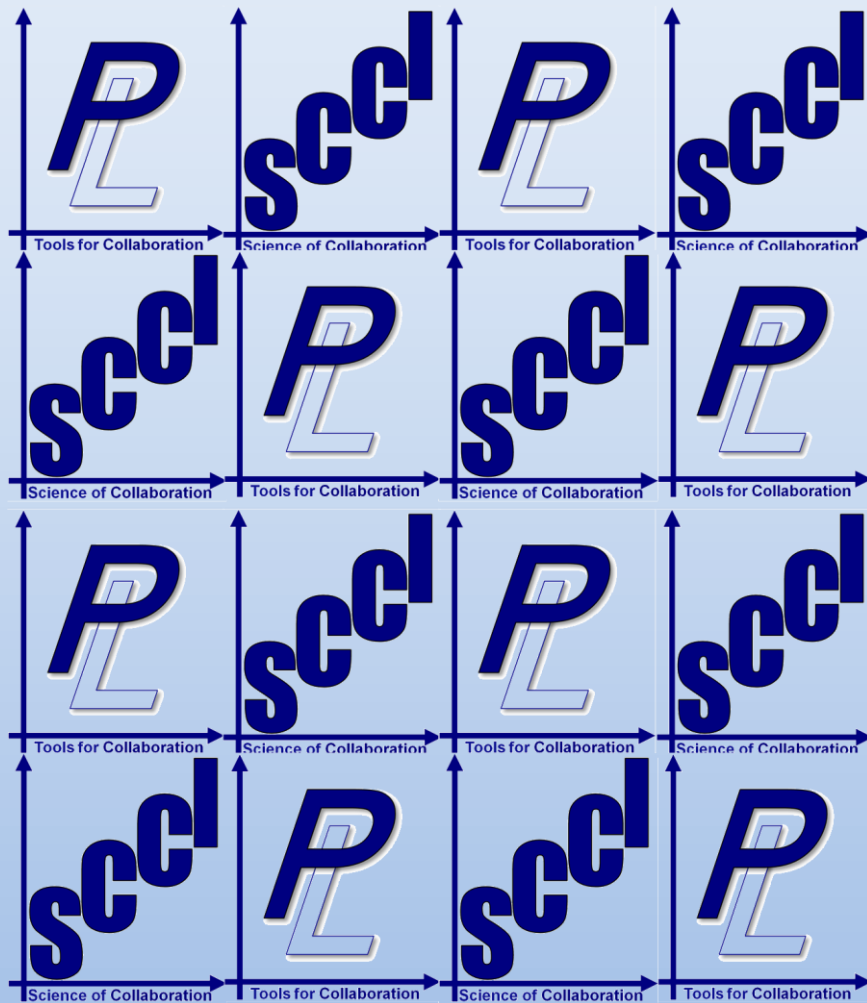


Research Summary

The IT Sector 2009-2017



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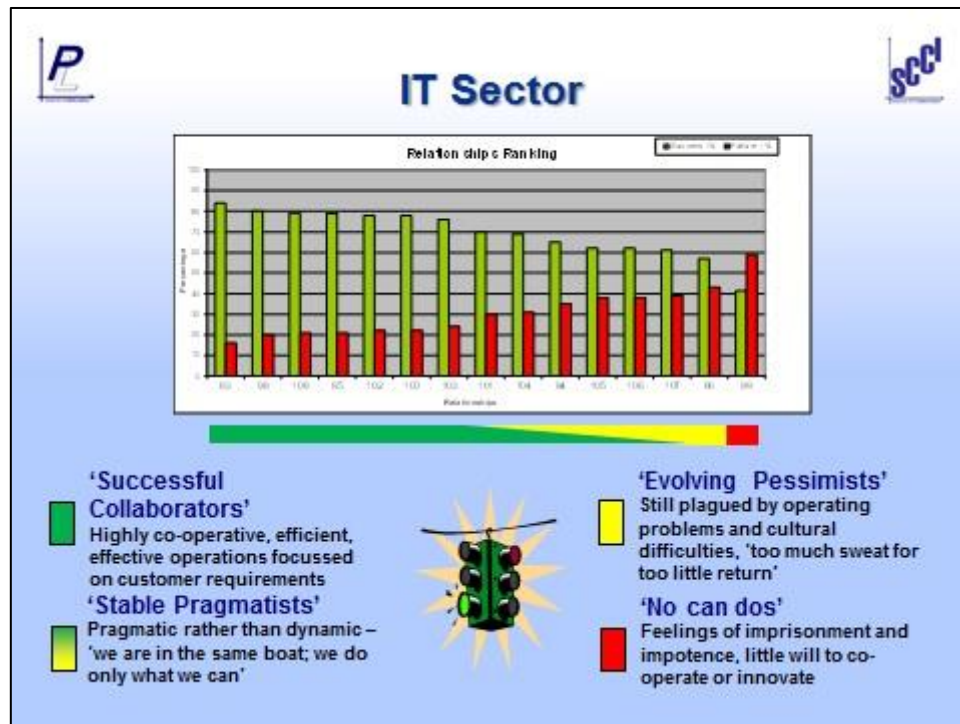
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Research Summary – The IT Sector 2009-2017

Executive Summary

Between 2009 and 2017 we examined 41 blue-chip, global companies and their relationships. This report summarises the findings from our research. It concentrates on the particular relationship management features that characterise this sector.



We summarise this work in two parts:

- IT Alliances 2009- 2012 (83, 84, 85, 86, 99, 100, 101, 102, 103, 108)
- IT Outsourcing 2011 – 2012 (104, 105, 106, 107, 108)
- OEMs vs Distributors 2017 – only interview data available

The portfolio relationship ratings are shown in the chart above. The majority are seen as Successful Collaborators and Stable Pragmatists. Although they rated themselves quite highly, there was an underlying complacency and lack of motivation to improve relationships – 'a good enough scenario'.

Overall Conclusions

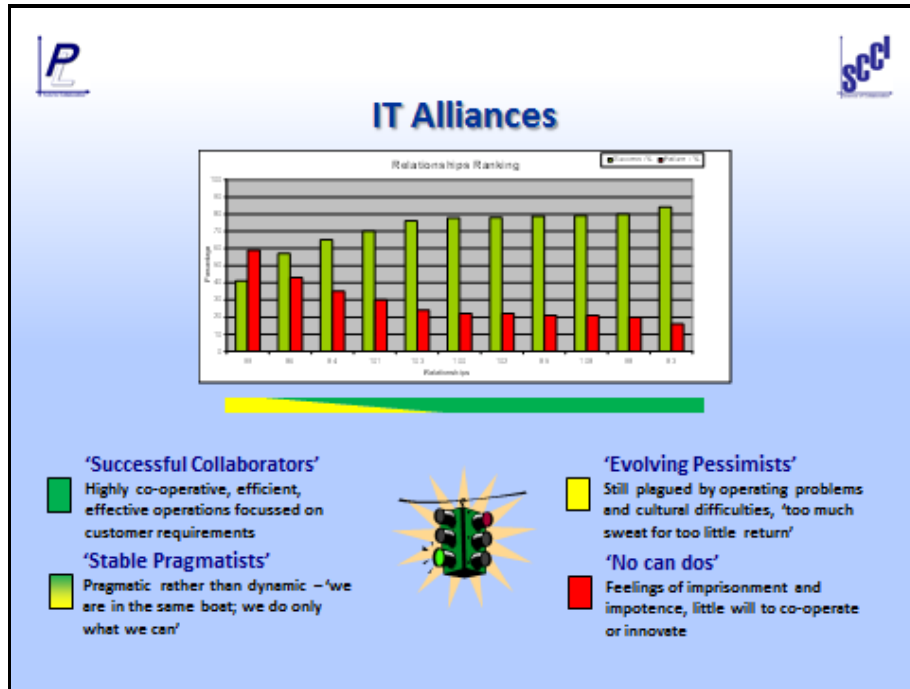
Companies in this sector have struggled to understand the need for collaboration and how to implement and manage it. In the past there was a captive market and there was no incentive to invest in collaboration. However in recent years disruptive, competitive forces such as the advent of companies like Amazon and the availability of cloud products and services have caused the sector to change its focus. This is an on-going process.

- Relationship management was often poorly resourced and there were difficulties because traditional customer/supplier attitudes prevailed to hinder the development of collaboration. In particular this was evident in the sales orientated relationships where 'game playing' over sales targets was common practice
- Where there were longer-term relationships, at the C-level there was great enthusiasm for collaborative working. However, they usually could not understand why their initiative was failing to achieve its potential
- Often a lack of clear policy resulted in operational managers failing to understand how to implement effective joint working. Lack of leadership resulted in inappropriate contracts and performance measures, inadequate communications and clear, joint processes. The impact on staff was often confusing
- Cultural differences, especially in outsourcing relationships between western and eastern style companies, were a factor that created difficulties in implementing and managing team working. The problem of integration had not been anticipated
- A number of companies have realised that as a result of enormous changes in the market driven by new technology they must work together to create, sell and support new, integrated offerings to customers
- The companies who will survive and prosper in the new, dynamic, technologically innovative market will be those who can develop and manage collaborative relationships

IT Alliances 2009 - 2012

Background

Between 2009 and 2012 we reviewed 22 blue chip companies in alliances, some working together as peers and some as channel partners. Each of their stories is shown below using their own words. Their overall relationship performance is compared in the chart below.



General behaviours

- Companies paid only lip service to the concept of “partners,” preferring to share more risk and less reward

“Joint planning never comes to anything. It always defaults back to selling their products.”

- Larger companies were often content to maintain ‘Master/Slave’ relationships

“Our partner needs to value us more highly, not take us for granted. It often feels like a one way street in their favour.”

- There was often a lack of loyalty between partners and care for the relationship

“Our partner encouraged another to undercut our price.”

“Sometimes feel we are treated like a second tier partner with demands on reducing our margins. When we invest in them as we do and show loyalty we would expect the same back.”

The Consequences

The result of this behaviour was growing mistrust. Few of the majors saw the benefit of trustworthy behaviour particularly when their opposite number (especially when partnering with other majors) was unlikely to reciprocate.

- The business potential of alliances was confirmed

“Commitment to the relationship is an essential component in our growth.”

“If we had joint business objectives, we could really grow this business. There is much more potential in this relationship that is untapped.”

“There is massive revenue potential for both of us.”

- Senior management did not seem to realise the importance of integrating partners into their overall business strategy

“We do not have an agreed joint go-to-market strategy. “

“The relationship is driven by sales results only and no demonstration of a desire to understand our longer term strategic goals or help us achieve them. “

Relationship characteristics

- Alliances were poorly sponsored and senior managers were reluctant to get involved in the detail

“I’ve got people who handle that!”

“Their corporate organisation is a bureaucratic drag on our partner. We need to build the relationship on the management level. “

- Performance measures were often unpredictable or even inappropriate. Often the only measure was revenue which, most agreed, was a trailing indicator

“As long as you get your money, that's the KPIs met. Isn't it?”

- Most experienced participants agreed that one well-resourced alliance was likely to be more effective than five which were poorly resourced

“They have not followed up their original support with ongoing commitment or investment, causing them to fall behind other distribution partners.”

“The joint business was worth £6m last year. We need to fund a relationship manager; we should have had one before now. We expect you to provide at least 50% of a dedicated partner manager for us to work with.”

“We need to respect and recognise the joint cost implications of managing agents.”

- There was agreement that alliance managers needed to be confident of the active support of sales, marketing, finance, services and especially senior business managers

“They had no partner manager until this year; therefore they are not as agile as they should be.”

Conclusion

Compared to other sectors, IT alliances seemed to have made less progress in developing productive, collaborative relationships. There was a tacit agreement that significant benefits were possible but by and large these were not being achieved.

“We should be jointly harvesting the existing customer base but we aren't. We are missing a big trick.”

They didn't understand what a joint approach was or how to implement it. Instead they were clinging on to traditional customer/supplier, competitive behaviours and procedures. Given the fact that IT is a comparatively new industry it is surprising to find that it did not recognise the changing environment in which it was operating.

“There has never been a change in model in order to accommodate the way we work with our customers. “

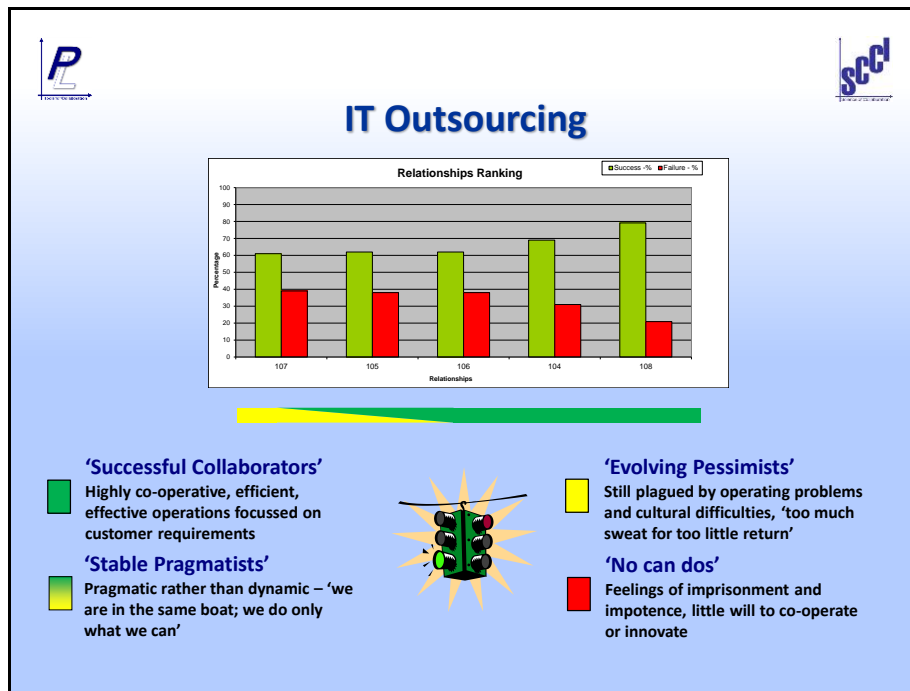
“The joint proposition is not understood.”

“We've become so focused on new products we've forgotten our existing markets. It's a joint responsibility to do this better.”

Outsourcing 2011 - 2012

Background

We carried out 5 studies of major relationships between outsourcing partners. Each was worth hundreds of millions of dollars annually. Their overall relationship performance is compared in the chart below.



Common factors

- These companies worked together for many years and gradually, what may have started as a transactional relationship, brought a desire for closer interaction.

“Over the last two years the relationship has moved significantly from a supplier to a partner relationship. Commitment is there but not an alignment between the parties on how to create mutual success. We acknowledge that our partner needs to grow and has the opportunity to achieve it.”

- Management decided to initiate a formal collaborative relationship in order to gain wider access to their partner’s capabilities and to get a more innovative approach to improving business service provision.
- Unfortunately the top level decision was not translated into a clear plan to implement collaborative working and amidst the chaos it was widely believed that this was just another cost-cutting exercise. At working level it was interpreted as working harder to do the same thing.

“We didn't realise that a different approach (offering options) could be up for

discussion. If we had been given a bigger picture, we could have been aware of this.”

“We have not had an open conversation about personal or account objectives in two years so there is no context for how we can help each other.”

“We are missing a formal cascade to all contractors and organisations of the customer's business context; we have to rely on 'corridor' conversations.”

- Joint working was minimal and often re-work was necessary. Continuous improvement and innovation and, new approaches to deal with joint problem solving and solution generation were not defined. Furthermore improved communications such as identification of tactical and strategic requirements and regular reviews of collaborative performance, which were necessary to enable this, were not put in place or were not reliable

“There was confusion over the lack of clear definition of joint value objectives. For instance, the new contract invoked an automatic year-on-year percentage cost reduction by the supplier and any contribution from him of innovation and continuous improvement was not included.”

“We need you to tell us when the requirement is not clear then we can give you more context or sit down and brainstorm together.”

- Cultural differences adversely affected the way the relationships functioned. Lack of understanding and thus failure to take it into consideration was a source of operational problems

“This relationship is not a safe place to be open.”

“Differing attitudes to reporting and escalation lead to tension and suspicion. Our partner tries to resolve problems locally but escalate very late because I think they view escalation as failure. We would prefer to know there is a problem early.”

“We expect our partner to push back rather than being willing to accept our poorly defined needs which result in weak solutions. We should define our requirements together.”

“We expect them to provide 'blue skies' thinking, expertise and continuous improvement. Instead they are always waiting for our leadership. They are technical experts who used to a very detailed contract.”

- It was not all bad. Generally partnership commitment was strong as was enthusiasm, goodwill and trust. All agreed that the relationships needed to move more towards a managed service rather one based on detailed contracts and a Relationship Management Plan would provide a framework to address the issues of performance

“We want celebrations, informal bonding, social events and joint functions.”

Conclusion

These collaboration initiatives had been on-going for some years with mixed results. Overall they were not delivering the sparkling benefits that were anticipated and senior managers did not understand why. It is clear that cultural differences had not been recognised and planned for.

OEMs V Distributors 2017

Background

In 2017 we carried out a study with [rootsquared](#) on behalf of a global trade association. The aim was to understand the relationships between OEMs (hardware manufacturers, infrastructure providers and software companies) and their major distributors, 11 in all.

Characteristics

- For more than 30 years OEMs have wanted to become service providers rather than ‘box shifters’. However, their channels to market have continued to be organised around the supply and maintenance of hardware-based systems

“There is an opportunity for OEMs to change their go-to-market strategy. By increasing product automation we can re-focus our people on fulfilment services.”

- In recent years there have been considerable changes in the consumer market with a massive expansion in the sale of mobile computing units and subscription software through internet and high volume retailers such as Amazon, PC World and supermarkets. Moreover, the growth in Cloud services which provided end-to-end business functionality from companies like HPE and Azure Microsoft were forcing conventional IT distributors to reassess their role

“The omni-channel on-liners such as Amazon Web Services and Ali Baba are becoming more aggressive. They are trading through the distributors but also competing with them in logistics and sales into the re-sellers and, are likely to provide credit in the future.”

- The focus needed to change towards a super integration channel providing a wide range of hardware, software, infrastructure and services into complete packages to customers within local markets

“Distributors need to move from being warehouses of product to warehouses of intellectual capital.”

- There was a considerable amount of churn within IT distribution channels. OEMs were rationalising their networks and some were cutting substantially the numbers of companies they were dealing with. Meanwhile the Distributors were consolidating through acquisition, losing their commodity sales functions and gaining capabilities to integrate within the emerging technological environment. There was a proliferation of pop-up ‘born-in-the-cloud’ distributors that could only provide digital platforms and so they couldn’t compete with the likes of AWS or established distributors. Nevertheless, they provided a disruptive influence in a destabilised sector. It is clear that there was a revolution in progress and it was likely to take time to work out. The shape of this sector will be quite different when the dust settles.

“The large organizations, the so-called Titans, are well established but getting by-passed by younger more dynamic start-ups. They are moving too slowly.”

“We see some of our legacy partners not here in 5 years either because they don't want to operate differently or for financial reasons.”

- Over and above the basic distribution functions of credit aggregation and logistics, marketing services and training remained critically important. The distributors were in a position to offer training programs for the channel into specific vertical market segments. This was something that they could offer and was difficult for manufacturers to either replicate or for other types of distributors to offer. The value of distribution was therefore all about value for money.

“In some distributors, advanced services such as data storage, are growing faster than the product.”

“The next step is multiple functions for workflow services but how to charge for these is a question and how would distributors fit in with this.”

“Re-sellers are also hurting in a declining market and are pressing for multi-brand freedom and the opportunity to offer other services such as consultancy.”

Conclusion

OEMs agreed they needed to work collaboratively with their distributors, especially where they took joint responsibility for innovation, market development and sales driven-by-data from intelligent devices (the Internet of Things). Thus there was a growing emphasis on relationship management including a number that had regular meetings to address wide ranging topics such as joint servicing of customer contracts.

“If we don't have an honest relationship with our distributors then we have no relationship.”

“They interact at a high level with our company, we have executive touch points and we do joint business planning with them.”



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