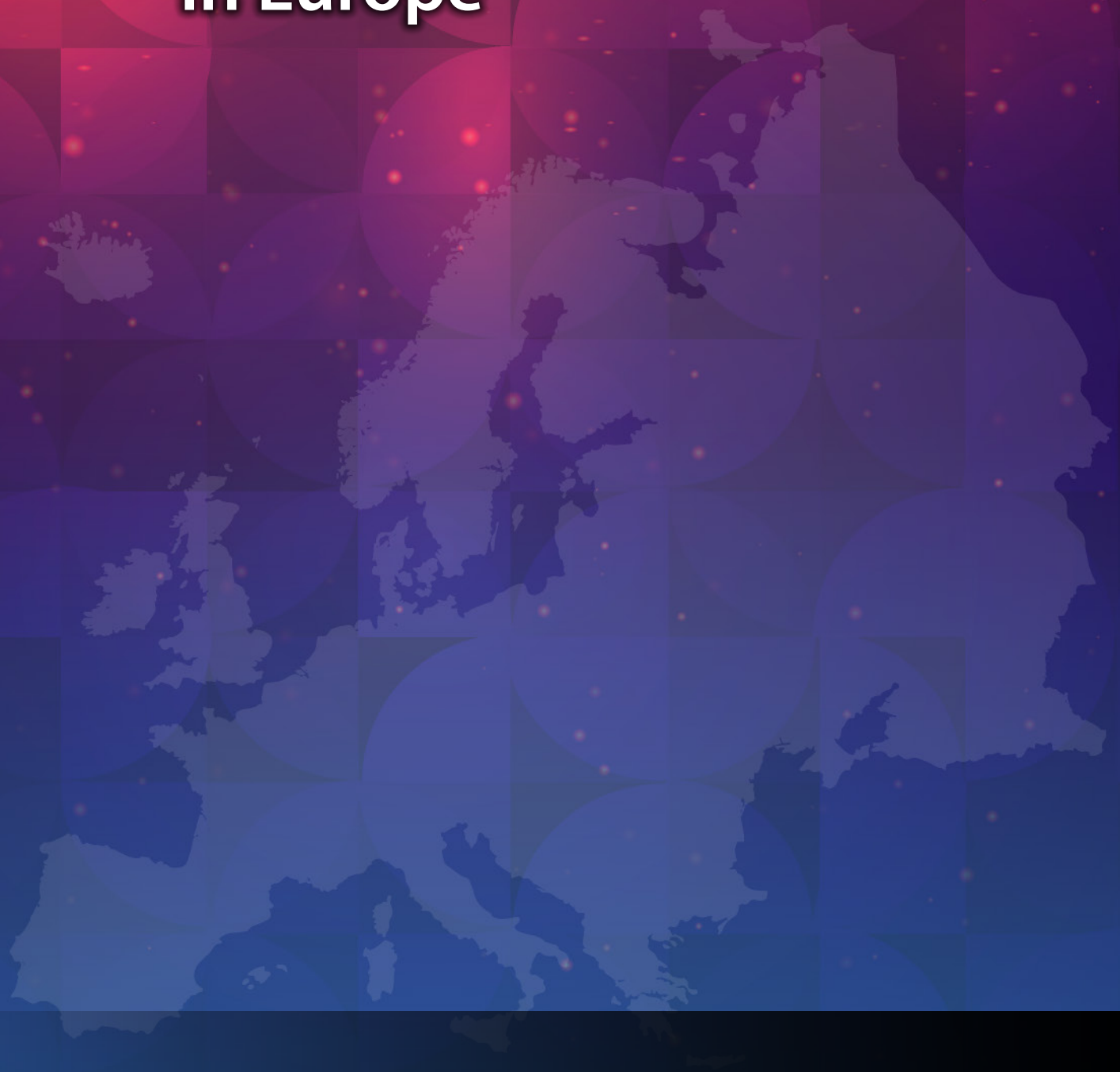
Services Capabilities
Transform IT Distribution in Europe



GTDC

GLOBAL
TECHNOLOGY
DISTRIBUTION
COUNCIL

Services Capabilities
Transform IT Distribution in Europe

About The GTDC

The Global Technology Distribution Council is a worldwide industry association dedicated to defining and promoting the role of wholesale distribution in a successful and healthy information technology channel. The Council is comprised of the computer industry's top wholesale distributors dedicated to serving "the channel," a network of skilled VARs, Internet resellers and retailers focused on providing hardware, software, and services to businesses and consumers around the globe. Access the GTDC's Research Center for additional insight on the distribution industry and channel developments.

About this Report

CommCentric Solutions, a channel-focused research and communications firm, produced this report based on in-depth interviews with the leading distributors and market analysts in Europe. CommCentric's knowledge base and focus areas cover all dimensions of the channel community, from technology vendors and solution providers to distribution business models. The company's research practice is led by Scott Campbell, a veteran channel reporter with more than 20 years of related experience, including at CRN, the industry's leading trade magazine.

Quick Links

A pivotal time in the evolution of technology distributor services began with a perceived threat in the 1990s. The emergence of web-based e-commerce gave rise to the notion that vendors and others would bypass distributors to sell direct. Some vendors made this their mantra at the time.

What actually transpired not only turned skeptics into believers; many of those only selling direct (or trying to) converted their business models to be much more channel focused and distribution oriented. A growing number of vendors subsequently opted to only sell indirect, or via "two-tier" partnerships. Cost efficiencies and channel management advantages are among the reasons, in addition to comprehensive solution selling and specialized value-added services.

Digital Era Direction

Distributor product and service offerings continue to advance in sync with overall tech industry innovation, yet with renewed momentum today. Every two years, for example, an estimated 600 new vendors enter into distribution partnerships across U.S. and European markets alone. In Europe, which requires unique knowledge and capabilities from both regional and multiple in-country perspectives, distributor service models are again fueling a dynamic and vibrant shift that GTDC members see gaining strong momentum.

Jeremy Davies
Co-Founder and CEO, CONTEXT

"Back during the 90's, all the talk revolved around the danger of vendors simply selling products direct," remarked Jeremy Davies, co-founder and CEO at CONTEXT, which tracks weekly invoice-level sales of distributors and resellers down to the individual SKU level for 90% of the European IT distribution market. "Distributors stepped up then and showed the breadth of services they provided and were planning to provide. The digital era creates an entirely new range of opportunities and challenges that will redefine all aspects of the industry for years to come."

"It's not about having a broad portfolio," explained Ilona Weiss, president and CEO of ABC Data, a Warsaw-based distributor covering Central and Eastern Europe. "What matters most is having services tailored to market needs. We are focused on rounding out these offerings, particularly with a deeper cloud foundation."

Paolo Castellacci, President of Computer Gross, a distributor headquartered in Empoli (near Florence), describes the importance of expanding ability to enable both partners and vendors. "We need to support channel transformation in addressing the market – especially with technologies and business models around digital trends."

DNA Realities

"Service is in our DNA," Castellacci adds. "This is how we've always enabled the channel. Starting with operations management and financial services, to sales support, marketing, technical services and cloud platforms – it's a continuously refined offering and direction. Now we are moving fast in providing not only support and advice but also services to build knowledge, practices and execution around vendor technologies."

Although some distribution executives interviewed for this report describe vendors as slower to adopt their services, in comparison to solution provider leverage, that's not exactly surprising, they acknowledge. A factor is that top management at tech companies don't always realize how distributors can become deeper partners in numerous ways.

Paolo Castellacci
President, Computer Gross

Extension of Vendor Market Presence

On the other hand, Computer Gross' Castellacci, sees it this way: "Our belief is that distributors are becoming the extension of the vendors' presence to the market – as it's not only economically feasible for them to maintain or establish wide local subsidiaries. Legacy technology vendors can concentrate on innovation just as new players, emerging vendors, strive to properly reach the market through partnerships."

When considering the reseller/channel side of the equation, Castellacci said, "Solution provider demand is growing fast for more in-depth distributor support. They need to reach deep knowledge and expertise related to challenging new digital trends. They're eager to reinforce their role as established influencers with their customers over vertical markets and solutions."

SERVICES SNAPSHOT

Gaps & Gains - There's a unique contrast in the expanding world of distributor services. On the one hand, European distributors interviewed for this report confirm substantially higher utilization by both vendors and solution providers – yet neither are typically leveraging the full depth and breadth. On the vendor side, many see these offerings as an extension of their operations. Distributors are concurrently advancing their channel service portfolios to address widening skills-gap challenges and shortages.

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What They Do - If you've ever wondered how distributors have moved beyond pick, pack and ship, check out this list of disty service offerings. It's just a sampling of the breadth and scope available today.

Click to Enlarge the Services Snapshot

Distributor Services Portfolios – Why and Where?

ABC Data's Weiss said, "We made a fundamental, strategic choice to develop a converged approach with sharply integrated products and services, including from an M&A standpoint."

The company is planning to expand its cloud portfolio and other e-services, such as with new mobile platform mInterLink they're releasing in July, or Reseller Web offering across all of Central Eastern Europe. Weiss describes the plans as unique in that they can cover the whole region. "That's attracted big interest on the vendors' side," Weiss said.

Svens Dinsdorfs
CEO, ELKO

Svens Dinsdorfs, CEO of ELKO, based in Riga, Latvia – an IT products and solutions distributor in Europe and Central Asia – asserted, "You can't compete with price anymore. Services are the way to differentiate yourself from other distributors and retain clients."

The "transformation factor" affects all aspects of the distribution industry. Arrow ECS EMEA actions illustrate this reality on a massive scale.

"As part of our business model, we offer a large range of complementary services to our reseller customers, enabling them to focus on core competencies," explained Arrow ECS EMEA President Eric Nowak.

In addition to Arrow's end-to-end technology solution approach, they offer reseller customers a variety of services such as training, asset management, technical support, financial services, global delivery and implementation services, design and integration, professional services, value recovery and supply chain management.

In other words, there's not much they don't do.

SERVICES SNAPSHOT

The Survey Says - A survey of European distributors conducted for this report revealed the following as top services:

1) Demand Generation
2) Solution Development
3) Education & Training

Value Props Take Center Stage

The key is evaluating every distributor's strengths and unique value propositions relative to needs. Find the best fit. They're not all created equally.

"It's important for distributors to be relevant, for both our vendors and customers. As markets and technologies evolve, we need to evolve at the same rate, if not faster," explained Peter Adams, director of services, Europe, at Tech Data. "Services are an integral aspect of our operations. Distributors have the ability to pull together many different strands to create an end-to-end, cohesive value proposition. The key to success is making sure you choose elements that are close to your core and executed really well."

ABC Data's Weiss concurs: "Yes, we are a services company. Two years ago, we said to employees and the market, 'We are not a product company. Distribution is about service.'"

Weiss also emphasized the importance of its services specific to the vendor community. "We provide access to a broad channel. We provide services the channel needs to go with this diverse solutions portfolio."

The ABC Data leader further emphasized the combination of logistics and professional services, including financing, for both channel and vendor partners.

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— Peter Adams, Director of Services, Europe, Tech Data

Complete Solutions Make the Difference

From the perspective of GTDC member and global distributor Westcon-Comstor, services clearly differentiate distribution leaders. The company has made significant investments, building out global services capabilities and ascending into one of the world's most progressive distribution companies. With a focus on customer needs across all elements of services this has become a big part of the company's success.

Jeremy Butt
Executive Vice President, EMEA,
Westcon-Comstor

"Services are so ingrained and so entrenched into everything we do that, yes, we could hold our own just on services," acknowledged Jeremy Butt, executive vice president, EMEA, Westcon-Comstor. "But we're also a products company and perhaps, most importantly, a solutions business combining products and services in a manner that helps our vendors and solution providers solve customer problems. I think that's where our value as distributors comes from – providing full solutions, including services, to our customers. I do believe distributors are in an ideal position in terms of technical expertise, geographic reach, financing, flexibility and scale to deliver high-quality services – and that's what vendors and solution providers value and want."

Arrow's Nowak points to many examples reflecting distribution's evolution. In case a reseller includes technical support across the globe, for instance, Arrow "can step in to this service on behalf of the partner, with a four hour on-site SLA, and I could give many more examples regarding different kinds of services and solutions as it obviously equates to our day-to-day work."

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— Jeremy Butt, Executive Vice President, EMEA, Westcon-Comstor

Organic and Acquired Advantages

Adams at Tech Data echoes the sentiments of other distributors as he describes significant growth in services business both organically and through acquisition. With Tech Data's recently completed acquisition of Avnet Technology Solutions, the move represents a major step into deeper services delivery on an enterprise scale.

"Our lifecycle services are growing at the fastest rate," Adams says. "This includes financial programs on the front end and device trade-in, for example, on the back end. We're addressing everything in between."

At ABC Data, the value of IT services is outpacing product business growth, according to Weiss, who pointed to an IDC analysis indicating that the Polish IT services market will experience 4% CAGR over the next five years and exceed $4 billion USD. "Generally, Poland is half of the CEE market. That's why we launched ABC Data Cloud and acquired S4E," she added, noting that security, Big Data and virtualization also rank high among service priorities.

Gernot Teufel
Global Director,
IT & Distribution, GfK

Westcon-Comstor, which has announced a proposed sale of its Americas business to SYNNEX, expects its services business to continue growing ahead of the market. "A big reason for that is our ability to stay ahead of and on top of trends," Butt said. "Customer demand always entails continuous adjustment and adapting, so we are always evolving, always in motion relative to services."

Gernot Teufel, global director, IT & Distribution, at global research firm GfK, also attests to the shift in distribution "to service and fulfillment providers." GfK aggregates distribution data with point-of-sales and product data, as well as sales forecasts, while tracking SKU-level online pricing dynamics across EMEA, US, LATAM and APAC regions.

SERVICES SNAPSHOT

On the Money - As distributors increase their investments in services, ROI doesn't necessarily come easy. While some are reporting their highest margins in history, how they get compensated for services varies significantly. Some bundle services into the cost of goods sold while others take a more "a la carte" menu-driven approach.

Distributors also note that it is a challenge for many vendors to differentiate value from commodity in their programs – and to define the right compensation models for ensuring their mid-to-long-term strategic objectives.

C-eizing the Moment

"C-level leaders already know the days of 'box moving' are gone. Margin pressures also influence their way of thinking, of course," Teufel points out. "The giants in this market have to transform with increasingly stronger and broader service portfolios, and vendor partners must adapt their supply-chain strategies accordingly. They need distributors for time to market, new services and cost efficiencies everywhere imaginable while reaching the vast channel customer bases that distributors address and manage."

In terms of service areas where he sees distributors making the most progress going forward, Teufel cites managed services with long-term contracts, including supporting maintenance agreements, as well as IoT and cloud business.

"Services for solution providers are typically growing faster for us, as we get closer interactions with end-customers and better business insights through various co-projects and consulting," ELKO's Dinsdorfs said, emphasizing cloud computing, sales automation, security-related services, machine learning and Big Data offerings as growth areas.

Arrow's Nowak agrees. "Acceleration is faster on the solution provider community side, given that players with limited services are rapidly left behind by competition and can't compete in the long run. As such, services differentiation is crucial. Suppliers can decide to focus on a technology piece and count on solution providers and alliance partners for delivering related services."

However, as ABC Data's Weiss observed, "Sometimes the revenue driver is the product, sometimes it's the service. Traditional distribution services aren't going away. On the contrary, we're expanding there too. We have to address all vendor and channel requirements as thoroughly as possible. We have economies of scale and historic competencies in meeting both reseller and vendor demands."

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— Ilona Weiss, President and CEO, ABC Data

New Value on the Rise

Distributors are also making their service marks in altogether new ways. Nowak describes cloud services among Arrow's fastest-growing business segments. "We recently launched the industry's first complete, end-to-end cloud assessment framework aimed at helping the reseller and managed service provider community guide enterprise customers through the migration of applications and services to the cloud."

Cloud-related value-added services include training, presales, cross-vendor-solution stacking, financing solutions, technical support, cloud assessment and migration. Market needs and distributor capabilities are aligning across Europe – and the world – through both platforms and services, including order management, provisioning and accurate billing. By supporting aggregation and administration, for example, channel players can significantly increase their focus on revenue growth while expanding the capacity to deliver cloud services.

Butt at Westcon-Comstor noted another distinct advantage in Europe, in the cloud and all other dimensions of distribution: the ability to provide a wide variety of services in multiple countries and in local languages.

"Solution providers value our services in so many ways," he said. "We can fill in or supplement skills gaps, expand their geographic reach or provide them with resources that are more cost-effective and more efficient than they would otherwise choose to perform themselves."

To help Italian channel partners afford what Computer Gross' Castellacci labels an "epochal shift" to cloud and pay-per-use models, the company built Arcipelago Cloud five years ago.

"This focused business unit offers a full range of services. We started with a complete and brand neutral Data Services Center, enabling us to showcase different technologies and leveraging our Academy to help partners take their first steps in this journey. As major vendors moved to pay-per-use models and new players came to the scene, a cloud marketplace is now in place, specifically reserved for channel partners and empowered by automation. We are also ready to offer advanced consulting in public and multi-cloud services, with the goal to accelerate the partner's entry in the complexity of public cloud integration and profit from this fast-growing sector."

SERVICES SNAPSHOT

Cloud Nine is Coming

All distributors interviewed for this report underscored advances and growing value in the cloud. Channel adoption has been relatively slow, however, with many traditional resellers struggling – or not yet even attempting – to build cloud services models. This creates both a challenge and tremendous opportunity for distributors. Education will be as critical as the cloud solutions they offer in coming months and years.

Loyalty Still a Reality

"It has taken us many years to build our customer base, and we fight hard for their retained loyalty," Tech Data's Adams explained. "We constantly seek feedback and have a high adoption rate of many of our services. Services must always evolve, and our notion of what is considered a service changes. For example, accepting or creating e-invoices at one time would have been considered a service – or delivering products on a Saturday. Now these are just what businesses do. Our services run much deeper today."

Like Adams and others, Castellacci points to the trust factor as instrumental. It's actually growing in importance in areas such as security and with regard to Europe's General Data Protection Regulation (GDPR) and the underlying "right to be forgotten" stipulation, for example. Rather than seeing a decline in loyalty and trust that's become a commonly held view in the new era of disruption, the opposite may be more the long-term channel reality.

"We can also help vendors develop business in much shorter timeframes now," Castellacci said, because of the long history of technology distribution industry leaders. "Our well-established awareness of what the 'local' partners and customers need gave us the ability to develop services based on trust and mutual benefit to channel partners and vendors."

Eric Nowak
President, ECS EMEA,
Arrow

Arrow's Nowak refers to how distributors are in a much better position today to drive demand and influence channel decision makers – in directions that make the most sense relative to the problems they are perpetually solving and doors they're routinely opening for small and midsize businesses as well as large enterprises.

"We're becoming an aggregator of IoT ecosystems, for example, by enabling the different layers of the IoT stack – a key differentiator for Arrow from 'sensor to sunset.' We see a huge acceleration and potential in this segment. Our software and services business continues to grow rapidly.

"In light of the changing market conditions, digital transformation and disruptive business models, services are not just a growth market; it's the future of IT distribution!"

Learn More…
about how technology distributors are transforming in the digital era by visiting the GTDC's Research Center and other online resources at www.gtdc.org.

GTDC Members Worldwide

GTDC members cover the world, driving $130 billion+ in product and services business through their capabilities on both global and in-country levels, delivering unique value essential to vendor partner and overall channel success.

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