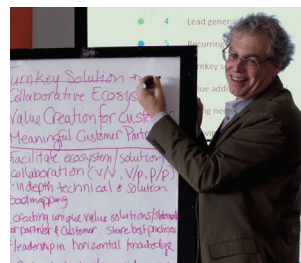




CANADIAN  
CHANNEL  
CHIEFS  
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# Learning from Past Recessions

Canadian Channel Chiefs Council  
Workshop Report



**T**he last major recession was more than a decade ago, yet the memory remains strikingly fresh for many businesses. With experts saying the economy is poised for another global slowdown, digital transformation holds the key to leveraging the lessons from other financial crises.

At a September 2019 meeting of the Canadian Channel Chiefs Council (C4), the impending recession was a hot topic for presenter Michael O’Neil, Senior Channel Consultant with NPD Group and contributing research analyst for Techaisle. After reviewing the key learnings from previous economic downturns, O’Neil turned his attention to how channel businesses can best prepare for what’s coming, urging attendees to identify practical steps to ready their businesses for a recession.

This report summarizes O’Neil’s presentation and explores the reaction by C4 members.



**Michael O’Neil**  
Senior Channel Consultant,  
NPD Group

## **O’NEIL: RECESSION & TRANSFORMATION**

One of the top five most popular topics explored in thought leadership blogs (Harvard Business Review, McKinsey, Bain & Company, Deloitte, PWC) during 2019 has been the pending recession and what companies can do to prepare for it.

Michael O’Neil says fascination is understandable given that a recession, is overdue. Predicting the world is due for another recession may seem bold, but O’Neil offered a historical context as evidence:

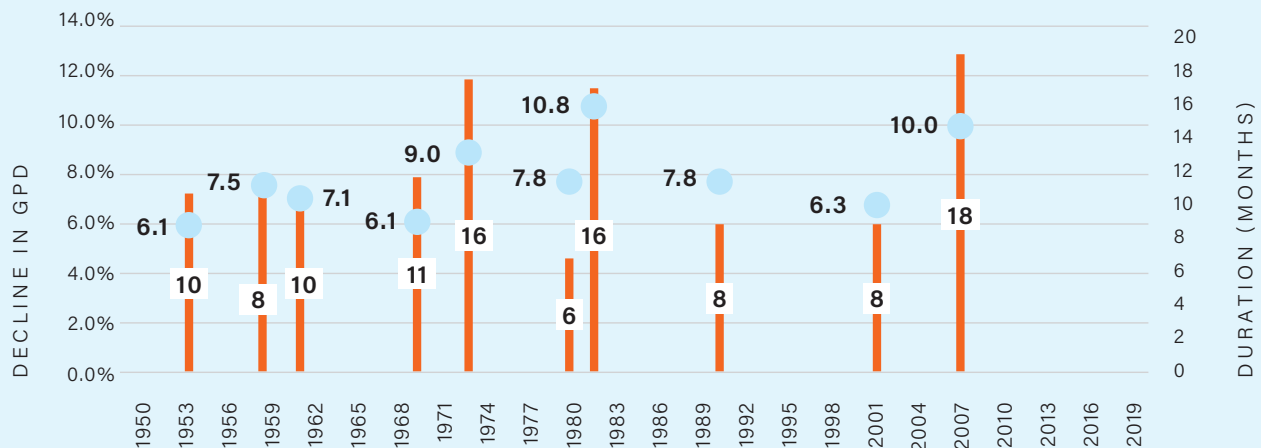
- There have been 11 recessions since the Second World War, and 10 since 1950.
- Since 1950, the average recession has lasted about a year, and brought about a roughly eight per cent decline in GDP.
- The Great Recession of 2008 was one of the worst, lasting 18 months and causing a contraction of 10 per cent in the US economy.

He says the current US administration would obviously like to stave off a downturn in the US economy. If they are successful, any impending recession could be delayed until after the 2020 election.

# RECESSION SINCE 1950

■ DURATION (MONTHS)    ● GDP DECLINE

Figure 1 : Source: The NPD Group, Inc



In any case, O’Neil urged companies to examine what happened in the previous recession as preparation for the next one. Doing so increases the likelihood of survival, and could even result in improved perspective and growth.

## What happens during a recession

During a recession, the pressure on reducing expenditures includes a decreased investment in IT. This trend was in evidence in the wake of the 2000 “dotcom bomb,” and again after the 2008 recession. In the next recession, there will be significant focus on reducing expenditures and on doing more with less. Unfortunately, there will probably be less to “do with” on the equipment and labour front.

The cumulative impact of recessions over time has had a downward impact on salaries, said O’Neil. Economic research coming from the Federal Reserve Bank of St. Louis confirms this, pointing to a reduction in the percentage of money going to salaries over time. This trend is exacerbated with each recession, when the percentage resets to a new, lower point.

An article published in the November 2008 issue of CIO Magazine highlighted that “any technologies that can save companies money or reduce expenses will continue to thrive.” Clearly, said technologies reflected the buzzwords of the time — storage, business intelligence, virtualization, security, and of course cloud computing.

**At the workshop, C4 members gathered into groups (“tables”) to identify the biggest industry challenges and how they could impact business in the immediate future.**

# TABLE 01

**This group segmented the landscape into three categories – SMB Market, Large Nationals, and Direct Market Reseller (DMR). Group members then tackled the three questions posed to the room.**

Overall, Table 1 felt that the major driver of transformation in the SMBs is the fierce need to grow service revenue. Large Nationals, on the other hand, have a very distinct set of needs and requirements, and tend to present themselves differently. The drive to create and provide innovative solutions to customers is in their DNA.

This core offering remains an important component in addressing digital transformation.

While DMRs live in a minute-by-minute, transactional world, they are focused on finding new ways to create value for their customers.

Today it is widely held that digital transformation (DX), while a buzzword, is something all companies need to undergo in order to remain competitive through a recession. There is a clear trajectory for companies who have embraced DX. And it would appear that tackling DX in smaller, more manageable steps increases the chances of lasting success.

## Automation and AI

Not covered in O’Neil’s presentation, but important as a backdrop for expenditure contraction and digital transformation, is the rise in automation and the significant impact it will have on the labour force. McKinsey analysis shows that “automation and AI will lift productivity and growth, but millions of people worldwide may need to switch occupations or upgrade skills.”

DX is a three-step process that moves companies from:

- 1. Digitization:** using technology to move from physical to digital systems to
- 2. Digitalization:** connecting this now-digitized data, and using technology to optimize the process to
- 3. Digital transformation:** integrating digitalized processes across the enterprise and across multiple functions to achieve previously unobtainable outcomes

DX is the process of using data to inform and change business outcomes:

### DIGITAL TRANSFORMATION

Integrating digitalized processes to achieve enterprise-wide automation spanning multiple functions; modernization of current processes & supporting infrastructure to achieve previously unattainable or unimaginable outcomes

### DIGITALIZATION

Using digital technologies to automate processes; using the resulting digital information for better business outcomes; inserting technology into existing processes to optimize value.

### DIGITIZATION

Conversion of manual/paper records, data, or processes into a digital format

# TABLE 02

**The members at this table identified the top three transformational practices from both a vendor and a partner perspective.**

The first (and most important) practice identified was that of moving to a collaborative ecosystem solution. For a vendor, the most important thing is to establish and facilitate a collaborative solution ecosystem between vendors, between vendors and partners, and between partners. Simplifying and streamlining the ecosystem by the vendor helps the process of digital transformation on all levels. For a partner, it is critical to provide an in-depth technical solution and a roadmap for customers.

The second practice identified was the need to move to value creation for customers. For a vendor, creating a unique value solution statement for partners and customers, and sharing best practices, is an important step. For partners, it's providing leadership and knowledge (including best practices).

The third priority identified was in the area of providing meaningful customer partnerships. Vendors could co-invest with the partner to provide use cases and references. Having this information upfront for partners was identified as a need, and is extremely useful so partners don't have to recreate the information every time they sell a vendor solution.

## PRACTICES IT RESELLERS CAN CHANGE TO REMAIN RELEVANT & GAIN COMPETITIVE ADVANTAGE

In his coverage of the C4 event, ITWC Managing Editor Alex Coop alludes to "at least a dozen different business practices channel partners need to move away from in order to enable digital transformation."

A Techaisle white paper, created with input from O'Neil, outlines these practices in more detail, indicating the fundamental shifts IT resellers should take to either prepare for recession or to simply remain relevant and competitive in a digitally-transformed, customer-centric world.

### From Vendor Dependency to Self-transformation

No longer can VARs depend on vendors to provide the solution. Rather, a re-orientation is needed where the VAR shifts focus from selling what vendors provide to identifying what solution will best serve their customers' needs — and then shaping the vendor offering accordingly.

This shift toward greater leadership can be a relief in that it frees the VAR up to solidify their direct relationships with customers, and build more satisfying long-term partnerships. This puts resellers in control of their own destiny.

Fundamental steps to this self-transformation include:

- **Moving from value addition by the channel to value creation for the customer.** Putting the customer first, maintaining focus on their business objectives and outcomes, results in channel businesses moving from a traditional, value-added, transactional relationship to one where there is a focus on problem-solving in a way that enhances the customer's revenue stream and/or competitive differentiation.

This was a particularly hot area of discussion among the groups. There was a desire to create unique solutions for partners and customers. Discussions around this point included: sharing best practices and knowledge across organizations to create more value for customers; ensuring they understand what the offering includes; and how said offering can positively impact their business outcome.

# TABLE 03

## **This group kept the recession as a backdrop throughout their discussion.**

The first and most important area, is to ensure recurring revenue with meaningful margins. The group felt that hiring the right skill set was imperative to move from losing relevance to enabling transformation.

The group also said growing a profitable business through meaningful margins and preventing services revenue leakage was necessary to invest in digital discovery; one follows the other. And certainly the customer must remain at the centre of everything.

A productivity analysis was discussed as a means to investigating the best way to shift resources within vendors and/or partners as they move through the transformation process.

The group concluded it was most important to develop a transformation plan that identifies both the vendor and the partner requirement. Critical to success is simplifying the plan so that is valuable to the partner's business.

- **Moving from deployment to orchestration.** Historically, resellers were contracted to connect equipment to an existing infrastructure, and the scope would include configuration, deployment, and ongoing maintenance. But now, as customers move to XaaS (Anything as a Service), they need a partner to connect applications and data across different departments, facilities, and systems.

The VAR now becomes a “conductor,” ensuring all “sections” of the orchestra are playing together. Shifting the focus from an internal to a customer-based outcome demands an intimate knowledge of the client organization — their structure, decision-making team and business goals. This is key to staying a step ahead of both the client and the competition.

- **Moving from system integration to data integration.** Customers have moved beyond the physical technology. They assume that their systems are in fact already integrated. They are looking for partners who can not only integrate technology but more importantly integrate the data coming from dispersed systems and technologies. The reseller should be able to provide clients with a single perspective on business analytics.
- **Moving from turnkey to ecosystem collaborative solutions.** The word “turnkey” implies installing a solution and for the most part leaving it on autopilot. Clients are deeply invested in legacy systems in terms of data, experience, and process. As previously discussed, VARs with a greater focus on their customers' business don't walk away; rather, they are deeply invested in their client's success, and are always seeking problems to be solved. Success will come from understanding the legacy system capabilities, and knowing how to integrate these capabilities with solutions geared to the future. Successful VARs can create a new ecosystem for their clients, and ecosystems are not plug-and-play — they require careful nurturing.
- **Moving from growing services revenue to preventing services revenue leakage.** Gone are the days of focusing on growing the bottom line by simply selling more services. Focusing on customers' business challenges means the nature of the relationship changes; there is greater exposure to customer needs beyond the IT department. Not only does this set the stage for broader intelligence-gathering and advance notice of competitive threats, it also helps identify opportunities before the digital research is done. Resellers can then control and shape the conversation, thereby limiting potential revenue leakage.

# TABLE 04

**The shift from lead generation to digital discovery was the subject of choice at this table, especially the challenge of transferring the lead from vendor to channel.**

They found, rule-heavy Marketing Development Fund (MDF) policies make investing in digital discovery difficult. To solve this, the group suggested opening up the MDF policies. Changing the metrics associated with ROI would also need to change, but the group did not know what these new metrics should be. Suggestions included site traffic, page visits, and content interaction.

The group also discussed two transition practices: moving from deployment to orchestration and moving from a turnkey solution to a collaborative ecosystem solution. The table felt that the two were inextricably linked. Orchestration could include the technical aspect of the solution across varying vendors and partners, which would require collaboration. The collaboration would not only be technical but would also be needed on a business level — identifying whether the vendor is creating the solution, or whether the partner is requesting management of their customer-driven solution. Each would have different plans and outcomes, and would be complex to manage.

- **Moving from recurring revenue to margin for investment.** As a reseller moves from a transactional relationship to a closer, long-term partnership, contracts change. But shifting from higher-margin transactional contracts to lower-margin service contracts doesn't allow for reinvestment. The important aspect here is to ensure meaningful margins. Techaisle found that "channels must have a mix of recurring, non-recurring, product-led, and services-led contracts to generate healthy margins for investment." Having this mix of income streams increases the ability to invest, which in turn enables innovation and future-proofing.
- **Moving from quota retirement to book of business.** Moving from a transactional solution to a recurring revenue relationship will affect how sales teams are incentivized. The single invoice with clear, immediate commission is now a multi-year contract that evolves over time. Sales commissions in a reseller organization must be revisited. Looking at a percentage of gross profit, total value, or estimated consumption — or even adopting the insurance industry's approach — were among the ideas explored.
- **Moving focus from hiring skills to managing delivery.** Digital transformation and adopting a customer-based, outcome-focused approach takes the skills focus away from being able to sell vendor products, placing it on the ability to effectively manage a complex multi-layered solution comprised of legacy systems and multiple partners, including customer-sourced XaaS services. Hardcore technical capabilities need to be enhanced with softer, more collaborative skills to manage final delivery in this hybrid environment.

The workshop groups discussed the need for education and continuous, rich training for the vendor, the channel, and the customer. This should include training on how to navigate the various relationships that could exist — vendor to vendor, vendor to partner, and partner to partner. Effective partnering assumes that others have the same desire for self-transformation and consequent sophistication.

# TABLE 05

**This table discussion also focused on digital discovery as one of the first steps that can be taken in a digital transformation.**

They agreed the process of digital discovery involves assessing the path from vendor to partner to customer, and sharing the roadmap and vendor insights so everyone can align to select fundamentals as a basis for messaging.

The group agreed that timelines are too frequently shortened, with the customer abandoned in the process. Digital discovery plans are not a snapshot or moment in time — they need to be continuous and scalable. Knowing that each vendor and partner could be at a different stage of digital discovery could create friction. Partners should co-invest with the vendor, work to remove these areas of friction, and try to equalize the effort required.

They also concluded, rich and deep training is essential. The group felt that continuously working to understand what the customer needs and how their journey may evolve would help satisfy long-term objectives.

- **Moving from trusted advisor to meaningful customer partner.**

This is one of the more difficult areas to transform. Partners are typically paid based on outcomes, and have a vested interest in customers' business success. Changing customer contracts to reflect a more outcome-based agreement moves VARs from vendor status to partner status. It's a differentiating approach, and will create competitive advantage. After all, if a customer is staking their success on a reseller's solution, then that reseller should be willing to attach some of their compensation to the outcome.

The workshop groups raised the idea of including customer metrics for success in their own KPIs; they should be aligned in some way. Recurring revenue, hiring for the right skills, and becoming a partner are metrics that can be measured in a transformational plan. Co-investing with partners to develop use cases and references was seen to be a valuable investment.

- **Moving from best-of-breed offering to innovative offering.** In their white paper, Techaisle posit that "VARs looking to establish positions as meaningful partners will need to deliver solutions that drive innovation within their customers' operations, in order to share in the benefit resulting from technology-enabled business improvement."

Resellers should be focused on driving innovation for clients. This is a natural outcome of reducing dependency on vendors, and focusing more on building effective, broader relationships with customers. Again, resellers can now be in control of their destiny, anticipating needs because they understand their customers' business objectives and shaping the overall conversation to their advantage.

- **Moving from lead generation to digital discovery.** The last but not final shift in practice is making sure customers are aware the reseller is now a highly effective partner who can provide solutions that meaningfully affect business outcomes.

Fifty-seven per cent of purchase decisions are complete before a customer even calls a supplier. The decision-making unit comprises on average 5.4 people, more or less evenly split between business and IT. While the reseller may have been limited to working with the IT department in the past, in order to now shape the buying decision the reseller must influence people who have no knowledge or relationship of their unique offering. Having a digital marketing presence is essential to being found at the right time, by the right people.



## LOVE TO HEAR YOUR THOUGHTS

We are still at the beginning of the change that will happen to the channel over the next few years. As such, the workshop was the start of a conversation. We may not be able to guess the future, but as educator and early computer pioneer Alan Kay says, “the best way to predict the future is to invent it.” Together, we are on a road to inventing that new future for the channel by leveraging the Canadian Channel Chiefs Council board and its members.

**What are your thoughts?**

Send a note to:

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This was another hot topic among the workshop groups, who raised the issue of restrictive MDF policies around digital marketing. This, coupled with a lack of accurately attributed leads, means proving ROI is tricky. But developing a strategic, long-term plan that includes digital marketing as one aspect is definitely required, and could result in meaningful insights to inform business decisions.

The workshop ended with a celebration of the 2019 Canadian Channel Innovation Awards, at which IT resellers were rewarded for having taken the leap and shifting the focus of their business from internal to client outcomes. It was a fitting end to a worthwhile discussion around how important it will be for resellers to transform themselves from transactional to strategic partners, and all the smaller changes such a shift requires. It was a great opportunity to step back and re-examine business objectives — regardless of the looming spectre of recession.