

The Power of Multiples

Best Practices for Selling Best-of-Breed Solutions

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THE SOLUTIONS EQUATION

Value-added resellers (VARs) and systems integrators have choices in sourcing, assembling and deploying hardware and software solutions for customers. These IT solutions specialists can work either with a single vendor that offers most of the technology needed to build end-to-end offerings, or multiple vendors to integrate and craft more comprehensive solutions.

Many VARs find working with a single vendor less complicated and more expedient than sourcing from multiple suppliers. The drawback: the technology available in single-vendor portfolios is inconsistent in quality and functionality. Nowhere is this more evident than the security space, where a client's critical assets must be thoroughly safeguarded with no tolerance for weak spots.

A growing number of VARs show better returns and higher average sales prices than peers by creating holistic solutions using multiple best-of-breed technologies. In this report, we will outline the value and process by which VARs can succeed with this best-of-breed strategy, as well as how channel partners can leverage these solutions to energize and enable horizontal sales.

THE PRESSURE FOR A SINGLE-VENDOR APPROACH

Quick execution and speed-to-market are revered in the channel; the difference between profitability and failure often lies in the gray space between identifying market opportunities and capitalizing on them.

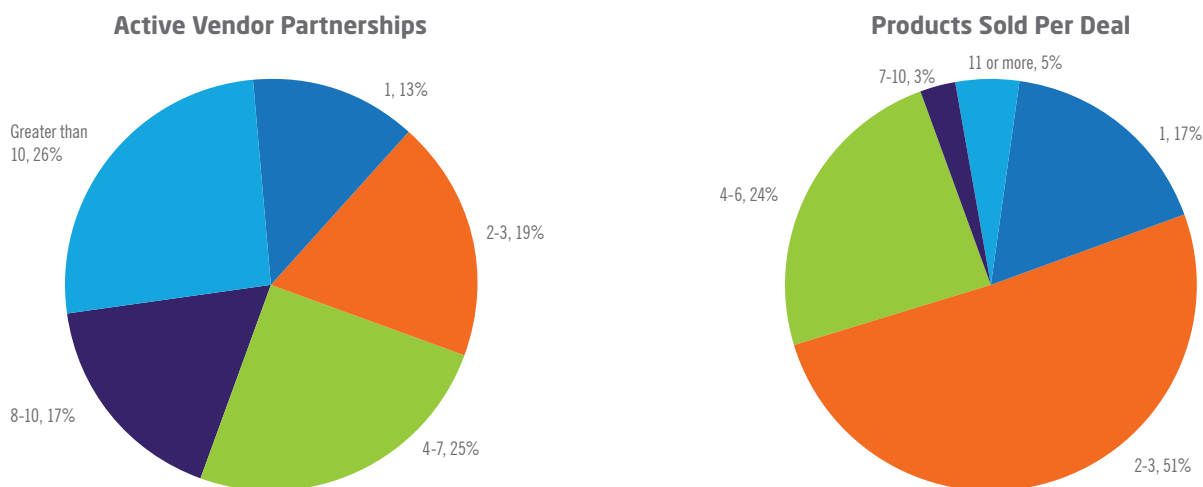
The IT channel is a profitable avenue, with solution providers reporting a profit increase of between 11 percent and 20 percent of gross revenues in 2013, up from between 6 percent and 10 percent a year earlier.¹ The typical IT channel solution provider can be two to three times more profitable than the large product vendors with which they partner.

This trajectory is built on the premise that optimizing the vendor-partner relationship and compressing the buying cycle maximize the technology goods and services moving through the sales pipe. Vendor executives, however, tell The 2112 Group sales are slowing because partners are not moving fast enough. The average channel sales cycle is five to eight weeks, with 60 percent of channel deals taking at least five weeks to close and one in five stretching to 13 weeks or more. Fewer than 8 percent of channel sales close in less than a week.²

Vendors are anxious to wring out market complexity, which exacerbates long sales cycles and complicates deals. Vendor channel executives understand solution providers are hamstrung by limited sales capacity and often unable to coordinate multiple products from multiple vendors for sales. The pressures of responding to multiple vendors about sales leads and presenting the value of multiple products to customers put significant drag on an already laborious channel sales cycle.

This top-down market pressure is seen in how some solution provider channel partners limit the number of vendors with which they do business, a phenomenon most pronounced among services providers in the small and mid-sized business category (see Figure 1: Active Vendor Partnerships & Products Sold Per Engagement). A small but significant number – 13 percent – of partners limit themselves to just one vendor partner per sales engagement, and 17 percent constrict their deals to just one product.³

FIGURE 1: Active Vendor Partnerships & Products Sold Per Engagement



¹ The 2112 Group; "2014 Channel Profitability Report"; April 2014

² The 2112 Group; "2014 Channel Forecast: The Shrinking Channel"; January 2014.

³ Ibid.

A MULTI-VENDOR STRATEGY

Despite pressure to constrict vendor engagements and move toward singular offerings, a growing number of solution providers is realizing the strength – and higher value – of multiplicity.

While some solution providers in the channel still strip down their offerings and vendor relationships, the majority (68 percent) work with four or more vendors, and 25 percent represent more than 10 vendors in most of their deals. These multi-vendor solution providers fill out their offerings with an average of two to three products per engagement.

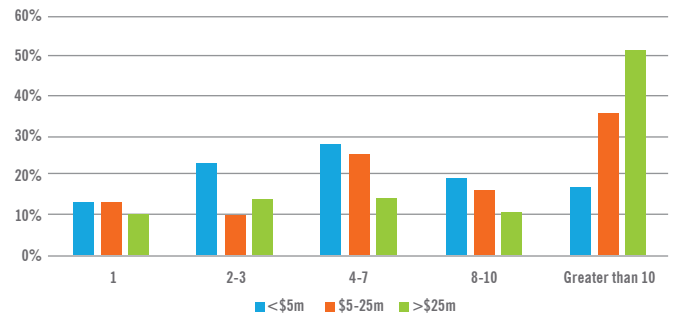
Why would these partners buck the conventional wisdom of single solutions from single vendors, thereby reducing complexity and speeding up sales? The answer is value – both to the partner and the end user.

In dealing with the complexity of modern IT – particularly security, Big Data and business analytics – clients need systems that cross multiple technology domains; very few vendors can supply all of the products and services required to create holistic systems that meet end-user needs. As a result, 51 percent of solution providers say they sell two to three products per deal, a reflection of the propensity for partners to amass multiple technologies in pursuit of a solution that satisfies customer needs. Among those surveyed, just 17 percent say the bulk of their sales are from a single product.⁴

When solution providers focus on meeting customers' needs, their own fortunes rise in the process. Solution providers that work with one vendor are not only failing clients, they have lower growth expectations and results than those balancing multiple relationships (see Figure 2: Growth Rate by Vendors Actively Sold). The sweet spot for partner growth: actively selling wares from four to eight vendor partners.

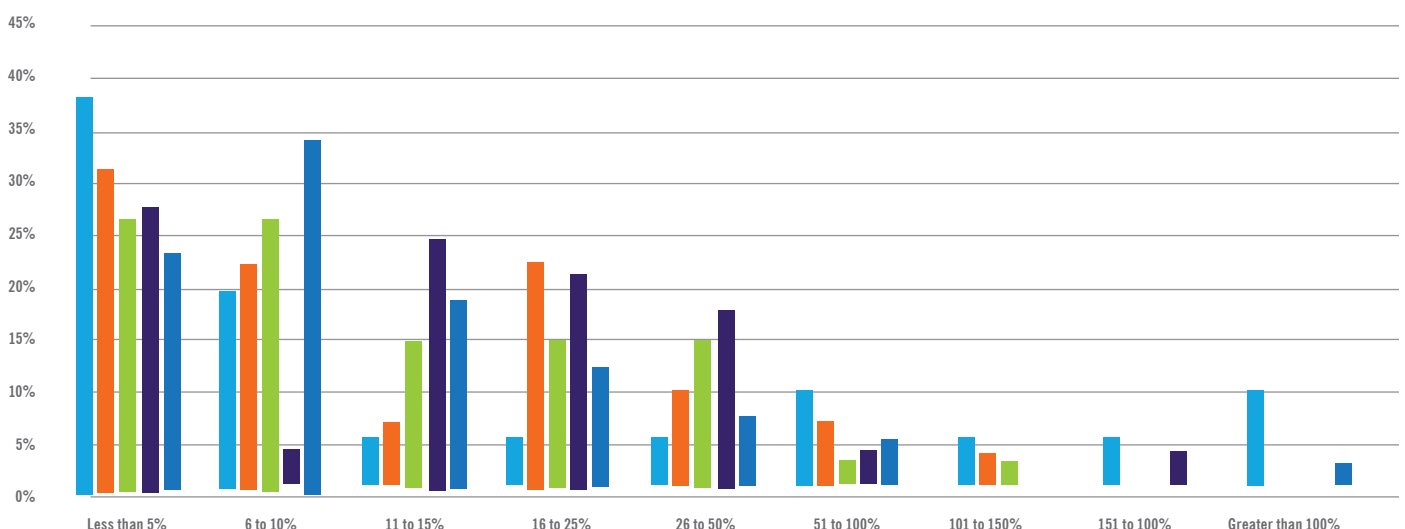
The effort to branch into broader, multi-vendor offerings must be balanced by the capabilities of partner sales and fulfillment resources. Larger solution providers – those with annual gross revenues of more than \$25 million – tend to work with 10 or more vendors (see Figure 3: Vendors Actively Sold by Solution Providers, by Revenue) and engage in more complex engagements. Smaller companies, with annual revenues of \$5 million or less, tend to work with four or fewer vendors and sell fewer products per deal.

FIGURE 3: Vendors Actively Sold by Solution Providers, by Revenue



Faced with this trending evidence, solution providers need to develop plans, identify target clientele, and detail specific business challenges and desired outcomes to craft the right blend of vendors from which to source for mature go-to-market strategies. Research from The 2112 Group shows solution providers with this vision and business-planning acumen have higher, more sustained returns on their investments.

FIGURE 2: Growth Rate by Vendors Actively Sold



⁴ Ibid.

HOLISTIC SOLUTIONS IN SECURITY CONTEXT

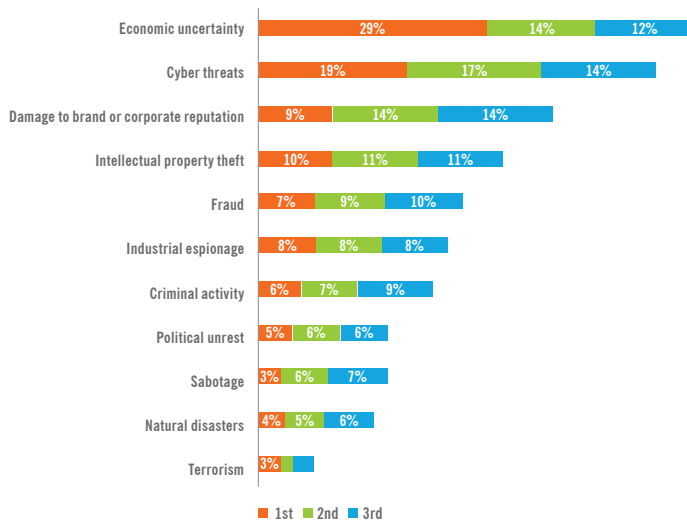
Few disciplines are more dynamic and demanding than security. Businesses of all sizes are custodians of critical data and applications attractive to vandals and criminals. Small and mid-sized businesses face the same security threats as their enterprise counterparts, but are doubly challenged by the complexity and expense of security infrastructure.

Solution providers serving the SMB space know smaller organizations are prime targets for hackers and malware — and that these businesses lack the resources to survive a serious security incident.⁵

Attacks against SMBs doubled last year from 2012, according to the National Cyber Security Alliance, yet 83 percent of SMBs have no cybersecurity and 60 percent have no contingency plan for data loss.⁶ Despite this blind spot, the volume and severity of cyber threats and malware are businesses' second highest operational risk, behind economic uncertainty (see Figure 4, Top Business Risks).

To fight back, progressive and prudent SMBs are forecast to drive spending on security technologies to \$5.6 billion by 2015.⁷ These SMBs are looking to IT solution providers to deliver comprehensive security protections that are operationally and cost-effective.

FIGURE 4: Top Business Risks



Solution providers must come to market with complete, well-rounded security offerings that address security disciplines ranging from antivirus/antimalware software on servers and endpoints to firewalls and other network-level security protections. As SMBs add more complex tools and systems, solution providers' practices need to evolve into federated identity and access management and mobile device management.

The solution provider is faced with a choice: either go to market with a best-in-class offering from a single vendor that reduces the transaction's complexity at the expense of product functionality, or develop and deliver an integrated solution comprising best-of-breed technologies.

With the former, the partner needs to consider their motivation and responsibility. There's an old adage in IT, often attributed to cryptographer and industry pundit Bruce Schneier: "Security is a process, not a product." Within this statement is a kernel of channel truth: Catch-all, best-in-class offerings may be cheaper, but are they better? Are the long-term risks and costs worth the up-front discount? In all but the most simplistic of client engagements, the answer is no.

The majority of single-vendor solutions were not developed, but cobbled together by vendors through acquisitions. To rely on such composites, the partner must trust the technology choices and integration efforts of the vendor above its own. The presence of best-in-class security offerings is anathema to the partner's responsibility to cover the client's security and its own self-interest in adding value through technology integration, services and risk assessments in a mature security practice.

Security is never a simple case of installing an application or spinning up hardware. Firewalls, antivirus software, intrusion detection systems and other technology capabilities cannot, on their own, guarantee protection from breaches, compromises and system corruption. From a partner's perspective, security is about managing risk and developing repeatable practices that assess and reduce a client's exposure to vulnerabilities.

This is the security channel's charge and opportunity. Singular security products and basic installation services are no longer enough. Point-product sales may be faster and easier, but they have limited value to generate revenue and profitability. Solution providers need to arm their security practices with a best-of-breed arsenal over which they can apply proprietary methodologies, skills, experiences and resources to resolve a client's security needs. Partners that invest in well-rounded security practices enjoy higher average sale prices, profit margins and sustained customer relationships.

CAPITALIZING ON BEST-OF-BREED STRATEGY

Commitment to a security practice with a best-of-breed strategy positions the solution provider as a true security integrator. Hardware, software, security assessments, design, implementation, and maintenance and management services within the security context are ripe with channel opportunity: Just one in four solution providers earns more than 20 percent of its revenue through security services, and only a fraction of those have true security practices. But these numbers are growing.

⁵ TechTarget; "Tinba banking Trojan sniff network traffic, steals data"; May 2012

⁶ National Cyber Security Alliance and Symantec Corp.; "2012 National Small Business Study"; Sept. 2012

⁷ IDC; "U.S. SMB Security Spending to Top \$5.6 Billion in 2015"; May 2012

⁸ The 2112 Group; "Profitability in the Channel: A 2112 Quarterly Channel Review"; March 2013

⁹ IDC; "Worldwide IT Spending 2013-2017: Worldwide Risk IT Spending Guide"; April 2013

Technology specializations and professional services carry higher average prices and margins than simple resales of vendor wares. Solution providers with professional services, like security practices, earn margins of 60 percent or more compared to typical hardware and software margins of between 10 percent and 20 percent.⁸

The total addressable security market spends close to \$40 billion annually on hardware, software and managed and professional services – a number expected to double by 2017.⁹ Such heady figures make security services attractive to a broader range of solution providers, which see security practices as a boon to marketability, scalability, profitability and customer retention.

Rare is a single vendor that can deliver technologies and support for a holistic security offering. Best practices include building a security solution provider business around select vendors with best-of-breed technologies that act as building blocks. Solution providers that partner with multiple vendors and develop their own technologies gain expertise and agility that serve the practice well.

When evaluating a vendor's technology and products, solution providers must consider their own development road map and product performance reputation. If a vendor alters underlying technology, will it disrupt the partner model? Vendor-partnering decisions should be based on technology needs, road maps, and the solution provider's level of technical, sales and marketing acumen.

Selecting best-of-breed offerings to anchor the security practice increases the opportunity for partners to move their businesses beyond the vendor brand and go to market with their own branded technology bundles, services and professional support. Branding holistic security systems adds value to the partner's expertise, products and services, and allows them to be sold at a premium because of their perceived value versus their constituent components. Branded solutions built from best-of-breed tools separate security practices from resellers selling products based on price.

The best-of-breed approach affords security partners a way to develop a strong value proposition separating the solution provider from the competitive pack. The defining characteristic of a holistic security offering is less about its technology feature set and more about its methodology – reference architectures and other intellectual property and processes – which can enhance the value of underlying products and services. These documented processes define a security partner's true value proposition.

CONCLUSION

The popularity and profitability of services-led IT solutions is attracting a legion of channel partners wooed by the prospect of increased recurring revenue and stronger customer retention. With regards to sourcing, assembling and deploying foundational hardware and software solutions, partners must choose between best-in-class offerings from one vendor, or best-in-breed solutions from multiple.

Nowhere is this choice more important than in the development of security offerings, where the client's business and the partner's reputation are on the line in a world of increasing cyber threats.

Single-vendor solutions may hold up-front advantages in cost and speed-to-market, but those fade when viewed from the perspective of a partner developing a mature and robust security service – one that relies on comprehensive protections and partner-driven managed and professional services.

Choosing to build a security practice with best-of-breed tools from a select group of vendors allows the partner to craft unique, branded security offerings that target client needs and focus on high-value integrations and customizations to ensure steady, recurring sales with an engaged clientele. With best-of-breed tools in their holistic security toolkit, solution providers realize better returns and higher average sales prices than their peers and do a better job protecting customers.

About 2112 Group

THE 2112 GROUP is a business services firm focused on the strategy, growth and channel development of technology companies. Through a portfolio of forward-thinking products that leverage intelligence, we apply innovative solutions combining proprietary research, consulting, custom content, market analysis and training delivered by industry experts that approach each engagement according to the needs of our clients. By looking at the market from the viewpoint of a vendor as well as a partner, we are uniquely positioned to identify a go-to-market strategy that is mutually beneficial to all parties from both channel and overall enterprise perspectives. For more information about The 2112 Group's products and services, call 347.770.2112 or e-mail info@the2112group.com. » Visit The2112Group.com » Visit Channelnomics.com

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